

FINAL REPORT
Expert Group Meeting

**“WAYS FORWARD TO ACHIEVING AFFORDABLE AND INCLUSIVE
HOUSING FINANCE FOR ALL”**

Barcelona, 11-12 December 2014



With the collaboration of:



**Ajuntament
de Barcelona**



Participants of the Expert Group Meeting **“Ways Forward to Achieving Affordable and Inclusive Housing Finance for all: Roles and responsibilities for UN-Habitat and partners”**. Barcelona, 11-12 December 2014.

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1. BACKGROUND

A history of cooperation between Barcelona and UN-Habitat has transformed Barcelona City Council into a strategic UN-Habitat partner in terms of advocating, fostering and supporting sustainable urban development approach and initiatives. Based on this strategic collaboration, a Memorandum of Understanding was signed in 2012 between Barcelona City Council and UN HABITAT in order to provide a cooperation framework in relation to common interest areas in the field of sustainable urban development. The Memorandum also aimed to strengthen the ability of governments, local authorities and other partners to positively respond to the opportunities and challenges associated with urbanization so that cities may be transformed into inclusive, environmentally sustainable centres of vibrant economic growth and social progress.

Further to this, the Collaboration Agreement **“Towards a New Urban Agenda”** was signed in January 10, 2013 (and a corresponding Amendment signed in November 13, 2014), with the following specific objectives:

- a) Support UN-Habitat in its learning and training activities, such as experts groups meetings, knowledge management, innovation support and solutions facilitation on issues related to urban planning, urban regeneration, urban governance and accessibility and efficiency in urban basic services, mobility and urban economy.
- b) Promote joint practical learning opportunities in order to understand first-hand the participatory and multi-sectorial experiences of Barcelona City Council, and to promote new paradigms in sustainable urban development and management.
- c) Commonly design and organize joint activities in Barcelona that aim to share the city's experience in the fields of urban planning, urban governance, accessible and efficient urban services, mobility and urban economy.
- d) In response to requests from cities, collaborate with them in providing high quality technical expertise and facilitating the provision of solutions in areas such as urban planning and design, mobility, urban economy and others by drawing on the professional networks and university partnerships in Barcelona and elsewhere;

As one of the main results, six Expert Group Meetings (EGM) were organized during 2013-2014:

1. “Planning City Extensions: Public and private space for expanding cities”, 16-17 Sept 2013.

2. “Towards Effective National Urban Policies: Lessons from Current Practice”, 17-18 March 2014.

3. “Fostering Sustainable Urban Mobility Solutions”, 23-25 April 2014.

4. “Urban Safety Monitor”, 15-16 May 2014.

5. “Urban Development Financing: The Challenges of Local Governments in Developing Countries”, 25-26 June 2014.

The present document reports the final EGM celebrated: **“Ways Forward to Achieving Affordable and Inclusive Housing Finance for all: Roles and responsibilities for UN-Habitat and partners”**, 11-12 December 2014.

These EGMs included the participation of national, regional and local authorities, representatives of Academia, Private Sector, Civil Social Organizations and Development Agencies. The outcomes have become key references for the internal work of UN-Habitat Branches and have facilitated the creation of networks and working groups on the mentioned topics.

UN-Habitat Global Housing Strategy

In 2013, the Governing Council adopted the Global Housing Strategy (GHS), proposing a more holistic approach by governments to the issue of housing affordability. This approach was to be achieved using internationally accepted principles and standards relating to the right to adequate housing, as well as through the implementation of economic development, employment generation and poverty reduction policies and the promotion of more sustainable and cost-effective building technologies and materials.

The GHS endorses housing finance as a pre-requisite for a sustainable national housing sector stating that ‘a variety of housing finance options should be made available for all levels of income and especially the most poor, including cross-subsidies, mortgage finance, financing for social and rental housing, non-collateral credit mechanisms for owner-builders, credit for developers and contractors, and producers of building materials and components’.

One of the key expected outputs of the GHS is to contribute to a paradigm change in housing, inter alia, through reviewing and/or redefining the role of governments beyond enablement, towards reassuming a leadership role in:

- (a) providing inclusive finance and closing the gap for the poor majority;
- (b) instituting efficient governance and administration

processes for housing delivery and finance:

- (c) managing beneficiaries, facilitating and supporting demand capabilities of the economically weakest sectors of the society; and
- (d) promoting a variety of housing solutions matching the different demands and income levels.

In reaching the Resolution Approval, steps were taken in an effort to mobilize resources. UN-Habitat's Housing and Slum Upgrading Branch is now in the process of implementing the GHS at the national level, starting with six pilot countries.

Reinforcing the role of governments in affordable and inclusive housing provision

The GHS's call for a review and/ or redefinition of the role of governments in housing provision comes at an opportune moment, almost thirty years since the 'enabling agenda' first took hold in development discourse. Specifically, the enabling agenda views states as having an important role in overall policy-making, but leaves the actual provision of shelter to the market, NGOs, CBOs and household self-help in various forms of partnership.

The influence of the 'enabling agenda' led to significant shifts in policies and approaches around the world. Consequently a wide range of practical applications of the principles and commitments set out in the agenda took place in different countries with mixed results. Efforts to ensure that 'enabling' works for the poor have been particularly important, as they assist in acknowledging and promoting local initiatives and innovations formed and run by the urban poor or homeless. Such efforts also assist in the formation of responses that focus on local needs and problems and take local ideas and understanding into account, such as incremental approaches to housing, microfinance, and informal land and housing markets. There are also compelling arguments that decentralisation and strengthened local roles have contributed in numerous ways to enhanced participation and citizen engagement in locally designed and delivered services.

However, the question of how to move from small-scale initiatives and innovations to whole system change remains. While the past decade has witnessed notable improvements in the reach and depth of housing finance in developing countries, the vast majority of households do not yet have access to formal finance, whether through mortgages, housing micro-loans or cooperative finance.

In addition, the role of the private sector is far less clear, and some narratives depict it as being unable to deliver the social outcomes sought. In their role as facilitators, local and national governments have faced challenges in influencing private entrepreneurs and mortgage companies to lend to the poor and finance slum upgrading, as well as in promoting community-

approaches and self-management. Access to credit is limited and expensive, and housing markets have failed to adequately respond to the demands of the most poor and those living in slums.

Various housing finance mechanisms such as microfinance are still at an experimental status, context specific, expensive and vulnerable to economic shocks. In the absence of affordable formal financing options, the majority of the urban poor continue to address their housing needs informally.

In 2013, over 860 million people were living in slums, up from 725 million in 2000. In the aggregate, constraints on finance sector development and inclusion have important medium to long-term implications, not only for the performance of housing sectors, but also for the development of well-planned, sustainable and inclusive cities and the wider economy.

Exploring ways forward to housing finance sector development and inclusion

More concerted efforts are needed to establish affordable housing and slum upgrading finance at required scales. Given the importance of government intervention in developing and contributing to adequate, affordable and inclusive housing finance sector development, there continues to exist a need for UN-Habitat to fulfil its mandate through the Global Housing Strategy by working with member States and partners in this regard.

Based on that need, UN-Habitat, in collaboration with Barcelona City Council, will organize an Expert Group Meeting (EGM) in order to review current practices, innovations and remaining gaps, and to explore ways forward that will allow UN-Habitat to enhance its impact on promoting housing sector finance development and housing finance inclusion.

In addition, and most importantly given that UN-Habitat is currently in the process of implementing the GHS at the national level, this EGM will offer the opportunity to review and assess elements and practices that need to be promoted, instituted and avoided by countries while elaborating their national housing policies, strategies and programmes. In particular, the EGM will offer the opportunity to investigate and redefine the role of governments beyond enablement, as well as the elements required to enhance or 'rebuild' the capacity of the state in order to ensure market viability while also remaining responsive to the housing needs of the poor majority.

Ultimately, this EGM will be an important step in repositioning housing finance as a thematic and priority focus area within the UN-Habitat's sub-programme 5, Housing and Slum Upgrading, and in its medium-term strategic plan for the period 2014-2019.

2. COMMUNIQUÉ

1. As a preliminary step in the achievement of these goals, UN- Habitat and Barcelona City Council worked in collaboration to organize the Expert Group Meeting (EGM) “Ways forward to achieving affordable and inclusive housing finance for all” “Roles and responsibilities for UN- Habitat and partners”.

2. The EGM took place from 11-12 December 2014, and brought together 30 participants with expertise in a variety of fields from both developing and developed countries, representing academia, International Development and Inter-governmental Organizations, Development Finance Institutions, government and local authorities, the private sector and NGOs.

3. The overall objective of the EGM was to review and build upon the main outcomes and lessons learned from more than thirty years of the enabling approach to housing provision, with the primary goal of redefining UN- Habitat’s role in order to enhance its impact on promoting affordable and inclusive housing sector finance development.

4. More specific goals of the EGM included: 1) to assess requirements for enhancing or ‘rebuilding’ the capacity of the state to promote adequate housing provision for all; and 2) to identify trends, principles and guidelines for housing finance development. In addition, the sessions also focussed on a discussion of the long- lasting consequences of the housing bubble and lessons for developing and emerging countries, as well as ways forward and areas of priority action for UN- Habitat and partners.

5. In an effort to achieve these goals a number of principle issues were discussed at the EGM, and recommendations made regarding potential avenues for improving access to affordable and inclusive housing finance for all. These included:

- Governments have been selective in how they interpret the enabling strategy. In many cases, the enabling approach has resulted in the withdrawal of governments from a direct role in the provision of housing, often based on the (mistaken) assumption that the deregulated markets would be able to adequately respond to the needs of all income groups. In addition, ‘enabling’ housing finance has concentrated on mortgages for the middle class rather than on alternatives for the neediest 60 to 80 per cent of the population;
- In developing solutions to the housing problem, the role played by housing finance is critical. Various housing- finance models must therefore be developed and expanded if large- scale private residential development is to be achieved. This includes both collateral and non- collateral forms

of lending, however particular emphasis must be placed on the expansion of mortgage finance due to its reduced risk for lenders and subsequent status as one of the cheapest forms of credit. Currently, however, mortgage finance is an extremely small sector in developing countries, and without its significant development the housing problem is near unsolvable.

- In order to create such an efficient mass mortgage market, other housing finance mechanisms must be explored across the entire housing value chain such as land finance, equity financing for developers, infrastructure finance, or rental housing finance;
- More attention must be given to realistic levels of affordability. Governments and financiers should be sensitive to community needs and abilities to pay, the need for non-conventional collateral (such as community cohesion, tools of the trade, etc.), and the non-marketability of housing in much of the South;
- Subsidies and other forms of housing assistance should be well targeted on the demand side rather than supply (as has been the case under the enabling approach), focused on the most poor rather than just middle and upper- classes, and must not be in conflict with good financial policy.
- Property rights and building regulations are currently based on rich countries’ practices and should be redrafted with local realities in mind to encourage conformity amongst as many dwellings as possible and to facilitate access to finance;
- Rental housing should be encouraged, including through room-sized finance, and rent legislation should concentrate on regulating relations between landlord and tenant. Rental prices will stabilize independently if sufficient housing is available.
- The enabling and developmental role of government is critical in improving access to housing finance, and should therefore complement public and private sector roles in housing finance development;
- One shoe does not fit all: it is not possible to develop one housing finance policy model that is capable of application to all countries and regions. Rather, individual countries/regions have specific supply and demand constraints for mortgage as well as non-collateralized housing finance sector development which need to be well understood and inform policy design.

The importance of the housing finance sector for economic growth cannot be underestimated. However, the 2008 mortgage subprime crisis unfolded many risks of the indiscriminate expansion of lending and securitization and has driven attention to the importance of regulation. In an effort to extract lessons from the crisis that could be used by developing countries, the experts highlighted that:

- Increases in the cost of housing often leads to a perception of wealth, subsequently attracting increased investors. However, rising house prices should in fact be regarded with caution as they contribute to a tendency by homeowners to overstretch their financial resources, and may lead to bubbles in situations where the housing to income ratio increases beyond the equilibrium price level.
- Interest rate policies and underwriting criteria should be targeted at promoting financial inclusion, yet also need to include mechanisms that stimulate savings, prevent over lending and default risks;
- Regulatory frameworks should be in place to guarantee the quality of assets and, most importantly, to combat speculative investment. Potential tools may include restricting multiple purchases by increasing transfer registration charges or prohibiting lending, restricting lending in selected vulnerable areas, and placing limitations on off-plan sales in order to avoid purchase-contract flipping.

Redefining roles, responsibilities and ways forward for UN-Habitat and Partners:

1. There is a clear overlapping of roles among stakeholders in the housing finance industry. As a result, more concentrated efforts are needed in order to address critical gaps in the provision of affordable housing and financial inclusion. In particular:
2. Governments' should focus on actively promoting inclusive and long-term policies to increase access to finance for all including through subsidy and finance, regulation, information production, consumer education and institutional coordination amongst public entities. Structural constraints to mortgage sector development financial inclusion should be addressed with innovative policy directives. Improved and stronger coordination with the private sector and NGOs should be sought in order to reduce costs in the housing market, innovate and guarantee supply to the most poor.
3. UN-Habitat, as the United Nations Agency mandated to promote sustainable urbanization and adequate housing for all, plays a key role in working with governments and in collaboration

with development agenda stakeholders to achieve affordable and inclusive housing finance. In particular, UN-Habitat's intervention should focus on:

- Working with governments through the provision of technical assistance, as well as supporting them in articulating and implementing a long-term vision for housing finance as an integrating policy that caters for the most poor.
- Promoting and assisting governments in the development of well targeted and non-distorting subsidy policies, from project level to national strategies;
- Developing support strategies for housing finance sector development, as well as focusing on non-mortgage sector development. UN-Habitat should also assist in the development of innovative approaches to filling market gaps which focus on 'new thinking' rather than simply repackaging old solutions;
- Strengthening dialogue with partners such as Development Finance Institutions (DFIs) and Government Finance Institutions to enhance intervention at country level in order to operationalize housing policy directives; Improving information on the housing finance sector – e.g. documenting proven successful experiences, collecting data on the sector jointly with other partners and promoting and assisting governments on consumer information; Monitoring and assessing interventions at country level, especially subsidy programs at the various stages of development/implementation.

The EGM and its outcomes have contributed to repositioning the topic as a thematic and priority focus area within UN-Habitat's work and are supporting the Habitat III Conference preparatory process. The findings of the EGM will form part of a proposed UN-Habitat position paper and corresponding guidelines on promoting affordable and inclusive housing finance sector development. Finally, the findings will also support the elaboration of a framework document to be approved by the 2015 Governing Council which will reinforce UN-Habitat's advisory role in housing sector development and housing finance inclusion.

3. THE UN-HABITAT EXPERT GROUP MEETING

UN-Habitat, in collaboration with the Barcelona City Council, convened a meeting on December 11-12 that gathered experts and practitioners from different parts of the world to discuss ways forward in promoting affordable housing and financial inclusion. The EGM aimed to review and capitalize upon the main outcomes and lessons learnt from more than thirty years of the enabling approach to housing provision, with a view to redefining UN-Habitat's role and enhancing its impact on promoting affordable and inclusive housing sector finance development.

Specific objectives of this EGM included:

1. To assess with partners the requirements for enhancing or 'rebuilding' the capacity of the state to promote adequate housing provision for all. Particular requirements to be assessed include the elements lacking in terms of a public narrative, an overarching vision, and how things might be different if 'enabling' states were attuned to the social responsibilities of housing the poor majority whilst remaining responsive to the demands of 'positioning' national economies in a rapidly changing global political economy

2. To provide an 'all-in-one' synthesis in regard to housing and slum upgrading finance and housing finance inclusion for low income households. This synthesis would include trends, principles, guidelines, tools, innovations and practices that should be promoted by UN-Habitat and development organizations and instituted by governments, including through the implementation of the New Urban Agenda and UN-Habitat's Global Housing Strategy.

The following activities were undertaken in preparation and in continuation of the EGM:

1. Preparatory Thematic Papers: International housing experts were commissioned to prepare concise reflective reviews on the topics of the EGM. The preliminary findings of the thematic papers were presented at the meeting and provided the framework for the structuring of presentations, discussions and outcomes. The papers focused on the following themes:

- **A.** Beyond the "enabling approach": rebuilding the capacity of the state to promote adequate housing provision for all: Review how the enabling agenda has evolved in different cases, point to good practices in national action plans and identify the prerequisites needed to improve the success of the state in achieving adequate housing provision for all, particularly for the poor majority. "Beyond enablement" should not view states and markets as a zero-sum game or suggest that 'more state' necessarily means the elimination of market

mechanisms, nor assume that 'more state' always leads to better governance.

Rather, this paper explored both the strengths and weaknesses of the ways in which the state-market nexus is being recast in the provision of housing for the most poor. Ultimately, it attempted to develop ways forward which would allow states to be attuned to the social responsibilities associated with housing the poor whilst remaining responsive to the demands of 'positioning' national economies in a rapidly changing global political economy.

- **B.** Affordable housing innovations, guidelines and principles to promote and advocate for: Identify principles and guidelines, trends and good examples; review principal instruments and innovations that might inform policy design for housing finance sector development, including those which focus on: a shift from government-led to market driven initiatives; from specialized housing finance institutions to community-based financing initiatives; from mainstream to non-conventional finance mechanisms; from mortgage finance to housing microfinance; from subsidies to reimbursable loans; from financing owner-builders to social and rental housing; from self-build to cooperative approaches; from revolving funds to credit enhancements; from specific instruments and methods to the improvement of systems.

The EGM offered an opportunity for preliminary findings and ideas from the papers to be discussed and for agreement to be reached regarding topics and recommendations for future work. In addition, findings from the papers and inputs from participants during the EGM will point to possible avenues in moving forward which reinforce UN-Habitat's advisory role in assisting governments in the promotion of affordable and inclusive housing finance. Such contributions will also allow for the recommendation of priority focus areas, possible niches that might be explored in regard to remaining gaps, and the potential role of other partners in international development cooperation.

2. Final Report and Global Housing Strategic Programmatic Paper: The findings from the thematic papers and the outcomes of the EGM are organized in the present report, which summarizes the main innovations, opportunities to be harnessed, principles, guidelines and recommendations in regard to UN-Habitat's overall work in the field of adequate provision and housing finance inclusion, specifically in the formulation of urban and national housing policies and strategies through the GHS.

Concurrently, on a strategic level, the EGM and its outcomes are aimed at repositioning the topic as a

thematic and priority focus area within UN-Habitat's work and supporting the Habitat III Conference preparatory process. In this sense, the findings of the EGM will form part of a proposed UN-Habitat position paper and corresponding guidelines on promoting affordable and inclusive housing finance sector development. The findings will also support the elaboration of a framework document to be approved by the Governing Council which will reinforce UN-Habitat's advisory role in housing sector development and housing finance inclusion.

In a subsequent phase, subject to review and availability of funds, this final report will support the elaboration of project proposals in the area of housing finance which draw on the experience of previous projects. In particular, given that UN-Habitat is currently implementing the GHS at country level, the report and its findings will support operational action, including the design and implementation of affordable and inclusive pilot housing finance programmes that reflect the countries' identified housing needs and policy directives.

Methodology

The EGM brought together external expertise to discuss and help UN-Habitat to define principles, guidelines and policy recommendations for effective development of affordable and inclusive housing finance sector. Different sessions were organized to discuss the **following topics**:

- Beyond the "enabling approach": rebuilding the capacity of the state to promote adequate housing provision for all.
- Innovations in affordable and inclusive housing finance.

- UN-Habitat and partners' work on promoting affordable and inclusive housing finance sector development.
- Remaining gaps and ways forward in reinforcing UN-Habitat's advisory role in low income housing finance and inclusion.

The **structure of sessions** was as follows:

A. State-of-the-art background: Keynote presentation outlined the main background information, main challenges, innovations and paradigm changes needed.

B. Discussants react and add to the keynote presentations: Discussants posed questions, comments and shared their own experiences, challenges and progress in different areas related to affordable and inclusive housing finance development.

C. Roundtable debate – participants reacted and contributed to the discussion; a consensus-based understanding is expected with regards to the main topics of the session.

All participants contributed to the debate and helped to identify ways forward for reinforcing UN-Habitat's advisory role in low income housing finance and inclusion.

The meeting was conducted in English with simultaneous interpretation into Spanish. All interventions were audio recorded. Keynote presentations and discussants' reactions to the presentations were videorecorded and are available at: <https://www.youtube.com/playlist?list=PLI6S6HFv2-RCX967aza8OIYpWVm0xYNxV>

4. INTRODUCTION AND OPENING SESSION

Carmen Sánchez-Miranda Gallego, UN-Habitat Office in Spain, began by welcoming the participants and the Barcelona City Council. Ms Gallego then proceeded by presenting the historic collaboration between UN-Habitat and Barcelona City Council, which culminated in 2012 with the signing of a Memorandum of Understanding intended to provide a framework of cooperation in areas of common interest related to sustainable urban development. Specifically, the Memorandum aimed to strengthen the capacities of governments, local authorities and other partners to allow them to positively respond to the opportunities and challenges of urbanization so that cities may be transformed into inclusive centres of vibrant economic growth, social progress, and environmental sustainability. A Collaboration Agreement was subsequently signed on January 10, 2013, with the objective of supporting

UN-Habitat in its learning and training activities, such as expert group meetings, knowledge management, innovation support and solution facilitation in regard to issues related to urban planning, urban regeneration, urban governance and accessibility and efficiency in urban basic services, mobility and urban economy. A key outcome of this agreement was the organisation of five Expert Group Meetings (EGMs), to take place during 2013-2014.



Christophe Lalande, Leader, Housing Unit, UN-Habitat, Housing and Slum Upgrading Branch, thanked the city of Barcelona by emphasizing that the current period provides UN-Habitat with a strategic opportunity to discuss this subject. This EGM was aimed at trying to define the global housing strategy, as well as the key terms considered important by UN-Habitat in moving forward towards 2016, such as social economic inclusion and sustainability. Mr Lalande then continued by explaining that the final report from the EGM would serve as a strategy paper to be presented at a global meeting taking place in February 2015, which would in turn serve as the basis for garnering Member State support in strengthening housing finance and repositioning the topic as a thematic and priority focus area within the UN-Habitat's sub-programme 5, Housing and Slum Upgrading, and in its medium-term strategic plan for the period 2014-2019.

Ananda Weliwita Human Settlements Officer, Urban Economy Branch, UN-Habitat, introduced the slum upgrading facility programme (SUF) and the Experimental Reimbursable Seeding Operations programme (ERSO) launched between 2004 and 2007, yet no longer operational. Ms Weliwita highlighted that both of these programmes will prove instrumental in allowing a greater understanding of the roles and responsibilities of governments, partners and UN-Habitat in terms of promoting housing finance.

Joan Clos, Executive Director, United Nations Human Settlements Programme (UN-Habitat) and Under Secretary General, United Nations, stated in his video that Housing Finance and "Ways Forward to Achieving Affordable and Inclusive Housing Finance for all" has been a crucial topic for UN-Habitat since its inception. The contemporary period marks a peculiar moment in history due to its characterization by rapid urbanization processes, changes in global economic scenarios, and increased globalization. Each of these processes has a profound effect on society, and subsequent transformations have an impact on housing. Mr Clos further asserted that the issue of housing presents a range of elements, problems and challenges, and highlighted UN-Habitat's acknowledgement of the fact that around the world, the most common response to the pro-poor housing problem has been through the implementation of mass housing strategies. Rather than ameliorating the pro-poor housing problem, however, Clos outlined that such strategies have in

"Are we building a city for everyone, or are we building a segregated city, in which one part is destined for the rich and another neighborhoods for the poor?"

Joan Clos

fact produced numerous problems, including a lack of use diversity (no commercial and economic activity in community surroundings) which ultimately creating segregated communities or so-called land-zoning for poor-housing in the city.

Clos then proceeded by listing a number of characteristics of mass housing-schemes: such schemes have tended to follow the 'tower in the park' model, despite the fact that the model produces urbanistic problems. A huge problem associated with mass-housing is that residents often lack the motivation to make improvements to the property, limiting investment due to their perception that they will only remain in the dwelling on a provisional basis. In Germany, however, a more dynamic approach has been introduced, which involves people making investments in order to improve the value of their own houses. Importantly, we were reminded that cities cannot be segregated, with sections specifically allocated to poor citizens whose economic condition cannot be improved until they relocate to more affluent areas. Rather, these zones must be improved in order for proper cities to be created.

Mr. Clos concluded by proposing a thought-provoking question: are we building a city for everyone, or are we building a segregated city, in which one part is destined for the rich and another neighborhood for the poor? One of the best means of avoiding segregation is through building design: if a building is pro-poorly designed, it is already condemned to be demolished in the future. Finally, Mr Clos insisted on building no matter the condition of the people.



Antoni Vives i Tomàs, Deputy Mayor for Urban Habitat from the Barcelona City Council, reminded us that this Expert Group Meeting represents the sixth initiative organized by UN-Habitat and the Barcelona City Council revolving around the evolution of cities in the 21st century. He added that these seminars also represent an opportunity to help shape the agenda towards the Habitat III Conference in 2016.

In continuing, Mr Tomàs stated that there exists a crisis of legitimacy all over the world and that the solution to that crisis is not at a continental level, but

“Solutions to the crisis of legitimacy all over the world, starts in the city”. *Antoni Vives*

must start in the city. “Main social solutions have to go through the cities, we have to work through the planning and financial”, he said. He then added: “Those places have identity, slums have identity so we have to be careful with saying we are going to remove slums and build nice and beautiful houses because it is a way of disrespect. Those people have made their way and have built that with their own means”. For this reason it is necessary to enforce the rule that such places must be accessed on a piecemeal basis. An important point for contemplation, according to Mr Tomàs, is how we link housing and financial strategies. The answer to

that question relies on the notion that there are two balances that any politician must work with: social and financial balances.

Introduction

Carmen Sánchez-Miranda Gallego. UN-Habitat Office in Spain.

Christophe Lalande. Leader, Housing Unit, UN-Habitat, Housing and Slum Upgrading Branch.

Ananda Weliwita. Human Settlements Officer, Urban Economy Branch, UN-Habitat.

Welcoming remarks

Joan Clos. Executive Director, United Nations Human Settlements Programme (UN-Habitat) and Under Secretary General, United Nations (on-line).

Antoni Vives. Deputy Mayor for Urban Habitat. Barcelona City Council.

5. INTRODUCTION AND OPENING SESSION

SESSION 1: BEYOND THE ENABLING APPROACH: REBUILDING THE CAPACITY OF THE STATE TO PROMOTE

Enabling housing finance has concentrated on the provision of mortgages for the middle class rather than the neediest 60 to 80 per cent of the population. Subsidies have generally been continued and focused on the supply side against the tenets of the enabling approach. In addition, where supply has been assisted, it has generally been concentrated at the high end of the income range. Assumptions which pervade ‘western’ thought, and which view housing as a marketable good (leading to concepts such as the property ladder), have proven to be unhelpful in much of the Global South.

The aim of this session was to discuss and assess the performance of the Enabling Approach against financial criteria. It explored how governments have been selective in what they have taken from the enabling strategy and how the concept of ‘affordable housing’ has not been very helpful for the majority of households.

Discussants and participants explored both the strengths and the weaknesses of the current housing finance development agenda and proposed ways forward in rebuilding government, market and other stakeholders’ roles, as well as their capacity to provide adequate and affordable housing for all.

Main questions addressed:

- Can formal finance institutions offer anything to most urban households in developing countries who want to be owners?

- How can a new strategy discourage states’ withdrawal from housing supply as has occurred in the enabling approach?
- How should the new strategy address the needs of the poorest 25% of households?

How to reinforce a state’s approach to housing supply: ideas discussed

- Governments need to be engaged in the inputs of housing, instead of simply withdrawing from the housing sector.
- There needs to be a focus on up-front finance in housing supply, except for labour-intensive sections of the construction sector. Given that up-front finance is a valuable resource in terms of increasing productive work while simultaneously generating housing, there is much to be gained from developing easy-to-access up-front finance for small-scale building contractors.
- Subsidies and the focus of government policy should be targeted at the lower 50% of the income-scale, and on the ‘demand’ rather than ‘supply’ side.
- Lenders need guarantees if they are to support loans to more vulnerable borrowers.
- Just enough land security to prevent eviction and allow inheritance is probably more important than full ‘bankability’.

- Plot size standards increase cost and sprawl in Africa; minimum legal sizes should be reduced.
- Building regulations are based on the practices of wealthy countries and should be redrafted with local realities in mind to encourage conformity amongst as many dwellings as possible, and to ensure bankability.
- Rental housing, most of which is provided by individual owner-occupiers on their own plots, should be encouraged through room-sized finance. Rent legislation should concentrate on regulating relations between landlord and tenant. Rentals will stabilise independently if sufficient housing is available.
- International agencies such as UN-Habitat should encourage realistic levels of housing affordability, and include alternatives to the self-contained single-household dwellings which dominate policy.
- Finance and other policy should be directed at a greater range of housing options, including extending existing housing for household occupation or renting out; building houses consisting of rental rooms with shared services; improving informal housing in order to increase its durability, area or servicing; or any one of many other options that exist in reality but are ignored by policy in favour of the 'one-size-fits-all' goal of self-contained formal dwellings on fully serviced plots.
- Financiers should be sensitive to community needs and abilities to pay, the availability of non-conventional collateral (community cohesion, tools of the trade, etc.), and the non-marketability of housing in much of the South.



Graham Tipple began his presentation by stating that housing finance is one of the six inputs of housing supply. As a result of the enabling approach, combined with the fact that mortgages do not serve the majority of urban households in Africa, the withdrawal of governments from housing supply has extended shortfalls in housing supply. Mr Tipple emphasized that enabling has nothing to offer to the poorest 25% of the population, and that governments have generally been very

selective in terms of what they have extracted from the enabling agenda. Governments have also displayed a tendency to maintain Western perspectives on affordable housing: low-income housing is located in the informal sector (80% of African population), and affordable housing in the formal sector. Furthermore, despite Mr Tipple's categorization of rental housing as the affordable housing, he argued that this housing model has been largely ignored and neglected for the past 20 years. In reality, renting is so important that it should form a substantial part of any housing policy. In particular, renting is essential due to its highly flexible nature, its ability to accommodate more women than men, to provide an income for those who are let out of space, and to increase residential densities.

"Financiers should be sensitive to community needs and abilities to pay, the availability of non-conventional collateral and the nonmarketability of housing in much of the South". Graham Tipple

It was also argued that finance has generally focused on the provision of mortgages, as well as toward suppliers of high-end housing. De Soto assumed that titling leads to housing improvements: however this assumption fails to recognize that people generally can't afford titling and do not improve housing. De Soto also assumed that regularization leads to bankable property, however banks do not accept houses as collateral and many people do not want to borrow because of the associated debt. The problem is not that housing is too expensive, because in reality housing is relatively cheap. Rather, much of the problem can be attributed to low wages. Government policy concentrates on ownership, single household dwelling, on mortgages instead of improving housing supply, and ownership is too expensive for most people.

Rental housing appears in very few government programmes. In Cairo, many people leave their houses empty due to a fear of rent control. Subsidies tend to be supply-side, are usually badly targeted, and distort the housing supply. Pro-poor finance only results in poor communities, as it allows governments to think that they are helping housing supply when in fact this is not the case. According to Graham, pro-poor finance and microfinance are two areas in which both UN-Habitat and experts require greater information.

The presentation terminated with the advice that more realistic views in terms of affordability are required. Moreover, bankability should not depend on marketability but on the sensitivity of communities' needs and abilities to pay. "We should enable the development of housing for the poor majority, through shared housing or rental housing, in order

not to conform to current regulations. Loans should be smaller and shorter than mortgages and demand side subsidies will be needed for the poorest”, Tipple said. He concluded by posing a question to the audience: should housing finance be part of financial markets or be kept separately?



Antonio Sorolla, Deputy Manager for Urban Planning, Urban Habitat, Barcelona City Council, outlined the specific case of Barcelona, describing it as a city with great challenges in terms of the ability of the city's poorest to access housing, as well as a city with a limited capacity for growth. Sorolla explained that adequate housing is the fourth most important pillar, and that Barcelona's policies are directed at owners with dwellings in bad condition, as well as people that face the risk of not being able to repay their rent or the mortgage. He explained that building houses is merely one of many ways to improve the housing market, the rest being:

1. Adequate housing.
2. Housing policies accommodated to the needs, resources and social contexts of each place.
3. Structured and long-term housing with a political and social consensus.
4. Integrated and transversal housing.
5. Public funding.
6. Private and rental market dichotomy. Major problems have been experienced in Spain due to the inability of people to pay their dwellings. A model has thus been implemented in Barcelona which involves selling dwellings but not the land, thereby guaranteeing the functionality of this land.
7. The building of dwellings has to take pre-existing dwellings into account.
8. Energetic self-sufficiency.

Finally, the issue of housing as a fixed asset or a social good was discussed, and Sorolla terminated by advocating for a change in housing policies.

“The experience in developed countries has frequently been that where individuals want to remain in a specific dwelling (family and friendship networks, access to schools, religious groups, work) the landlord effectively becomes a monopoly provider and can increase rents above prevailing market level”. *John Doling*

John Doling, Emeritus Professor of Housing Studies Applied Social Studies, University of Birmingham, commenced by clarifying that there are many different Western worlds and many different approaches to housing. He then asserted that housing finance has little to do with housing policy, based on the premise that finance is mainly driven by questions of macroeconomics. Furthermore, Doling indicated that there are a number of barriers to successful housing policy beyond those which are finance-related.

The question is how the approach taken by the developed world corresponds to developing countries. Either the State or the market tends to dominate the provision, construction and consumption of housing, depending on the economic ideology of countries. Markets are enabled by the enabling agenda. Doling also made specific reference to the property ladder, but noted that in his opinion, the notion of creating inheritance changes with the current demographic decline. Rental markets need more than microfinance, based on the fact that if left to itself, the rental market may recreate the problems currently being witnessed in the owners' market. Doling pointed out that “Rentals will find their own level if sufficient housing is available,” but continued by questioning whether that level is fair? He then concluded by highlighting the rental-market experiences of developed countries, where the desire of individuals to remain in a specific dwelling (due to family and friendship networks, access to schools, religious groups, work) has resulted in the landlord effectively becoming a monopoly provider with the ability to increase rents above prevailing market level.



Claude Taffin, Scientific Director, Association DINAMIC, argued that developers attempt to work across the custodial system but that this system is not transparent. As a result, only public housing is left, which is ineffective due to people's failure to make rental payments, combined with a lack of maintenance. Management should remain in the hands of the public sector. Taffin acknowledged that the supply of market information and consumer education is also necessary (50% of people do not know what 50% means), because without this minimum education people cannot be expected to understand the obligations involved in repaying a loan.



It was clarified that specific country-models are often not transferable. In addition, in terms of the rental market, a balance-of-power between landlords and tenants must be ensured due to governments' tendency to protect tenants. While rental is regarded as a good solution, the problem of supply and demand nevertheless persists. People with regular incomes wish to become home-owners, yet the only dwelling available to them is public housing. Public housing failures are, however, well known, and can therefore be corrected.

The main challenges and requirements identified include the fact that people often fail to pay rent, as well as a lack of investment, which should be managed by the private sector or the NGO community. Additionally, people often possess little understanding on mortgage details, as well as on rental market details. As Taffin pointed out, education is much less costly than losing rents through public housing.



Jan Mischke, McKinsey – McKinsey Global Institute, argued that a much more quantitative approach is required in order to draw attention to the fact that only a very small percentage of the population has been targeted so far. Mischke further contended that the enabling approach needs to be more interventionist than most free marketers might want and think, in order to identify that a good location is a crucial factor contributing to effective housing. Mischke then drew upon specific examples from sub-Saharan Africa, South America and middle developed economies like Brazil and China, highlighting that successful mortgage finance has not been attained in those regions.



Houses must be both well-located and have sufficient infrastructure, which is in short supply due to government agencies' lack of capacity in supplying projects, as well as due to a lack of funding: there continues to exist an unwillingness by governments to invest tax money in infrastructure, or to install value capture. States should establish infrastructure but also attract commercial developers, businesses, or people from the middle class that can pay for the infrastructure. This income can then be used in order to provide housing for the poor. In addition, land form part of a different market depending on whether it is for shelter or investment: it fails to meet the needs of the local population for shelter and only meets the demand of the small elite.

There also exists a need to look beyond mortgage finance for the poor to the entire supply chain. The fact is that developers are most interested in return rates of 15-30%, a difference which is dependent on the level of risk involved. While increasing returns through subsidies (tax cuts) is one method, others also need to be investigated, such as compressing time schedules, moving to industrialized construction approaches with prefabrication, or to large construction sites which save both time and costs.

In concluding, Mischke posed a final question regarding infrastructure, indicating that an affordability gap exists. Such gaps in affordability are leading to reforms in infrastructure and utility bills. In other words, people's housing cost is their utility use cost.

HIGHLIGHTS OF SESSION 1

According to participants' experience and knowledge on the 'enabling approach' in affordable housing provision, it was believed that:

- Enabling housing finance has concentrated on mortgages for the middle class rather than the neediest 60 to 80 per cent of the population.
- Subsidies have generally been focused on the supply side against the tenets of the enabling approach.
- Regulations and standards should be redrafted with local realities in mind to encourage conformity amongst as many dwellings as possible, and to ensure their bankability.
- Property rights have not produced expected outcomes. This is partly due to assumptions that view housing as a marketable good, and that are largely unhelpful in much of the Global South.
- Rental housing could be encouraged through room-sized finance, and Rent legislation should concentrate on regulating relations between landlord and tenant.
- Finance policy should be directed at a larger spectrum of choices including rental housing; financiers should be sensitive to community needs and abilities to pay, the availability of non-conventional collateral, and the non-marketability of housing in much of the South.

It was recommended that the role of the governments could be focused on:

- Actively supporting inclusive policies to increase access to finance
- Improving regulatory frameworks to induce commercial lending to the underserved market
- Addressing structural issues in the mortgage market, e.g. lack of innovation, collusion of market actors, etc.
- Spearheading consumer education programs on housing finance.

Graham Tipple, PhD, Visiting Fellow, School of Architecture, Planning and Landscape, Newcastle University.

Moderator: Orna Rosenfeld, Senior Housing Expert UNECE.

Discussants:

- **Antonio Sorolla**, Deputy Manager for Urban Planning, Urban Habitat, Barcelona City Council
- **John Doling**, Emeritus Professor of Housing Studies Applied Social Studies, University of Birmingham
- **Claude Taffin**, Scientific Director, Association DINAMIC
- **Jan Mischke**, McKinsey Global Institute

SESSION 2. INCLUSIVE HOUSING FINANCE AND AFFORDABLE HOUSING: PRINCIPLES AND GUIDELINES FOR HOUSING FINANCE POLICY DEVELOPMENT

The challenge posed by housing is a significant one: a billion new houses are needed by 2025, with 50 million new urban dwellers per year. There currently exists a grossly inadequate stock, with increases in demand paralleling rising incomes. Costs are estimated by McKinsey's (2014) at USD650million per year; USD9 to USD11 trillion by 2025. Questions arise as to how to address this challenge in an inclusive manner in terms of both income and location, as well as how these houses will be financed.

The role of housing finance, specifically mortgage finance, is critical. Construction using household savings alone cannot reach required scales or densities in rapidly urbanizing developing countries. Mortgage finance expands effective demand and allows for large-scale private residential development, both ownership and rental models. Mortgages require a lien on the property, which in turn reduces risk for lenders and makes mortgages one of the cheapest forms of credit. Lending based on alternative collateral sources such as pension savings or employer guarantees/payroll linked

lending will remain small in scale. Lending without collateral such as consumer loans, micro-finance or mini-mortgages is more expansive because of a higher credit risk and has so far remained limited in scale. All three types of housing finance need to be expanded, but without an efficient mass mortgage market, the housing problem is near insolvable. Mortgage finance is, however, an extremely small sector in most developing and emerging market countries, even in countries that approach a 50 percent urban ratio.

This session thus aimed to identify principles and guidelines, regional trends and good examples, to review principal instruments, and to develop innovations that might inform policy design for housing finance sector development, including from government-led to market-led initiatives.

The session briefly addressed the reasons for limited scales of mortgage and non-collateralized lending for housing in different regions. The lack of registered property is a major constraint, even for mini-mortgages. Transaction costs and lending risks further limit the

supply, as does a non-competitive or highly segmented housing finance industry. House prices, interest rates and income levels/income security limit the demand. Each country/region has a specific set of supply and demand constraints, as well as opportunities to develop its mortgage sector and non-collateralized housing finance sector. Such constraints and opportunities must be understood before policy measures can be proposed. One shoe does not fit all.

Most of the session focused on the guidelines/principles that might improve access to housing finance, as well as some of the specific policy and subsidy measures that have proven to be effective. The enabling and developmental role of government is critical in this context. Policy discussions in the area of housing finance are often difficult, largely due to the fact that social and political concerns over housing often seem to conflict with the desire for an efficient financial system. The core perspective of this paper is that good social policy is not in conflict with good financial policy. The only truly effective housing finance system is one that is efficient, sustainable and appropriately manages the many risks involved. In other words, a housing finance system must first make good sense as finance. Subsidies and other forms of housing assistance can be incorporated into such a system, but only if they respect the efficient functioning of the system.

Some principles/ guidelines for housing finance policy development discussed:

1. Segmentation of the underserved population and related housing policies – one shoe does not fit all.

- Mortgageable segment; new and existing housing; ownership and rental mortgages (stimulate market mobility)
- Non-mortgageable segment; finance for progressive building, home-improvement connection to infrastructure, title registration, etc.; savings programs based on groups/communities
- But also regional differentiation

2. Complementarity of public and private sector roles in housing finance development. The private sector is not a spontaneous innovator. It requires incentives for both mortgage and non-collateralized finance system development/innovation.

- Legal and regulatory improvements
- Guarantees and PPPs to address part of basic risks – but with caution
- Information provision, lower transaction costs, rationalize taxation
- Measures to increase competition in the industry (lower margins, innovative products, etc.)

3. Non-distorting demand subsidies at the margin of the mortgage market that encourage private sector

lending to an increasingly lower income group. Similar principle for ownership subsidies and rental subsidies.

- Supply /demand side subsidy mix for the non-mortgageable segment for whom housing markets do not work.

4. Information provision to consumers and the protection of consumers against abuses of financial institutions.

Main questions addressed:

1. The role of UN Habitat in implementing support strategies for housing finance sector development, including for mortgage lending.

- Education and training of government officials, NGOs and others
- Data collection on the sector in collaboration with other partners
- Support research; general systems analysis, evaluation studies often not done by governments; studies on the introduction of specific policies/programs
- Other?

2. How does this agenda fit within UN- Habitat's traditional housing role? E.g., slum upgrading, community development and participatory methods.

- Focus on non-mortgage sector development is a natural orientation/ but constraint on developing loan-based systems rather than grants?

3. Proven successful methods to scale up non-collateralized housing lending?

4. Experiences with subsidies for non-collateralized lending, both for households and for the lenders.



Marja Hoek-Smit, Director, International Housing Finance Program, the Wharton School, University of Pennsylvania, commenced her presentation with a question: Who pays for housing and its associated problems? We cannot leave it for the public sector; rather, we need to work together with governments and the private sector. We need to have access to capital markets. Hoek-Smit continued by arguing that while mortgage finance is difficult, it cannot be discarded due to the fact that it is the cheapest credit form in any system: mortgage finance is related to land and property collateral, and it is for this reason that banks have lower credit risks. The size of consumer lending for housing relative to the cost of that credit makes it impossible to combine consumer lending with the expensive asset of housing. Consumer lending for housing is therefore very suitable, but poses a significant challenge in the form of mass housing. There currently exist countries that are already urbanized by 50% which do not have a mortgage system, ultimately contributing to an increase in slums. Consumer lending is much more expensive and thus useless where longer term credits are needed for housing. While consumer lending is appropriate for progressive building and improvements, it is unsuited to mass housing construction. Mortgage lending grows with GDP growth and with urbanization, but in many countries the link to urbanization has been lost. Active policy support is needed to expand access to finance, as has been seen in the US, Germany and the Netherlands, all of which had enormous state interference at one point in time. Hoek-Smit then pointed to emerging countries such as India and the Philippines, which are urbanized but do not have a mortgage system.

“Who pays for all that housing and for all the problems? We cannot leave it for the public sector, but we need to work together with the governments and the private sector. We need to have access to the capital markets”. Marja Hoek-Smit

Hoek-Smit then emphasized the need to redefine “inclusive”, given the fact that 60% of the population cannot afford to buy a house on the market. Focusing on the lowest income groups excludes middle income individuals and families and ultimately leads to a gap. Instead, housing finance strategy needs to start at the higher level (40-60th deciles). In terms of the lowest-income groups, while mortgage finance is not appropriate, rental or progressive housing has proven to be more effective, and some forms of fund lending serve the top of the formal sector.

The problem with each form of lending is that it must be analyzed. In many countries the biggest problem is a structural problem inherent to industry itself (which is also the hardest one to address), and which must be addressed by government agendas. In Africa, government intervention is required in order to solve the lack of competition and collusion in the market. If a country does not have a complete regulatory system for people’s mortgage then the only option is to go to auction.



In cases where credit risk is a problem, governments may employ risk-sharing strategies rather than subsidizing taxation (as is the case in India): they should actively address the problem. Links may be drawn here with another issue, that is, the subsidy issue: affordable housing finance is usually achieved through taxation, subsidies, or other means. It is evident, however, that people need consumer education and protection if this is to be achieved.

It was concluded that while people don’t want mortgage finance, they also need housing, and government therefore has a responsibility to educate people as to their options. Hoek-Smit also expressed the need to distinguish between urban and rural populations and their needs, and stressed a challenge that is yet to arrive: after estimations, there will be 50 million new urban dwellers per year. While there exists adequate stock, and a subsequent need to build, this in turn requires significant levels of housing finance. The dilemma that arises is how to add mortgage to existing debt. Smit-Hoek finalized by making some suggestions, including: a common reform agenda for the mortgage finance sector; an in depth analysis to assist in understanding the reasons – structural, risk taking, etc – behind the decrease/stagnation in mortgage lending; the need for coherence amongst donors on policy direction; the openness towards rental mortgage finance; and primordially, consensus on some common principles.



Josep María de Torres, Manager, Habitat Municipal Institute, Barcelona City Council, presented a number of experiences from Barcelona on social housing for the poor (lowest 20 deciles) who do not have access to the formal market. He then proceeded to reflect upon Spain's negative experience with mortgages, a country now facing an economic crisis and evictions on a national scale, drawing on such experiences in order to justify programmes that have been implemented in Barcelona. One such program is directed at people lacking access to the formal market and involves the provision of land for a social renting. Spain currently possesses less than 1% of public social housing. Another program involves investing 100 million Euros to build 1000 dwellings from the municipal development agency, while a third program deals with the recovery of 20000-50000 empty dwellings by purchasing from owners or subsidizing rents, and by their inspection in order to sanction with a new empty stock tax. Torres then concluded his presentation by advocating a new approach, that is, through reliance on developers rather than municipal agencies.

“Barcelona is a city finished so, obsolete soils must be regenerated”. Josep María de Torres

Larry English, CEO, ReALL, asserted that the most important subject at hand was the housing market rather than the finance market, based on the fact that finance merely constitutes one aspect of the entire housing system. He continued by indicating that problems arise because flawed policies have been “cut and pasted” from other countries. English then concluded by arguing that if the public and the private sector fail to collaborate, they will fail to capitalize

“If the public and the private sector do not work together in partnership, they will be missing out a very important and crucial partner”. Larry English



upon a crucial partnership. Moreover, English does not support subsidization, but instead supports the need for increased coherence and coordination in improving the system's efficacy i.e. policies must be developed that have not been simply cut and pasted from other systems.

Femi Adewole, Director Project and Portfolio Management, Shelter Afrique, appealed for innovation in partners' thinking, such as increasing private sector awareness regarding their involvement in the housing sector in order to avoid dire consequences. Adewole expressed doubts regarding UN- Habitat and experts' knowledge regarding the experiences of the lower-informal population, suggesting that their knowledge regarding the capacity and innovation of that sector is generalized. He further claimed that the direct relation between governments and UN-Habitat is essential, given that the housing and finance Ministries know very little about housing. Adewole drew on the example of Nigeria, where the Housing and Finance Ministries are working together due to their realisation that investment in housing was instrumental in improving GDP.



Adewole further explained that one of the greatest challenges as lenders is the lack of data. In finalizing, he remarked that in order to have an efficient market, UN- Habitat must broaden its focus beyond the bottom end of the market and take a more holistic approach, working with the interrelation of the market.

Peer Smets, Assistant Professor, Department of Sociology, University of Amsterdam, commenced by defining “sustainability” as containing financial, economic, social and environmental considerations, such as access to utilities and basic infrastructure, urban form and spatial development, and governance/ stakeholders approach.

Smets then noted that there exist threats to affordability which extend beyond finance, including the threat posed by urban land, vulnerability (natural disasters, climate change), urban sprawl and poor quality habitat. In fact, housing finance without technical assistance is a potential time bomb: for example, natural disasters, violence and rising energy prices can result in repayment problems where people are unable to reimburse, instead choosing to relocate. Smets then noted that some needs, such as diversity and resilience, have diverse solutions apart from mortgage financing that may help the housing process. Such solutions may include taking the informal sector more seriously, and linking the formal and informal sectors so as to learn from each other.



It was concluded that the bottom 80% of the population is inadequately served and mass production housing has become more complicated. The question thus arises as to what steps should be taken. It was suggested that the most appropriate response is the introduction of a continuum of products that add

“Local governments should ensure provision of serviced land technological innovation in low-cost housing”. *Peer Smits*

value while reducing costs. This is because even if mass housing is focused at city peripheries, transportation costs will impede people from staying. Given that the lower- end of the income pyramid is not well served by the income sector, and based on the inappropriateness of the ‘one- size- fits all’ approach, different kinds of shoes must therefore be developed.

Francois Perrot, Lafarge Affordable Housing Program, finalized this session by also highlighting the fact that there is no one-size-fits-all approach. He then proceeded to make reference to four types of business initiatives that Lafarge utilizes:

1. Microfinance (solution: providing access to credits and technical assistance).
2. Earth and cement (solution: mix of cement and soil to produce non burnt clay bricks, keeping aesthetic and thermal inertia of earth construction).
3. Slum rehabilitation (solution: bagged concrete supplied to small customers in informal settlements).
4. Mass affordable housing (working with developers to improve quality & speed of construction).

HIGHLIGHTS OF SESSION 2

When identifying principles and guidelines to improve access to housing finance, it was recognized that:

- The enabling and developmental role of government is key to merging social concerns over housing and the desire for an efficient financial system.
- The role of housing finance, and specifically mortgage finance, is key to expanding effective demand and allowing large-scale private residential development. Mortgage finance requires a lien on the property, which in turn reduces risk for lenders and makes mortgages one of the cheapest forms of credit.
- Before proposing policy measures in a region, the specific set of supply and demand constraints must be understood, as well as opportunities to develop its mortgage sector and non-collateralized housing finance sector.
- Alternate housing finance mechanisms must be explored across the entire housing value chain such as land finance, equity financing for developers, infrastructure finance, or rRental finance, or alternative and non-collateral lending, which must be expanded to create an efficient mass mortgage market that can address the housing problem.

Marja Hoek-Smit, Director, International Housing Finance Program, the Wharton School, University of Pennsylvania.

Moderator: Issa Faye, Division Manager, Development Research Department, African Development Bank.

Discussants:

- **Josep Maria de Torres**, Manager, Habitat Municipal Institute, Barcelona City Council
- **Larry English**, CEO, ReALL
- **Femi Adewole**, Director Project and Portfolio Management, Shelter Afrique
- **Peer Smets**, Assistant Professor, Department of Sociology, University of Amsterdam **Francois Perrot**, Lafarge Affordable Housing Program

SESSION 3: THE HOUSING BUBBLE AND THE GLOBAL FINANCIAL CRISIS: LESSONS FOR EMERGING AND DEVELOPING COUNTRIES

The 2008 mortgage subprime crisis, with its epicentre in the United States, unfolded many risks of the indiscriminate expansion of lending and securitization and has driven attention to the risks of housing bubbles. The credit crisis resulting from the bursting of housing bubble led to the collapse of subprime mortgage markets in many developed countries, leading to the failure, merger, and government bailout of leading financial institutions and enterprises.

The aim of this session was to discuss and consult with participants on the preliminary findings of the input paper for 2016 Habitat III Conference on the causes and impacts of the housing bubble, the interrelation with financial markets and lessons for developing and emerging countries. The ultimate goal was to look at lessons that can be learned by developing and emerging countries, especially in regard to the role of regulation as their housing finance markets grow, housing prices rise steeply and the risk of bubbles increases as a result.

Main questions to be addressed

What are the relationships between housing bubbles and global financial crisis?

1. What are the relationships between housing bubbles and the global financial crisis?
2. What are the long-lasting consequences of the global financial crisis?
3. What were the causes and signs of the US housing bubble that developing and emerging countries should be attentive to? The risks of skyrocketing housing prices in many developing and emerging countries?
4. What lessons can we learn from the housing bubble and global financial crisis, especially in regard to regulation (the role of states) and rising housing prices?



The term “Housing Bubbles” was introduced by Xing Quan Zhang, Senior Advisor, UN-Habitat, as the idea of ever rising housing prices. When housing prices increase, people perceive wealth, and feel that they have money. Bubbles can be detected by media analyses, however people generally want to believe that prices will continue to rise, thereby ignoring the warning. The first ever bubble was in 1857, followed by an even bigger bubble in 1929. After an increase in housing prices by more than 150% in the 1980s, the United States implemented a tax reform act in 1986, followed by a community investment act in 1987. The US government revised laws to allow lower income people to access housing finance. During the bubble, income to price ratio was 21 times (normal values are 3-5 times). It should be noted that prices in the United Kingdom were much higher, however this may be attributed in large part to demographic growth.

“The main problem of bubbles is not the price but price income ratio”. *Xing Quan Zhang*

Quan Zhang then continued by explaining that rising housing prices attract rich people to invest, leading to a lack of other investment opportunities, and to people overstretching their mortgages and constructing single family, large houses.



Furthermore, it would appear that many people tend to view housing bubbles as containing significant opportunities. The main problem of housing bubbles, however, is not the prices but price/income ratio. When the price of what is affordable is pushed, the actual housing price is much higher than the equivalence price. To conclude, Quan Zhang noted a key lesson about affordable housing finance: that is, that we are able to prevent the next crisis or, at the very least, reduce its impact on the financial sectors.

Julio Rodríguez López, Doctor in Economics, Complutense University of Madrid; National Statistics Institute, compared the cases of Spain and the US. Lopez noted the significant number of intermediate administrations (regional and autonomous levels) in Spain (17), making it difficult to discern who has the control over housing policies. Lessons learnt by Spain following the last bubble are evidenced by the fact that Spain no longer has public banks or public saving banks. The housing bubble occurred as a result of the liquidity of the banks with regards to central bank policies. An additional problem was the high level of home-ownership in Spain, which had largely come about as a result of Franco's ideology and the introduction of a fiscal system that was favourable to ownership and did not focus on the rental sector. A final contributing factor to this housing bubble was urban planning, for two reasons: not only was all investment directed at housing rather than at the productive sector, but decisions were made by the municipalities, which were keen on building dwellings as a form of self-financing.



According to his presentation, Spain requires a public institution which finances public housing and so that housing policies may be created that are focused on social rental housing and accessibility, rather than the construction of new dwellings. Finally, he also pointed to the creation of a rental housing stock for people that are facing the impossibility of repaying their rents or mortgages.

Olivier Hassler, Housing Finance Expert, clarified some important aspects of housing bubbles, and

“Spain needs a public institution which finances public housing and housing policies destined to social rental housing”. Julio Rodríguez



difference between mature markets and developing economies. Hassler commenced by indicating that banks are much less exposed in developed economies. Not all price increases are bubbles- they may also be due to structural reasons. However, in many countries where there is a clear wealth effect (e.g. oil countries), prices increase dramatically and a bubble emerges.

There exists a lack of alternative investment opportunities, and the loan-to-value ratio does not necessarily equate to speculation, for example for first-time buyers. Hassler then highlighted the main characteristic of bubbles, namely that they burst eventually. This is usually the case when new construction is the main market segment, which is typical for emerging economies.

There are three different policy responses to housing bubbles from policy makers:

1. First response from policy makers: pre-identification of bubbles. Tools: prices (construction of price indexes), need for adequate monitoring (length of upturn phases, sellers' markets drive appreciation, turnover and sell rhythm of new developments, analysis of segments critical to spot overheating areas).
2. Second response from policy makers: dampening of credit expansion. Tools: reduce credit expansion through regulation or dynamic provision (loan-loss provisions), capping credit growth, hard limitations (like China or India, require banks to put more capital to cover the risk).
3. Third response from policy makers: targeting specific factors that fuel speculative investments. Tools: restrict multiple purchases (increasing transfer registration charges or prohibiting lending), taxes, prudential tightening in selected overheating areas, off-plan sales limitations to avoid purchase contract flipping.

Finally, it was mentioned that while in developed economies real estate finance accounts for approximately 1/3 to 1/2 of credit portfolios, this figure tends to be much less in emerging markets (10-20%). Both developers and investors tend to concentrate on the top segment of the market, which has the risk of creating a segmental bubble. The recent case of India is a prime example of the emergence of this type of housing bubble.

Jordi Borja, Professor, Universitat Oberta de Catalunya, commenced his presentation by stating that housing policy was a cement bourgeoisie during the 70s. The 1980s, however, began to witness significant change due to the appearance of too much investment, speculation for short-term gains and speculation over the use of infrastructure. Local governments collaborated because they needed incomes and society expressed a demand for speculation. Borja then proceeded by explaining that 70% of the loans issued at this time were focused on construction, there was

Housing prices, which are perceived as wealth growth, contributes to the over-stretch of the homeowners' financial resources. However, they only lead to the housing bubble when housing prices to income ratio increase to beyond the equilibrium price level.

very little investment in the productive sector, and housing prices were decoupled from salaries. Despite the fact that banks benefited predominantly from such loans and fault could largely be attributed to their actions, moral blame was placed on the population for having incurred debt. People at this time were largely uneducated, and this had significant consequences on their inability to repay credit. People lose their dwellings yet retain their debt, leading to the question as to why the law has not changed in this regard, because until now such policies have allowed banks to keep their real estate stock. Housing is considered a basic social and legal right by European and institutional standards. To support this right, strong intervention by the public sector is needed. However, and as a concluding remark, Borja pointed out that there is a conflict between what is legal and what each state allows. One indication of the lack of emphasis placed on housing by political culture, for example, is the fact that the budget for



HIGHLIGHTS OF SESSION 3

The discussions and consultations on the preliminary findings of the input paper for 2016 Habitat III Conference on the causes and impacts of the housing bubble, its interrelation with the financial markets and the lessons learnt for developing and emerging countries, resulted in the following:

- Increases in housing prices, which are perceived as wealth growth, contribute to the over-stretch of homeowners' financial resources. However, such increases only lead to housing bubbles in situations where the housing price to income ratio increases beyond the equilibrium price level.
- In countries with housing bubbles, a large portion of home-buyers are those looking for investment opportunities or second-homes. The average loan size therefore increases significantly, subsequently increasing the financial burden of home buyers.
- Low interest rates reduce finance costs for homebuyers, meaning they tend to buy larger houses and take larger loans, which results in low savings and a greater reliance on borrowing.
- Lower lending standards, over-liquidity and some Government policies (such as HMDA and CRA) lead to rapid credit growth, subprime lending, default rates and, eventually, to crisis.
- Over-reliance on securitized financial instruments and derivatives hide the risks and quality of assets- bad assets are packaged as good assets, leading to the growth of sub-prime lending.
- There are good examples of combatting speculative investment in the housing sector. For example, China has bans on purchasing second-homes; other countries have put restrictions on high Loan to Value ratio, etc.

Xing Quan Zhang, Senior Advisor, UN-Habitat.

Moderator: Jan Mischke, McKinsey – McKinsey Global Institute.

Discussants:

- **Julio Rodríguez López**, Doctor in Economics, Complutense University of Madrid; National Statistics Institute.
- **Olivier Hassler**, Housing Finance Expert
- **Jordi Borja**, Professor, Universitat Oberta de Catalunya

SESSION 4: THE HOUSING BUBBLE AND THE GLOBAL FINANCIAL CRISIS: LESSONS FOR EMERGING AND DEVELOPING COUNTRIES

In this Session UN-Habitat and its partner institutions outlined their areas of intervention and the strategies employed in the promotion of affordable housing finance sector development and finance inclusion. The aim was to have a picture of different stakeholder roles (international organizations, development banks, intermediary institutions, national banks, NGOs, etc.), identify gaps and potential avenues for collaboration between the various institutions, with the aim of addressing the challenges of affordable housing finance.

Main questions to be addressed

1. Who are the main actors and what is being done by development partners to promote affordable and inclusive housing finance?
2. What are the main institutional/operational gaps and the areas where complementarity and cooperation is most needed?
3. What is the role of policy and how can UN-Habitat reinforce its impact by working with governments and in partnership with development agenda stakeholders?



UN-Habitat's mandate in promoting socially and environmentally sustainable towns and cities, as well as adequate housing for all, was presented by Fernanda Lonardoni, PHd Housing Unit, Housing and Slum Upgrading Branch. UN-Habitat is committed to supporting governments in implementing improved urbanization and housing policies. Lonardoni announced that housing has returned to the development agenda as a major priority based on the fact that the post-MDGs reinforce the access for all to adequate and affordable housing as a core target in achieving sustainable cities.

The agency has four different portfolios, which were outlined during the presentation: housing rights, housing finance, housing diversity and culture, and green housing. Within these portfolios, a preventative measure exists in the form of the Housing Profile Programme, and a curative measure exists in the form of the Participatory Slum Upgrading Programme. The UN Global Housing Strategy is the umbrella that endorses housing finance as a pre-requisite for a sustainable national housing sector. Furthermore, the Housing Profile Programme was described as the systemic and



action-oriented diagnostic of the housing sector, which aims to:

- Gain a comprehensive understanding of all aspects of housing;
- Identify needs and gaps in the sector;
- Generate information and analysis that are required for policy decision;
- Build capacity and promote government engagement;
- Trigger the start of housing reforms / policy formulation / programme design.

The importance of improving access to information was also emphasized, as was the role played by UN-Habitat as facilitator for housing finance inclusion. Importantly, UN-Habitat requires a better understanding of the links between policies and finance, as well as a clearer idea as to where their intervention is required.

Oriol Balaguer, Director, Neraco, drew on the example of Santa Marta in order to highlight the difficulty in financing dwellings and ensuring that citizens who reside within such dwellings are able to maintain a sustainable way of life. Santa Marta employs housing stratification strategies, which determines how much citizens pay according to the strata/area where they live. A programme was thus implemented called "las cien mil viviendas gratuitas" ("a 100,000 dwellings for free"), aimed at low income groups currently residing in hazard areas. Problems that have arisen in association with this programme are based on the fact that because such dwellings are built in the cheapest areas/on the least expensive land, so that residents are subsequently finding themselves very far from the city. This in turn gives rise to challenges concerning the disruption of community links, employment creation and financial sustainability. Balaguer concluded by highlighting that people must be able to work, this being the most sustainable way to maintain the costs of living, housing and other basic services.



Ananda Weliwita, Human Settlements Officer, Urban Economy Branch, UN-Habitat, commenced by describing the nature and aims of both the SUF, a grant programme implemented through local finance facilities, and the ERSO, a loan programme that complements the SUF. SUF's primary goal was to motivate investments from domestic private capital markets into low-income housing improvement and community infrastructure development. The main objective of ERSO, on the other hand, was to grant low interest loans to private banks/NGOs in order to stimulate private sector investments into the low-income housing sector and community infrastructure development. The key part of Weliwita's presentation, however, was his examination and review of the lessons learnt following the implementation of both the SUF and ERSO.

SUF: 1. SUF is a highly relevant program. LFFs are an important innovation with the potential to benefit millions of the poor. 2. UN-Habitat was unable to upscale slum upgrading due to the fact that SUF objectives tended to be too broad and not specific enough. 3. LFFs have been unable to mobilize adequate funds from private local banks. 4. UN-Habitat lacked necessary human and financial resources. 5. UN policies and procedures do not support a program of this type. 6. In Ghana, SUF has positively influenced government policies and programs on slum upgrading.

ERSO: 1. Like SUF, ERSO is also highly relevant. 2. Azania bank and DFCC bank have not, however, invested their own funds to scale up lending to the poor. PRODEL, SAKAN and HFHIN have also been unable to mobilize more funds from capital markets. 3. No proper feasibility study was done in an effort to find a way to fit a lending program into UN-Habitat, which is a grant-giving institution. 4. Due to a lack of in-house capacity in managing a loan program, combined with a lack of funding, UN-Habitat Governing Council requested that UN-Habitat discontinue ERSO experiment in 2011. 5. With termination of ERSO, it was decided to terminate SUF as well.

Benedito Murambire, Consultant, Housing Finance Expert, commenced by presenting the existing housing finance options currently available in Mozambique and highlighted that housing affordability is an issue both in the mortgage and rental markets. This is particularly

the case considering that as of April 2014, the minimum wage in Mozambique is only USD 100, with the vast majority of the population earning less than 60 USD per month. Monthly rents, on the other hand, tend to oscillate between USD 1,500 and 10,000 per property in Central Maputo. Murambire also underlined the main issues with regards to housing, including: 1. The fact that only 13% of population has access to formal financial services (5% only in rural areas); 2. There exists considerable uncertainty about future inflation rates; 3. high funding costs for lenders; 4. high cost associated with construction materials (mostly imported); and, 5. low repayment capacity from the borrowers (discrepancy average income versus housing prices). One of the strategies being used to address these issues is through development projects launched by UN-Habitat, specifically its current pilot project, which represents an integrated approach constituting an urbanistic project, a housing project, a financial model and a management model. After regarding its effects and challenges, some key lessons for UN-Habitat have been compiled:



1. **Urbanistic project:** Improve the monitoring process with key institutional suppliers and improve coordination with stakeholders.

2. **Housing project:** The shorter the construction period the easier the project can achieve its goals and expectations. Bring local culture and identity into the project from the beginning.

3. **Financial model:** Combine/ complement different financing options. Coordinate with different partners. Deepen knowledge of the target group affordability. Try to work with professional institutions and /or service providers.

4. **Management model:** Reduce bureaucracy in the construction. Improve financial management.

Following the first round of discussions, discussants were given the opportunity to comment on contributions made, particularly in regard to UN-Habitat's work and how it might improve its role working with stakeholders:

Marja Hoek- Smit, Wharton School, University of Pennsylvania, commenced by identifying a common theme from each of the participant's presentations: that is, in many cases the hard- footwork that is required prior to intervention in the housing market has not been carried out. Before effective intervention in the housing market is able to be implemented, critical analysis of both the housing market and financial market is required in order to identify the key players and understand how the value chain is developing, and may continue to develop in moving forward. However, in many of the cases presented, particularly the SUF and ERSO programs, Hoek- Smit did not feel adequate analysis had been carried out, and that this may have contributed in large part to their limited success. According to Hoek- Smit's analysis of housing finance systems, the knowledge derived from such in- depth analysis is instrumental in developing incentives for participation by finance institutions in the housing sector. Due to the significant resources involved in programs such as SUF and ERSO, the strategies involved in their implementation must be structured in a financially sensible and sustainable way so that people's lives are actually improved. If this is not possible, more cost- effective solutions need to be developed: it is futile to spend resources on the establishment of financial structures that aren't going to lead to sustainable change.

Hoek- Smit then continued by noting that based on the presentations, there also appears to be a lack of government understanding regarding the realities and needs of the housing finance sector, as well as a lack of sustained government intervention in terms of subsidies. In moving forward, UN- Habitat therefore has a potential role to play in terms of working with national governments, educating them as to the needs of very low- income people, and developing appropriate systems and solutions. If UN- Habitat fails to work with national governments in this manner, developing sustainable subsidies that can and should be linked to credit won't be possible.

Graham Tipple, Visiting Fellow, School of Architecture, Planning and Landscape, Newcastle University, reminded participants of the disjunction between international standards and housing affordability in Africa: while housing is actually fairly cheap in terms of international standards, people lack the necessary income enabling them to make rental or mortgage repayments. It is for this reason that when the public and private sector have the possibility of focusing finance strategies on the highest- income segments of the population (as is the situation in Mozambique, for example), they will inevitably do so. This is a major challenge for the housing finance industry.

Tipple then continued by referring to the free housing schemes in Columbia discussed by Oriol Balaguer. Drawing upon the example of a similar scheme in South Africa, Tipple emphasised that while such schemes provide individuals and families with housing

free of charge, they are in fact highly problematic. This is in large part due to the tendency of such dwellings to be built on urban peripheries, isolating residents from employment and community links. Homeless enterprises such as that operating in Santa Marta must incorporate location advantages rather than simply giving away free housing on the edge of cities. On this point, Tipple expressed his surprise at the involvement of UN- Habitat, and urged for a re-thinking of their role.

Throughout participants' presentations, much discussion had also been focused on the issue of UN- Habitat going into partnership with private sector actors. In commenting on this, Tipple stressed the need for UN- Habitat to consider public/ household partnerships instead. Such partnerships would involve the public sector dealing directly with households through some sort of intermediary. A similar system is currently being used in Israel, where the government encourages households to engage builders and invest in the housing sector. Tipple suggested that involving households in this manner is a more productive idea than involving the private sector, based on the fact that the private sector will only be interested in the top- income sections of the population due to their ability to make a profit from them. On this point, it was emphasised that the housing sector has to be more than about making money.

Femi Adewole, Director, Project and Portfolio Management, Shelter Afrique, drew upon a particular project in Nairobi in order to exemplify what they do. Adewole highlighted the need to identify the actors and the weaknesses in the value chain, and specified one of the greatest challenges in implementing the project as the considerable volatility in construction costs. Adewole then concluded with a concern regarding reality: we are currently finding that we are walking with the private sector and government authorities, who appear to have no idea where they are going.

Issa Faye, Division Manager, Development Research Department (EDRE), African Development Bank, introduced the African Development Bank as an entity which, until now, has been actively engaged in financing shelter. Faye further clarified that the Bank has been consistently trying to conduct analyses and data interpretation for the past two years, in the hopes of learning more about the sector. The Bank's role should be to facilitate and empower Shelter Afrique, instead of constraining their actions. As a result, Faye posed a number of questions as to what our main aims should be at the moment: how can we do things differently? What can we play on the table? Every day the Bank receives requests for funding, yet lacks the capacity to know what it is doing and how to do it. Faye then concluded by expressing the Bank's openness for collaboration, an expression that was also made evident by Jane Weru, Executive Director, Akiba Mashinani Trust. Weru rated the project as a good and feasible one, but one which is going to require significant help and support from UN- Habitat.



Larry English, CEO, ReALL, touched upon the gap between the city and informality, labelling the gap as one of provision, communication, infrastructure, and institutional. NGO's are the clandestine operators within this gap working actively to close it, especially given that the city and the private sector are reluctant to participate. This reluctance is based on the view held by such actors that there is little they can do to change the situation. English pointed out that in order to execute it is going to take too long, and therefore it needs to be bridged. ReALL conceptualises their role as an information provider, acting in an intermediate capacity in the city as vehicles of investment (governments may be willing to implement but they lack the money). English argued that this gap needs to be filled, regardless by whom. In regard to the banking sector, English argued that it is expensive given the fact that we are currently paying the cost of ignorance. In concluding, English highlighted how ReALL's approach differs from other approaches: that is, engaging in open- source activities, managing the whole value chain and evaluating the risk.

Jeremy Gorelick, Senior Municipal finance adviser, Affordable Housing Institute, was concerned with the topic of cities as partners in the provision of affordable housing and the exploration of opportunities in financing municipalities. Based on this, Gorelick articulated a number of lessons learnt that might assist UN- Habitat in moving forward:

1. Cities are important economic drivers of change, and are further empowered when mandated to be involved in the provision of affordable housing.
2. Knowledge of finance is critical on the municipal level in order to foster sustainable development that benefits the most vulnerable.
3. For cities to support affordable housing, a clear definition of affordable housing must be explained, and accepted, by all stakeholders.
4. Cities are not always the best innovators, and can work well when coupled with the private sector as part of a public-private partnership, where both sides achieve their goals.

Orna Rosenfeld, Senior Housing Expert, United Nations Economic Commission for Europe, Senior

Housing Expert, United Nations Economic Commission for Europe, closed this session by presenting the changed context in which housing finance operates following the global financial crisis, as well as future uncertainties. Rosenfeld commenced by claiming an increased housing need. In the West, access to mortgage finance is more restricted (interest rates 3-4%), and there are a greater number of households that fail to qualify. In the East, however, access to mortgages is limited and expensive (interest rates 7%-22%), and homeownership is largely unaffordable for the majority of the population. She revealed that at least 100 million low and middle-income people in the UNECE region are housing cost overburdened - they spend more than 40 % of their disposable income on housing. As a result, securing future funding and finance for the social housing sector is one of the key challenges faced by UNECE region. Rosenfeld also referred to the UNECE Social Housing Study 2014, one of the proposed UNECE contributions to Habitat III.

To conclude, the importance in deciding which tenure is going to be financed, and why, was emphasized. Other potential strategies in moving forward include: addressing fundamental market failures through future policies, examining the links between the financial and housing markets, reassessing and recalibrating state intervention in housing finance adapted to present and future housing market dynamics while responding to the increased and diversified housing need. Finally, support for balanced tenure provision may also prove vital.



Following the conclusion of session four, all participants were invited to participate in a roundtable debate regarding UN- Habitat's mandate in moving forward based on contributions made:

Larry English commenced the debate by pointing again to the overlap of roles and need for greater coordination amongst housing sector participants. It was emphasized that in the past, UN- Habitat has often acted in the same sphere and competed for the same donors as other actors, making the organization someone to either collaborate or compete with. In addition, English stated that if UN- Habitat is to become a valuable partner in the housing sector, both the accountability of UN- Habitat and the cost involved for actors such as Homeless International, who wish

to collaborate with the agency, are of considerable importance. In this regard, it is also important that the ideologies of various housing sector actors are aligned if meaningful partnerships are to be created.

The need for defining specific actor roles was further echoed by Femi Adewole, who felt that the most important message for UN- Habitat in moving forward was the need to know who the various housing sector actors are, where they're acting, what the weaknesses are, and where the gaps exist that need to be filled. In this way, various roles and responsibilities can be identified and UN- Habitat will be able to develop a meaningful framework from which they can proceed.

Building on Marja Hoek- Smit's comments earlier in the session, additional remarks were made by participants regarding the current lack of available data and in- depth analysis of the housing and finance sectors. Participants were also concerned with how to make policy- makers aware of housing finance issues, and the lack of coordinated efforts in this regard. As a result, it was suggested that UN- Habitat might play an important role in establishing a platform where all actors would be valued, and which would facilitate the integration and coordination work required. The establishment of such a platform would prove instrumental in allowing for cross- analysis of the housing finance sector, and in developing a program looking at housing studies.

HIGHLIGHTS OF SESSION 4

There is a clear overlap of roles among stakeholders and critical gaps which must be addressed, particularly with regard to the role of governments in subsidy and finance policies, institutional coordination, dialogue with the private sector and NGOs. More concerted efforts and capacity building at all levels of the value chain are needed. It was analyzed that the private sector could play a key role in:

- Actively educating government officials and other stakeholders on housing finance and its importance.
- Designing innovative approaches that serve the needs of the underserved market, e.g. Lafarge housing microfinance product.
- Developing innovative products, particularly BOP products, that can help reduce the cost in the housing market
- The private sector requires incentives for both mortgage and non-collateralized finance system development and/or innovation.

There continues to exist a critical need for UN-Habitat on the following issues:

- To work with governments in providing technical assistance, and setting up subsidy programmes and policies to cater for the most poor, without

spoiling the market or undermining the participation of the private sector; from project level to national strategies.

- To strengthen dialogue with partners such as the Development Finance Institutions (DFIs) to enhance intervention at country level, and to operationalize policy, the Government Finance Institution, as well as facilitate institutional coordination between housing and finance ministries.
- To develop innovative approaches to fill the market gaps rather than repackaging old solutions; Focus on non-mortgage sector development and implement support strategies for housing finance sector development.
- To document and collect best practices, data and information on housing finance for households and for the lenders, and to research and generate knowledge products to really understand the market.
- To monitor and assess interventions, especially subsidy programs at the various stages of sector development: demand subsidies will not work if there is no market in place and supply subsidies, in turn, can help the market to consolidate.

Moderator: Carmen Sánchez-Miranda, UN-Habitat Office in Spain.

Outline of UN-Habitat Normative and Operational work:

- **Fernanda Lonardon**i, Housing Policy Adviser, Housing Unit, Housing and Slum Upgrading Branch. "Financing Affordable Housing for all the global Housing Strategy".
- **Ananda Weliwita**, Urban Economy Branch, UN-Habitat. "The Slum Upgrading Facility (SUF) Programme and the Experimental Reimbursable Seeding Operations (ERSO) Programme: lessons learned".
- **Benedito Murambire**, Consultant, Housing Finance Expert. "Manica: UN-Habitat Pilot Project in Mozambique"
- **Oriol Balaguer**, International Consultant. "Social housing to live but also to work".

Outline of Partners' areas of intervention:

- **Femi Adewole**, Director, Project and Portfolio Management, Shelter Afrique
- **Issa Faye**, Division Manager, Development Research Department (EDRE), African Development
- **Jane Weru**, Executive Director, Akiba Mashinani Trust
- **Jyoti Patel**, Associate Director, Habitat for Humanity
- **Larry English**, CEO, ReALL
- **Jeremy Gorelick**, Senior Municipal finance adviser, Affordable Housing Institute
- **Orna Rosenfeld**, Senior Housing Expert, United Nations Economic Commission for Europe

Discussants:

- **Marja Hoek-Smit**, Wharton School, University of Pennsylvania
- **Graham Tipple**, Newcastle University.

6. WRAP UP SESSION AND CLOSING REMARKS

In this Session, moderators and rapporteurs presented a summary of Session discussions. Participants helped to identify the main remaining gaps and challenges to be addressed in each thematic area. Experts and all participants will then be invited to an open discussion in order to reach agreement on avenues for moving forward, and to identify areas of priority action for UN- Habitat and partners' in addressing the challenges identified for inclusive and affordable housing finance.

On the strategic level, the EGM and its outcomes are aimed at repositioning the topic as a thematic and priority focus area within UN-Habitat's work, as well as supporting the Habitat III Conference preparatory process. In this sense, the findings of the EGM will form part of a proposed UN-Habitat position paper, as well as corresponding guidelines on promoting affordable and inclusive housing finance sector development. The findings will also support the elaboration of a framework document to be approved by the Governing Council, which will reinforce UN-Habitat's advisory role in housing sector development and housing finance inclusion. Some of the final points highlighted included the idea that UN-Habitat should be seen as an agency which is trying to facilitate, as well as benefit from the fact that all sectors (social, public and private sector across countries) work together. A remarkable majority agreed upon the settlement of some overall principles, messages and changes that all parties could share.

Other pending assignments that were generally acknowledged included the difficulty in attracting investors when there exists a potentially high risk that these will not be repaid. Long term government commitments to housing are required, and governments must be convinced that housing is a productive industry. Because so many people are engaged in building houses, there exists an assumption that housing simply happens on its own. However, this is not the case: emphasis needs to be placed on the idea that housing constitutes key infrastructure for economic and financial growth and thus requires adequate standards and levels of expertise: simply having a house does not entitle a person to work in housing.

In addition, focus must be had on the way many individuals are 'free- riding' on the city. Cities are being provided with increasing duties, however many people either aren't being taxed for living in the city or, where they are, fail to pay their property taxes. It is important to realize that taxing is housing finance. Cities must therefore be very able and willing to collect the money coming from property taxes because if they don't, they will not be able to provide necessary services and infrastructure, including housing.

Importantly, it was also accepted that what is being created is an economic opportunity and not charity. There is an inherent difficulty in asking private institutions to participate in the housing sector and focus on lower- income groups, while at the same time expecting them to be both sustainable and profitable. Institutions need to be provided with reform plans in order to ensure they have adequate frameworks within which they can work, and UN- Habitat has the potential to play a key role in the implementation of such reform. Once this has been achieved, with the right framework implemented and appropriate incentives provided, the private sector will be more able and willing to intersect in a useful way. Likewise, the discussion must broaden: the discussion is very sector- oriented and fails to account for the many actors participating in the housing sector. Simultaneously, housing finance should be improved through incremental changes and tangible improvements, so as to enable a better change and future. In order to do so, opportunities should be combined, products created, and certain solutions provided, for example in regard to the issue of property rights and the current inefficiency and inadequacy of rental housing. New partnerships, particularly with grassroots organisations and households, should also be created as an effective supplement to the top-down approach. This implies that cooperation between stakeholders needs to be more process- based, rather than focusing on specific targets that are fixed in very specific projects.

It was further agreed that the private and public sector need to work together and collaborate on this issue. Prioritisation and funding seem to be two crucial matters; housing is complex and numerous things cannot be achieved at the same time. In order to ensure the effective function of the housing market, as well as ensure the empowerment of key institutions, resources are vital. In order to have access to more resources, it was suggested that UN- Habitat needs to adopt a more structured approach that includes short, medium and long- term goals. Participants agreed that such an approach would inevitably attract more funding, which could be used to make sustainable changes to the housing sector.

In conclusion, the most important outcome of the EGM was the common recognition that UN-Habitat serves as an educator of governments, as well as a facilitator for the achievement of a common platform and vision. Participants agreed that UN- Habitat has a very specific entry point with governments, and should try to benefit from that position so that all actors can come together and work collaboratively on housing and housing finance. Marja Hoek- Smit, in particular, emphasized the particular need for UN- Habitat to educate governments regarding their role as subsidy provider, and to assist them in the development of

successful subsidy strategies for the housing sector. The implementation of more effective government subsidies will attract increased lenders, and ultimately stimulate the participation of the private sector in housing. A system needs to be developed that will enable UN- Habitat to fulfil this role. While this system may vary between countries, it must nevertheless consist of very clear principles that will enable UN-Habitat to supervise projects on a case- by- case basis. As pointed out by Hoet- Smit, if UN- Habitat is able to successfully fulfil this role, governments will possess

a greater capacity to develop short term platforms identifying immediate needs, as well as a longer term vision for the different industry sectors. When governments are more aware of their role, they are able to develop more effective strategies and attract increased funding. The many challenges and lessons learnt in regard to the housing sector in recent years are well established: what is now required is the participation of UN- Habitat in developing a long- term vision and synthesizing the approach moving forward.

ANNEX 1: FINAL LIST OF PARTICIPANTS

EXPERTS

- **Adewole, Femi.** Director, Project and Portfolio Management, Shelter Afrique (Kenya).
- **Balaguer, Oriol.** Director, Nearco (Spain).
- **Borja, Jordi.** Professor, Open University of Catalonia (Spain).
- **De Torres, Josep María.** Manager, Habitat Municipal Institute, Barcelona City Council (Spain).
- **Doling, John.** Emeritus Professor of Housing Studies Applied Social Studies, University of Birmingham (UK).
- **English, Larry.** CEO, ReALL (Formerly Homeless International) (France).
- **Faye, Issa.** Division Manager, Development Research Department (EDRE), African Development Bank (Tunisia).
- **Geh, Zeke.** Economist, African Development Bank (Tunisia).
- **Gorelick, Jeremy.** Senior Municipal Finance Advisor, Affordable Housing Institute (USA).
- **Hassler, Olivier.** Housing Finance Specialist, Housing Finance Expert (France).
- **Hoek-Smit, Marja C.** Director, International Housing Finance Program, the Wharton School, University of Pennsylvania (USA).
- **Mischke Jan.** McKinsey Global Institute (Switzerland).
- **Murambire, Benedito.** Consultant, Housing Finance Expert, UN-Habitat (Mozambique).
- **Patel, Jyoti.** Associate Director, Habitat for Humanity (USA).
- **Perrot, François.** Lafarge Affordable Housing Program (France).
- **Rodriguez Lopez, Julio.** Doctor in Economics, Complutense University of Madrid (Spain).
- **Rosenfeld, Orna.** Senior Housing Expert, United Nations Economic Commission for Europe (Switzerland).
- **Smets, Peer.** Assistant Professor, Department of Sociology, University of Amsterdam (Netherlands).
- **Sorolla, Antonio.** Deputy Manager, Urban Planning, Barcelona City Council (Spain).
- **Taffin, Claude.** Scientific Director, Association DINAMIC (France).
- **Tipple, Graham.** Visiting Fellow, School of Architecture, Planning and Landscape, Newcastle University (UK).
- **Weru, Jane.** Executive Director, Akiba Mashinani Trust (Kenya).

UNITED NATIONS HUMAN SETTLEMENTS PROGRAMME (UN-HABITAT)

- **Clos, Joan.** Executive Director, UN-HABITAT and Under Secretary General, United Nations.
- **Lalande, Christophe.** Leader of Housing Unit, Housing and Slum Upgrading Branch.
- **Zhang, Xing Quan.** Senior Advisor, Housing and Slum Upgrading Branch.
- **Lonardoni, Fernanda.** PHd, Housing Unit, Housing and Slum Upgrading Branch.
- **Lenz, Annika.** Liaison Officer, Office for Liaison with European Institutions.
- **Sánchez-Miranda, Carmen.** Head of Office in Spain.
- **Weliwita, Ananda.** Human Settlements Officer, Urban Economy Branch.
- **Malbrand, Anaïs.** UN-HABITAT. Consultant (Spain).
- **Pardo Díaz, Joaquín.** UN-HABITAT. Consultant (Spain).
- **García Orner, Carolina.** Intern, UN-Habitat Office in Spain.

ANNEX 2: PROGRAMME

11TH DECEMBER 20149.00-9.15 **Registration**9.15-9.45 **Introduction**

Carmen Sánchez-Miranda, “Objectives and Expected Outcomes of the UN Habitat Experts Group Meetings in collaboration with Barcelona City Council”: UN-Habitat Office in Spain.

Christophe Lalande, *Origins and objectives of this EGM on ‘Ways forward to achieving affordable and inclusive housing finance for all’*: Leader, Housing Unit, UN-Habitat, Housing and Slum Upgrading Branch.

Ananda Weliwita, Human Settlements Officer, Urban Economy Branch, UN-Habitat.

Participant’s introduction round

9.45-10.00 **Coffee break**10.00-12.30 **Session 1: Beyond the enabling approach: rebuilding the capacity of the state to promote adequate housing provision for all.**

Graham Tipple, PhD, Visiting Fellow, School of Architecture, Planning and Landscape, Newcastle University. *Aims of the Session: Review and discuss the ‘enabling approach’ in affordable housing provision: what has worked, what has not, and what is needed to enhance or ‘rebuild’ the capacity of the state to promote adequate housing provision for all. (30 minutes).*

Moderator: Orna Rosenfeld, Senior Housing Expert UNECE.

Discussants:

- **Antonio Sorolla**, Deputy Manager for Urban Planning, Urban Habitat, Barcelona City Council (10 minutes).
- **John Doling**, Emeritus Professor of Housing Studies Applied Social Studies, University of Birmingham (TBC) (10 minutes).
- **Claude Taffin**, Scientific Director, Association DINAMIC (10 minutes).
- **Jan Mischke**, McKinsey – McKinsey Global Institute (10 minutes).

Roundtable Debate

Session Rapporteur: Fernanda Lonardoni, Housing Policy Adviser, UN-Habitat

12.30-13.00 **Welcoming remarks.**

- **Joan Clos**, Executive Director, United Nations Human Settlements Programme (UN-Habitat) and Under Secretary General, United Nations (video recorded).
- **Antoni Vives**, Deputy Mayor for Urban Habitat. Barcelona City Council.

13.00-14.30 **Lunch** (Venue: C3Bar. CCCB)14.30 -16.30 **Session 2: Inclusive Housing Finance and Affordable Housing: principles and guidelines for housing finance policy development**

Marja Hoek-Smit, Director, International Housing Finance Program, the Wharton School, University of Pennsylvania. *Aims of the Session: Identify principles and guidelines, regional trends and good examples, review the principal instruments, innovations to inform policy design for housing finance sector development and inclusion from government-led to market driven initiatives. (30 minutes).*

Moderator: Issa Faye, Division Manager, Development Research Department, African Development Bank.

Discussants:

- **Josep Maria de Torres**, Manager, Habitat Municipal Institute, Barcelona City Council (10 minutes).
- **Larry English**, CEO, ReALL (10 minutes).
- **Femi Adewole**, Director Project and Portfolio Management, Shelter Afrique (10 minutes).
- **Peer Smets**, Assistant Professor, Department of Sociology, University of Amsterdam (10 minutes).
- **Francois Perrot**, Lafarge Affordable Housing Program (10 minutes).

Roundtable Debate.

Session Rapporteur: Zeke Geh, African Development Bank.

17.00-18.00 **Welcome cocktail** (Venue: CCCB)

19.00-20.00 **Walking touristic tour of Barcelona** (optional¹)

12TH DECEMBER 2014

9.00-10.30 **Session 3. The housing bubble and the global financial crisis: lessons for emerging and developing countries**

Xing Quan Zhang, Senior Advisor, UN-Habitat. *Aims of the Session: Discuss and consult with participants on the preliminary findings of the input paper for 2016 Habitat III Conference on the causes and impacts of the housing bubble, the interrelation with the financial markets and lessons for developing and emerging countries. (15 -20 minutes).*

Moderator: Jan Mischke, McKinsey – McKinsey Global Institute.

Discussants:

- **Julio Rodríguez López**, Doctor in Economics, Complutense University of Madrid; National Statistics Institute. (10 minutes).
- **Olivier Hassler**, Housing Finance Expert (10 minutes).
- **Jordi Borja**, Professor, Universitat Oberta de Catalunya (10 minutes).

Roundtable Debate.

Session Rapporteur: Ananda Weliwita, Urban Economic Branch, UN-Habitat.

10.30-10.45 **Coffee Break**

10.45-12.45 **Session 4. Promoting affordable and inclusive housing finance: mapping roles, needs, resources and potential venues for international development cooperation**

UN-Habitat and partner institutions will outline their work in affordable housing finance sector development and finance inclusion. The aim is to map different stakeholders' roles and areas of intervention, identify gaps and room for international cooperation between institutions with views to address the challenges of providing adequate housing for all.

¹ See Logistic Note for more details.

Moderator: **Carmen Sánchez-Miranda**, UN-Habitat Office in Spain.

Outline of UN-Habitat Normative and Operational work

- **Fernanda Lonardoní**, Housing Policy Adviser, Housing Unit, Housing and Slum Upgrading Branch. “Financing Affordable Housing for all the global Housing Strategy” (7 minutes).
- **Ananda Weliwita**, Urban Economy Branch, UN-Habitat. “The Slum Upgrading Facility (SUF) Programme and the Experimental Reimbursable Seeding Operations (ERSO) Programme: lessons learned” (7 minutes).
- **Benedito Murambire**, Consultant, Housing Finance Expert. “Manica: UN-Habitat Pilot Project in Mozambique” (7 minutes).
- **Oriol Balaguer**, International Consultant. “Social housing to live but also to work”. (7 minutes).

Outline of Partners’ areas of intervention

- **Femi Adewole**, Director, Project and Portfolio Management, Shelter Afrique (7 minutes).
- **Issa Faye, Division Manager**, Development Research Department (EDRE), African Development Bank (7 minutes).
- **Jane Weru**, Executive Director, Akiba Mashinani Trust (7 minutes).
- **Jyoti Patel**, Associate Director, Habitat for Humanity (7 minutes).
- **Larry English**, CEO, ReALL (7 minutes).
- **Jeremy Gorelick**, Senior Municipal finance adviser, Affordable Housing Institute (7 minutes).
- **Orna Rosenfeld**, Senior Housing Expert, United Nations Economic Commission for Europe (7 minutes).

Discussants:

- **Marja Hoek-Smit**, Wharton School, University of Pennsylvania
- **Graham Tipple**, Newcastle University.

Round table Debate.

Session Rapporteur: Annika Lenz, UN-Habitat Liaison Office in Brussels.

12.45-14.00 Lunch (Venue: C3Bar. CCCB)

14.00-16.00 Remaining gaps and ways forward to reinforcing UN-Habitat and partners’ work on promoting affordable and inclusive housing finance sector development

Moderator: **Christophe Lalande**, Leader, Housing and Slum Upgrading Branch, UN-Habitat.

- **Wrap-up of the discussions:**
 - Moderators and rapporteurs present the summary of sessions and discussions (7’ per session – 40 minutes).
 - All participants input and help to identify the main remaining gaps and challenges to be addressed.
- **Ways forward:**
 - Experts and all participants are invited to an open discussion to reach a consensus understanding on ways forward and areas of priority action for UN-Habitat and partners’ to address the challenges for inclusive and affordable housing finance.

16.00-16.30 Closing Session

- **Carmen Sánchez-Miranda** and **Christophe Lalande**, UN-Habitat.

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