The housing finance system in France

THE housing finance system in France comprises a large number of different types of institutions, most of which entered the market in the 1950s. Prior to this, the Crédit Foncier de France was virtually the only institution providing long-term housing loans. It was able to satisfy the existing demand and undertook, in particular, the financing of the large-scale housing programmes in Paris in the last century. It financed its operations through the issue of bonds on the financial market.

Dependent as it was on monetary stability, this system was greatly disrupted by the high levels of inflation that came in the wake of the two world wars. This led to a decline in long-term savings and investment in real estate.

At the same time, the migration of rural populations towards the towns which occurred as a result of growing industrialisation and an increase in the population, was creating an ever-increasing need for housing.

Successive measures were taken to deal with this problem.

- In 1950, a system of state-aided Crédit Foncier loans was set up. The same time saw the introduction of loans to the moderate rent housing organisations (HLM), designed to encourage investment in social housing. The scheme has been frequently modified.
- From 1954, deferred credit institutions began operating, promoting the financing of non-social construction, and the purchase of older property.
- The creation of the mortgage market in 1966 which enabled long-term loans to be financed on liquid or semi-liquid funds. This period marked the entry of commercial and savings banks into the housing finance market for both old and new property; the system was then enlarged in 1985 by a financial mechanism based on long-term resources.

These measures encouraged the development of high levels of housebuilding, although there has been a recent decline because of the economic crisis and falling demand, the housing requirement being now largely satisfied. Starts exceeded 500,000 in the 1970s, but fell to 400,000 in 1981 and below 300,000 in the period 1984-86. 1987 should see a slight increase as a result of government policy, in particular, an easing of the control on rented accommodation, encouraging owner-occupancy in HLM housing, and taxation measures designed to facilitate both housing-buying and investment in rented property (the set maximum of mortgage interest that can be deducted from income tax payment has been raised).

Table 1 shows housing tenure. There has been a steady rise in owner-occupation. The proportion of owner-occupied homes rose from 41% in 1962 to 47% in 1975 and 51% in 1984. These figures can, however, be misleading as most of this increase took place in rural or semi-rural areas where the cost of land is lower. In fact, house buying in urban areas (Paris and the centres of large agglomerations) has become more difficult. The level of owner-occupation is 71% in rural areas, but only 36% in the Paris area.

Table I. Distribution of principal homes by tenure, 1984

Tenure	Number 000's	%
Owning outright	5,380	26.8
Owning/purchasing	4,900	24.4
Renting	7,723	38.4
Free accommodation	2,090	10.4
TOTAL	20,093	100

Source: INSEE

In recent years, efforts have been made to improve the standards of older housing stock, frequently neglected in favour of new construction, and the earlier buildings of the HLM to bring them up to modern standards. In part, this helped to offset the difficulties facing the construction industry as a result of the sharp drop in demand.

On the financial side, the 1985 housing loan figures (Table 2) show the importance of state-aided loans. Since 1978, this type of aid has been mainly of two kinds — "aide à la pierre" and personal housing aid (APL). The amount of aided loans is

Table 2. Housing loans outstanding by type of loan, 1985

Type of loan	FFbn	%
Aided loans (PAP)	230.7	17.7
Other aided loans	346.5	26.6
Loans to developers	13.4	26.6
(PICs)	18.3	1.4
(PCs)	206.6	15.8
Loans eligible for secondary market	129.9	10.0
Principal housing-savings loans	136.2	10.4
Personal savings bank	21.7	1.7
Other loans	200.6	15.4
TOTAL	1,303.9	100

Source: Bank of France

determined each year in the State Budget. Aided loans for construction or improvement ("aide à la pierre") depend mainly on the type of construction undertaken and are available both to house buyers and those in the rented property sector.

In the house purchase sector, state aided loans are known as Aided Loans for House Purchase (PAP). Concessions are made by reducing the level of interest (currently 6.9%) paid on the loan in the first few years. The interest rates are fixed or adjusted annually according to the market cost of capital. This last type of loan has been quite successful but the recent increase in interest rates on long-term money has made it less attractive.

The loan term is 15-20 years and the maximum borrowed is usually 70% to 80% of cost, although it can be 100% in special cases. They are financed and granted by Crédit Foncier de France and are available to buyers of either individual dwellings or those in housing complexes. They are also offered to moderate rent housing organisations who act as intermediary lenders (themselves benefiting from some endowments from the National Saving Banks). There is a cost ceiling for units in the subsidised sector. In addition, the income of borrowers should be below a certain level.

From 1981-83 the government increased the budgetary funds available for this type of loan, to compensate for the lack of private investment in construction. But, recently, this level has been cut as a result of a more liberal economic policy in France, in common with the majority of EEC countries.

State aid in the rented sector is in the form of aided-rent loans (PLA). The rates on these loans are also below the current market rates. At present the lowest rate is 6.8% and the longest term 30 years (for flexible interest rate loans). These dwellings must also conform to certain conditions and the occupants must show resources below a certain level, in exchange for a regulated rent. The majority of these loans are made through the Caisse des Depôts et Consignations to the moderate rent housing organisations and their subsidiaries and the remainder by Crédit Foncier to the same organisations or private property developers.

Table 3. Housing savings accounts and plans, 1966-1986

End Year	Number of Subscribers		Cumulative Net Deposits	
	Accounts	Plans	Accounts FFm	Plans FFm
1966	198,336	—	2,577	—
1970	486,642	363,380	5,878	4,284
1975	928,316	2,925,197	12,184	44,920
1980	2,644,666	4,803,050	46,288	123,799
1981	3,008,035	4,863,863	53,638	130,906
1982	3,426,382	5,032,333	61,111	139,804
1983	3,787,222	5,725,688	60,001	156,785
1985	4,190,150	6,312,731	71,077	182,451
1986	—	—	91,600	291,451

Source: Ministry of Finance — Les Notes Bleues, various issues

Borrowers meeting the appropriate requirements for the PAP and PLA loans can also obtain Personal Housing Aid (APL) in addition to the "aide à la pierre".

Another category of loans, "Prets Conventionnes" (generally translated as conventional loans, although more correctly agreement loans), have only one advantage; they give borrowers eligibility for APL.

The maximum rate of interest on PCs is fixed according to the applicable regulatory provisions (1.5-1.75% above a reference rate) but the rates are fixed by the lenders themselves.

Until recently the lending institutions have benefited from favourable credit regulations. Present rates are between 9.20% and 10.90%.

Loans are available in respect of new principal residences or old dwellings which are to have substantial improvements, or merely for the improvements themselves. They apply only to principal residences but can be for rented or purchased properties. PCs cannot be for more than 90% of the cost and the loan maturity is between 10 and 20 years for new property, and less for improvements. The rate can be fixed or variable.

PCs can be made by any financial institution (banks, savings banks, specialised institutions) which has signed an appropriate agreement with Crédit Foncier which acts on behalf of the Government and is invested with a regulatory role in this sector of the loans market.

In addition to the PC scheme, introduced in 1978, another type of loan offering concessionary terms is the housing-savings loan (prêts d'épargne-logement). The scheme was set up in 1965 with the introduction of housing-savings accounts (comptes d'épargne-logement), completed in 1969 by the introduction of the housing-savings plans (plans d'épargne-logement).

In both cases savers can deposit at a credit institution or at a savings bank sums which yield a moderate rate of tax-free interest. After a minimum period, the depositor qualifies for a housing loan at the same rate of interest, together with a management charge, and the term depends on the interest received on the savings. The loan term is between two and 15 years. A bonus is also paid, calculated on the level of interest earned. As far as plans are concerned, the savings conditions are more constraining (amount, term, etc), but the final outcome is more advantageous.

Table 3 shows that the total amount of loans granted under the housing-

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savings plans scheme is higher than under the accounts scheme. For a large number of savers (as many as 60% at times), these plans were seen as an attractive investment. When the interest rates rose, their popularity declined.

The loans acquired under the scheme are rarely the sole source of finance for house purchasers or home improvers. About 20% of those taking out these sort of loans supplement them with market rate loans, PAP assistance, or conventional loans.

The most recent type of state-regulated loan is the Prêt Locatif Intermediaire (PLI) (intermediary rent loan), introduced in 1987. It is designed to finance renting of a superior quality than that to be found in the PLA sector. Such loans are obtained from the Caisse des Depôts and the Crédit Foncier and are not directly state aided. They do, however, benefit from certain financial privileges (they are partly financed from deposits at the savings banks), and for this reason the occupants of the property must not receive above a fixed income. In return, they benefit from a regulated rent.

This detailed account of the types of government intervention in the loans market is a reflection of the will of successive French governments to influence housing policy by the use of budgetary allocations. In other EEC countries, policy usually takes the form of fiscal concessions (mostly in the form of direct taxation). This is no doubt due to the fact that under the French taxation system, indirect taxes play an important role.

However, there is in addition a non-aided loans market. This requires little explanation as it is subject to more general economic policy and free market forces.

These types of loans can be described briefly:

- "traditional" mortgage loans issued by Crédit Foncier, without state aid, but subject to certain internal conditions specific to the "sociétés de crédit foncier" (mortgage credit companies);
- mortgage loans from financial institutions or banks, some of which are subject to the conditions of the mortgage market;
- loans to property developers for financing property construction;
- non-mortgaged loans which can complement PAP or housing-savings loans (employers' loans, saving banks loans to individuals).

These types of loans are described in more detail in the next part of the article, which examines the different types of organisations providing housing finance in France and their financing techniques.

The Crédit Foncier de France

The Crédit Foncier de France (CFF) was the first institution in France to grant long-term loans. It was founded in 1852 as a mortgage bank, on the German model, which had later been adapted. The CFF has an unusual and original status in that it is a private company whose shares are widely held by the public and are listed on the Paris Stock Exchange. Among its main shareholders are the large insurance companies, the Caisse des Depôts and investment funds of CFF personnel.

But of the 67,000 shareholders, no one group holds much more than 5% of the total shares, which, together with its special status, gives it a great degree of independence.

Under the Companies Act of 1966, CFF is subject to all the regulations applicable to limited companies, apart from the special clauses that existed prior to this Act (in particular, it is under the control of auditors). It is also bound by banking legislation.

On the other hand, its senior executives (governor and vice-governors) are appointed by the government, as are two out of four "censeurs" and a government commissioner, who together control the organisation. Its annual general meeting of shareholders is more restricted than that of other limited companies, and its decisions, like those of its board of directors, must be approved by the governor.

Its powers are legally defined and no new activities can be undertaken without government approval. Any changes in its special status can be made only by decree, after the government has asked the opinion of the Conseil d'Etat. It also exercises a variety of functions on behalf of the State and has the status of a "specialised financial institution" under the Banking Act.

Its oldest and principal activity is the provision of various types of long-term loans guaranteed by a first mortgage, and repayable in instalments. These loans are fixed in relation to the building used as surety and cannot exceed 50% of its total value.

These operations encompass the "traditional" mortgages previously mentioned, which are non-state aided and subject to free market conditions. Such loans, which account for between 10% and 20% of the total market, are generally used by those who have large personal funds available for their property dealings, but they are also used for various other types of operations (for example, inheritance tax and division of wealth).

It also grants long-term state aided loans ("PAP" and "PLA"), which are guaranteed by the State for that part of the loan that exceeds the 50% required for the regulations. Conventional loans can also exceed this limitation, but they are arranged generally by a subsidiary company of the Crédit Foncier, the ACFF.

The amount of the loans that can be made (total amount for traditional loans or the proportion made by the institution itself for aided loans), is fixed by the inspectorate of Crédit Foncier, who are particularly appreciated in the local market. Indeed, it carries out difficult and otherwise delicate tasks for the government (eg valuations on behalf of insurance companies or for the Securities and Exchange Commission). Moreover, the experts at Crédit Foncier are often asked to give advice to the courts.

The strict rules that apply to real

estate loan organisation greatly reduce the company's risk. In return, its management commission is limited to 1% for traditional dealings, and less for aided loans. In all there are 2,500,000 outstanding loans and their administration is entirely computerised.

Loans are first financed through mortgage bonds raised on French or foreign markets (where they are guaranteed by the State) through tenders or syndicated loans.

This type of loan, which is typical of real estate loan institutions, stipulates that the debts due to them from the loans are "to be set aside in order to meet the obligations used to finance the loans themselves". Given the precautions taken on accounting these sums, it could almost be said that the rights of the bond holder are the rights on the property itself. This in fact is one of the reasons for the excellent rating of CFF, particularly for foreign subscribers who much appreciate this kind of guarantee.

Crédit Foncier bonds are quoted on the Paris Stock Exchange and also on foreign stock exchanges when loans are issued abroad. CFF also raises capital through the issue of medium term notes, whose holders enjoy similar privileges.

On occasions, it also borrows, on a long-term basis, bonds issuing or otherwise, from institutional investors or from banks. This type of financing is now restricted, due to the fact that the level of savings that the Caisse des Depôts has at its disposal has fallen.

Crédit Foncier also lends to local authorities and to shipping organisations. This is a function stipulated in its original constitution. Again, long-term loans are financed by bond issues, with the same guarantees for their holders.

But given the high level of funds assigned by the company over the last 20 years to the housing sector, local authority lending has been a little neglected and on the rare occasions when loans have been made, these have been financed through internal capital. With the declining demand for housing, but, at the same time, an increasing demand from local authorities for capital, CFF plans to revive this sector of its activities, using the most traditional methods of funding.

Unfortunately, the same cannot be said of shipping which is, of course, facing worldwide difficulties.

CFF is also authorised to provide various banking services, except for some restrictions on investment securities. It has however never tried to play the role of a deposit bank, having at its disposal only 20 financial outlets throughout the country.

On the other hand, its banking activities have always been considered subordinate to its main role as a long-term lender: investment securities dealing, short-term loans to its property-buying clients and, in particular, to housing sector professionals. These operations are carried out using internal funds. It should be mentioned here that the CFF holds shares in several of the largest real estate companies quoted on the Paris Stock Exchange and its value largely underlies the price of the share, independently of its other assets.

In 1986, new loans totalled FF39 billion and the outstanding amount rose to over FF260 billion. Table 4 shows the balance sheet of the CFF at the end of 1986.

In addition to its activities in the aided loan sector, CFF also has other close links with the government. Its role in the conventional loans market has already been mentioned and, in fact, the rules of the secondary mortgage market owe much to the CFF. On a more operational level, the CFF has a close relationship with the Treasury Office, and in particular the Treasury Accountants.

The company has also been in charge of paying various subsidies which have successively been granted, during the past decades, to encourage certain operations (building, housing-improvement, housing-saving operations, etc).

Another important role, which nowadays however is reduced, was CFF's activities in the medium-term semi-liquid loans market, which formerly enabled it to make up for the lack of long-term resources available for housing and facilitated the setting up of a deferred credit system by the granting of "crédits d'anticipation".

It can be seen that CFF plays an important and original role not only through its structure, but also through its activities, in the system of real estate credit in France.

Table 4. Crédit Foncier, assets and liabilities, end-1986

LIABILITIES	FFbn	%	ASSETS	FFbn	%
Bonds	113.4	39.1	Real estate loans	259.5	89.5
Other long and medium term debt	131.1	45.2	Other financial assets	10.2	3.5
Operational and miscellaneous debt	38.2	13.2	Current assets	18.4	6.3
Provisions	4.7	1.6	Tangible assets	0.8	0.3
Capital and reserves	2.5	0.9	Other assets	1.0	0.4
TOTAL	289.9	100.0	TOTAL	289.9	100.0

Source: Annual Report, 1986

Specialised institutions in housing finance

The oldest of the other specialised institutions is the Comptoir des Entrepreneurs (CDE). It is closely linked to the Crédit Foncier when the latter acts on behalf of the government, and has played an important role in the state-assisted loans sector, particularly since the 1950s. As such, it has the status of a "specialised

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financial institution". Nowadays its social role is limited to the management on behalf of the Crédit Foncier of the PAP loans, used in the financing of collective housing programmes.

It has also developed traditional specialist institution services. It provides free sector financing both for individuals (including conventional loans) and for property development. CDE free sector lending totalled FF20.8 billion at the end of 1986.

The largest specialist institution is the Union de Crédit pour le Bâtiment (UCB) (Building Credit Union). This institution is part of the Compagnie Bancaire group. The Compagnie Bancaire owns 33% of the share capital of the UCB, the Crédit Foncier 21%, and the Federation Nationale du Bâtiment (National Building Federation), 15%. As with other specialist institutions, the UCB obtains no (or very few), funds directly from depositors. 25% of its funds are in the form of short-term loans from the Compagnie Bancaire, and nearly 50% are raised through the secondary mortgage market.

UCB operates through its agencies and has other agents among housing sector professionals. Its operations in 1986 amounted to FF62 billion of which FF13.8 billion was in the form of new loans. Of these, 70% was in the form of ordinary loans to purchasers of property and 9% as short-term credits for property development.

UCB also owns the Compagnie Française d'Epargne et de Crédit (CFEC), which issues the contracts used in the deferred credit operations of the UCB. In a growing European market, UCB recently took over in association with the Compagnie Bancaire, the British subsidiary company of the American Commercial Credit Company, now known as UCB Financial Services.

Table 5 shows the UCB balance sheet at the end of 1986.

The Banque La Henin, completely owned by the Compagnie Financiere de Suez since January 1986, is now the largest financer of private housing development, with 35% of the market. It also provides finance to real-estate professionals (it lent FF2.3 billion during the course of 1986), in particular to housing developers (57% of the total) and property dealers (29% of the total). It also provides funds to individual house purchasers (FF16.5 billion at the end of 1986).

The group SOVAC comprises 35 companies and operates mainly through BF Immobilier–SOVAC in the provision of housing finance. It issued FF3.7 billion worth of housing loans in 1986, as a result of agreements reached with estate agents.

The Banque Hypothécaire Européenue (the European Mortgage Bank) has specialised in finance for real estate professionals, particularly since 1985. This is mainly in the form of short-term loans to companies in the building industry (FF500 million in new lending in 1986, out of a total of FF2 billion).

Deferred credit companies

The principle of deferred credit is inspired by the British building society system, which is based upon the grouping of savers in a mutual organisation, providing finance for its members. At the present time, there are four deferred credit companies:

La Compagnie Française d'Epargne et de Crédit (owned by UCB);

La Compagnie Generale de Financement Immobilier–COGEFIMO (owned by the Banque La Henin);

Le Credit Immobilier European–CIE (owned by the European Mortgage Bank);

L'Union de Financement Immobilier–UNIFIMO (owned by the Insurances Company l'Union).

Their role in the provision of housing finance has declined recently.

Commercial banks

With the creation of the mortgage market in 1966 (mentioned later in more detail), the commercial banks and the deposit banks entered the housing finance market. The banks gradually became more important in the provision of housing finance, particularly through the housing-saving schemes (which were described earlier) and conventional loans. In a period of increasing competition the provision of housing finance (housing-savings loans, conventional loans and other free sector loans), is

Table 5. Union de Crédit pour le Batiment, assets and liabilities, end-1986

LIABILITIES	FFbn	%	ASSETS	FFbn	%
Borrowing on mortgage market	46.6	75.2	Loans eligible for mortgage market	24.1	38.9
Other borrowing	8.9	14.4	Other property loans	20.4	32.9
Bonds	3.6	5.8	Other loans	12.4	20.0
Other liabilities	0.9	1.5	Other assets	5.1	8.2
Reserves	1.3	2.1			
Capital	0.7	1.0			
TOTAL	62	100.0	TOTAL	62	100.0

Source: UCB Annual Report 1986

Table 6. Housing loans outstanding by type of institution, end-1985

Type of institution	FFbn	%
Non-banks:		
Caisse des prêts aux HLM and CDC	321.3	24.6
Caisses d'Epargne	128.4	9.8
CFF and CDE	248.8	19.1
Banks	591.4	45.4
Government	14.0	1.1
TOTAL	1,303.9	100.0

Source: Bank of France

considered as an indispensable part of the range of service offered by the commercial banks.

Long-term loans to house buyers invariably require the borrowers to commit all or a part of their incomes to the bank. Tables 6 and 7 show the importance of banks in the free market sector. Their growing importance is due mainly to their ability to convert short-term resources into long-term finance.

There would be little point in citing all the banks and the variety of competing services they offer in the housing finance sector, since this sector is but one service among many. It is, however, worth examining the case of Crédit Agricole, which plays a preponderant role, particularly in the issue of conventional loans. Its housing loans totalled FF219.2 billion in 1986 (Table 8). This success is due largely to the size of its countrywide network, with 3,000 caisses locales grouped together in 94 independent caisses régionales representing 3.8 million shareholders.

The caisses régionales are controlled by the Caisse Nationale de Credit Agricole (CNCA), a public body responsible in particular to the Ministry of Agriculture.

Of the credit institutions, one of the most important in housing finance in recent years has been the Credit Mutuel, which is also composed of caisses régionales. It is particularly important in Brittany (with the CMB) and Alsace-Lorraine (with the BFCM).

Table 7. Distribution of new loans, 1986 (FFm)

	Aided loans	FREE SECTOR LOANS				TOTAL
		Conventional loans	Housing-Saving loans	Others	Total	%
Banks	3,561	40,909	30,830	51,815	127,115	50.2
Financial institutions	676	4,404	—	6,257	11,337	4.5
CFF-CDE	33,788	2,057	30	4,617	40,492	16.0
CDC and Savings Banks	35,547	8,448	8,750	4,436	57,181	11.6
Others	9,635	—	—	7,516	17,151	6.7
TOTAL	83,207	55,818	39,610	74,641	253,276	100.0

Source: Bank of France

Table 8. Crédit Agricole, assets and liabilities, end-1986

LIABILITIES	FFbn	%	ASSETS	FFbn	%
Special savings accounts	227.9	22.9	Housing loans	219.2	22.0
Current accounts	196.0	19.7	Other medium and long-term loans	211.2	21.2
Certificates of deposit	146.6	14.7	Other customer transactions	102.4	10.3
Time deposits	17.0	1.7	Other assets	130.5	13.0
Cash and interbank transactions	160.6	16.1	Equity investments	4.7	0.5
Other liabilities	100.6	10.1	Cash and interbank transactions	328.7	33.0
Long-term debt and equity loans	104.5	10.5			
Reserves, capital and profit	43.5	4.3			
TOTAL	996.7	100.0	TOTAL	996.7	100.0

Source: Crédit Agricole 1986, Caisse Nationale de Crédit Agricole

The saving banks

The Bank of France had on its register 401 savings and provident fund banks at 1 January, 1987. They are non-profit lending institutions whose primary role is still to encourage saving. The 401 caisses are strictly autonomous but are under the supervision of the Centre National des Caisses d'Epargne et de Prévoyance (CENCEP). Its main areas of activities include:

Savings deposits taking in accounts exempt from income tax (the reason for their success until recent years, in spite of the low rates of interest offered).

Partial financing of state-aided loans to the moderate rent housing organisations (HLM).

Private sector loans, which include: principal housing-savings loans, epargne-logement (FF37.2 billion in 1986), and conventional loans (FF37.4 billion).

The savings banks benefit from the ability of the Caisse des Depôts to convert the low cost Livret A resources. They are thus able to offer loans at competitive prices, which has made them successful in the free sector loans market.

However the decline in semi-liquid savings collected by the savings banks in 1986 and 1987 (FF742.9 billion in 1987 as against FF761.1 billion in 1985) is likely to modify the range of activities of the savings banks in the future.

The Caisse des Depots et Consignations

The CDC was created in 1816 to control funds "placed under public trust". It now has three main areas of activity:

It administers treasury funds on the financial markets, and also is responsible for bond issues.

It is active in the financing of social housing, its primary role being to convert savings (particularly resources on Livret A) into long-

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term loans.

It provides finance for local authorities, through the CAECL (Caisse d'Equipement des Collectivités Locales).

The mortgage market

The mortgage market was set up in 1966 to lengthen the term and lower the cost of housing finance by offering the lending institutions the possibility of renegotiating their mortgage debts.

The organisation of the mortgage market resembles that of the money market: the institutions which provide credit (approved by the Crédit Foncier which is entrusted by the government with the responsibility of supervising the regulations) issue promissory notes, representing the mortgage debts granted; the buyers of the bills are banking institutions or institutional investors, seeking to invest their available resources. The quality and reputation of the issuer is of more importance than the guarantee resulting from the existence of mortgage debts.

However, before a mortgage loan can be refinanced on the market, it must meet various specific conditions. These relate to the object and nature of the real estate operation financed, the duration of the loans, which must be between 10 and 20 years, and the proportion of the cost the borrower is required to provide.

The mortgage market as described above rapidly took on the form that characterises it today. Interest rates are lower than those on the financial market, and closer to those in the money market. This attracts the specialist institutions, which, lacking as they do any depositors' funds, find in this way the main part of their monetary resources; the important banks appeal to it but for limited amounts.

At a time when the Government's policy is to reduce its role in the housing finance market and to see a return to more orthodox methods of financing, the system set up in 1966 has been complemented by measures designed to increase the scope for long-term mortgage refinancing.

On the basis of recommendations made by M. Bonin, the Governor of the Crédit Foncier, a law passed in 1985 facilitated the creation of intermediary companies, invested with the power to buy up mortgage debts and refinance themselves on the financial market. The result, which had Treasury approval, was the creation of the Caisse de Refinancement Hypothecaire (CRH) (which refinanced to a total of FF9.8 billion in 1986).

This recently created system, the success of which it is too early to judge, opens up the way to a broadening of the methods by which funds can be obtained.

Tables 2, 6 and 7 show how the French housing finance market is split between the sectors described above.

Tables 2 and 7 show that despite an increase in conventional loans (22% of the market in 1986), the aided sector is still considerable (about 33% of the 1986 volume) and increased in 1985 to 44% of the outstanding loans.

It can be seen through Tables 6 and 7 that the market is shared principally between the banks (45% of the total outstanding amount in 1985 and 50% of the 1986 volume) and the financial institutions. The point has already been made that the role of the banks is mainly in the non-aided sector (72% of the 1986 free sector volume), especially as far as conventional loans are concerned (of which the banks produced about 73% in 1986). The financial institutions provided 20% of the 1986 volume, if we include the Crédit Foncier which greatly contributed to the aided sector production.

Conclusion

In terms of operations, and after a long period of interventionist government policy in the housing loans market, budgetary allocations are being cut. This trend will continue, leaving more room for free market forces.

In terms of institutions, there are two main groups providing credit: the specialised institutions and commercial banks, to which the savings banks may be added. These latter establishments, although more recent, are of importance considering the level of their loan activity.

Differences are also to be found in their respective methods of financing: the specialised institutions finance their operations on long-terms resources through the issue of bonds or through the mortgage market; the other establishments use clients' deposits that are at their disposal and mainly convert their resources into loans. These two rather contradictory methods of financing have existed side by side for many years, sometimes with a preference for more orthodox financing and long-term resources, sometimes transformation methods predominating. The latter, although often offering attractive rates to borrowers, are riskier both for the institutions and monetary stability, and possible only within the limits of the already existing prudential regulations.

Developments in this area are closely linked to the attitude of savers who sometimes prefer more profitable long-term investments, while at other times prefering to keep their investments liquid, particularly when the economic outlook is uncertain. The real estate loans market is also influenced by the behaviour of companies, increasingly more involved in the capital market, thus forcing the banks to look towards the general public.

It can be seen that similar developments are also taking place in a number of other EEC countries. The realities of the financial markets will inevitably tend to converge even before the approach of the great internal European market in 1992. ■

This article has been prepared by the Crédit Foncier.

Rabobank Group: biggest mortgage lender in the Netherlands

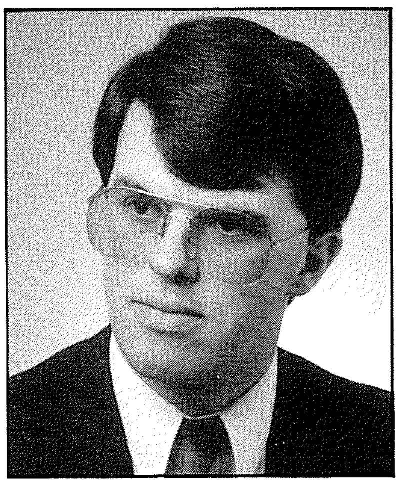
Ad Bakermans profiles a major co-operative bank which has its roots in the rural communities.

RABOBANK is different from other banks: it is not a bank with branches, but a closely-knit co-operative organisation with more than 900 independent, local Rabobanks. Each of these is a separate bank with its own board, its own management, and its own operating area.

The bank's objective, as laid down in its Articles of Association, is to promote the financial interests of its members. Within the framework of this objective the bank offers a wide range of products and services to both businesses and private individuals. At the end of 1986 the Rabobank had some 1,070,000 loans and 500,000 overdrafts in current account outstanding. The number of savings accounts with the bank is well over 9 million and the number of personal cheque accounts is 3.55 million. In the early seventies the bank started to sell insurance, and it has in the meantime become the largest insurance agency in the Netherlands with an annual premium turnover of Dfl1.3 billion (£395 million).

The Rabobank is also the largest agent in the Netherlands for the sale of holiday (package) tours. In 1986 more than 700,000 people booked tours through the Rabobank Group.

The bank has at its disposal a staff of 32,000, divided over 3,400 establishments (offices and special attendance days at auction halls, etc); 19 of these are located outside the Netherlands.



Total assets of the Rabobank Group at 31 December, 1986, amounted to Dfl140 billion (£42 billion), which makes the Rabobank one of the 50 largest banks in the world.

The origin of the Rabobanks lies in the rural communities. In the middle of the nineteenth century the rural population of large parts of North-west Europe lived in abject poverty. One of the major causes was the lack of a financing system geared to the ups and downs of agriculture. Since the existing banks did not offer the farmers suitable credit facilities, the latter were dependent on suppliers and middlemen who were willing to provide credit, albeit at rates and on conditions that were often highly unfavourable.

In order to put up a defence against this situation, the young burgomaster of the German municipality of Weyerbusch, Friedrich Wilhelm Raiffeisen, developed a credit system based on co-operative principles.

Raiffeisen's system implied that persons in possession of an amount of money who did not need that amount during certain periods of the year would lend it to others at a reasonable interest rate through the credit co-operative. This system caught on and was copied everywhere in Europe. In the Netherlands the first local co-operative 'Raiffeisenbanken' and 'Boerenleenbanken' (farmers' credit banks) were established in 1896. In 1898 the need for mutual co-operation between the local banks led to the establishment of two central banks: the 'Centrale Raiffeisen-Bank' at Utrecht, and the 'Centrale Boerenleenbank' at Eindhoven.

For many years the two co-operative banking organisations in the Netherlands were to operate separately, but they decided on a merger in 1972. The name Rabobank was created by putting together the first two letters of the words *Ra*iffeisenbank and *Bo*erenleenbank. Since that time the local Rabobanks have had one central bank: Rabobank Nederland, with head offices in Utrecht and Eindhoven.

Rabobank Nederland is also a co-operative association. Its membership consists of the over 900 local

Rabobanks. Rabobank Nederland has advisory as well as supervisory tasks, while the member banks have to submit certain decisions to the central bank for approval. This is necessary, for example, for the establishment of new offices or granting loans exceeding a specified amount. Rabobank Nederland also acts as 'keeper of reserve funds' of the Rabobank Group. This means that member banks deposit the funds which they do not need for loans, credits or investments, into an account with Rabobank Nederland. These funds are made available to those Rabobanks which are temporarily short of funds.

Finally, Rabobank Nederland fulfils a number of specialist tasks, such as financing large national and international enterprises and banking in and with foreign countries. Furthermore, there are within the Group a large number of subsidiary companies, of which the 'Rabohypotheekbank' (Rabo Mortgage Bank) is the most important in this context.

The Group's financial basis and the existing close ties between the local Rabobanks, Rabobank Nederland and a number of subsidiaries are strengthened even further by the so-called 'Kruiselingse Garantieregeling' (cross-guarantee system). This system implies that the fulfilment of the obligations of each of the participating institutions is guaranteed by all the other participants in the guarantee scheme.

Lending

Loans granted by the Rabobank Group to the private sector amounted to Dfl91 billion (£27.5 billion) as at 31 December, 1986. This amount can be subdivided as follows:

	in billions	*in percentages*
Agricultural sector	Dfl25 (£7.5)	28%
Trade, Industry & Service sectors	Dfl29 (£9.0)	32%
Private individuals	Dfl36 (£11.0)	40%
Total	Dfl91 (£27.5)	100%

Typical modern houses in the Netherlands.

As far as the agricultural sector is concerned, the Rabobank has a market share of 90%. A recent survey shows that this market share has even increased somewhat in the past few years. The agricultural sector in the Netherlands has a very sound solvency position, unlike the situation in, for example, the United States.

The Rabobank is now the bank for one out of three businesses in the small and medium-sized range (up to 100 employees) in the non-agricultural sector. This group includes 99% of all businesses in the Netherlands.

In the sector comprising loans to private persons, which in the great majority of cases relate to mortgages on houses, the Rabobank had a market share of 28% during the first seven years of the current decade.

Housing stock

In the Netherlands there are about 5.5 million houses to 14.6 million inhabitants. The share of owner-occupied houses in the total housing stock — at this moment 43% — is relatively low and has not increased during the past few years.

In the period after the Second World War, the Netherlands was confronted with a substantial quantitative housing shortage. A post war baby boom caused this shortage to increase even further. As a result, the realisation of large-scale, ambitious housing schemes became an important political issue. The question whether governments could continue in office or not might depend on their success or failure in reaching the housing programme target.

This was one of the reasons why governments for many years gave higher priority to the rental sector, which is easier to control — both financially and with regard to policy — than to owner-occupied houses. This situation gradually changed in the course of the seventies.

The percentage of owner-occupied houses differs considerably according to age-group and income. The highest percentage of owner-occupied houses (58%) is found among households where the main breadwinner is between 35 and 44 years old. The older generation had in the past less opportunity to purchase a house. ⟶ 14

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The percentage of owner-occupied houses is also strongly dependent on the income of a household. In higher income groups more people own their own homes.

Among households with a minimum income of about Dfl1,400 (£425) net per month, the percentage of owner-occupied houses is only 18%. Among households with a net income of over Dfl3,600 (£1,100) per month, the share of owner-occupied houses is 66%.

The fact that the interest paid on a mortgage is fully tax-deductible in the Netherlands certainly contributes to this great disparity. Because of the progressive taxation system, owning one's house is financially more attractive if one's income is higher.

Developments in the housing and mortgage markets

The better part of the seventies was characterised by a (by Dutch standards) high nominal income growth, high inflation and the presence of a quantitative housing shortage. The combination of these factors led to a sharp increase in the demand for houses for owner-occupancy. Allotting a larger part of newly built houses to this category was not sufficient to meet this demand right away. Also, the sale of rented houses to the occupants, which increased to about 20,000 per annum, was not enough to solve the problem. The result was an enormous price explosion and a boom in mortgages. The number of mortgages taken out on houses in the Netherlands rose to a peak of 350,000 in the year 1978.

Under the influence of the economic recession the turning point came in 1979. Unemployment increased, the growth in incomes stagnated and the interest on mortgages started to rise sharply. The result was that potential buyers anticipated that in the future they might not be able to afford the high mortgage interest on the more expensive category of houses. Potential buyers continued to live in rented houses, or decided to rent after all, and the demand for houses for owner-occupancy stagnated.

The result was that prices of houses dropped about 30% in barely two years. The market for mortgages on houses also decreased to some 170,000 mortgages in 1982, less than half the peak level reached in 1978. After 1982 the market gradually recovered and the number of mortgages per annum now stands at 250,000.

As for the coming years, the developments in the housing and mortgage markets can be viewed with some optimism. The prices of houses for owner-occupancy are now at a reasonable level. The average purchase price of a house is Dfl155.000 (£47,000), which is a good 20% below the 1978 level. Furthermore, the interest on mortgages dropped to around 7%, the lowest level in the past 20 years. By way of comparison, the interest on mortgages was as high as 12½% in 1981.

Also, the economic prospects are now more favourable and the government in fact promotes owner-occupancy. The latter is evidenced mainly by the fact that the total amount of mortgage interest is tax-deductible, that subsidies may be granted to buyers of newly built houses, and that in certain cases home mortgages can be provided under local authority guarantee.

Under the local authority guarantee scheme repayment of mortgage loans provided to buyers of newly built or existing houses (meant for owner-occupancy) is guaranteed by the municipality where the house is located. The local authority mortgage guarantee makes it possible to take out the highest percentage mortgage compared with the purchase price of the house; the relevant procedure is simple and there are no surcharges on interest. More than half the houses bought in the Netherlands are now financed with loans carrying a local authority guarantee.

Market relationships

The total amount of housing mortgages held by the local Rabobanks and the Rabohypotheekbank will be Dfl40 billion (£12 billion) at the end of 1987. This puts the Rabobank in a leading position in the mortgage market. The bank's policy is directed at offering a complete product range carrying favourable rates of interest and conditions, and with expert personal advice for mortgage clients.

The Group's extensive office network plays a central part in the sale of mortgages. In this the Rabobank differs from other mortgage lenders, many of which have to a large extent consigned the sale to brokers and other agents.

In 1986 mortgages on houses in the Netherlands were divided as follows:

Rabobank (incl Rabohypotheekbank)	26%
Commercial banks	28%
Post bank	8%
Savings banks	5%
Building societies	7%
Mortgage banks	2%
Insurance companies	12%
Pension funds	6%
Others	6%
	100%

Next to the Rabobank the combined commercial banks are the most important institutions in the market. The individual commercial banks have market shares which are around or well below 10%. Remarkably, the mortgage banks have all but disappeared from the market for mortgages on houses, owing particularly to the fact that they were not able to hold out against the competitive prices offered by the other lending institutions. Furthermore, a number of mortgage banks suffered the adverse effects of the housing market collapse at the end of the seventies in more ways than one, since they were also active as property developers.

There is one group which gained its market share very quickly: the pension funds. The nature of their business makes it possible for them to grant loans at fixed rates of interest for longer periods (10 and 15 years) under extremely competitive conditions. Furthermore, one of the larger

Rabobank's head office in Eindhoven.

pension funds provides a type of mortgage where the interest rate is linked to the wage index. Bearing in mind the funds entrusted to them, it is difficult for the banks to compete against products such as these.

During the boom in the seventies there was a great demand for types of mortgages which made the starting costs as low as possible and the amount of the available mortgage as high as possible. In the present circumstances, however, consumers have a strong need for security. They want to be certain of the rate of interest and the extent of the monthly mortgage charges. The major mortgage lenders have responded to this need with the introduction of new types of product, characterised by cost stabilisation and avoiding the risks of sudden sharp interest adjustments.

In this respect the Rabobank has been very successful with the so-called Rente Stabiel Hypotheek (stable rate mortgage), which was introduced around the middle of 1983. A characteristic of the Rente Stabiel Hypotheek is that the interest rate at the time of taking out the mortgage will remain unchanged during the total life of the mortgage loan (usually 30 years) unless the interest rate for mortgages changes by more than 2 percentage points. If the interest rate falls or rises by more than this, the interest rate of the Rente Stabiel Hypotheek is adjusted only for the part exceeding 2 percentage points. In the past few years the Rabobank has provided several tens of thousands of these mortgage loans.

Role of the Rabohypotheekbank

Rabobank Group mortgages are provided primarily by the local banks out of funds raised by them in their respective operating areas. Rabobanks which are temporarily or structurally not in a position to meet the entire demand for financing of their clients can place mortgage loans at fixed interest rates with the Rabohypotheekbank. The Rabohypotheekbank thus fulfils a supplementary financing task within the Rabobank Group and, to this end, provides mortgages at interest rates fixed for 3, 5, 10 and 15 years. More than one in ten mortgages on houses granted by the Rabobank is placed with the Rabohypotheekbank.

The Rabohypotheekbank is a limited liability company, with 95% of the shares held by the local Rabobanks. The remaining 5% are held by Rabobank Nederland. The Rabohypotheekbank acquires its funds on the one hand within the Group by offering banks with a structural surplus of liquid assets the opportunity to invest their liquid assets with it, and on the other hand on the public and private capital markets by issuing mortgage bonds and raising private loans.

The future

The demand for housing in the Netherlands will increase considerably in the years ahead, as a result of the population growth and the increase in the number of households. The demand for owner-occupied houses will probably increase more than proportionally, owing to the fact that the difference between the costs of renting and purchasing will continue to decrease, and to the marked preference on the part of the consumer for purchasing.

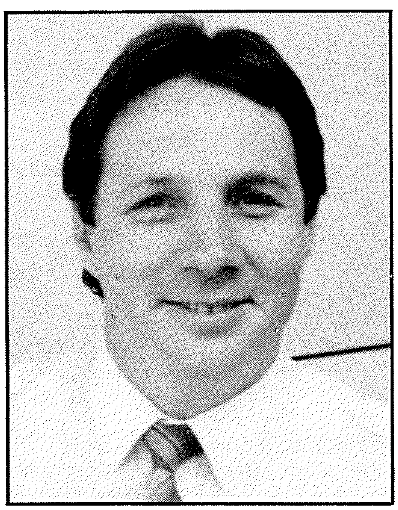
Recent market research shows that over 50% of tenants under the age of 35 intend to move to a house of their own in the future. Currently the number of privately owned houses in this category is as high as 35%.

Furthermore, some 700,000 (30%) are interested in purchasing the houses they are now renting. It may therefore be expected that the number of owner-occupied houses will increase further in the years ahead. The rate at which this will come about also depends on economic developments and the extent to which landlords and government respond to consumers' current preference for owning their own homes. ■

AD BAKERMANS joined Rabobank Nederland as a member of the economic research department in 1976. In 1978 he was appointed product manager personal sector financing. He has been active in his present function since 1984. As head of the commercial development department he is responsible for policy making, product development and market approach in the field of personal sector lending, with the emphasis on housing mortgages.

Building societies help the urban poor

Initiatives to provide housing finance for low-income families in South Africa are described by Matthew Nell and Jill Strelitz



ONE of the most fundamental development challenges facing South Africa today is the provision of housing for the urban poor. There is currently a backlog of need for housing units for this sector of the community in the order of 700,000. Furthermore, estimates of population growth between the years 1985 and 2000 indicate that the urban black population will more than triple in this period. Thus housing need for the urban poor will remain the dominant feature in housing in South Africa in both the short and long term.

The population growth translates into the need for an additional 2.1 million housing units to be provided for the poor over a 15-year period, exclusive of the units required to satisfy the backlog.

In addition to the scale of the housing requirements, it is relevant to note the income profile of the poor. Given current housing costs, and home loan interest rates of 12.5%, less than half of black families will afford the most modest formal house on an economic basis. Site and service schemes and the upgrading of informal settlements will be the only affordable form of housing delivery for many.

Constraints to housing supply

The enormous backlog in housing is a reflection of the fact that the formal housing supply process has not kept pace with need. In 1986 the total supply for this sector of the community was some 23,000 units, provided by the public and private sectors combined. This should be compared with the projected need of 140,000 units per annum.

There are numerous constraints to housing supply for the urban poor of South Africa. While many of these are typical for developing countries, they have been exacerbated by the policy of apartheid. Essentially the policy of influx control, which was abandoned as recently as 1986, has stimulated the need for houses in urban areas.

In addition, the absence until 1978 of land tenure rights for black people precluded private sector housing provision or lending in this sector. Consequently, the private sector — developers, building contractors and finance institutions — has only recently become fully involved in housing supply for this market and this has limited the generation of innovative approaches.

The role of the formal loan institutions, that is, the building societies and the banks, has to be understood within this context.

Formal finance for housing for the urban poor

The formal loan institutions have been financing the acquisition of housing by black families over the past five to seven years. The level of lending in this market currently constitutes about 10% of the total value of loans by these institutions.

It has generally been the top 10% to 15% bracket of black families that have benefited from this finance. In addition housing finance has been provided to government employees who are in receipt of substantial housing subsidies as part of their remuneration package.

While there has been an increase over the past seven years in the volume of lending to black families, the bias has continued to be in favour of upper income groups and those receiving subsidies, that is, those borrowers who present the least risk.

Clearly, the socio-economic realities of black urban families are such that a significant proportion will never qualify, in income terms, for a loan from a bank or building society. However, there is the potential for these institutions to provide finance for a greater proportion of black families than they currently serve. If they could provide finance for the top 40% income bracket they would be playing a significant role in housing the urban poor.

There are, however, constraints to this increased involvement. These are a result of lending practices which have been developed to service the formal middle income (white) housing market. These constraints fall into two categories, namely assessment of eligibility for loans and loan terms offered.

Assessment of eligibility for loans

Typically, potential borrowers are assessed in terms of the repayment amount not exceeding 25% to 30% of the *formal income* of the head of household.

This is totally incompatible with the socio-economic realities of the urban poor in South Africa where informal income, including room-letting or letting of backyard shacks, generates significant income for the household.

In addition, under the terms of the Building Societies Act, potential borrowers must provide 10% to 20% of the value of the house as a deposit. This, too, is incompatible with the circumstances of the South African poor where the accumulation of savings towards a deposit is generally a significant constraint, even where the household has sufficient income for the monthly loan repayments.

Finally, there is generally a very poor communication between the low income borrower and the lender which discourages loan applications and leads to defaulting. This defaulting increases the conservatism of the financial institutions and is reflected in their criteria for assessing eligibility for loans.

Loan terms

There is only one product offered by the loan institutions in South Africa, namely the straight line mortgage, whereby the loan amount is based on the value of the completed house. The interest rate is adjusted from time to time and amortisation periods are typically 20 to 30 years.

These terms are not appropriate for incremental building process where the house may be built over time and the value of the final product is not known when building is initiated.

In addition, there tends to be a lack of knowledge and understanding about housing loan terms among the poor which constrains their participation. Their only experience of loan finance is that offered by finance companies for durable goods, such as furniture, where amortisation periods are short — three to five years — and repayment amounts remain unchanged over the life of the loan.

Initiatives in housing the poor: the Family Housing Association

Notwithstanding the above circumstances, progress has been made in the building society movement in recent years in establishing new approaches to housing the poor. These initiatives have been undertaken in conjunction with private sector housing agencies, predominantly housing utility companies or associations.

One of the largest of these associations, the Family Housing Association, has been particularly active in facilitating increased private sector activity in the housing market serving black families.

The Family Housing Association (FHA) was established in 1983 by a major private sector structural reform agency, The Urban Foundation. Since its inception the FHA has grown from a relatively small annual turnover of R2.6 million, providing some 300 homes and 450 residential sites, to an anticipated R70 million turnover providing 2,000 homes and 6,000 residential sites during the current year.

The FHA's activities have been influenced by two fundamental beliefs:

- That the vast majority of housing will and should be supplied by the private sector, through both the formal and informal building industry. Consequently, the FHA seeks to stimulate and encourage the private sector home building industry through its projects. Moreover, the FHA believes the most effective way to supply the enormous demand for housing is on a commercially viable basis.
- That the involvement of individual families in the provision of housing is crucial. The family as home-owner, owner-builder, buyer or seller of housing is the pivot around which the private enterprise home building industry operates. The family's available resources will determine the quality and cost of housing to be supplied. Consequently, the FHA seeks to ensure that families participating in its programmes have access to home ownership.

While the FHA offers a wide range of housing services, two services in particular involve the building societies in innovative financing practice. These are the financing of supported owner-built (self-help) projects and starter housing schemes.

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Owner-builder projects

These projects provide owner-builders with access to building society building loans within the context of a support and supervisory programme which ensures home completion.

The support and supervisory programmes include the following:

HOUSE DESIGNS

Families are assisted by trained FHA staff in identifying their accommodation needs. Over 30 house plans are available ranging from a two-roomed 'starter home' of only 28 m^2 to an 80 m^2 three-bedroomed house. All houses are designed to allow for future expansion.

CONSTRUCTION SERVICES

In general, houses are built by informal contractors employed on a 'labour only' basis by the owner-builder. The FHA provides construction services for certain tasks where quality control is critical, such as the casting of foundations, manufacture of roof trusses, and the installation of the plumbing and electrical work.

MATERIAL SUPPLY

Owner-builders may obtain all the materials necessary to complete their home from the store located at the FHA's on-site project offices. The quantities required are worked out beforehand according to the house plan selected and are supplied to owner-builders on credit.

TECHNICAL ADVICE AND QUALITY CONTROL

FHA has full-time building inspectors who supply technical advice and exercise quality control throughout the home building process. Emphasis is placed on structural standards and quality must conform to standards set down by both the building societies and the local authorities.

In addition to the above, building society loans are arranged for the participants by the FHA. Loans cover the total cost of the serviced site, building materials, construction services and FHA management costs but do not include the labour costs. The owner-builder undertakes the building work himself or employs local informal contractors at his own cost to do this work.

The building society provides a 100% loan for all costs excluding labour. The only deposit required is that to the FHA which is about 5% of the value of the house and is refundable on successful completion of the house. The FHA is currently starting 200 new owner-built homes each month over three housing projects.

Starter homes

Starter homes were included in FHA owner-builder projects in order to enable lower income families entry on to the housing ladder, albeit on a very modest basis. In terms of this programme, very small, minimum standard homes were offered as part of the existing owner-builder projects. These starter homes could then be expanded and upgraded as the families' economic circumstances allowed.

The starter homes offered comprised two options: a core or a shell unit. The core unit consisted of a 28 m^2 two-roomed home, while the shell unit provided for 35 m^2 of internal space without any internal subdivisions. The minimum option for both starter homes provided for an outside toilet and shower and did not include ceilings or any internal floor or wall finishes.

However, for small additional investments, the inclusion of an internal bathroom and toilet as well as ceilings and improved finishes are optional. In both cases provision was made for these starter homes to expand into fully developed family houses with a minimum of alteration to the initial starter home.

The importance of the introduction of the starter home programme is that it significantly reduced the minimum standard of housing for which the building society movement was prepared to provide finance. The space standards were reduced to almost half those previously accepted and the level of finishes were also lowered significantly.

Affordability

As a result of these innovations, the building society movement, working together with organisations such as the Family Housing Association, has now expanded significantly the proportion of black families that can acquire homes on an economic basis. Through the owner-builder scheme families are able to acquire homes that range in price from R14,000 for a small starter unit to R26,500 for a three-bedroomed family home of 70 m^2. The down-payment or deposit ranges from R700 for the starter home to R1,325 for the larger family unit.

Conclusion

While the housing problem facing black families in South Africa is daunting, it is clear that significant inroads can be made into the problem through the provision of housing on a commercially viable basis. Such inroads depend on the degree to which the private home loan financial institutions adjust their lending practices so as to finance housing of a standard that is more affordable.

Currently, with the recent introduction of lending on both owner-builder and starter homes, the building society movement can increase substantially the proportion of families they are able to assist. ■

JILL STRELITZ is the National Housing Policy Director for the Urban Foundation which is a private sector non-profit organisation. The objective of the organisation is to improve the quality of life of South African communities which it does through promoting the process of structural reform in the areas of housing, education and employment opportunities.

MATTHEW NELL is the general manager of the Family Housing Association which was established by The Urban Foundation in 1983. The Family Housing Association is a housing utility company committed to increasing the role of the private sector home building industry in the provision of homes to the urban poor.

Building societies' role in Zimbabwe

TODAY'S building society industry in Zimbabwe arose out of casual discussions between several eminent legal practitioners in Harare — then Salisbury — in 1948. Following these discussions, a steering committee was set up to investigate the possibility of establishing building societies in the country. These discussions eventually resulted in the formation of a building society and the promulgation of the Building Societies Act of 1951 (SR).

Since the inception of the 1951 Act, the industry has weathered good times and bad. In the early 1960s, following the Congo crisis and with the break-up of the Federation of Rhodesia and Nyasaland imminent, the volume of investments from the public decreased to such an extent that Government insisted that mergers of societies take place to add strength to the industry, and to cut down on competition. These mergers reduced the number of societies to three, all of which continue to operate in Zimbabwe, with Central Africa Building Society (CABS) being the largest, followed by Beverley Building Society and then Founders Building Society.

As at 30 June, 1987, the total assets of the three societies were Z$834.3 million, divided as follows:

Beverley	Z$204.1 million	(24.5%)
CABS	Z$479.4 million	(57.5%)
Founders	Z$150.8 million	(18.0%)

The societies have developed a network of branches throughout the country and established agencies which offer a limited service to investors and borrowers in areas where a fully staffed branch is not justifiable.

Legislation

Building societies in Zimbabwe operate within the constraints of the Building Societies Act. The 1965 Act and subsequent Regulations provide for the establishment, registration, management and control of building societies. The law is such as to ensure that societies are run on prudent, conservative lines so that there is minimal risk to investors. In respect of the latter, building societies are required to hold relatively high reserve and liquidity ratios.

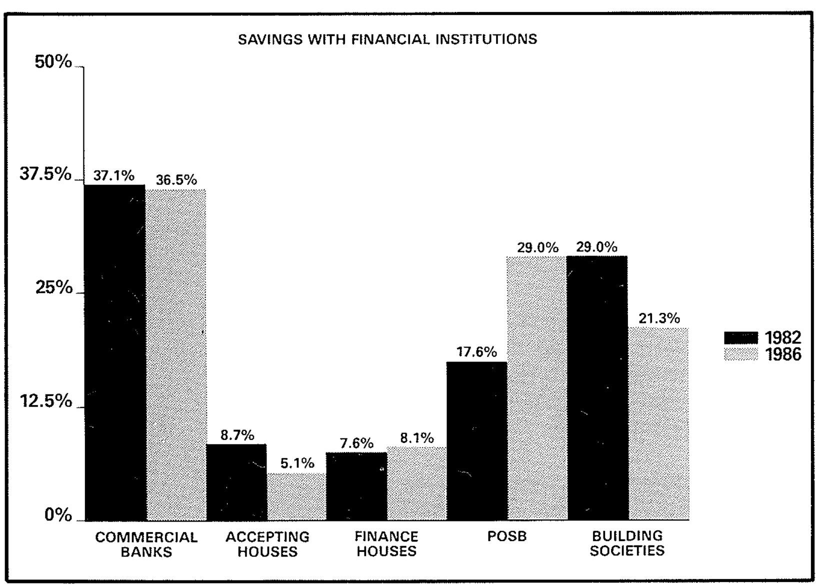
The Act specifies the manner in which societies may raise funds. This objective is achieved by issuing shares to members and accepting deposits from members and others. However, limits are imposed on the amounts a society may accept from an individual or body corporate in respect of deposits and certain classes of shares. Dividends and interest rates on these investments are prescribed by the monetary authorities.

Advances made by societies must be reducible or of fixed term and are limited in amount to 75% of the value of the property, other than where collateral security acceptable to the Minister is produced. Mortgage advances on non-residential property may not exceed 20% of the sum total of all mortgage advances. Societies may lend money only on the security of mortgages or hypothecations of urban immovable property. Money may be lent to local authorities or other approved bodies, with the approval of the Minister, provided that these advances are only for the construction, purchase or lease of land or buildings.

The three societies operate under the umbrella of the Building Societies Association of Zimbabwe, which acts as a link between building societies, Government and other representative organisations.

Financial structure

There has been a marked change in the financial structure of building societies in Zimbabwe, principally as a direct result of two factors.



ZIMBABWE

Building Societies' Financial Structure

	Beverley			*CABS*			*Founders*		
	% 1985	% 1986	% 1987	% 1985	% 1986	% 1987	% 1985	% 1986	% 1987
Shares	32.9	38.9	42.7	38.0	34.5	41.1	38.6	37.8	41.2
Fixed deposits	15.6	12.8	9.4	15.3	14.0	8.3	13.3	12.2	9.2
Savings	51.5	48.3	47.8	46.7	51.5	50.6	48.1	50.0	49.6

Types of investment

Investment	*Term*	*% pa Return*
DEPOSITS		
Savings LImit: $50,000	Payable on demand	7.75% calculated on daily balance and capitalised annually
Savings Certificates Limit: $50,000	On call after: 3 months' notice 6 months' notice 9 months' notice Notice given at time of deposit	 8.75% 9.00% 9.50% Payable half-yearly or on maturity
Fixed. Limits: $150,000 Individuals $300,000 Companies	12-23 months 24-60 months	9.75% 10% payable half-yearly or on maturity
SHARES		
Subscription. Limits: $125,000 Individuals $250,000 Companies	24-35 months 36-59 months 60 months and over	9.00% 10.00% 10.50% Compounded annually
Tax-free PUPS. Limits: $35,000 Companies $75,000 Individuals	Subject to three months' notice 21 months after date of deposit (with society's approval)	9.00% Payable monthly or quarterly
Paid-up Permanent (PUPS) No limit	Subject to six months' notice 18 months after date of deposit (with society's approval)	11.25% payable half-yearly or quarterly

First, the Government permitted societies to issue a tax-free 9% per annum paid-up permanent share with effect from 7 November, 1986. As a consequence, funds were transferred from existing 11.25% per annum paid-up permanent shares and fixed deposits to the new issue of shares. Furthermore, the societies received substantial sums of money in the form of new funds which hitherto would probably have been invested in the Post Office Savings Bank, tax-free.

The capital balances of all three societies in these tax-free shares at 30 June, 1987, amounted to Z$90,452,000. The introduction of this form of investment has benefited societies in a number of ways. It has significantly reduced the cost of money and, in addition, has resulted in an increase of money available for lending on mortgage. However, Government has stipulated that a minimum of 25% of the funds invested in tax-free shares be utilised for funding of high-density housing.

Secondly, societies previously held Z$62,759,000 in fixed deposits invested by the Reserve Bank of Zimbabwe to cushion the effect of the withdrawal of funds by non-residents for investment in Government 4% bonds which they were compelled to do by legislation. During the financial year ended 30 June, 1987, societies repaid an amount of approximately Z$16 million to the Reserve Bank, which significantly lowered the percentage held by societies on fixed deposits as indicated in the table. Societies are required to continue repaying the remaining balance to the Reserve Bank by monthly instalments.

In Zimbabwe, societies offer the public the option of shares and deposits as investment opportunities. The table gives a simple overview of the investments on offer.

Marketing environment

In terms of economic priority, the building society industry does not rank very highly, and societies are therefore unable to compete favourably in the financial market.

Government Regulations and Reserve (Central) Bank policies control the major activities surrounding conditions influencing development and growth. There is no doubt that in the plan of controls the role of societies is appreciated and, in its turn, is geared to obtain a portion of available funds, particularly as Government vigorously supports home ownership.

The rates of interest offered to the public are pegged by the Reserve Bank and each society is therefore similar in this respect. There is a band of rates for savings accounts, otherwise all other investments have a fixed rate. Each investment other than the 11.25% per annum paid-up permanent share has a ceiling related to the amount an individual or company can invest. Banks do not have a similar restriction imposed on them.

Before the introduction of 9% per annum tax-free shares on 7 November, 1986, societies were not competitive as better returns were available elsewhere. With the tax rate and surcharge reaching up to 60 cents in the dollar for individuals earning an

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income over $33,000, and with company tax this year at an effective rate of 54%, the 9% tax-free shares have proved popular and have now become the main source of inflow. Intake is restricted to $75,000 per individual and $35,000 for a registered company. The largest share of money held by societies comes from individuals rather than institutions because of the ceilings imposed on investment holdings.

The Post Office Savings Bank is the only competitor for the tax-free investment and enjoys the advantages of a better rate, shorter term and higher ceilings.

The building society 9% tax-free shares have to be held for not less than two years, whilst the POSB period is for a minimum of one year. POSB also has a tax-free savings account on offer at 8.50% per annum, again with a ceiling of $100,000, whilst the ceiling for building society savings accounts is $50,000 and the taxable rate is 7.75% per annum. The POSB enjoyed the tax-free rates for a number of years before building societies were granted a similar concession.

The Reserve Bank gives exchange control directives for non-resident controlled organisations and individuals. Basically, whilst the inflow of new money is welcomed through, in the main, 9% tax-free shares, there is an outflow of non-resident held funds and a discontinuance of investment of funds for any non-resident except in exceptional circumstances and subject to exchange control approval. This has meant a monthly outflow of non-resident monies in one form or another to other institutions and the drying up of investments from this source.

Since 1981 the indices on the Stock Exchange have taken a downward trend and this has not been a popular avenue for investments. In 1981 the bank rate was increased from 4.5% to 6% and then 9%. Other rates generally increased in response to the upward movement in the bank rate, which has since remained static.

Finance houses generally offer a better return on investment, but are smaller and have a natural saturation point. The banks hold the largest borrowing from the public in Zimbabwe and enjoy the most freedom in obtaining funds.

The largest investment in building societies is in savings deposits which are available on demand, and over the years this has proved to be the firmest investment in terms of growth. The greatest appeal for savings deposits is the free service it offers compared to the charges related to a bank account. There are many employers who use savings as a vehicle for payment of salaries countrywide to employees.

Insurance companies attract enormous sums in the form of premium income for life cover and pension schemes, 60% of which has to be held in Government Stock. Societies are required to hold 15% of liabilities in a prescribed form, the major share of which would normally be in Government Stock.

Housing finance and development

Housing finance and development in Zimbabwe is of particular importance to the Zimbabwean economy as a whole and to other developing countries on the African continent which face acute housing shortages. Historically the market in Zimbabwe has been divided into two sectors: (a) the high-density sector and (b) the low-density sector.

The high-density sector relates primarily to low income earners with austerity houses. The traditional means of financing these houses was primarily through the public sector. On the other hand, low-density housing was, and still is to a large extent, financed mainly by the private sector primarily through the medium of the building societies where security of tenure is in the form of freehold title.

Building societies refrained from participating in the provision of mortgage finance directly to high-density applicants as the security of tenure

Savings with Financial Institutions (Z$ million)

	Commercial Banks	Accepting Houses	Finance Houses	POSB	Building Societies	Total
June 1981	456.4	159.7	145.5	262.6	574.3	1,598.5
Sept 1981	541.6	167.1	158.8	279.6	573.1	1,720.2
Dec 1981	598.2	148.1	155.7	295.6	559.0	1,756.6
Mar 1982	633.7	144.4	154.7	302.4	550.3	1,785.5
June 1982	699.4	153.2	152.4	315.4	562.5	1,882.9
Sept 1982	738.1	172.8	150.4	349.9	576.6	1,987.8
	37.1%	8.7%	7.6%	17.6%	29.0%	
Dec 1982	774.2	167.4	146.4	361.1	587.6	2,042.7
Mar 1983	808.0	157.8	155.3	371.7	585.9	2,078.7
June 1983	795.4	177.8	165.7	376.9	592.4	2,108.2
Sept 1983	801.0	180.5	169.3	409.4	597.3	2,157.5
Dec 1983	831.2	148.6	170.6	417.5	591.4	2,159.3
Mar 1984	886.3	168.4	173.8	416.5	587.9	2,231.9
June 1984	884.4	177.4	179.0	469.2	595.0	2,305.0
Sept 1984	1,018.0	179.0	174.8	543.5	585.4	2,500.7
Dec 1984	929.4	166.6	179.7	573.7	581.9	2,431.3
Mar 1985	963.3	150.3	188.1	597.8	582.4	2,481.9
June 1985	944.8	187.4	201.8	652.8	596.1	2,582.9
Sept 1985	1,038.9	204.3	203.2	708.3	618.0	2,772.7
Dec 1985	1,113.2	217.7	205.7	755.0	626.0	2,917.6
Mar 1986	1,067.6	165.5	218.2	785.8	628.4	2,865.5
June 1986	1,057.4	158.8	237.3	846.4	636.5	2,936.4
Sept 1986	1,139.0	158.8	252.4	903.0	663.9	3,117.1
	36.5%	5.1%	8.1%	29.0%	21.3%	

was in the form of leasehold property, where the conditions of the lease were by and large not acceptable as security for mortgage purposes. In addition, the type of construction and high administration costs for small mortgage advances added to the restriction imposed by societies. However, in recognising the need to provide houses for all, societies advanced bulk loans to Government, which in turn lent these monies to local authorities to continue their high-density housing programmes.

Supply and demand in the low-density areas followed and continues to follow political events and the normal business cycle with its inherent peaks and troughs. In contrast, the demand for high-density housing has always been, and will for the foreseeable future remain, exceptionally high. However, during the course of the past few years demand has remained exceptionally high for both sectors, leading to an acute shortage of housing.

Despite efforts to solve the problem, the housing backlog in urban areas and rural council authorities has risen to 240,000 and 26,000 respectively. Given the current population expansion statistics, the situation is destined to deteriorate rapidly unless an ambitious housing programme is undertaken. In recognising this, the Government's Five Year National Development Plan includes a development programme aimed at constructing some 100,000 new housing units over the plan period.

The Public Sector Investment Programme for housing over the five-year period is estimated at $812 million, which in itself is formidable given the size of the country's economy. In addition, the Government has called for greater participation by the private sector in the provision of housing to alleviate the situation. In this respect, Government has created the necessary conditions to induce private sector investment in this vital field.

In order to attract a greater inflow of funds into building societies to enable them to continue providing mortgage finance, certain tax-free investments are now on offer to the public by these organisations. To a limited extent tax concessions have been increased to certain taxpayers constructing staff houses. In addition, extensive survey programmes have been instituted to ensure that freehold title is available and thus building society participation in the high-density sector of the market.

Low density

At independence in 1980, apart from numerous diplomatic residences being purchased, low-density property prices were unrealistically low. Generally there were sufficient properties on the market for sale at probably half their current day replacement costs. Emigration was, at that stage, fairly high and consequently there was a continuous supply of affordable housing being placed on the market. Despite the fact that interest rates levied by societies were exceptionally low at 7.25% per annum, the actual mortgage demand remained relatively low.

As the earning capacity of the majority of the population increased and expectations of a higher standard of living permeated, so the demand for better quality houses followed suit. On the other hand, emigration began to decrease and the supply of properties offered for sale gradually reduced. Demand continued to increase, prices began to firm and today there is an acute shortage of affordable accommodation.

Very little development has taken place in the country in recent years as market prices have generally lagged behind replacement costs. As a result, it has been far cheaper to acquire an existing property than to construct one to a similar standard. Although the gap between market prices and replacement costs has narrowed considerably owing to market forces, inflationary trends have escalated building costs at an alarming rate, thus maintaining a certain disparity between the two and curtailing mass development. With wage restraints, high taxation and inflation, the concept of constructing spacious, good quality homes on hitherto relatively large stands has become a thing of the past.

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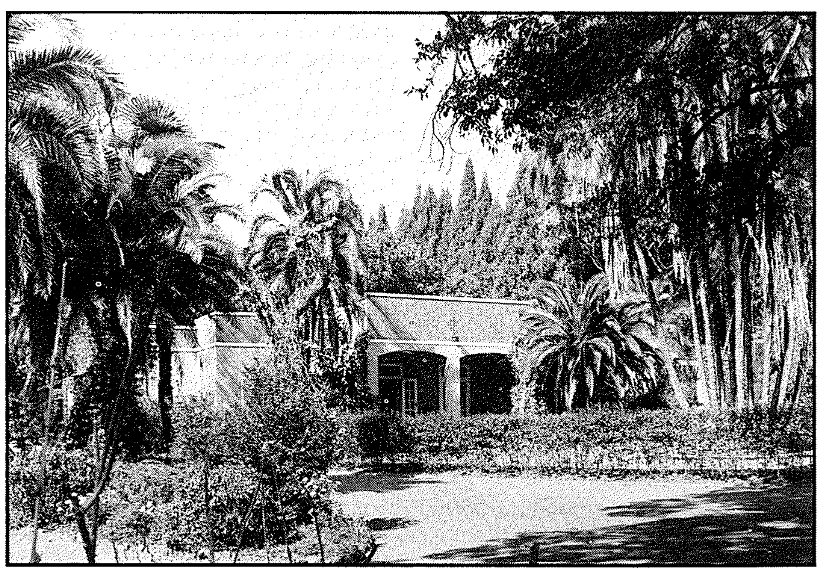

Low density housing in an attractive suburb in Zimbabwe.

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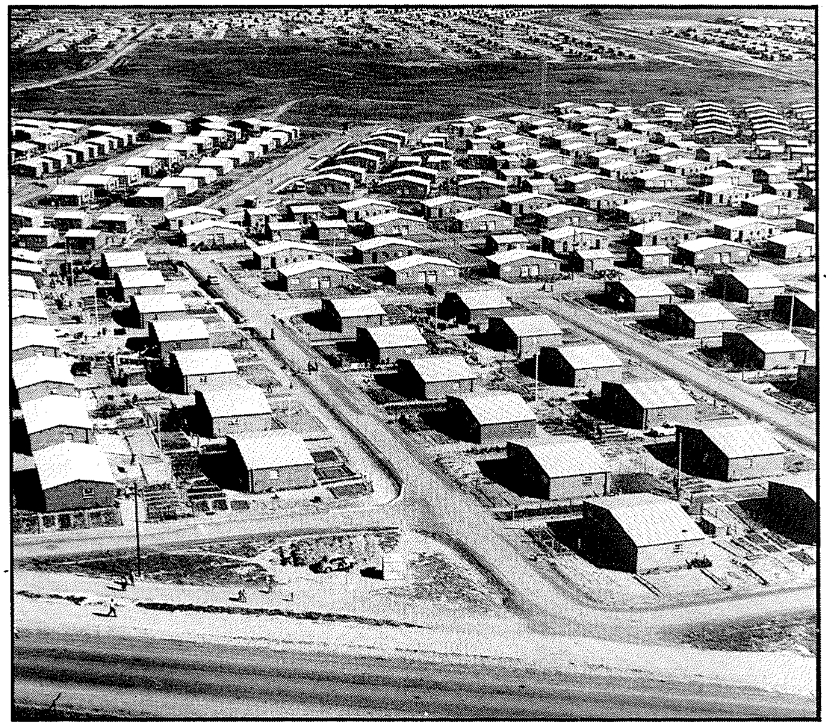
In recognising the situation, and in an effort to provide much-needed accommodation for the middle income earner, developers have commenced, albeit at a slow pace, constructing cheaper austerity-type houses. These houses have no second fittings such as built-in cupboards, parquet flooring, or wall and floor tiles and are constructed on smaller plots. Generally where austerity houses are concerned, the borrower is expected to complete the second fittings to the house as and when he is in a financial position to do so.

High density

The reasons for restraints imposed by societies in the provision of mortgage finance in the high-density sectors has previously been touched upon. To a certain extent it is recognised that these organisations already have the necessary technology and expertise to venture into the high-density sector, thus avoiding the duplication of services by public and private sector alike. The high costs of administering a large number of small loans has to a degree been offset by the introduction of a tax-free investment now on offer by building societies. The dividend rate on these investments is 9%, which is considerably lower than the previous 11.25% investment on offer, which dividend is subject to tax by the investor. This has obviously lowered the cost of procuring money by societies and made the venture into high-density areas more attractive. Government has accordingly sought direct active participation by societies in the provision of mortgage finance for low income earners.

To overcome the problems previously encountered on leasehold title, international aid organisations have channelled through Government large sums of money towards the provision of fully serviced and surveyed stands, thus enabling local authorities to offer freehold title to mortgagees. Basically, the local authority allocates a small stand, between 200 and 500 square metres and costing between Z$500-Z$2,000, to a beneficiary and makes available a set of 14 floor plans from which the would-be home-owner makes his choice of house type.



High density housing in Zimbabwe.

The plans also make provision for the subsequent addition of a number of rooms which the borrower constructs as and when he can afford to do so. The beneficiary, having made his selection of plans, is then directed to the building society of his choice to arrange mortgage finance. Such mortgage finance normally covers the purchase price of the stand and the cost of erecting the house.

The move into high density housing has introduced a new concept of lending in Zimbabwe for these financial institutions. The previously high standards set by building societies for the construction of houses have been relaxed considerably, as has been the method of construction in order to cater for a relatively unsophisticated borrower. Traditionally to qualify for building society mortgage finance borrowers have had to have their houses constructed by reputable contractors or under a sub-contract basis where the artisans are registered with the National Industrial Council for the Building Industry.

Under the AID programmes governing participation by beneficiaries, houses may now be constructed by either large-scale developers, building brigades, self-help (family participation) or small developers where the builder does not have to be registered with the National Industrial Council. The latter two methods of construction have caused considerable problems to financiers and would-be home-owners alike as the procurement of materials on favourable credit terms is difficult and construction often takes place over an exceptionally long period. This has resulted in relatively few houses having been constructed. ■

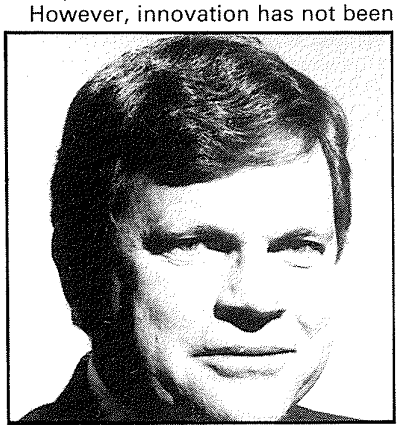
Zimbabwe's building societies

Beverley

THE first registered building society, the Bulawayo Permanent Mutual Building & Investment Society, subsequently merged with Beverley, and it is anybody's guess what the tellers of those far-off days would have thought of the three VAX 750 super mini-computers which now provide on-line facilities, linking 23 branches.

Beverley has always had a reputation for innovation and was the first society in the country to provide staff with canteen facilities and a clinic with resident doctor in attendance. Employees also enjoy the benefit of pensions and medical aid schemes administered in-house. Both schemes receive large contributions from the society, but there are additional subsidies for lower paid employees participating in the medical aid scheme. This ensures that every member of staff can afford medical treatment for himself and his family.

However, innovation has not been



Mr R. Key, general manager of the Beverley.

limited to staff matters. Beverley was the first society to participate in a low-cost housing plan designed to assist those on small incomes. A pilot scheme linking Beverley with USAID and United Nations provided 1,200 housing units in Kwekwe and Gutu on a self-help basis. The success of this pioneering venture encouraged further projects of a similar type and currently Beverley is participating with the other building societies in a World Bank scheme which will provide 14,000 units of housing.

Beverley is a relatively small society and finances its 8,000 mortgage advances with funds from 150,000 savings accounts and 17,000 share and fixed deposit accounts. Persistent striving for growth has recently pushed assets through the $200 million barrier, and the general manager is confident that this upward trend will continue. Perhaps the most striking evidence of confidence in the future is the plan for a large training complex adjoining the head office building.

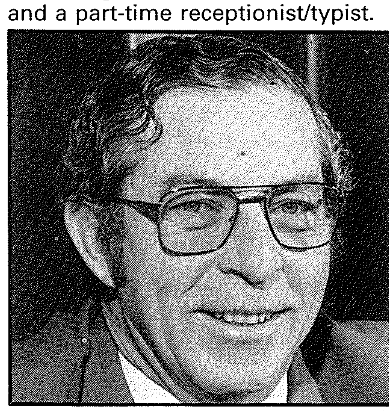
In recent years an increasing number of staff from building societies in Malawi, Botswana and other countries on the African continent have been sent to Beverley for training. The new complex will therefore not only have extensive training facilities, but will also have living accommodation, lounges and a restaurant to cater for these students from beyond Zimbabwe's borders.

Central Africa

THE formation of the Central Africa Building Society (CABS) dates back to 1949. At that time there was no building society legislation in the country and it was not possible to operate a building society under the Companies Act — that is to say through the means of a limited liability company. The solution proposed was to incorporate two limited liability companies which would enter into partnership for the purpose of carrying on the business of a building society.

Two companies were formed — Central Africa Investment Ltd and Central Africa Building Society. Those interested were asked to subscribe an equal amount of capital to each company. Approximately 50 people, together with an assurance company, participated in raising the initial capital of Z$60,000. The companies entered into a formal deed of partnership in terms of which they agreed to establish, initially in Harare, and then throughout the country, a building society to be called "Central Africa Building Society."

In 1948/49 office accommodation was at a premium as a result of post-war developments, but eventually offices, consisting of a small reception room and two inter-connecting rooms, were acquired in the central business district in Harare. The society opened its doors on 16 August, 1949, with a staff comprising a manager, a full-time assistant and a part-time receptionist/typist.



Mr J. L. Wood, general manager of the Central Africa.

In 1951 legislation was passed to cater for the building society industry and this enabled CABS to expand considerably. An indication of this growth is amply illustrated by the increase in assets. The Z$2 million mark was passed in 1951/52, Z$10 million in 1954/55 and Z$20 million in 1956/57. CABS' assets in 1959 exceeded Z$34 million; in 1970 Z$107 million; at 30 June, 1980, Z$300 million, and it is anticipated that assets will reach Z$500 million shortly.

In 1961, with the uncertainty prevailing in the country after the Congo crisis and the imminent break-up of the Federation of Rhodesia and Nyasaland, Central Government saw the need to reduce the number of

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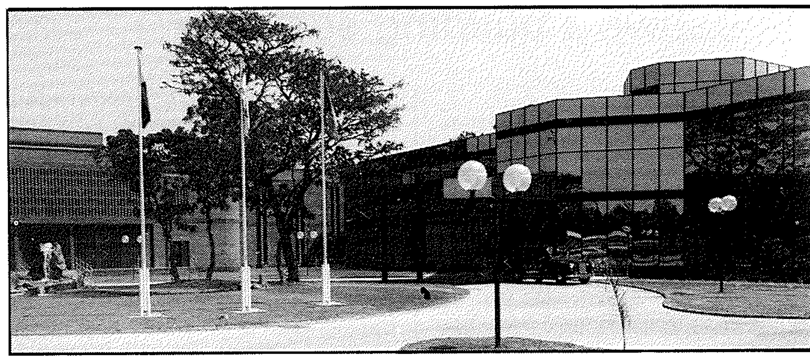
societies in order to strengthen the movement and minimise competition. It was therefore agreed that CABS, The Old Mutual Building Society of Central Africa and the Bulawayo & National Building Society merge to form Central Africa Building Society. The newly-formed society "CABS" has become a household name throughout Zimbabwe.

Today CABS employs more than 700 staff and operates 62 branch offices throughout Zimbabwe. In July 1987 a new corporate office block away from the central business district of Harare was opened to house the entire administrative staff of the society and to cater for the phenomenal growth the society has experienced. The savings portfolio illustrates the performance by the society over the last seven years. In June 1980 there were 278,581 savings accounts, which in that year generated 5.3 million transactions. Today there are over 500,000 accounts generating more than 8 million transactions annually.

The total amount invested in shares and deposits with the society as at 30 June, 1987, was Z$423,390,000, which is approximately 56.2% of the total held by building societies in Zimbabwe. Amounts advanced on mortgage totalled Z$318,068,000. The society's reserves now total Z$40,722,000, representing 8.5% of total assets.

Progressive computerisation of the society's systems has played a significant role in supporting the growth in numbers of accounts and related services required. Batch-processing commenced early in the 1970s with all application software then, and since, being developed in-house by CABS computer personnel. On-line real-time services were introduced in 1983 for the first time in Zimbabwe, and these were gradually extended to cover all branches in the main centres. At present all 62 branches are equipped with NCR on-line teller terminals and passbook printers, providing a real-time service.

The countrywide network is supported by two ICL mainframe computers in Harare using IDMS database systems for information storage and retrieval. Micro-computer systems are presently being introduced at head office



The CABS administration centre.

Founders

FOUNDERS Building Society was established in 1954, opening its doors to the public in May 1954 with capital of only Z$200,000. It was established mainly through the enterprise of Sir Albert Robinson, who became deputy chairman and who retired from the board in March last year.

The society has grown steadily in the past 33 years. From the start of business in its original premises, it now has 19 branches in all the major centres, with many more agencies being operated throughout the country. In 1961 Founders amalgamated with the Rhodesia Century Building Society, one of the smaller societies that existed in what was then Southern Rhodesia. By that time assets exceeded Z$10 million. Today the society has assets of Z$150 million and provides jobs for a permanent staff of almost 300 people throughout Zimbabwe.

During its last financial year, assets increased by almost 17% — shares rose by Z$12.4 million and deposits by Z$6.8 million. The balance of mortgage advances rose by just under 16% to Z$103 million and reserves increased by Z$2.6 million.

As a result of the tax-free shares introduced in November 1986, Founders Building Society has made Z$1 million available to Government for its National Housing Fund and has loaned out Z$4.2 million for low-cost housing. This sum has provided 364 new homes for families in the lower income groups and it represents almost 60% of Founders' loans for new houses during the past year.

In order to help middle income earners towards home ownership, the society has come up with a mortgage package which substantially reduces the front-end costs. It includes a 30-year repayment term, as opposed to the currently prevailing 15-year one, for mortgages of up to Z$35,000, a three-month grace period before the first instalment falls due, front-end charges debited to the loan accounts and reduced valuation fees under certain circumstances.

As part of the commitment to the average Zimbabwean, and following a successful year, Founders is decentralising and opening up new branches in growth points and high-density suburbs. Three such branches and agencies have been opened in the past year.

The society is keen to keep abreast of new technology and a major computerisation exercise has been going on for the past five years. To date, Founders has completed its computerisation programme in four of its main branches. The programme includes mortgages, on-call savings accounts and paid-up permanent shares.

Shelter-Afrique: the first three years

Ebenezer Lufadeju explains the role of the Company for Habitat and Housing in Africa

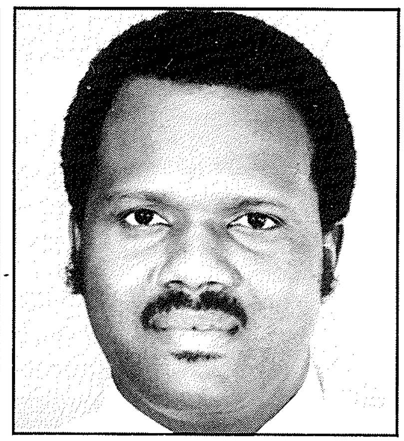
AFRICAN countries have been facing an unparalleled population explosion characterised by increasing and uncontrolled growth of towns and cities and a massive shortage of houses. The birth of Shelter-Afrique, the Company for Habitat and Housing in Africa, represents a decision by African governments to tackle the rampant problems that undermine the whole development process in the continent. They feel that the provision of decent and affordable housing could not be left to chance, as has been the case for so long. The challenge is to integrate housing into the development process itself and give it a proper status among economic and social priorities.

Shelter has thus to be seen as a precondition for meaningful national development. The provision of decent housing and essential amenities has to be recognised as an indispensable element in human welfare and economic development. It was this profoundly important realisation that led to the conception of Shelter-Afrique as a housing finance and development organisation on a Pan African and international scale.

Established in 1982 with its headquarters in Nairobi, Shelter-Afrique had a number of initial problems which were largely overcome by the time it reached an operational phase in 1985. Its membership to date stands at 27, made up of 24 African countries, two African institutions and one non-regional institution.

Role in the housing sector

Shelter-Afrique has realised the enormous dimensions of the African



housing problem in terms of resource requirements. This factor prompted a careful and selective approach geared to housing mortgage facilities, use of inexpensive local building materials, sites and services and other components which contribute to affordability by low-income earners. Shelter-Afrique's activities have thus focused on shelter and infrastructure provision, in particular sites and services schemes, local building materials development and establishment or strengthening of housing finance instititutions.

Shelter-Afrique is also in favour of comprehensive housing programmes based on an integrated concept of development. Whenever possible, basic infrastructure and social facilities like access roads, water, waste disposal facilities, school and health services should complement the shelter units to create a habitable environment. In support of the above, Shelter-Afrique promotes the adoption of realistic housing standards, and the use of appropriate construction technology, and also encourages measures for the protection of the settled environment.

Local building materials development

Building materials account for about 50% of the total cost of building in African countries. Conventional building has become synonymous with imported building materials, particularly cement, iron rods, aluminium/galvanised iron roofing sheets, sheet glass, etc. While these meet the standard requirements of the building industry and the prevailing by-laws, the overall result is importation at great costs which worsen an already fragile balance-of-payments situation.

This is an unfortunate paradox, particularly when viewed against the reality that Africa is well endowed with the raw materials required for housing construction. Notable examples are limestone, pozzolana and rice husk, which could serve as intermediate binders, clay products and earth, as suitable walling materials, while fibre-cement sheets would be effective roof covering materials.

It is a well-known fact that the formal housing sector is too expensive for low-income groups. Shelter-Afrique thus believes that standards for housing construction for the low-income groups must have affordability as one of their cornerstones. Not only does such an approach ensure that the target groups can benefit from programmes specifically designed for them, it also guarantees reasonably durable houses and infrastructure, and therefore reduced costs, the more so because maintenance and other costs can then be comfortably afforded by the user-communities.

To these ends, Shelter-Afrique is currently commissioning a study of the potential for the promotion and establishment of a viable building materials industry in Africa. The study is to be conducted in six African countries spread over various sub-regions of the continent. Among other relevant investigations, the terms of reference for the study focus on issues like the role played by the building materials industry in the African economy, identification and evaluation of available raw materials that can be exploited economically on a sustained basis, the review of existing research on local building materials which can readily be used to establish new production facilities.

Depending on the outcome of this study, Shelter-Afrique will actually look into the financing of the production of viable and durable local building materials. It will then produce a formal blueprint applicable to African countries and capable of replication.

Housing finance institutions

It is recognised that African countries as a whole have over-relied on external sources of finance and paid insufficient attention to the mobilisation of domestic savings. Generations of researchers have concluded that there are enough thrifts even among the poorer categories of our populations to promote the construction of a high proportion of the dwellings required. The major problem, however, is that Africa as a continent is not organised to tap and harness this source of finance into sizeable proportions which can be channelled to the housing sector.

It equally lacks in several countries, developed and reliable primary and secondary mortgage markets which could be used for the promotion of domestic savings. Where housing finance institutions exist, most of them need either strengthening or assistance to channel mortgages at terms that are affordable by the very low-income earners which make up our target group.

Shelter-Afrique has therefore moved boldly into the field of housing finance institutions and strengthening existing ones as a major means of achieving mobilisation of domestic resources. Proposals have already been made to member governments of Shelter-Afrique to establish jointly with the company and local entrepreneurs, housing finance institutions that will respond to housing finance requirements. Shelter-Afrique is simultaneously developing contacts with agencies which possess wide experience in the matter as well as seeking the assistance of international organisations with common objectives.

Resource mobilisation and co-operation with international organisations

Given the enormous capital required to create a meaningful impact on housing problems in the continent, the resource limitations of African countries and the pressing needs of other priority sectors, Shelter-Afrique's success depends critically on its ability to attract funds from multi-lateral and bi-lateral funding agencies as well as member governments. In recognition of this fact, mobilisation of resources at both domestic and international levels has assumed high priority.

However, from the very nature of the issues involved, the approach needs to be diversified. The greatest handicap in this area has been the pricing of the funds as the cost must be low enough — if not concessionary — to be affordable by the target groups to be catered for, ie the low income earners.

On the other hand, it must also be conceded that with the serious shortage of foreign exchange and balance-of-payment problems persisting in several African countries, the chances of default in repayment cannot be ruled out. This calls for adequate precautions to be built into the company's lending and borrowing programmes to meet any eventuality.

Much ground work has been carried out in promoting the name of the company in major capital markets. Whilst the initial reaction has been very positive and encouraging, a few technical problems do occur which clearly highlight the fact that this is not, as of now, the right source of the type of capital that Shelter-Afrique requires. For one thing, Shelter-Afrique's financing has to extend over a long term whilst international capital markets prefer short-term loans for a period that does not normally exceed seven years. In addition, Shelter-Afrique's basic objective is to finance low-income housing.

There arises, therefore, a profound contradiction between the price of loans obtainable at market rate and the affordability of the target group. Shelter-Afrique has to focus its attention on other sources and alternatives. I have described the role the company is assuming in the formation of new housing finance institutions or the strengthening of existing ones in co-operation with other entrepreneurs, as vehicles for mobilising local resources. Feasibility studies will shortly be undertaken, initially in Zambia, Malawi and Kenya and, once completed, these will form a blueprint for replication in other member countries.

Shelter-Afrique is clearly aware of the importance of co-operation with international organisations and their involvement in the company's activities. Shelter-Afrique has not spared any efforts to seek co-operation in technical and financial areas with such organisations as the African Development Bank (ADB), United Nations agencies, the World Bank, the Commonwealth Secretariat, the OPEC fund, etc.

So far the most rewarding contacts have emanated from the African Development Bank. It will be recalled

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that Shelter-Afrique is the brainchild of ADB, which has consistently followed its growth and offered advice whenever called upon to do so. It is therefore natural that co-operation with ADB should be at the highest level possible. Indeed, there have been several areas of co-operation in both technical and financial terms. Not only is ADB our largest single shareholder, it is also highly represented on the board. Soft loans have been requested from ADB's concessionary funding agency, the African Development Fund.

As regards the UN agencies, notably UNCHS (HABITAT) and the Economic Commission for Africa (ECA), relations have progressed to the point at which there are actual co-operation agreements or agreements to be finalised soon. The study on low-cost building materials is to be undertaken in association with ECA, UNCHS and UNDP, whilst a low-cost housing project in Kampala, Uganda, is to be implemented jointly with UNCHS. The scope for co-operation with the World Bank appears equally auspicious and a start is being made in connection with a low-cost housing project in The Gambia.

The Commonwealth Secretariat is prepared to join hands with Shelter-Afrique in assisting, in the first instance, in strengthening the existing housing finance institution as well as in the feasibility study on the production of key local building materials in Uganda.

The above list is merely indicative and by no means exhaustive. No stone is being left unturned to persuade the rest of the international community to understand the housing problem in Africa and appreciate that the solution lies largely in their co-operation.

Progress to date

Shelter-Afrique has been shouldered with vast responsibilities, in tune with the massive problems it is called upon to grapple with, at a time when the African continent has been confronted with problems of unimaginable dimensions — problems of drought, fall in gross national income, collapse of export markets, mounting debts and cut back in foreign aid — that have crippled attempts at economic and social advancement. Shelter-Afrique's own financial and manpower resources are puny in relation to the work to be accomplished. However, the company could not have been created at a more apposite time, and in spite of the odds, it has actually recorded appreciable achievements.

Over the short span of three years, starting with the assumption of duty of the first member of staff, Shelter-Afrique is now in full operation and has reached a stage of loan disbursement on viable housing projects. Three projects are under way — in the Gambia, Kenya and Uganda — which will altogether benefit nearly 5,000 households. Several other projects are under scrutiny.

In Malawi a scheme involving the provision of main infrastructure services for a site in the suburb of Blantyre will eventually cater for 7,600 serviced plots. In Rwanda a housing project in Kigali will comprise the development of serviced plots and the construction of 600 low-cost houses as well as the provision of technical assistance during construction. In Djibouti Shelter-Afrique will be involved in an umbrella low-income housing project which will also include the promotion of local building materials.

Other projects are being actively examined in Guinea, Morocco, Gabon, Nigeria, Cameroon and Sierra Leone. Shelter-Afrique is equally prepared to extend its collaboration with non-member countries in the areas referred to above.

In this International Year of Shelter for the Homeless (IYSH) the needs and aspirations of those living in precarious shelter or those without any shelter at all are, of course, foremost in our minds. Shelter-Afrique has not missed any opportunity to make the international community aware of their plight. The approach and methodology of Shelter-Afrique is prepared, in a few instances, to disburse funds at concessionary rates of interest for low-cost housing projects that cater for the very poor. In a more general way and as a matter of policy, some 60% of the loanable funds of Shelter-Afrique are meant for low-income housing which may include *inter alia,* the provision of basic infra-structure and upgrading of sub-standard living environments.

Conclusion

Housing is one of Africa's greatest challenges, as much a challenge to African governments as it is to Shelter-Afrique, the agency they have created and to which they have assigned the crucial role of assisting them to solve their shelter problems. In many ways Shelter-Afrique is a unique venture, and its achievements in the years to come will determine the extent to which the continent is capable of improving the economic and social standing of its populations.

Shelter-Afrique has made strenuous efforts to improve the status of housing in the priority programmes of African states. It takes time to convince decision makers of the fundamental role of the housing sector in social and economic development, but there are now clear indications of a change in attitude.

A fundamental problem that has been left largely untackled by the African continent is, of course, that of mobilising adequate resources and raising capital for housing finance and development. In this regard the assistance of several international institutions is being actively solicited and every effort made to enlist their co-operation and participation. ■

EBENEZER OLUSEYI LUFADEJU is managing director of Shelter-Afrique, the Company for Habitat and Housing in Africa, based in Nairobi, Kenya.

Nine operational projects launched

THE COMPANY for Habitat and Housing in Africa (Shelter-Afrique) has now approved projects in nine African countries and its operations are expected to increase significantly in the near future. In view of its limited capital and investment resources, Shelter-Afrique is seeking partners for its investments from governments, financial institutions, and multi-national agencies. For example, the nine projects approved to date have an estimated cost of US$20 million, of which Shelter-Afrique is financing 36.4%. Nearly 7,500 lower income families — representing about 45,000 people — will benefit from these projects. However, this has to be seen in the context of Africa's rapidly-growing urban population which, between 1980 and 2000, will increase from about 140 million to nearly 400 million.

Projections for the next five years call for 28 projects to be financed at an estimated cost of over US$115 million, of which Shelter-Afrique will provide over US$50 million.

The finances available to Shelter-Afrique have been provided by shareholders, that is, the member countries, and three institutional shareholders, African Development Bank, Africa Re-Insurance Corporation, and the Commonwealth Development Corporation. The authorised capital is US$40 million, divided into 40,000 shares of US$1000 each. Class A shares are currently held by 24 African governments; Class B shares by the two Pan African organisations, ADB and African Re-Insurance Corporation (Africa-Re), and Class C shares by the Commonwealth Development Corporation. 50% of the share capital is allocated to African governments, 35% to Pan African institutions, and 15% to non-African institutions and other legal entities.

Shelter-Afrique has been constituted in the form of a company rather than a treaty organisation to ensure that it will operate on businesslike lines. It governing body is the general meeting of its shareholders. The board consists of 11 directors and 11 alternate directors. The management team is headed by the managing director and chief executive, Mr E. O. Lufadeju.

Projects on which Shelter-Afrique has now embarked are detailed below:

The project in **Djibouti** comprises a feasibility study that will form the basis for project appraisal. The study will focus on housing finance, promotion of local building materials, and development of site and service plots. The cost of the study is estimated at US$75,000, of which Shelter-Afrique will finance US$60,000 and the government of Djibouti the remaining US$15,000.

In **Gabon**, a scheme comprising 100 houses and related services will be financed. The estimated cost is US$4.25 million of which Shelter-Afrique will finance US$1.5 million. The government of Gabon and the Gabon Housing Corporation will contribute US$1.98 million and US$0.77 million respectively. The project is expected to be completed in March 1989.

In **Rwanda**, the project comprises off- and on-site infrastructure which will improve the living conditions of the present 500 households. It also involves the construction of 100 turnkey houses, which demonstrate the use of local building materials; 500 building materials loans for self-help construction; another 100 loans to improve existing houses; and technical assistance to strengthen the operation capacity of the Rwanda Mortgage Bank. The total cost of the project is US$4.77 million out of which Shelter-Afrique will fund US$1.5 million. The balance will be financed by the Rwanda government and the Rwanda Mortgage Bank.

The project in **Morocco** consists of installing infrastructure networks (roads, potable water, electricity and sanitation) on a site of 34. 5 hectares. The site and service will make it possible to develop: 1155 low-income housing plots of 70 m^2, 225 commercial plots of 70 m^2, 223 plots of 200-400 m^2 for detached houses,

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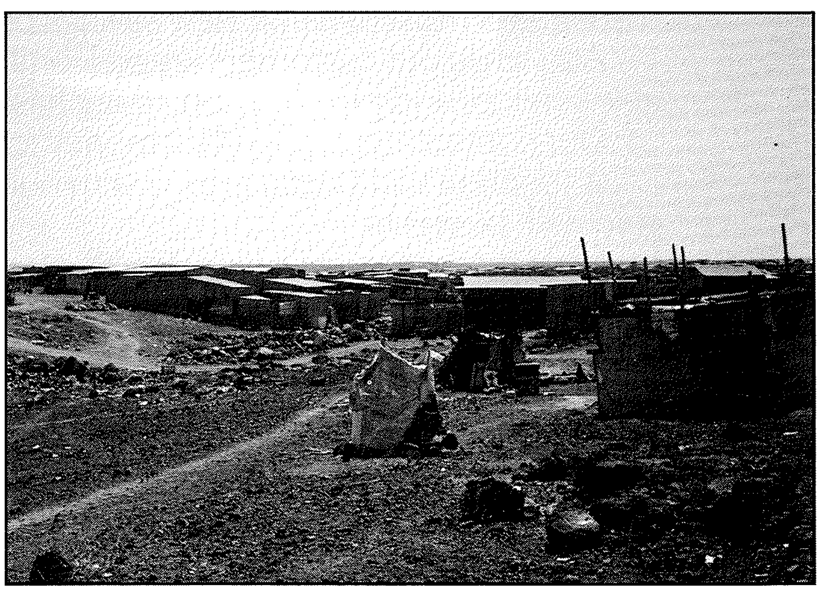

Shelter-Afrique is to finance a site and service scheme on plots near this settled area in Balbala, Djibouti.

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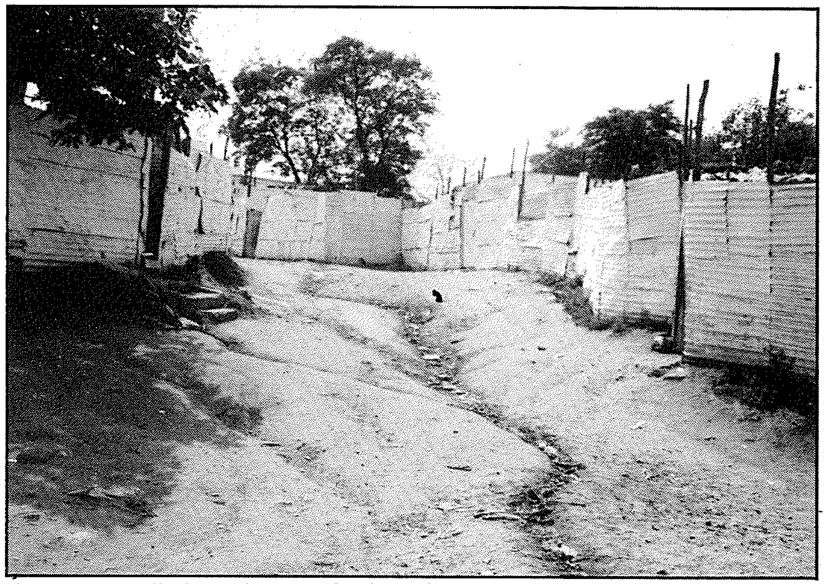
49 plots for multiple storey core houses and shops, 13 car parks, 1 socio-administrative area of three hectares.

The total cost of the project is estimated at US$4.43 million. Shelter-Afrique will provide a loan of US$1.45 million to the state agency for slum clearance (ANHI) and the latter will finance the balance of US$2.97 million.

The **Zambian** project is a part of the overall housing programme of Nyumba Yanga, 15 km from Lusaka Centre. This project is a direct response to the government policy of house ownership by Zambian citizens. It aims to develop 60 low-cost detached houses for purchase by individuals and on-site infrastructure including sewers, water pipes, roads and security lights. The project aims at developing 60 three-roomed detached housing units for sale, as well as related infrastructure services. The total project cost is estimated at US$695,788. Of this amount, Shelter-Afrique will finance US$348,000 and the remainder will be financed by the National Housing Authority, the Implementing Agency. The beneficiaries of this project are between the 34th and 43rd percentiles of the income distribution scale of Lusaka, ie between US$500 and US$1,250.

In the **Gambia**, Shelter-Afrique will make a loan of US$562,000 to Social Security and Housing Finance Corporation (SSHFC) to finance the Kanifing East low-cost housing project. The loan, which will be guaranteed by the government of the Republic of the Gambia, will provide supplementary assistance to an urban management and development project being funded by the World Bank. Project components comprise building materials for self-help housing in Kanifing East, 11 km from Banjul, the capital city, community facilities and technical assistance to SSHFC for housing finance. In all, the project will cost US$936,000 and SSHFC will meet the remainder of the costs, amounting to US$374,000.



An uncontrolled settlement in Larache, Morocco, which, with Shelter-Afrique's help, will be developed as a housing project.

The project in **Kenya** concerns the development of a low-cost demonstration housing project at Kibera, 6 km from the Nairobi city centre. The project has the following objectives:

To demonstrate the use of various local building materials including stabilised soil blocks, sisal cement roofing sheets and pise-laterite in the construction of low-cost housing;

to demonstrate the use of appropriate planning and building standards in low-cost housing;

to provide rental accommodation and extendable tenant-purchase houses, affordable by low-income groups.

The project comprises 757 one to five-roomed rental and tenant purchase houses and on-site infrastructure. The total project cost is estimated at KES.33 million (US$2.06 million). Shelter-Afrique will finance KES16 million (US$1 million) and the remainder will be financed by the National Housing Corporation (NHC), the implementing agency.

The Republic of **Uganda** has received a US$920,000 loan for the upgrading of Namuwongo, an unplanned settlement in Kampala. The loan will finance infrastructure services and building materials. The United Nations development programme (UNDP), acting through the United Nations Centre for Human Settlements (HABITAT), and the government of Uganda will co-finance the project to the tune of US$2.15 million. Discussions have been held with the Housing Company of Uganda to assist it in playing a more prominent role in shelter development. The Commonwealth Secretariat is to work with Shelter-Afrique in helping Uganda's housing finance and building materials sectors.

The **Building Materials Project** concerns a study of the potentials for the promotion and establishment of a viable building materials industry. The study is to be conducted in six African countries spread over various sub-regions of the continent. Depending on the outcome of this study, Shelter-Afrique will actually look into the financing of the production of viable and durable local materials. It will then prepare a formal blueprint applicable to African countries and capable of replication.

Major role for Colombia's Central Mortgage Bank

Mario Calderón Rivera describes how the Bank is Colombia's main housing finance institution

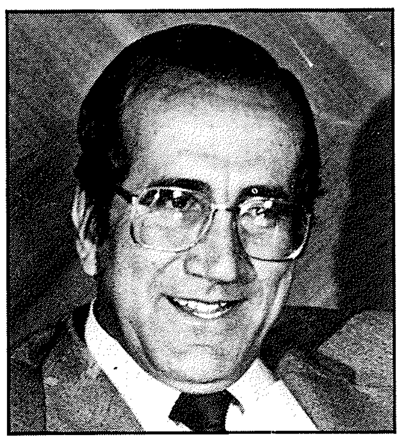
Colombia's Banco Central Hipotecario (BCH), the Central Mortgage Bank, was created in 1932 in response to the serious economic problem resulting from the Depression which shook the western world. Colombia, too. suffered from the far-reaching economic troubles of the early '30s, by way of high unemployment rates, low production and a depressed real estate market.

The BCH is a mixed economy enterprise whose shareholders are 15 banks, 14 of them commercial banks, the remaining one being the Banco de la Republica, the central bank which is the majority shareholder. The institution's total assets currently amount to Col$239 billion (US$1,020 million), seven times the figure recorded in 1978. In terms of volume of assets the BCH is the country's third largest bank and ninth largest enterprise. During the period 1983-1986 the bank financed 70,481 dwellings, 18.1% of the total built during that period.

Since its creation the BCH has played an important role in Colombia as the promoter and manager of a process of integral urban development within guidelines laid down by the government in power, seeking to foster and promote, by the raising of funds and the granting of credits for housing and urban infrastructure, the process of generation of growth-inducing forces.

The BCH, the building sector and the national economy

Since 1970, the building sector has been acquiring ever-greater importance within the Colombian economy. Out of the last five presidential administrations, four have made the building sector the central axis of development and two have concentrated specifically on house-building as the key strategy for economic growth. These policies are in turn based on the theories of Professor Lauchlin Currie, according to which the building sector is a leading and reactivating sector of the economy owing to its proven capacity for generating employment and its strong links with the other sectors of the economy.



More particularly, with regard to what has happened during the 1980s, the Colombian building sector has shown its power and immense potential by causing the crisis with which the great majority of the countries of the Third world had to contend, to be less serious than it might have been, since this period fortunately coincided with the adoption of a clear strategy of economic re-stimulation through the building of low-cost dwellings.

The housing finance system

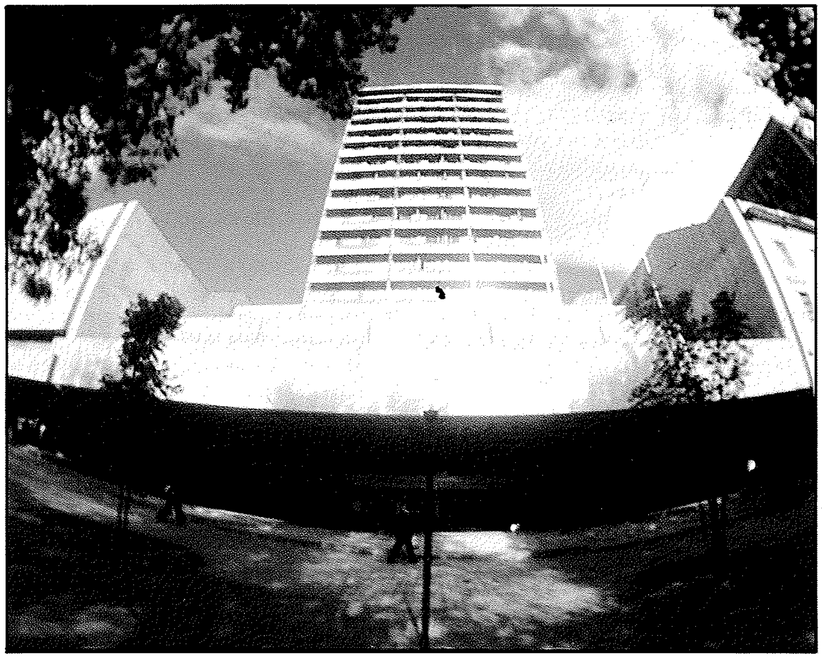
Obviously the presence of a lively and efficient sector for financing housing is one of the fundamental prerequisites for the success of a development strategy based on house-building. In the specific case of Colombia we can identify two basic sources of financing for housing: first, that consisting of the bodies belonging to the official sector among which there is the Instituto de Crédito Territorial, (Land Credit Institute), whose purpose is to promote official urban housing schemes designed for social groups which cannot afford to buy housing; the Banco Central Hipotecario (Central Mortgage Bank); the Fondo Nacional del Ahorro (National Savings Fund), responsible for financing the housing of government employees with the proceeds of their pension and retirement funds; the Caja de Vivienda Popular (People's Housing Fund); and the Caja de Vivienda Militar (the Military Housing Fund).

The second important source of housing finance is in the private sector, composed of savings and housing corporations, one of which is a special division of the BCH itself. The primary object of these 10 corporations is to collect savings from the public and use them for granting housing loans, initially to the builders and subsequently to the end users. These 10 corporations comprise what is known in Colombia as the Constant Value Savings System, which was created in 1972 and has been converted into what is undoubtedly one of the most interesting and innovative experiments in housing financing.

Under this system the aim is to give the saver the guarantee that his money will retain a constant value, plus a positive "real" gain, through the establishment of a unit of measurement known as the CPPU (Constant Purchasing Power Unit). The value of the CPPU changes daily depending on fluctuations in the purchasing power of the currency in the domestic market. At the same time any operation of the system must be recorded both by its value in pesos and by its value in CPPUs. The Bank, in addition to obtaining money via the "index-linked saving" of the Constant Value System, obtains resources from a number of other funds.

In the 15 years since this system was created, about 600,000 dwellings have been financed which, undoubtedly, has helped to prevent any uncontrolled growth of the country's housing deficit. At the same time about four million savers bear witness to the confidence which the public has placed in the system, and the relatively low average per saver (about Col$200,000, or US$800) constitutes proof of the genuine process of democratisation of savings which has taken place in Colombia. Within the Constant Value Savings System the specialised section of the Banco Central Hipotecario alone accounts for nearly 20% of the system's total resources.

The structure of the CPPU is based on the gathering of savings from the public and their channelling into the financing of housing for all social classes, in accordance with rankings clearly laid down by the Government. This system, in turn, forms part of a much wider financial market within which a prominent position is held by the commercial banks, whose source of funds consists mainly of current account deposits, savings deposits and time-deposit certificates, while their main objective is short- and medium-term lending.



The Bogota headquarters of Colombia's Central Mortgage Bank.

There is also the BCH, the only body of this kind in Colombia; the Savings and Housing Corporations (Corporaciones de Ahorro y Vivienda), whose source of funds consists of savings deposits and time-deposit certificates expressed in CPPUs; the financial corporations, whose primary purpose is to co-operate in the creation and organisation of firms in manufacturing industry, agriculture and stock-raising, mining and tourism, their funds being obtained by the issuing of bonds and deposit certificates; and the commercial financing companies, whose purpose is to grant credit for the purchase of durable consumer goods or services and which raise their funds by issuing fixed-term promissory notes. The Colombian financial picture is completed by certain government securities which compete with the private sector paper in accordance with clearly defined criteria of monetary policy.

The BCH organisation

The BCH's organisational structure includes a general manager, who reports to the assembly of shareholders which comprises representatives of the Minister for Treasury and Financial Affairs, the Minister for Economic Development and delegates of the central bank and the other shareholder banks. The Bank's managerial structure consists of five submanagers and four heads of specialised offices. The BCH has 3,496 employees who work at 142 offices spread among most of the country's cities.

Corporate purpose

From the point of view of both its fund-raising and lending activities the BCH's central policy objective is to promote and foster a process of urban development designed to consolidate the varied pattern of towns and natural regions which makes up Colombia and which places it in a unique situation within the range of Third World countries. The BCH also

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aims to promote the improvement of the housing conditions of the communities in the cities of Colombia and the surrounding areas, through the building and purchasing of housing, public services, equipment and urban renewal.

Aims and intentions
Through its plans and projects the BCH has endeavoured to bring about an integrated development of the country's natural regions. Its most important aims include the following:

To promote the balanced growth of the country's system of cities and regions by generating and revitalising development aims for activating and stimulating the country's growth and development.

To promote the creation of a better urban environment in which there is a close complementary relationship between the different variables which constitute the urban picture (new and used housing, urban infrastructure, complementary services, etc), and also the formulation of an integrated conception of the phenomenon of urban development. Housing, urban infrastructure and the complementary services are viewed as harmonious, perfectly integrated and consistent elements.

To halt the process of physical deterioration of towns by endeavouring to restore run-down areas through projects designed to give new life to these areas.

To maintain the fluidity and mobility of both the primary and the secondary real estate markets by reviving the market for used buildings in order to stimulate the mobility of the housing stock.

To make city centre areas denser, promoting the growth of those parts which have an infrastructure of services and limiting the growth of the peripheral areas.

To contribute, by town planning, architectural and technical standards to the achievement of appropriate and integrated planning and control of urban development, while at the same time promoting the development of suitable technologies in the various fields of urban development.

To promote a more efficient redistribution of income both between regions and between social groups, through a strategy of placement in accordance with the central and economic aims of the government department concerned.

To strengthen the structure and increase the efficiency of the municipal administrations by means of programmes of technical, administrative and financial aid, while promoting the rationalisation of public expenditure and regional saving through investment in urban development bonds.

To seek to devise efficient fund-raising schemes in order to stimulate national saving, improve the quality of the service offered to the saver and consolidate the Bank's financial position.

To promote the rehabilitation of historical and cultural areas and properties including those of historical value to the cities.

To promote the creation of unconventional financing and/or building systems designed to provide a complete solution to the housing problems of the poorest people.

Resources
Out of the Bank's total resources, 86.7% comes from private saving. 50.7% of total resources are derived from so-called index-linked saving (CPPU saving), which provides a fixed quarterly interest plus a daily adjustment calculated in accordance with the rise in the index of consumer prices. The Bank's non-index-linked resources (traditional resources) represent 36% of its total resources. Around 2.73% of its resources come from international agencies or banks (including the IDB and KFW) while about 2.5% come from the national government and 0.55% is obtained from the municipal governments in the form of urban development bonds (Bonos de Desarrollo Urbano — BDU). These last three categories are entirely devoted to the financing of infrastructure and urban equipment.

The BCH has also financed urban housing and infrastructure projects with resources from the disability, old age and dependant's pension funds of the Colombian Social Security Institute, which are administered under the trust system via the so-called constant-value bonds. With these the Bank has built major urban complexes, guaranteeing a relatively high return on these administered monies.

Plan and programmes: housing
From the very start the BCH directed its financing activities toward the elimination of the country's housing deficit, directing its efforts of financial intermediation towards the achievement of balanced growth of the Colombian cities, the intention being to give assistance to families in various social strata. A fairly large proportion of the building financed by the Bank between 1932 and 1970 and throughout the greater part of the 1970s was carried directly by this institution. During the past few years, however, the BCH has been fundamentally a financing bank rather that a direct house-builder, despite the fact that it is still engaged in major building projects in various Colombian cities.

The BCH has traditionally financed the activity of a large proportion of the construction companies involved in these works by schemes of placement of resources which have been aimed at decentralising credit-granting and dynamising the national building industry. The Bank has sought, in the same way, to direct part of its resources towards the granting of loans designed to stimulate the building material industries.

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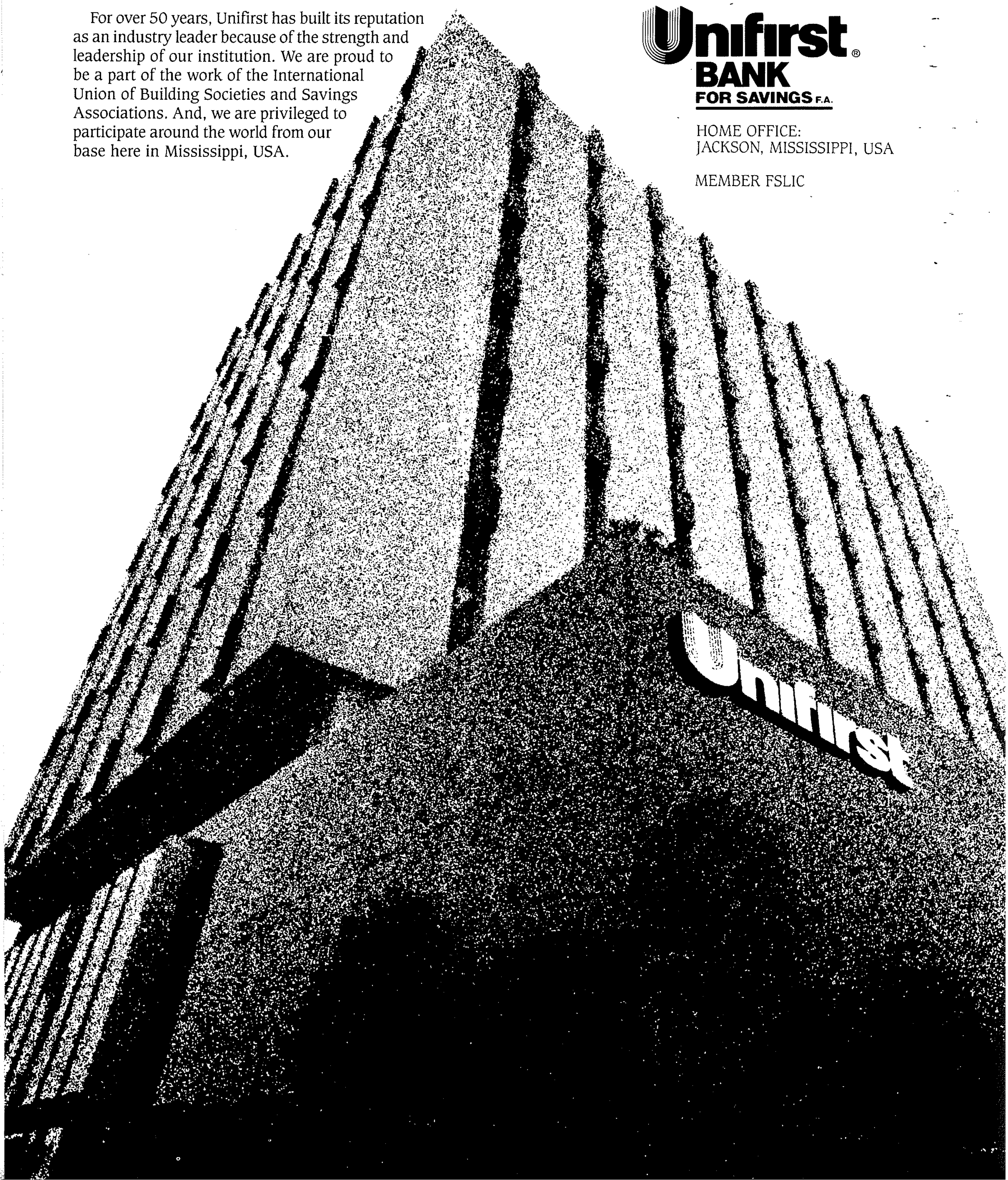

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Reconstruction programmes
Historically, the BCH shared the destinies of those who have suffered damage from various natural disasters. In 1950 the Bank provided financial assistance to those who suffered damage from the sad events of April 1948 which destroyed a large proportion of the city of Bogotá and, later, to the victims of the Cali disaster in 1956. The Bank likewise provided technical and financial aid to the victims of other natural catastrophes such as the Manizales, Armenia and Armero earthquakes, in connection with which it granted housing loans at low interest rates.

In connection with the 1983 Popayán earthquake, the BCH was responsible for carrying out the programmes of reconstruction of that town. The funds obtained from the national government were devoted to the repairing and rebuilding of property. The Bank, using its own resources, also considerably stepped up the financing of large-scale housing programmes; furthermore, it channelled resources to meet the needs of industrialised manufacturing and use of building materials and granted loans to sectors complementary to housing, such as business, office and other premises.

Plans for urban renewal and recovery
The BCH has also endeavoured, through its activity as a financial intermediary, to revive the city centres by rehabilitating major sectors. Thus the Bank has devoted a substantial proportion of its financial resources to what is known nowadays as the Centro Historico y Gubernamental de Bogotá (Bogotá Historical and Government Centre), which is at present the very heart of the city. Similarly, the BCH has financed major projects designed to bring about the recovery of important city centre areas in Colombia. Major projects in Medellin, Manizales, Armenia and Barranquilla are just a few examples of schemes whereby some Colombian cities have benefited directly by bold and imaginative plans which have given them new life.

Perhaps the most significant projects undertaken by the BCH are the "citadels" of El Tunal and Nueva Santa Fé de Bogotá, located in the south and centre of Bogotá respectively. These projects comprise the building of 8,800 dwellings, in four- and five-floor multi-family buildings which include extensive recreation areas, shopping centres and sufficient internal green areas.

Now that a large proportion of the development stages of these two projects have been completed and the dwelling taken into use, we can note with pleasure their proper operation, their excellent construction system, and their high architectural quality and have the satisfaction of having provided important areas of the capital city with an up-to-date, enhanced and constructed complex as an urban land-mark and image — an example to any town in Colombia and in Latin America. The second of the projects is aimed at preserving the colonial architectural structure of the 16th century, with emphasis on the leisurely street pattern of the beginning of the century. El Tunal likewise incorporated novel construction systems as well as a solar heating system and efficient refuse disposal.

The same year also saw the start of the building of the "Ciudadela El Salitre" project in the capital of the Republic, one of the best designed town planning projects, aimed at the building of about 20,000 medium-category dwellings in four years in an area close to the city centre.

People's economic housing programmes
The BCH's activity during the period 1982-1987 took place within the framework of the government's economic policy, in which the building sector plans an important role as a revivor of economic activity and a pillar of social policy, now mainly focussed on the production of low-cost housing designed to meet the needs of lower-income families.

Out of the total of 400,000 dwellings completed in Colombia during the period 1983-1986, the BCH provided a total of 70,481, of which 50.9% consist of dwellings costing less than Col$1,894,000 (US$7,629), while the value of about 28.6% of these dwellings built is between Col$1,894,000 and Col$4,082,090 (US$7,629-16,442). This bears witness to the strong support given by BCH since 1982 to the programmes designed to meet the housing needs of lower-income people.

Pilot programmes for the recovery of underprivileged areas
The Bank has also developed pilot schemes aimed at restoring areas of the city which do not enjoy basic facilities such as water supply services, basic complementary services and refuse disposal. One of these projects is the pilot scheme for El Vallado and El Poblado, situated in Cali. The population for which this project is designed totals about 28,000 inhabitants, of which 67% have a certain level of elementary education; their occupation is basically of the labouring type and the monthly family income is between Col$17,000 and Col$37,000 (US$69 and US$150).

In order to carry out the Pilot Programme for Self-house-building and Urban Development, the BCH entered into an inter-institutional agreement between various bodies which undertook to join forces to achieve the co-ordinated execution of an integrated community development plan based on the provisions of public services and self-building of basic housing. With the participation of the above-mentioned bodies the following activities were carried out: provision of public services, a plan for the building of walk-ways (pavements) with the active participation of the community, the marking out of roads for vehicles and paths for pedestrians, programmes with the various associated groups supported by the participation of the community for the carrying out of job-creating activities, instruction and training programmes in building techniques and the organisation of community equipment plans. The project included intensive self-build programmes whereby those in the community were mobilised and encouraged to build their own homes by their own efforts with the technical and financial assistance of the Bank.

Splitting-up of housing
In accordance with the idea of giving an impetus to urban re-organisation and facilitating the acquisition of housing at the lowest possible cost, the BCH is developing a lending scheme for financing the splitting-up of housing. The aim of this programme is to enable a large number of blocks which are under-used in the large cities to be sub-divided into a number of dwellings, thus increasing the number of homes created while at the same time making good use of land and avoiding the unwarranted spreading of the cities.

Financing of used housing
Another important component of the Bank's policy and a necessary complement to the financing of new buildings is the restimulation and fostering of the market for used buildings, enabling a fair number of families which could not afford to buy new housing to gain access to the housing market.

Terrace plan
Research into the Colombian housing problem has revealed, in some of the country's cities, the existence of a large number of houses where it is possible to build a new storey on top of the existing ones. This scheme has been given the name of "Terrace Plan" and has made it possible to achieve very low costs per dwelling unit provided, a high rate of building, maximum use of existing urban infrastructure, less expansion of urban site perimeters and a doubling of densities.

The FFDU and the financing of urban infrastructure
The Fondo Financiero de Desarrollo Urbano — FFDU (Urban Development Financing Fund) is a specialised promotion credit facility created to give financial assistance to local authorities in order to enable them to expedite investment programmes in schemes capable of contributing to the development of urban areas by the discounting, for banks and financial corporations, of the credits granted by these to municipalities, departments and other eligible regional bodies.

The FFDU finances programmes for public services and urban equipment, preferably those envisaged in integrated local development plans. The main aim of the Fund is to increase the coverage and improve the quality of public services by attempting to rationalise public expenditure, invigorate the local economy and support the process of political and fiscal decentralisation which the country is undergoing.

The urban sectors which can be financed by the FFDU are as follows: water mains and sewers (37.2%), urban streets and highways (32.5%), passenger transport terminals (4.5%), urban cleansing (5.8%), local telephone services and integrated housing services (6%), provision of adequate green areas and recreation grounds, market places and slaughterhouses.

‘BCH will be main provider of finance’

The achievements of the FFDU in the course of its history can be divided into three periods. The first is the years 1968-1975, a period corresponding to the operation of the Fund under the administration of the Banco de la República; the second starts from 1975, when it was made into a new credit facility for the BCH; and, lastly, the third period, from 1981 up to the present, which has been primarily characterised by the raising of external loan funds.

The Government, wishing to reduce the existing great disparities between regions, has drawn up various schemes and programmes within which the FFDU will play a role of special importance. One of the Government's priority schemes is the Plan for Combating Absolute Poverty, which is a response to social situations of material privation and generally underprivilged situations. This plan contemplates various aims for the BCH:

a) In the Programme for the Rehabilitation of Subnormal Settlements and the Creation of New Human Settlements the BCH will endeavour to build priority structures in various areas of the country. The programme covers a population of approximately 2.3 million and its aims are the rehabilitation of subnormal settlements (shacks and squats), the creation of new settlements, the provision of basic public services, community transport and equipment and the financing of low-cost housing.
b) Under the Plan for Reconciliation, Normalisation and Rehabilitation the aim is to contribute to the consolidation of peace.
c) The aim of the Programme of Sectoral Adjustment of Drinking Water and Basic Sanitation (Adjuste Sectorial de Agua Potable y Saneamiento Básico — PAS) is to re-organise the institutional management of the sector and significantly improve the living conditions of the population by increasing the coverage and improving the quality of the provision of water mains and sewers and of the system of refuse collection and disposal.

The Banco Central Hipotecario will therefore have to cope with an ever-growing backlog, becoming not only Colombia's main housing finance institution but also a financer of Colombian economic development. ■

MARIO CALDERÓN RIVERA is general manager of the Banco Central Hipotecario.

Canadian IYSH conference

THE need for innovative co-operation between the sectors involved in housing and social development was highlighted at a Canadian conference held to observe the International Year of Shelter for the Homeless. Held in Ottawa from 13 to 16 September, the conference attracted 1,400 registrants and included representation from many different institutions and organisations concerned with action for shelter. Some 68 individuals were invited from developing countries. They were funded from Canadian sources.

Housing finance was given due importance at a major plenary session on "The Economics, Environment and Political Climate of Homelessness and Shelter," chaired by George Anderson, president of the Canada Mortgage and Housing Corporation. At this session Michael Cohen, a World Bank official, pointed to the results of the Bank's programme, which has spent $5 billion on over 100 housing projects in 50 countries since 1972.

He said, however, that the provision of housing and services must be closely inter-related if the poor are to benefit.

Jorge Hardoy, director for human settlements, International Institute for Environment and Development, told the plenary session that non-governmental organizations (NGOs) may be the most promising mechanisms for delivering efficient habitat programmes. He cited especially the work of poor people's community-based efforts to improve housing conditions in many countries. He proposed the creation of an international fund "to allow any national or local NGOs that assist a community organisation to act as guarantor for credits requested from a national agency."

Prof. Lise Poulin-Simon, from the University of Laval in Quebec City, concluded the plenary session with a powerful presentation on the political economy of homelessness in Canada. With over a million Canadians unemployed, she said, 1.3 million sought some form of social assistance in 1985, and she estimated the true number of homeless in Canada at 300,000.

In another panel session, Chester Hartman, an urban planner and fellow at the Institute for Policy Studies in Washington, DC, said that 2.5 million people are forcibly displaced in the United States every year. With perhaps two or three million Americans in homeless conditions and the number increasing by 25% per year, the US legal system has been slow to respond to these needs.

"Housing and Economic Development" was the topic of a Forum Session which explored the potential for housing development to generate employment, capital formation and the fostering of new or expanded manufacturing and service industries. This was chaired by Assistant Deputy Minister of Housing from Ontario, Len Pitura, and included Eric Carlson, IUBSSA senior consultant. The session reviewed the range of efforts to produce more realistic assistance and investment for housing improvement.

In the keynote address to the Conference, Dr Arcot Ramachandran, executive director, UN Centre for Human Settlements (Habitat) in Nairobi, challenged housing finance institutions, particularly building societies and savings and loan entities, to do more to mobilise resources for the basic problems of shelter in so many countries of the world. He said that more than 350 million people have joined the ranks of the urban poor in developing nations over the past decade.

A forum session on "Funding Appropriate Shelter" addressed the costs of land, construction, financing and long-term management (both social and physical). It was pointed out that conservative governments are forcing social housing developers to find innovative ways of financing new projects. Pension funds, especially those in the public sector, could be a most important source of new financing for low-income housing in the next 10 years, but legislative and regulatory changes are required if significant progress is to be made.

"Financing Shelter in Developing Countries," was the subject of a workshop which included presentations on the innovative approaches being developed in Sri Lanka by the National Housing Development Authority, and in Turkey, through the programmes of the Ministry of Public Works and Housing.

Other sessions of special interest included those on housing co-operatives in developing countries; the role of NGOs in shelter upgrading and in economic development in the third world; partnerships: community-based and municipal non-profits; housing the homeless and poor: new relationships in the welfare state.

In all, the Conference included 80 specialised workshops; three groupings of seven concurrent forum sessions; and three main plenary sessions on the problems of homelessness. The was also a Shelter Exposition, organised housing tours, and film showing. The Conference was co-sponsored by the Canadian Association of Housing and Renewal Officals (CAHRO) and the International Council on Social Welfare-Canada (ICSW-Canada).

The closing plenary session, chaired by Reg Ryan, president, Mortgage Insurance Co of Canada, featured a discussion of strategies for effectively implementing the objectives of the IYSH, and a closing address by Stephen Lewis, ambassador and permanent representative of Canada to the United Nations. ■

1987 – a year of intense housing finance activity

AT IUBSSA's annual meeting in Hong Kong in October 1987, the chairman of the Housing Finance Development Committee, Deepak Parekh of India, gave a report on developments in international aid institutions concerned with housing finance. This article sets out extracts from his report.

IUBSSA was founded in 1914 to "promote and extend home ownership throughout the world." What combinations of philosophy, techniques, institutional structure and resources are now appropriate and viable for fostering this objective? In the industrial countries, the scenario for specialised institutions for housing finance is a changing one, while in the developing countries there is apparently a strong case for continuing to promote and strengthen such organisations.

Remarkably, a very recent chart produced by the International Monetary Fund, entitled The World Economy in Transition Between 1972 and 1984, reveals that in the pattern of central government outlays and expenditure by function, "Housing and Community Amenities" is a constant 2% within this time span and is also a constant 2% for both industrial countries and developing countries.

A main question therefore seems to be how this 2% of central government expenditure for housing and community amenities is applied to facilitate performance in the housing field, to assist in mobilising savings and investment, while strengthening the stability, management and growth of institutions concerned with housing finance.

I will highlight briefly some of the salient developments on the international scene over the past year.

United Nations

The UN Commission on Human Settlements held its Tenth (Commemorative) Session in Nairobi, Kenya, from 6 to 16 April, at which 100 governments were represented plus more than 500 delegates, observers and others. However, there was little participation from the construction industry, professional groupings, or housing finance institutions. A specific proposal for the creation of a Global Housing and Shelter Bank was made by the Prime Minister of Sri Lanka in his keynote address, but was not taken up for further consideration.

The Commission did receive reports from governments about their projects in connection with the International Year of Shelter for the Homeless. As a result, the Commission adopted a draft resolution to be considered by the UN General Assembly during its present session on "Global Strategy for Shelter to the Year 2000." All governments are requested to commit themselves to the objectives of such a global strategy and one of the guidelines stresses the role of "developing housing finance institutions that will mobilise household savings and are responsive to the needs of low-income groups."

In a statement to the Commission, IUBSSA's senior consultant, Eric Carlson, recalled the long-standing supportive posture of IUBSSA for international work in housing finance. He also pointed to the new possibilities for future financing of housing and human settlements going far beyond that possible through public sector budgeting for this sector.

The Commission was also amply informed about the results of the Second International Shelter Conference and the Vienna Recommendations on Shelter and Urban Development. This conference, co-sponsored by IUBSSA, was convened as a private-sector effort in support of the International Year of Shelter for the Homeless, and held in Vienna immediately before IUBSSA's Triennial Congress.

The Commission subsequently adopted a recommendation on "National Shelter Coalitions for Human Settlements Development." This urges governments to enlist, in the implementation of their programmes, the participation of the formal and informal private sector, non-governmental organisations, co-operatives and community groups in the provision of shelter. It also "calls upon all countries to develop housing finance policies and institutions that stimulate development of capital markets by mobilising institutional funds and corporate and household savings from all income groups, and to provide loan opportunities for all such groups." The Commission's next session will be held in New Delhi, 6-12 April, 1988.

Present thinking concerning a Third International Shelter Conference is that it will be held in a developing country, Colombia, in 1988. IUBSSA expects to participate again as a co-sponsor in co-operation with the International Real Estate Federation (FIABCI) and the US National Association of Realtors.

The World Bank

Late in May 1987, the World Bank began to implement its first institution-wide internal reorganisation since 1972, the early period of Robert McNamara's presidency. By August 1987, more than 2,000 posts had been reclassified and a major realignment of the Bank's structure had taken place under the current president, Barber Conable. The Bank's functions have been rearranged into four broad groups, each headed by a senior vice-president: one for operations, one for finance, one for administration, and one for policy, planning and research (PPR).

The PPR is a new complex which combines the inter-related activities of research, policy formulation, strategic planning and institutional budgeting. The number of regions within the operations complex has been reduced from six to four, each headed by a vice-president. The new regions are Africa, Asia, Europe, the Middle East and North Africa (EMENA), and Latin America and the Caribbean (LAC). Each region is organised into country departments that combine the operational management functions previously divided between programmes and projects departments. In addition, each region has a technical department that is organised into five functional divisions: trade and finance, agriculture, industry and energy, infrastructure operations and environment.

Country department directors have been delegated broad authority in an effort to reduce management layers and promote efficiency. Each country department is composed of an operations division chief, division chiefs for each of the major sectors and resident representatives.

Urban Development Department has now disappeared and in its place there is a small water supply and urban development division in the Infrastructure Department, which is one of five under the new PPR complex. This seems to imply a major downgrading of the Bank's concern with the urban sector which first emerged with specific projects for lending for housing and sites and services projects in 1972. The Bank has financed, since that time, 130 urban projects in 60 countries for a total World Bank assistance of US$5 billion. More recently, an increasing number of bank loans and projects

Chairman of the Housing Finance Development Committee, Deepak Parekh (India), and vice-chairman, Victor Likaku (Malawi).

had a significant housing finance component, adding up to a loan list for some 18 countries of about $2 billion for the period between 1983 and 1989.

As of April this year larger amounts for at least two of the loans were under consideration, and a number of operations had been identified and are at various stages of preparation in Latin America, Africa and Asia. Sector work on housing finance issues was also in progress or in preparation in seven other countries. In India the World Bank is actively considering a housing finance lending programme initiated through my own institution, Housing Development Finance Corporation Limited, after a comprehensive review of the present status of housing finance in our economy. The Bank has also initiated a housing finance sector review in neighbouring Bangladesh.

In the past, the World Bank, in its urban lending programme, has responded largely to urban policy makers' concerns in developing countries which focused attention mainly on the problems posed by *urban poverty.* The emphasis seems to have shifted more recently to include urban poverty under a broader issue characterised by *urban efficiency,* thus placing urban sector issues in a broader, macro-economic context. This shift will have important implications for developing countries in the formulation of policies which contain within them underlying operational strategies.

I mention this because operational strategies will in turn depend on the nature and design of institutions that fit into policy frameworks and which also are structured to be dynamic, evolving entities that grow and adapt with sector development. Perhaps the weakest component of World Bank strategies has been insufficient attention to institutional development issues from a conceptual level, visualising institutional networks for urban and housing finance which interface smoothly with the prevalent environment.

World Commission on Environment and Development

In the United Nations General Assembly this year there is likely to be considerable debate and action on the major report of the World Commission on Environment and Development headed by the Prime Minister of Norway, Gro Harlem Brundtland. The report, which has been published worldwide under the title *Our Common Future,* is the result of inputs and public hearings involving thousands of people over the past three years and was designed to formulate "a global agenda for

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change." It includes a substantial chapter on the "Urban Challenge" which points to the need for a greater and more specifically directed flow of international resources to support the efforts of developing countries to deal with their unfolding urban crisis.

AID

The Office of Housing and Urban Programs of the US Agency for International Development in 1986 continued with its work in 37 countries, authorised eight new housing guaranty programmes and amended three, totalling $145 million. Its report includes details of the operations in each of the seven regional offices, and also includes the full text of the authorising Foreign Assistance Act of 1961, as amended in 1986. USAID could perhaps harmonise its own lending with World Bank programmes so that USAID could focus its attention on a particular area of activity, for example lending to enhance public private partnerships in housing sector development.

Regional institutions

In the past, the Asian Development Bank has made urban development loans to Indonesia (five), Republic of Korea (two), Malaysia (three) and Thailand (two). But in 1986 the Bank's lending for social infrastructure dropped to half that of 1985, and only one urban development and housing loan was made, for the Karachi Urban Development Project in Pakistan, amounting to $55 million. The Bank's loans for housing and other facilities are reported to have benefited over 3.7 million people.

As the World Bank is in the process of strategising its approach to housing finance and urban sector loans, perhaps it would be useful if the Asian Development Bank were similarly to develop its approach for the housing finance sector. This, in turn, would enable member countries to develop appropriate proposals for assistance in this sector.

For the Americas, the Inter-American Development Bank in 1986 authorised a total of $289 million in loans for urban development. Two loans, totalling $122 million, are helping to finance a programme of urban development works in medium and small cities in Argentina; a loan for $40.5 million is enabling Chile to improve housing and sanitary conditions in communities of more than 3,000 inhabitants. Two loans amounting to $22.1 million will help to stimulate a variety of improvements in West Kingston, Jamaica. A loan of $26,750,000 will be used to carry out a sites and services urban development programme in Panama. The Bank's 87 loans amounting to $1,443 million are helping to finance urban development projects whose total cost is $3,012 million. These loans have helped to build 408,416 housing units along with urban and community facilities; also 26,557 sites and services in 139 communities have been provided for home construction.

Though lending for few housing and urban development projects itself, the African Development Bank in Abidjan, Ivory Coast, has helped provide initial capital and support for Shelter-Afrique, the Company for Habitat and Housing, with headquarters in Nairobi, Kenya. The Company is now in full operation and has already reached a stage of loan disbursement for several projects. In total, the board of directors has approved nine projects at an estimated cost of US$20.44 million. Of this amount, Shelter-Afrique will finance US$7.51 million or 36.74% of the total. Nearly 7,500 lower income families or about 45,000 people will benefit from these projects.

The first four projects approved were for Gambia, Kenya and Uganda, plus a regional local building materials project. The five approved in May 1987 were for Zambia, Rwanda, Gabon, Morocco and Djibouti. Shelter-Afrique, through its managing director E. O. Lufadeju, is a member of IUBSSA, as well as of the African Union of Building Societies and Housing Finance Institutions.

As for BIAPE, the Inter-American Bank for Savings and Loans, a turnaround was reported at its annual general meeting held in May in Cartagena, Colombia, and BIAPE has entered a stage of using its limited capital for equity investment in certain housing banks and institutions. Further reports on these developments are awaited.

In Central America, a programme is under way to re-establish the Central American Bank for Economic Integration (CABEI), located in Tegucigalpa, Honduras, as a major regional source of finance for private sector shelter finance institutions. In 1986, a USAID Housing Guaranty loan was authorised for CABEI to increase the availability of shelter and basic services for low income Central American families, and to strengthen the existing capacity of CABEI and national public and private sector agencies to provide these services. As for the Caribbean Development Bank located in Barbados, it has shown little interest in providing support for housing improvement efforts in the island countries that it serves.

Habitat International Coalition (HIC)

The HIC was transformed from a council to a coalition in 1987, and remains as the major grouping of non-governmental organisations which deal with housing and human settlement affairs, with headquarters in The Hague. This year the HIC sponsored several events in Nairobi in conjunction with the Tenth Session of the UN Commission on Human Settlements, including an International Seminar on the role of NGOs which brought together participants from 45 Third World-based NGOs and 16 multilateral, bilateral or private donor agencies. They issued a Declaration asserting the right of all people to adequate shelter and opposition to forced eviction as well as the role of low income people as city builders and governments as enablers.

A subsequent Global Conference of NGOs featured reports of many case studies from different countries. The HIC will now become a representative body and take on a more active lobbying role on behalf of international action for housing and shelter. IUBSSA senior consultant Eric Carlson serves as HIC's representative to the United Nations and is also chairman-emeritus of the UN-NGO Committee on the International Year for Shelter which carries on an active programme of educational activities, conferences and meetings for NGOs affiliated to the UN. IUBSSA continues as a duly registered NGO in consultative status, Category II, with the UN Economic and Social Council.

Co-operation with People's Republic of China

It was at the 1984 session of this Committee in Washington, DC, that the tentative proposal was suggested for a IUBSSA meeting to be held in Hong Kong and to be followed by a China tour and discussions in different cities with Chinese professionals and officials concerned with housing and urban development. From 8-10 October in the special economic zone new city of Shenzhen, adjacent to Hong Kong, there was held a workshop on housing policy in China, producing important new information and papers on this subject by senior experts and staff on the Ministry of Urban and Rural Construction and Environmental Protection (MURCEP).

IUBSSA senior consultant Eric Carlson served as co-director of this workshop, the documentation of which will form the basis of a major book on housing in China. IUBSSA provided the initial grant to make this project possible. Home ownership is now being promoted extensively as official policy in China, together with other urban reform efforts. The whole question of housing finance is receiving high level consideration, and the expectation is that a specialised institutional system in this field will be developed.

Conclusion

There is no doubt but that 1987 has been a year of exceptional movement and activity regarding housing finance in many countries of the world. How can one describe in a few words, for example, the developments in the United States in their field or the remarkable progress with respect to building society development in the UK since the new legislation took effect? We can note the demise of the giant National Housing Bank of Brazil; at the same time we record the establishment of the new innovative Mortgage Bank for Housing in Costa Rica.

I would like to make a brief mention of some of the major developments taking place in India and our neighbourhood which is now known as the SAARC (South Asian Association for Regional Co-operation) group of countries.

While in India the urban and housing sector has received increasing attention by policy makers, strategies have yet to emerge. The Ministry of Urban Development is in the process of issuing a housing policy statement which will make clear the guiding principles which will govern emerging strategies. With respect to the housing sector, the Government of India has introduced a National Housing Bank Bill 1987, which seeks to establish a National Housing Bank as a subsidiary of the Reserve Bank of India (the country's central bank) with a paid-in capital of Rs1,000 million (US$77 million). While its object clause is wide and all-encompassing, its primary function will be one that seeks to promote an orderly development of the institutional growth within the housing sector and the systematic development of financial flows to the sector.

HDFC has been a participant in all major housing finance sector developments. Over the past year HDFC has been supportive of three major institutional developments, namely the setting up of the Housing Finance and Promotion Corporation LImited to be based in Calcutta jointly promoted by the State Bank of India, other institutions and HDFC; the creation of the Infrastructure Leasing and Financial Services Limited jointly with the Central Bank of India and the Unit Trust of India; and the Gujarat Rural Housing Finance Corporation Limited jointly with IFC and His Royal Highness The Aga Khan. HDFC will also participate in the promotion of another housing finance company for the southern region jointly with Canara Bank.

The pattern that would seem to emerge as a result of these efforts, therefore, would suggest a network of regionally based mortgage banks serving predominantly those regions. The National Housing Bank would be supportive of the emerging environment in terms of institutional development, the flow of funds and the legal and fiscal framework within which these institutions would operate.

These developments have triggered interest in neighbouring countries for their own housing development policies. Nepal has been the subject of extensive housing surveys by both USAID and IFC. More recently, a feasibility study of a housing finance entity was undertaken by International Finance Corporation and it is proposed to set up a company on similar lines to HDFC, promoted by local institutions jointly with IFC and HDFC.

In Bhutan, HDFC has assisted the United Nations Centre for Human Settlements (UNCHS) to conduct a preliminary assessment for the possibility of establishing a housing sector framework which could meet the Royal Government's housing development objectives. While Bhutan's housing requirements of 11,000 units over a 15-year period might seem minuscule in contrast to India's present housing needs of 25 million units, the policies, strategies and methodologies share common principles. It is to these that national and international efforts ought to focus attention. ■