PART III

CHANGES IN HOUSING FINANCE AND SHELTER DELIVERY SYSTEMS

Housing is an essential component of human settlements. At its most elemental level, it addresses basic human needs by serving as shelter, offering protection against excessive cold and heat, rain, high winds and other intemperate weather. If housing is inadequate because of dampness, vermin, overcrowding and other substandard conditions, it undermines individuals' health and well-being. Housing also protects people against street crime. If housing costs are excessive, this affects people's ability to meet other basic needs such as food and health care.

At the household level, housing also fulfils important functions. It provides a physical enclosure for domestic behaviour: a place for daily activities, where people cook, eat, socialize and rest, away from the public realm, and a place where, in many cultures, they are born and die. At the same time, through its location, housing forms the basis for activities in the community and larger outside world, such as interactions with neighbours, work, school and shopping.

In the wider community context, the design and location of housing can denote a household's affiliation with a particular cultural or religious group, serving to reinforce the social bonds among its members. But, these same housing characteristics can also reflect segregation from other population groups and reinforce unequal access to jobs, schools, services and life chances generally. In this sense, housing is inextricably connected to questions of redistributive justice and, thereby, to political and economic processes.

It is not only to its occupants that housing is important. Aside from the residents, there are land developers, lenders, investors, design professionals, unions and government agencies at various levels. Each of these groups has its own particular interests. In market-based societies that treat housing foremost as a commodity, to be produced and traded for profit, the interests of these groups typically revolve around obtaining and regulating financial gain. Treatment of access to housing as a function of ability-to-pay contrasts with a view of housing as a right.

At the policy level, governments use housing to attain various other objectives. Chief among them are economic ones. Internationally, housing investments constitute between 2 and 8 per cent of gross national product (GNP), between 10 and 30 per cent of gross capital formation, between 20 and 50 per cent of accumulated wealth and between 10 and 40 per cent of household expenditure. Residential construction has numerous backward linkages (eg building components) and forward linkages (eg furniture). Using this multiplier effect, governments can stimulate new construction to boost employment. Alternatively, during times of high inflation, governments may seek to slow new building, for example by limiting credit supply. On the other hand, housing is significantly affected by many *non*-housing policies, for example those concerning trade, employment, public finance, social welfare and transport.

Globalization affects these and other aspects of housing in different ways and degrees. There are, for example, effects on patterns of population segregation (Chapter 2) and the right to housing (Chapters 3 and 16). This part of the report reviews recent changes in shelter delivery mechanisms and in particular housing finance. As in all else, it is difficult to make generalizations and individual countries differ in, for example, foreign direct investment, debt service, trade barriers, fiscal pressures to keep budgets under control, demands for greater transparency and technological capability. While recognizing these differences, the three chapters that follow focus on the developing countries, the countries with economies in transition and the industrialized countries.

In the developing countries, a vast majority of households use their own or informal savings. Globalization has increased the informal economy, and formal sector commercial financial institutions do not meet the housing loan needs of people living in poverty. Many informal settlements also house a large number of renters whose needs are often overlooked. Government programmes do not reach enough people and do not reach the lowest income groups. There is a need for governments to support innovative approaches involving a range of micro-finance schemes and partnerships with local communities. Keys to success are access to land, secure tenure and income generation to reduce poverty. Women play crucial roles in this regard.

In the countries with economies in transition, globalization has led to deregulation of an elaborate system of rules and laws, decentralization of a strong state apparatus, increased residential mobility and the slow emergence of local housing markets. Widespread privatization of the state housing stock, with deep discounts on the sale of units to existing tenants, and the lifting of rent controls, have brought issues of inequity, although affordability has not so far become a major problem. However, there has been a sharp decline in housing investment and new construction, while lack of maintenance and repair is also a fast-growing cause of concern. There exists a significant challenge in the development of a private capital market and institutional mechanisms as well as legislation to construct more functional housing markets while protecting access of low-income households to adequate housing.

In the industrialized countries, globalization has several implications for housing finance. Most obvious are the vastly increased mobility of capital and the greater integration of housing finance with more general circuits of finance. Coupled with deregulation, this means that local lenders and individual homeowners are increasingly competing for capital in the same pool as the richest multinational corporations. At the same time, globalization is associated with widening, skill-based wage inequality with the effect of reinforcing existing patterns of segregation. In many industrialized countries, there are also continuing concerns about tenure polarization and residualization of the social rented sector. Governments tend to play a diminishing role, in part, as a result of their lesser ability to tax mobile capital, thus putting a downward pressure on housing subsidies. However, they fulfil important functions as regulators, catalysts and partners.

CHAPTER 6

THE DEVELOPING COUNTRIES[1]

Housing Finance: Needs and Capacity

For the urban poor, there are four significant potential sources of housing finance.[2] The first is investments by the urban poor themselves, using their own monies and the informal savings and lending institutions that are immediately available to them. The second is government-supported housing finance, either through direct construction or through the provision of subsidized loans. The third source is formal sector commercial financial institutions. The final source is micro-finance institutions that have emerged from primarily NGO-led development innovations.

Direct investment by low-income residents

The biggest investors in low-income housing are the poor themselves

The biggest investors in low-income housing are the poor themselves. With only limited assets, many of the urban poor find land in the city, invest in housing, negotiate for services and secure land tenure, often in that order. This is the reverse of the formal process of housing development, in which land is purchased, infrastructure installed and housing constructed. In the informal sector, infrastructure comes last.

These processes are illustrated by numerous accounts from residents throughout the world, including the *posseiros* in Brazil[3] and the 'slum' dwellers in India.[4] Two points need to be highlighted in the context of the following discussion. First, the sources of finance are varied and include savings, contributions from friends and relations and/or borrowing from informal moneylenders. However, these are rarely sufficient to complete a house, and improvements take place over several years. Second, investments are not limited to housing improvements but may include land purchase and infrastructure improvements.[5] Box 6.1 gives an indication of the significance of housing investment for low-income urban citizens in India.

More generally, it is difficult to estimate the scale of direct investment in urban areas that is not supported by formal institutions, either public or private. The squatter populations in cities are indicative of this scale, but many ex-squatter areas have been brought into formal residential areas, either by state decree or by negotiation with private landowners. The number of squatters, therefore, is an underestimation of those who have been and are currently investing in their own housing and neighbourhoods. However, the global scale of finance is undoubtedly substantial, and most squatters have invested upwards of several hundred dollars in their housing.

State investment programmes

In a few countries, the state is an investor in low-income housing, first, by being directly involved in construction. As discussed below, the impact of development policies over the last two decades has tended to reduce the role of the state. Nevertheless, state agencies (at national, provincial and local level) still take part in housing construction. For example, in the Philippines, the National Housing Authority as a developer is building about 5000 units a year. In Brazil, the federal state has recently launched a new house-building programme that will offer 15-year leases with an option to purchase at the end of this period. Typically, the limited scale of these programmes and the high subsidies involved mean that they are attractive to middle-income groups and that it is difficult to reach their official target group, the poor.

Second, the state may implement housing subsidy programmes. In both South Africa and Chile, for example, there are extensive housing programmes financed by the national government that provide a full or partial capital subsidy for both low-income and lower middle-income housing.[6] For the most part, these programmes are implemented by private construction companies but they also include options for community-managed housing development. A problem with such programmes is the limited scale due to their high cost for the national budget.

Box 6.1 Estimates of citizen direct investment in housing in India

The huge variety of standards within illegal and designated 'slum' settlements makes it difficult to estimate the scale of existing investment. Drawing on a number of cost estimates from the 1980s and 1990s, a finished house in an informal settlement requires an investment of approximately Rs.20,000–30,000 (when valued today) and an unfinished house at least one-quarter of this amount. This suggests a private investment in India's illegal and designated 'slum' settlements equal to at least Rs.350,000 million, but probably several times this figure.

Source: Acharya, 2000.

Third, there are a number of state programmes that provide subsidized housing finance through reduced interest rates. These programmes are invariably limited by the amount of finance that is made available. They include the Unified Home Lending Programme in the Philippines and funds managed by HUDCO in India. These institutions target an income group above the very poor because the finance they offer is used (in the vast majority of cases) for the provision of completed formal housing rather than investment in incremental housing.

Despite special measures to reach low-income target groups, such as a partial capital subsidy and/or interest rate subsidies, these programmes have faced many problems. The scale of the schemes is likely to be small if they have to fit in with existing rules and regulations. Furthermore, the programmes often do not provide lasting support to those they seek to reach as in the case of Visakhapatnam, India, where the poorest beneficiaries were selling their houses.[7] Similar problems are seen in subsidy programmes that target the poor – in South Africa, for example.[8] Some micro-finance programmes and NGO interventions seek to avoid such problems by providing more integrated and holistic support, with lending for income generation and emergency loans.

Fourth, there have been some attempts to provided subsidized funds for community-based housing initiatives through a number of innovative government schemes, particularly in Asia. Such programmes typically offer loans to community groups at subsidized interest rates and with a support programme for borrowers that involves technical assistance and institutional support from NGOs. For example, in the Philippines, the Community Mortgage Programme offers funds at 6 per cent to community groups. The high land costs, particularly in Manila, mean that most loans have been simply for land purchase with community residents constructing their own housing. In Thailand, the Urban Community Development Office provides collective loan finance for a range of activities including land purchase and housing construction. Fonhapo in Mexico produced about 15 per cent of the public sector assisted supply with 9 per cent of the budget.[9] In South Africa, the South African Homeless People's Federation builds houses that are regularly 20–40 per cent larger than units provided by commercial producers for the same funds, and additional scale is sometimes achieved when residents add more of their own finance. However, bureaucracy, high cost, limited funds and a lack of technical assistance have limited such programmes.[10]

At the same time, governments have begun to recognize the importance of micro-finance, an approach that has emerged from a group of civil society agencies working, particularly, to provide loans for small enterprise development. Micro-finance seeks to work directly with the poor through adopting terms and conditions for lending that do not discriminate against those working in the informal sector and living in informal settlements. Many micro-finance initiatives for enterprise development have been targeted at women although there are many exceptions to this general orientation. In the case of housing, some initiatives are explicitly targeted at women while others seek to ensure that women are not excluded. Box 6.2 discusses how the loan fund of the South African Homeless People's Federation seeks to ensure that women's access to housing improvements is central. The South African government supported this fund with a R10 million contribution in 1995 (then worth approximately US$1.5 million). Inevitably, situations differ for legal and cultural reasons. Whoever the target beneficiaries, many micro-finance programmes for housing investment are concerned with incremental development because a lack of capital restricts big loans and there are concerns over affordability by those borrowing money.

Governments have begun to recognize the importance of micro-finance, supporting the poor by adopting terms and conditions for lending that do not discriminate against those working in the informal sector

Box 6.2 Housing improvements, women and empowerment

The Alliance of *uMfelandaWonye* (South African Homeless People's Federation) and People's Dialogue (its NGO partner) seeks to support a process by which the urban poor reclaim their power to choose their development options. Its activities are oriented towards urban poverty reduction and it seeks to target those who are most in need. The programme has developed around several key components including a loan fund to support housing development, as working with women quickly identified housing as a priority.

Very early on, the network of homeless poor that was to become the Homeless People's Federation realized the importance of access to credit. While the homeless poor possess energy, initiative, skill and experience, they lack the material resources to transform their situation. The Alliance decided, in 1993, that the only way around this problem was for the People's Dialogue to assist the Federation in becoming directly involved in managing its own loan fund. The *uTshani* Fund began operations in January 1995 (*uTshani* means grassroots in Zulu), since when it has given over 5000 loans for housing to Federation members.

In South Africa, the dual focus on savings and housing has resulted in a high participation by women:

> '*Because the focus has been placed on housing, with a particular stress on savings for housing, women who generally feel a greater need for decent secure housing tended to play a leading role. Men, as typical organizational leaders, have been willing to create the space for women's central participation because savings for housing is regarded as "a woman's skill". Women's central participation in the Federation is a practical issue. The process through which the poor and excluded can obtain housing is difficult. Inevitably, those who are most committed to improved housing will come to the fore, it is this non-random social selection process which has resulted in the central participation of women.*'[i]

The high profile of women is a significant change from the situation that prevailed within most community organizations prior to the establishment of the Federation. Previously, such meetings were dominated by male participation and the discussions had little to do with the practical problems faced by most women (see also Box 14.4). At the first meeting of community leaders that launched the People's Dialogue, over 60 per cent of the delegates were men. Women now make up 85 per cent of the Federation's members and their presence is particularly strong at the lowest level of Federation activity, namely, the Housing Savings Schemes (see also the discussion of the Alliance in Mumbai in Chapter 14).

Note: i People's Dialogue, 1995.

Throughout, it is important to recognize the gender dimension. In many societies, the provision of a clean and healthy home is the woman's responsibility. Investment in housing is likely to assist women directly, as they manage their multiple roles as income earners and care-takers. Many women work in the informal sector both due to gender discrimination and because of the frequent need to combine income activities with child rearing. A good home and neighbourhood often help with the prosperity of such activities.[11] Investing in housing is important for all women but particularly important for the significant number of women who head their households and who are solely responsible for a number of dependants.

Formal financial sector

The formal financial sector does not provide finance to low-income housing and communities on any scale. There are many reasons for the reluctance of commercial banks to lend to the poor (including high administrative costs, lack of collateral or regular employment of borrowers and lack of experience and familiarity); these are well documented in a number of studies of micro-finance initiatives.[12] The programmes that exist often only fund formal housing and hence are too expensive for the poor, even if they do qualify for inclusion. This holds true whether they are commercial, state-supported or joint state/private sector ventures.[13]

There have been a small number of initiatives that have sought to link the formal financial sector with the urban poor. These have been initiated by development agencies seeking to improve these links rather than by the commercial enterprises themselves. In India, for example, Northern NGOs have had to provide guarantees in order to encourage the formal financial sector to lend to the poor. The Society for the Promotion of Area Resources Centres (SPARC), a leading NGO working in urban poverty and housing, has had guarantee funds from both SELAVIP and Homeless International in order to secure loans from HUDCO in India. Homeless International also offered guarantee funds to the Youth Charitable Organization and found that it had to guarantee 109 per cent of the loan. Similarly, the Asian Development Bank recently gave a soft loan of US$300 million to the housing finance sector in India. The inability of the formal financial sector to use these funds in innovative ways to reach the poor resulted in a one-year programme to link interested formal financial institutions with community-based financial institutions.[14]

Micro-finance institutions

There has been a growing interest in micro-finance throughout the world. In the main, this focus has been on financing income generation rather than on housing and associated investments. However, in a number of cases, the development of these programmes has resulted in the extended provision of credit for housing, for example, in some Latin American countries,[15] including El Salvador,[16] and in India.[17]

Perhaps the largest example is the Grameen Bank, which has lent for shelter development to over 300,000 of its members. However, this case is somewhat unusual as it includes the provision of an agreed package of materials for housing construction. Unlike the enterprise loans given by the bank, housing loans are provided at a subsidized interest rate. The funds for housing loans are provided by the government and are part of a larger programme of government lending for housing development. Excluding this example, most micro-finance institutions lending for housing have rarely exceeded 10,000 loans, with a substantial number falling into the 5000–10,000 bracket.

There are two distinct approaches to micro-finance for housing.[18] The first is the extension of traditional micro-finance programmes for enterprise development into housing. This approach seeks to overcome the constraints placed on the informal sector due to the reluctance of formal financial institutions to lend to the poor. Hence, it bases its development intervention on the need to improve financial markets. Micro-finance institutions such as the Self-employed Women's Association (SEWA), for example, have extended lending to housing because of the demand from their members.

The second approach has emerged from within the housing and urban development sector itself. This approach seeks to understand how better to address urban poverty and identifies a number of advantages to micro-finance initiatives based around savings and loans. The South African Homeless People's Federation's *uTshani* (see Box 6.2) illustrates the benefits of a revolving loan fund; savings help to build strong community organizations based on trust and have a capacity to manage funds:[19]

- the poor have a capacity to invest in their own housing, and loans (although subsidized) help the poor to improve their choices and improve their situation;
- micro-finance initiatives may also be an important source of finance, in particular when they manage to tap into formal financial flows.

Revolving loan fund savings help to build strong community organizations, based on trust and with a capacity to manage funds

Housing Finance and Globalization

The following discussion of the implications of globalization and its associated trends on housing finance cannot be comprehensive but is limited to a few major issues. Broadly speaking, the provision of housing finance is influenced by:

- changes in demand for, and the supply of, housing investment funds due to the nature and extent of economic growth and the related scale and nature of poverty;
- changes in the supply of finance due to changes in

state investments and state regulation of financial markets and the financial services industry;
- changes in the capacity to demand and use finance due to the changing nature of low-income urban communities.

Poverty

The importance of communities' own funds in housing investment means that the level and nature of poverty is an important determinant of housing finance. A number of very general comments can be made about recent trends:

- The increasing informalization of the labour force has implications for citizens who seek to acquire finance from formal institutions, either state housing loan companies or commercial enterprises. As more and more of the urban poor are drawn into informal employment, it is increasingly difficult for them to access formal finance. At the same time, lower-middle and middle-income families may lose access to loan finance as they shift from being formal to informal workers.
- Informal sector incomes tend to be more volatile than formal sector wages. This makes it more difficult to meet regular repayments that may be required by formal financial institutions for existing loans or by informal sector moneylenders (who often expect to be repaid within a short period of time).
- The shift to more complex forms of mixed livelihood (including livelihoods that cross the traditional urban and rural sectors), combined with the difficulties of securing land tenure may reduce households' commitment to urban areas and therefore reduce the likelihood of housing investment in urban areas.

In most towns and cities, two further elements emerge as critical, namely, the availability of credit and, perhaps most important of all, the availability of land. These factors are discussed below.

Credit

Among the characteristics of globalization are floating exchange rates and fewer government currency restrictions, facilitating greater capital mobility. While some capital is investment funds, as much as 82 per cent of it has been estimated to be in the form of speculative flows.[20] In the absence of alternative controls, interest rate policy is used by governments to assist with foreign reserves management. Hence, interest rates may be high simply to reduce speculative flows and may be significantly above inflation in the short to medium term. If these rates are passed on to homeowners, the consequences for housing finance at all income levels may be severe. For example, in 1997 and 1998, the economic situations in Asia and then Latin America caused interest rates for housing loans in South Africa to rise to 23 per cent. Throughout this period, inflation remained at less than 10 per cent.

Land

Globalization, together with related trends, has also affected urban land in a number of ways (although, it is important to recognize that individual cities are affected differently and some may not be affected at all). The freer currency and financial investment markets have created a growing tendency towards speculative investments. Land markets are no exception. In some Asian cities in particular, high land prices, caused by speculative investment, have resulted in increased difficulties for the urban poor. Squatters have been evicted from well-located land that previously was of little value. Even where construction does not take place, there may be increased pressure for eviction.[21]

There have been attempts to address such inequities. For example, in Thailand, widespread concern about the inequality of access to the benefits of economic development and an acknowledgement that rising land prices have increased the difficulties of the urban poor resulted in a new government initiative in the early 1990s, namely, the Urban Community Development Office.[22] This initiative manages a loan fund, capitalized with a grant worth US$50 million from the Thai government, aimed at assisting the urban poor to purchase land and develop housing. The office lends money to the members of savings groups for income generation, land purchase and housing development. As another example, in Cebu, the Philippines, land sharing arrangements between a group of inner city squatters and the private owners of the land on which they are located have been realized, with an offer of alternative land. The landowners wanted to secure their land from squatters quickly and peacefully due to its high value. A local NGO, the Pagtambayayong Foundation, has been assisting the community.[23] Without such institutional intervention, globalization appears to increase the probability of land speculation and, therefore, of increased land prices, thus causing greater difficulties for the urban poor, particularly in capital cities and secondary cities of global significance.

Without institutional intervention, globalization appears to increase the probability of land speculation and, therefore, of increased land prices, thus causing greater difficulties for the urban poor

A further factor affecting the availability of land is privatization. The growing relaxation of trade barriers and of restrictions on market activities is associated with the privatization of state assets. Many state companies had considerable land holdings that could be sold together with the rest of the company. In some countries, such state companies had relatively lax attitudes towards squatters but these attitudes are not necessarily shared by the new private owners whose interests are to develop or re-sell the land for profit.

Another related aspect is the liberalization of the banking sector that has taken place in many countries. As more financial institutions are created and existing ones are given more freedom of action, it might be anticipated that some would seek to reach the poor with financial services. However, despite considerable diversity in circumstances, there exists very little interest in doing so. Many commercial enterprises are reluctant to enter this market for the same reasons that have encouraged the growth of microfinance institutions. When they do venture in, it is generally alongside an NGO (see Boxes 6.3 and 6.4).

The deregulation of the financial sector has been accompanied by an attitude towards housing finance by development agencies that can be typified by the World Bank's approach. A recent discussion paper reviewing the experience of the World Bank emphasizes the importance of housing finance in order to improve residential dwellings and support the construction industry.[24] It argues the importance of positive interest rates being charged in order to ensure the continuing viability of the lending institution and adds that private sector involvement should be encouraged (as has been the case in many World Bank projects) in order to ensure efficient administration. It does not rule out subsidies but it is not clear as to how they can best be introduced into such programmes in order to reach the poor. As has been argued elsewhere, it emphasizes that past subsidies have often not reached those most in need.

There is evidence that it is increasingly difficult for programmes that target the lowest-income residents to be effective without subsidies.[25] Moreover, for the reasons given above, private sector collaboration is likely to formalize the programme and thereby reduce its outreach to the poor. As is the case with micro-enterprise lending, formal financial institutions wish to give larger loans to literate individuals who offer acceptable collateral and who will repay at regular intervals through formal sector banking processes.

There is evidence that it is increasingly difficult for programmes that target the lowest-income residents to be effective without subsidies

State funds

In general, globalization has also been associated with a reduction in state funding for basic services and infrastructure. Consequently, there is less money for public funding to reach and support people's own investment. However, while recognizing the significance of the general constraint, experiences in a number of countries suggest that where governments are willing to address the needs of the urban poor, and where there is a lobby for such innovative funds, it is possible to secure government support.

Hence, a contradiction in policy making emerges. Commonly accepted orthodoxy emphasizes the reduced role of the state. In this context, the inability of the state to address the needs of the poor through direct policy measures is stressed. The orthodoxy argues that it is the role of the government to manage the macroeconomy to enable the market to address the needs of the poor.

However, in practice, even where the government has adopted such policies, equity and political pragmatism help to justify measures that support the poor. As Perez Montiel and Barten[26] argue in the case of Leon in Nicaragua, despite the 'reduction in social expenditures and a strengthening of the private sector and the market economy … there would appear to be more scope for local political action'. They describe an innovative city

Box 6.3 Partnerships to provide housing finance for the poor

The Unit Trust of India was anxious to explore reaching low-income citizens. It teamed up with SPARC, an Indian NGO working in 22 cities in India with two community organizations, the National Slum Dwellers' Federation and *Mahila Milan* (a federation of women's collectives), to launch the Interval Fund, especially for Federation members. Together with SPARC, it worked out how to reduce administrative costs by only accepting deposits five days each month. Thus the bank can access the savings of the poor while the poor can obtain higher interest rates of 12–14 per cent. When land is obtained, the savings are moved to the housing finance agency (generally HUDCO) to pay the necessary deposit. Previously, most low-income households could only secure 4–6 per cent for their savings in ordinary accounts, equal to or below the rate of inflation. Factors such as these make it hard to save and access formal loan finance for housing.

Box 6.4 The changing Mexican loan market for housing finance

Private developer interests in housing provision for lower middle-income groups evolved from earlier investment in rented accommodation in the 1950s to the large-scale home-ownership public housing projects of the 1970s and 1980s. Throughout this period, because of the virtual non-existence of private mortgage capital, savings and loans associations and the like, the expansion of speculative housing development was severely limited.

The short-lived liberalization of mortgage funds from commercial banks in 1989, closely followed by the radical reforms to the payroll funds that privatized some financial investment, gave an additional boost to the housing development industry. Housing developers increasingly expanded from or into the contracting business, landed property and the financial sector. By 1994, the National Federation of Industrial Housing Promoters (PROVICAC) had over 900 members which, by then, were responsible for almost all formal housing production in the country. While most of these developers were only active in one town or city, some extended their operations to various cities all over the country and beyond, including California and Chile. These developers started building massively, often with projects for over 10,000 units at a time, in most of Mexico's major cities.

The re-privatization of banks, coupled with the influx of short-term speculative investment, resulted in the rapid growth of financial services between 1990 and 1993. For the first time in Mexico, there were mortgages available to middle- and upper middle-income groups to acquire new and reconditioned housing. This created a building boom of condominiums and, hence, escalating land prices in many cities. By 1993, many of these interest-capitalized mortgages were unpayable, even under the relatively stable prevailing inflation and interest rates. After the crash of December 1994, mortgagees were facing unpayable debts combined with acute negative equity as the market plummeted. In 1996, a special programme to restructure mortgage debts was set up as part of the more general scheme to bail out the banks.

Catering essentially to the lower middle-income market, housing developers continue to produce housing paid for by subsidized credits provided by FOVI (with World Bank loans) and the payroll housing funds. The lower end of their market is approximately four times minimum wage, thus excluding about 50 per cent of the urban population. However, a lowering of standards and increased efficiency is enabling some developers to reach lower-income brackets, replacing the better-off segments of the informal sector. Yet, at present, none of the housing loan schemes in operation can offer a completed dwelling to families with irregular or very low incomes, who are still obliged to resort to the informal sector: an impoverished 'self-build' syndrome of the irregular settlement.

Source: Connolly, Cilla (2000) Universidad Autonoma Metropolitana-Azcapotzalco, Mexico City.

programme with state resources and changes in local government practices and procedures to ensure basic needs including improvements to water supply, literacy and waste removal as well as housing. In some Brazilian cities, municipal reforms have similarly enabled additional funds to be raised, helping to finance participatory budgeting and leading to improved infrastructure in low-income settlements.[27]

Similar trends appear in Asia. In the Philippines, NGOs and community-based organizations have succeeded in increasing the allocation to the Community Mortgage Programme to P2000 million in 2000 (US$47 million) from P240 million in 1999. This represents a significant increase in previously available funding (see also Box 14.10 and Chapters 13 and 14 on the importance of partnerships in infrastructure development). Not only can local institutions successfully negotiate an increase in available government funds, they can also provide a useful challenge through which available donor funds can be used in programmes that are considered to have a lasting impact. Thus, in Thailand, the economic recession resulted in social investment funding from the World Bank and other donors. One-quarter of the funds destined for reducing poverty (Baht 250 million) has been routed through the Urban Community Development Office which has made it possible for the Office to extend its work and address the difficulties faced by its members.[28] Much of the remaining monies is allocated to macroeconomic support.

Hence, it is not clear that the reductions in public expenditure have resulted in an inability of the state to support housing finance where the institutions of local government and civil society are strong enough to demand resources, and demonstrate the effective use of such resources.

Institutional responses

An analysis of the ways in which globalization is affecting investments in housing the poor should not ignore institutional responses to this social and economic context. Three types of institutions must be considered in particular.

Local government

First, the role of local government is increasingly significant. Just as there has been a consensus about the need for central government to play a reduced and more focused role, there has also been an equal consensus in favour of the decentralization of responsibilities to lower levels of government and, particularly, to local authorities.[29] While local authorities may have been made responsible, they have struggled to meet these responsibilities. For the most part, they are not able to offer even basic services to many of the citizens living within their area of jurisdiction. Some have sought to support the urban poor with land availability. In a few cases in Latin America, municipalities have provided subsidized loans for housing upgrading (see, for example, the *mutairo* programmes of São Paulo and Fortaleza in Brazil.)[30] State funds have been made available, with those receiving support repaying a proportion of the monies and loan repayments as a fixed proportion of the minimum wage.

NGOs

NGO activities range from helping squatters to obtain land tenure to the provision of low-cost sanitation and direct loan finance

Second, NGOs have sought increasingly to address the needs of the urban poor. On the one hand, there has been a growing interest among international NGOs to consider issues of urban poverty.[31] On the other hand, local NGOs have become increasingly pragmatic about securing effective development interventions.[32] Together, these organizations are anxious to increase the capacity of local communities to improve their housing. Their activities range from helping squatters to obtain land tenure to the provision of low-cost sanitation and direct loan finance. In some countries, such as Pakistan, major multilateral and bilateral development agencies have been interested in ensuring that such initiatives can assist state agencies to address their obligations (see, for example, World Bank support to extend the work of the Orangi Pilot Project in Pakistan).

The limitations of approaches that try to address the housing needs of the poor through market mechanisms is becoming increasingly evident

Alongside NGOs, there has been a range of micro-finance institutions, many of which owe their origin to voluntaristic activity.[33] However, the limitations of approaches that try to address the housing needs of the poor through market mechanisms is becoming increasingly evident. Agency studies of micro-finance agencies in Bangladesh echo more general concerns.[34] Micro-finance institutions are finding that the not-so-poor are the easiest clients to reach. Hence, there may be a group of residents in low-income settlements that are not supported even by the more innovative NGO and government programmes. Both NGO and micro-finance efforts are too small and may not be reaching some of those most in need.

Civil society groups

Through networks such as the Shack/Slum Dwellers International, low-income communities have been able to learn from one another to increase the effectiveness of their housing strategies and practices

Third, and at a more local level, there have been a host of citizen-to-citizen exchanges that have been sponsored by groups such as Oxfam. The communications revolution has enabled like-minded groups to identify each other and connect more easily. Thus, low-income market women in Senegal have been able to link up with groups facing similar housing development issues in South Africa.[35] Repeated reassurances by the women of the South African Homeless People's Federation assuaged the visitors' worries, and first-hand observation of the South Africans making bricks and designing plans convinced the Senegalese women that they too could acquire 'professional skills'.[36] The Senegalese also enjoyed the Federation women's down-to-earth explanation of technical issues.[37] Through networks such as the Shack/Slum Dwellers International, low-income communities have been able to learn from one another to increase the effectiveness of their housing strategies and practices.[38]

The failure of many institutions, and in particular of both the market and the state, to address poverty, may have been one of the major reasons behind the search for partnership solutions. A partnership between multiple stakeholders, including the state, financial institutions, communities and NGOs can offer much: state agencies can provide land and the financial institutions can provide credit. Communities can repay the loans and provide the required local management skills. NGOs can help to bridge the gap between the formal world (state and commercial enterprise) and the local neighbourhoods in which the poor develop housing (see Chapter 14 for a fuller discussion of partnerships). The scope of joint programmes to address the need for housing finance is evident in a number of cases. However, it is important to recognize that participation in such programmes is still not an option for many of the urban poor.[39]

Implications for Policy

What are the policies that will assist the poor to obtain access to the finance that they need to invest in housing? The strategic focus should be concentrated to promote rental housing, both private and informal and to upgrade slums.

Land and secure tenure

State agencies seeking to assist the poor need to put in place policies that facilitate their access to land with reasonably secure tenure

Land is critical. State agencies seeking to assist the poor need to put in place policies that facilitate their access to land with reasonably secure tenure. Once tenure is secure, the poor themselves invest in their own homes and neighbourhoods. For reasons discussed above, the land situation in some cities may become more difficult as a result of globalization and its associated processes. Hence, it becomes even more important for state, provincial and local government to address the need for land.

Access to credit

There is a need for government to support a variety of non-formal financial institutions in order to facilitate housing investment and reduce poverty

Credit for land purchase and housing development can help those with low incomes to invest quickly and effectively. Many formal financial institutions are not well suited to dealing with the needs of the poor. A range of micro-finance institutions provide models and mechanisms for doing it better. In some countries, the formal financial sector may perceive a potentially lucrative market and be willing to work in partnership. In general, however, there is often a great reluctance to be involved. In this context, there is a need for government to support a variety of non-formal financial institutions in order to facilitate housing investment and reduce poverty. Based on recent experiences, as illustrated by the cases mentioned above, such initiatives can be wholly managed by government, as with the Urban Community Development Office; they can be government funds drawn down by community organizations with the support of an NGO, as is the case with SPARC and the National Slum Dwellers' Federation, who use funds from the state bank, HUDCO; or they can be independent loan funds managed by communities with appropriate professional assistance, as is the case with *uTshani* Fund of the South African Homeless People's Federation.

Credit can also be used to assist in infrastructure development, and state support for financing initiatives to improve housing should take into account the likely need for infrastructure improvements. Moreover, many of these initiatives are flexible enough to include finance for income generation.

Successful initiatives share common characteristics. Funding is provided to groups needing home improvements rather than to individuals. This means both that administrative costs are lower and that the group can support members who are in need of assistance. Savings prior to loan delivery helps to strengthen trust and mutual confidence within the group, helps the group to develop experience in financial management, and generates additional development resources. Few such initiatives charge market rates of interest and, hence, most involve a subsidy of some kind.[40] Without a subsidy to help repayments, housing improvements are likely to take a considerable time. This is particularly true in high-inflation situations. While generally the adopted macroeconomic policies have resulted in reduced inflation, sudden devaluations can cause inflationary shocks to domestic economies.

Partnerships with local communities

The state funds that exist for housing sector support and poverty reduction can be put to greater effect (whether as loans or grant funds) if they are used by agencies in partnership with local communities. A number of innovative programmes to date suggest that:

- state agencies can bring money, relief from existing regulations and can gain effective interventions;
- communities can bring money (in repayments), local organizing capacity (to reduce administrative costs) and they gain housing improvements;

Box 6.5 Housing plus: the Urban Community Development Office

The Urban Community Development Office was established by the Thai government in 1992 in order to provide support to the development of the urban poor. While the Thai economy was booming, urban land prices were rising, evictions were increasing and there was little prospect for squatters to find adequate alternative accommodation. The Office was placed under the National Housing Authority with a loan fund of US$50 million. However, from the beginning, there were two unusual features. First, it offered loans for small revolving funds to help communities to address the immediate small-scale needs of their members for credit, and it offered loans for income generation. Second, the Office is managed by a board of 12: four government officials, four community representatives and four independent professionals.

For several years, the Office built up a loan portfolio in housing (60 per cent of total lending) and other areas, assisting thousands of the urban poor who were organized into savings groups in order to access the funds. In 1998, the Thai economic crisis resulted in difficulties for all sectors of society, including the poor. The Urban Community Development Office saw loan repayments fall from almost 100 per cent to 93 per cent. In response to this situation, the Office sought to strengthen the groups in two ways. First, network loans were offered that encouraged savings schemes to work together in larger groups, thus reducing their vulnerability and strengthening their ability to manage through increasing their access to local skills and capacities. Second, reconstruction loans were offered at 1 per cent a year to groups that needed to restructure loans and restart their repayments. A proportion of donor funds designated for poverty relief was allocated to the Office. The loan funds of the Urban Poor Development Office were augmented by additional monies, including 250 million Baht from the Miyazawa Programme and grant aid from the Japanese government.

At the same time, DANCED, the Danish aid fund, wanted to support infrastructure improvements in low-income settlements. It approached the Office with a request to work together and a programme was agreed. DANCED funds are managed at the city level by committees on which the community has majority representation. The other participants are the local authority, NGOs and additional institutions involved in urban development. The committees allocate small grants to communities that are affiliated to the Urban Community Development Office. The communities must themselves provide 20 per cent of the cost of the improvement. Communities bid against each other for the funds and those that are successful manage the monies themselves.

By 2000, the Office was supporting housing investment in numerous ways. For example:

- direct loans for housing;
- loans for land;
- network strengthening to help groups to negotiate for land;
- infrastructure grants to increase neighbourhood quality and enhance enterprise development;
- loans for enterprises to increase income;
- support for savings to increase local and community assets and to assist private investment.

- local authorities can bring land and relief from existing regulations, and they have an improved local environment;
- commercial agencies can bring funds and they can reach a market that they previously considered to be high risk.

The Urban Communities Environmental Activities Project in Thailand is a good demonstration of how interested parties can work together effectively for mutual benefit in a wider context of globalization (see Box 6.5).[41]

The need for housing finance in the developing world is as acute as ever. The vast majority of the urban poor manage to obtain this finance themselves and they continue with the difficult process of urban development. Many government housing programmes reach too few people and often they do not reach the poorest. Looking beyond housing, more and more of the labour force is joining the informal economy, and globalization has done nothing to reduce the gap between the formal and informal sectors. Because formal commercial financial institutions do not meet the needs of the poor for housing loans, it is important for the state to give greater support to innovative initiatives that bridge this divide and that reach the poor.

The greatest challenge for the 21st century is poverty reduction. Support for housing can play a significant role in this regard. At the level of the household, limited family income can be allocated more efficiently with less spent on repairs. Better quality housing reduces the burden of disease and injury and a death in the family. Income generation opportunities emerge through rental income. Houses are assets that often attract further investment. For the community, housing developments that are managed through community collectives can do much to strengthen local organizations, thus helping to secure further development. And improving neighbourhoods increases the demand for local enterprises. As illustrated by the Urban Community Development Office (UCDO) (Box 6.5) and demonstrated also by various other innovative approaches in different countries, facilitating greater investment by local residents in the housing and neighbourhoods of low-income settlements is one answer to improving the condition of the urban poor.

Facilitating greater investment by local residents in the housing and neighbourhoods of low-income settlements is one answer to improving the condition of the urban poor

Notes

1 This chapter is based on 'The implications of globalization for the provision of and access to housing finance in developing countries', a background paper prepared by Diana Mitlin, IIED, London.
2 This chapter focuses on the needs of the poorest citizens, and most of the references and information relate to the housing situation of the urban poor rather than their rural counterparts. This focus is justified partly because securing housing in rural areas appears to be easier for two reasons. First, land for housing may be easier to obtain and, second, in many countries, easily available traditional materials are used in rural areas. This means that the financial needs are less than in urban areas, where families have to purchase construction materials on the open market. However, in the case of those rural families that need to secure land and/or purchase building materials, many of the following arguments apply.
3 Barbosa et al, 1997.
4 For a recently published study see Baken and Smets, 1999.
5 See, for example, Bolnick et al, 1997 for a discussion of community investment in water supplies in South Africa, Pakistan and the Philippines.
6 See Beall et al, 2000, and Rojas and Greene, 1995, respectively.
7 Baken and Smets, 1999, pp 107–109.
8 As noted by Basil Davidson, director of housing for Cape Metropolitan Council, 1999.
9 Pezzoli, 1995.
10 Mitlin, 1997.
11 Albee and Gamage (1996) discuss and illustrate these synergies in the context of the Women's Bank in Sri Lanka. The Women's Bank is an example of a micro-finance institution that has moved from income generation to finance and has found that a better home and neighbourhood increases the demand for goods and services.
12 See, for example, Hulme and Mosley, 1996.
13 See Ferguson, 1999, for a recent discussion of the situation in some Latin American countries, and Klak and Marlene, 1999, for a discussion of a housing institution facing these problems in Jamaica.
14 Narayan, Asian Development Bank, April 1998.
15 Ferguson, 1999.
16 Cosgrove, 1999.
17 Mehta, 1994.
18 Mitlin, 1997.
19 Bolnick and Mitlin, 1999.
20 In 1996, the Federal Bank of New York estimated the daily value of transactions in foreign exchange in the New York, Tokyo and London markets alone at US$650 million dollars. Other estimates have ranged up to US$1 million million. About 18 per cent of these transactions are the result of international commerce and investments. The other 82 per cent was speculation, aimed at making a profit from the fluctuation of exchange rates. See De Angelis, 1996.
21 See http://www.cohre.org/forced-evictions/# for extensive information on eviction on the web site of the Centre for Housing Rights and Evictions.
22 Boonyabancha, 1996.
23 Francisco Fernandez, personal communication.
24 Buckley, 1999, pp 46–7, 54.
25 Siembieda and Lopez Moreno, 1999.
26 Perez Montiel and Barten 1999, p 25.
27 Souza, 2000, p 8.
28 See Boonyabancha, 2000.
29 McCarney, 1996.
30 Denaldi, 1994, and Cabannes, 1997, respectively.
31 Hall et al, 1996.
32 Anzorena, 1996.
33 Hulme and Mosley, 1996.
34 Johnson and Rogaly, 1997.
35 Ndella Dieng, chairperson of a savings and loan cooperative in Senegal, exclaimed at the end of her visit to the South African Homeless People's Federation (see Box 6.2): 'We've experienced a "mirroring" effect through our contact with the Federation. We hear the Federation women talk and we feel like we're still in the midst of a meeting in Senegal, since the same vocabulary is used: "mutual learning processes" (rather than training); "network of community-based schemes" (as opposed to pyramid structure); "opportunity-driven approach" (rather than problem-based); "facilitator" (rather than technician or professional)'.
36 Abdul-Hamid, 1999.
37 For example, Aminata Mbaye claimed: 'When I asked the technician (who works with us in Dakar) to show us how layout plans are designed, he used such a sophisticated jargon that I barely understood a word he said. In Protea South, during our last evening, we asked a woman to draw us a plan. When she explained house modelling, I understood and felt that I too could do it.'
38 Patel et al, 2001.
39 Mitlin, 1997.
40 Mitlin, 1997.
41 Boonyabancha, 1999.

CHAPTER 7

THE COUNTRIES WITH ECONOMIES IN TRANSITION[1]

A distinctive feature in the development of transition economies is the double influence of globalization and the formation of market-based relations in sectors of the economy that were traditionally managed by administrative and planning instruments of the state. However, the main trends in the housing sector in Western countries during the past two decades – reduction of the public rental sector in favour of the private sector, development of loan instruments for construction and purchase of housing and implementation of targeted assistance programmes to the poor – almost fully coincide with the tasks also faced by the East European countries during their transition to market economies.

Comparative analysis of the reform progress is available in several publications.[2] This chapter presents an overview of some important processes occurring in the transition economies. In doing so, it offers a regional perspective, and individual country situations are described by way of illustration. The discussion is organized with respect to aspects of marketization, deregulation and decentralization.

Marketization

Housing privatization

The 1990s saw major structural changes in the ownership of the housing stock of transition countries, with the most dramatic changes occurring in the former Soviet Union. Table 7.1 illustrates the changes in several East European countries. The share of the public sector decreased and, in most countries, increases occurred in the share of the private housing stock. In Poland and the Czech Republic, little quantitative change in housing ownership was seen because the state in these countries did not actively support privatization.

In the Russian Federation and other countries of the CIS (Commonwealth of Independent States) transformation of the housing stock had its own specifics. First, an overwhelming majority of units in these countries were privatized free of charge. It was expected that in this way the state would create some starting capital for the solution of housing problems under market conditions for a population that had been unable to accumulate substantial savings because of rigid income controls in the planned economy. Second, and of no less importance, was the state's desire to speed up the process of divesting its responsibility for the maintenance, repair and renovation of the huge public housing stock. Third, ownership changes were stronger than in Central Europe. In the Russian Federation, by 1999, after 45 per cent of the eligible units had been privatized, private housing made up 59 per cent of the housing stock, against just 33 per cent in 1990 (including cooperatives).

This shift led to an increase in intra-urban population mobility. According to the available estimates, the mobility rate in major cities of Russia has more than doubled since 1992. Broad population groups were given the opportunity to deal more efficiently with their housing problems: 1.5–2 per cent of all apartments in private ownership are transferred annually. At the same time, housing privatization merely simplified the options that were already de facto available to tenants in social housing, who enjoyed extremely broad rights under the housing law in the planned economy (most of these laws still remain in effect).

Privatization in the Ukraine proceeded at a similar pace. In Central Asia and the Caucasus (Kazakhstan, Kyrgyzstan, Armenia), the state and municipal housing stock was almost completely privatized by 1996. Although officially the process was voluntary, privatization in these countries proceeded under substantial administrative pressure. Kazakhstan has created associations of housing owners (cooperatives) in a majority of multi-family buildings, but their activities are mostly nominal. Maintenance and repair work is usually not performed, and most of the buildings are falling into decay.

For most housing owners, privatization was a formal procedure that failed to foster an owner-occupier mentality

In practice, for most housing owners privatization was a formal procedure that failed to foster an owner-occupier mentality. According to current legislation of the Russian

Table 7.1

Changes in tenure, 1990–1994

	Slovakia	Czech Republic	Estonia	Hungary	Poland	Latvia	Lithuania
Public rental 90	31.6	29.6	65	22	29.7	64	51.4
Public rental 94	8.9	27.6	56	13	25.4	54	12.9
Private rental 90	3.0	0.9	0	0.5	5.2	0	0
Private rental 94	4.7	4.7	5	1	5.2	5	8.5
Owner occupied 90	65.4	40.3	35	77.5	40.2	22	39.2
Owner occupied 94	87.7	42.2	30	86	41.7	39	78.6

Source: USAID, 1996.

Federation, fees for maintenance and utility services have remained the same for both tenants in municipal housing and owners of privatized units, in an effort to stimulate privatization. Maintenance and management decisions for the properties, including common elements, are still made by the 'balance holders', represented mainly by state enterprises or local self-governments. Thus the goal of conveying multi-family buildings and common grounds into the genuine management by apartment owners remains unmet.

It was expected that with enactment of supporting legislation in the mid-1990s the number of condominiums in Russia would grow dramatically. However, to date this has not happened. Condominium associations in Russia number just over 3200, or less than 1 per cent of the total housing stock of multi-family buildings; they are created mainly in newly constructed buildings. Land is also not being conveyed into ownership of condominium members, as required by the law.

Reasons for the slow progress in the formation of condominium associations include the following:

- Owners of housing do not fully understand the benefits of forming an association and using the rights granted to them by the law. It may be that with the increase in the cost of maintenance services, apartment owners will be more willing to play a role in the decision-making and control over use of the money they pay for maintenance of the housing.
- Lack of a market for professional property managers.
- Lack of transparency about the costs of both management and maintenance companies makes it difficult for the owners to evaluate the economic effect of independent management of the building versus the use of the current municipal subsidy.
- In a majority of municipalities, the position of the local authorities ranges from lack of support to open opposition. This is revealed in overcomplicated registration requirements and discrimination against condominium associations in the allocation of subsidies from the municipal budget as compared with similar municipal housing.

Existing associations have an economic efficiency. Their buildings' maintenance cost per square metre is 29 per cent lower than in similar municipal housing. However, professional management of the housing stock remains undeveloped in the CIS. In countries where the law permits the privatization of apartments only after a condominium association is in place, such as Hungary and Czech Republic, professional management services have developed and are now provided by both municipal and private companies. Most of the associations are yet unable to manage the housing at a high professional level, but they maintain minimum operating standards.

In buildings managed by condominium associations, maintenance cost per square metre is 29 per cent lower than in similar municipal housing

Formation of the rental market

Privatization has resulted in a strengthening of the private rental sector which before 1999 did not exist in the Baltic States and played a much less important role in other countries, except Poland (see Table 7.1). Private rentals have developed slowly in most CIS countries, primarily because of limited demand for such units as a result of highly subsidized rents in state and municipal housing. Housing units owned by private individuals are actively leased out and, according to some estimates, make up to 5 per cent of the total housing stock. However, because of defects in the legislation, most of the deals are closed on the shadow market, resulting in very little protection for both the landlord and the tenant.

Economic restructuring is closely tied to increases in population mobility and migration. This is particularly important for the CIS countries where structural distortions from the planned economy produced vast depressed areas where potentially mobile and able households are trapped in chronic poverty. Despite the dynamic development of markets for sale and purchase of urban housing, inter-urban migration remains extremely low. The essential condition for improvement in this area is ready availability of municipal or private units for rent rather than purchase.

Structural changes in the construction market

Direct budget financing of new construction is a thing of the past for most countries of the region

Direct budget financing of new construction is a thing of the past for most countries of the region. With just a few exceptions, none of the Baltic countries subsidizes building companies and developers for the construction of new housing. In CIS countries, there is a steady trend to deep reductions of direct budget financing of housing construction as compared with the period preceding reforms. In the Russian Federation, at present, private developers play the principal role in housing construction. The share of housing constructed by the state and municipal enterprises went down from 80 per cent in 1990 to 20 per cent in 1998.

Fundamental changes have occurred in the system of housing finance: state budget sources no longer play an important role, with 40 per cent of construction financed by individual developers. Construction of multi-family buildings involves the broad use of private investment, including household savings, but bank loans are still definitely a minor source.

Substantial changes have also occurred in state participation in housing finance. Priority is now given to down payment subsidies for the purchase of housing to households needing improvement in their living conditions. At the federal level, this policy is implemented within the framework of a targeted programme, 'State Housing Certificates'. During 1998–1999, more than 28,000 households acquired housing under this programme. None the less, to date, Russia, along with most other transition countries, has failed to stabilize the volume of new housing construction after it plummeted in the early 1990s.

Formation of the housing market: availability and affordability

Owing to the sharp drop in overall housing investment, total new housing constructed by enterprises and organizations of all ownership types in the Russian Federation in 1998 equalled merely 30.7 million m^2, or 387,700 units. As a result, only 5 per cent of the households on the waiting lists were provided with a new unit, as compared with 11 per cent in 1991. At the same time, during 1990–1997 the waiting list for improved housing decreased by 3.5 million households, or 35 per cent. Meanwhile, average housing consumption increased substantially, by 2.1 m^2 of total floor space, reaching 18.9 m^2 per person (as of 1 January 1999). This was accompanied by an increase in the level of comfort in terms of such indicators as: percentage of housing space with hot water supply (from 51 to 58 per cent); water supply (from 66 to 73 per cent); and central heating (from 64 to 71 per cent).

Thus there is a paradox that housing conditions improve when state and municipal investments for the housing sector and the volume of new housing construction are on a decline. The explanation is that households have mobilized their own resources to address their housing problems, which is confirmed by changes in the structure of financing of housing construction projects. Today, households with purchasing power have no incentive to register on the waiting list for improved housing because the waiting time is unacceptably long.

In the second quarter of 1999, the per-metre price for an existing apartment equalled 4.6 months of average per capita income, which means that a household with an average income would need 6.9 years of income to be able to buy an apartment of the 'standard size' (the norm is 18 m^2 per person) at an average market price. At the beginning of the reforms, the comparable average figure for Russia was close to 10 years. In particular, in Moscow, the housing affordability index has fallen from 13.8 years in 1993 to 2.5 years in 1997.[3] This positive trend, observed since the mid-1990s, was stopped by the 1998 crisis and has started to recover only recently. Housing affordability is still characterized by strong geographical differentiation, although high affordability levels are found both in high-income cities and depressed areas with low population income where housing is extremely cheap. In other countries of the region, the housing affordability indicator ranged from 3.7 years in Estonia to 12.8 years in Bulgaria.[4]

Mixed and market allocation mechanisms are increasingly replacing administrative housing allocation

In 1997, more than one-half of all households in Moscow could afford to purchase a market apartment (of the social norm corresponding to household size) using the sale of their existing unit, savings, loans and state subsidy funds.[5] Further, by the mid-1990s, only 18 per cent of relocating households in Moscow acquired their new unit through the municipal waiting lists. These data suggest that mixed and market allocation mechanisms increasingly replace administrative housing allocation and reallocation. However, the greater reliance on markets does not necessarily imply the absence of affordability problems.

Development of financial markets

There is a sharp distinction between Central European countries and the CIS. The governments of the four Visegrad countries (Poland, Hungary, the Czech Republic and Slovakia) were the first in Central and Eastern Europe to declare their intention to access the European Union and have made substantial capital investments to create water supply and wastewater collection systems that meet EU requirements. The work was partly financed by external borrowings (World Bank and the European Bank for Reconstruction and Development (EBRD) loans) and partly by introduction of environmental impact taxes (Poland). In the future, public infrastructure in these countries will have an important source of finance in the structural adjustment grants available from the European Union. In addition, these countries widely use bank loans and bond issues for investments in public infrastructure (Hungary, Poland, the Czech Republic). There are also many examples of cooperation with foreign investors on the basis of concession agreements (see also Chapter 13 on decentralization of infrastructure management).

Most local governments in the CIS are unable to finance infrastructure investments from current budget revenues

In contrast to Central Europe, in the CIS the search for investment capital is a widespread problem. Basically, the responsibility for capital investments for public infrastructure rests with local governments, rather than utility companies, and most of them are unable to finance investments from current budget revenues. Bank loans and bond issues are quite limited, partly because of low transparency of local governments' tariff setting and payment systems to service providers.

Deregulation

Changes in the state's social mandate in the housing sector

Reduction of the state obligation to provide housing to selected population groups is a goal of the new housing policies of almost all CIS countries. In Russia, the constitution defines eligible groups as 'low-income households and several other categories stipulated by the law'. In the Central Asian republics, they include 'certain categories of state employees'. However, the volume of the remaining social housing stock in these countries is insignificant.

Even where social housing still makes up an important share of the housing stock, it does not yet perform its designated function of targeted housing provision to low-income households as guaranteed by the constitution

Even in countries where social housing still makes up an important share of the housing stock (such as Russia and the Ukraine), it does not yet perform its designated function of targeted housing provision: to serve first low-income households as guaranteed by the constitution. Slow progress in this area is explained by the prior obligations to households on the waiting lists for improved units on the one hand, and the rights of sitting tenants in the state and municipal housing stock, on the other. Socially acceptable mechanisms should be developed to encourage households with purchasing power to use market methods of improving their living conditions, and to implement new principles for allocation of social housing to the poor. Rent increases play a key role in this connection.

Termination of state rent control

In almost all countries of Eastern Europe and CIS, the rents charged in the private sector are driven by the market without state control. Poland is an exception in this regard. However, three patterns are evident for rents in public rental housing:[6]

1. *Full coverage of service costs by the tenants.* Estonia and the Ukraine are examples of countries following this model. The new policy was designed and implemented within a relatively short time: from two to three years. Notably, in some instances subsidies have been retained for power supply: utility service producers were sold resources below world prices, and sometimes the price does not include capital costs.
2. *Full coverage of energy costs, partial coverage for other communal services and full coverage of the cost of housing services subject to insubstantial rate increases.* This trend is typical for most countries of the region. The state has lifted energy price controls and consumers have already felt the impact. Armenia, Poland, Hungary and Bulgaria are examples here.
3. *Gradual increases in charges for housing and communal services to achieve full cost recovery.* The Russian Federation adopted this model as have the Czech Republic and Slovakia, although less explicitly.

In a majority of the countries under consideration, the charges for housing services in the municipal stock are based on a fixed rate without differentiation for housing quality and location. Thus the process may be classified as 'deregulation' but with strong reservations. Moreover, in cases of the third option above, it has become necessary to create a series of additional regulatory mechanisms to manage the transition to full coverage of operating costs by the households.

Lifting of rent controls in the Eastern European and Baltic States dramatically increased the share of housing expenses from 3–10 per cent to 15–25 per cent of household income. Housing payments in the lowest income groups have risen up to one-half of household income

Lifting of rent controls in the Eastern European and Baltic States in the early 1990s resulted in dramatic increases in the share of housing expenses: from 3–10 per cent to 15–25 per cent of total household income. As a result, housing payments in the lowest income groups reached up to one-half of household income. CIS countries initiated a similar process in the second half of the 1990s. In particular, Russia started the transition to self-sustaining operation of the public economy by reducing budget subsidies and the cross-subsidizing of consumers by charging industry higher prices for public services. Price liberalization in 1992–1993 did not include prices for housing and public services; shortly afterwards, households covered about 2 per cent of service costs. However, at present, households cover about 40 per cent of such costs. As a result, on average, housing payments as a share of household income rose from a fraction of a per cent to more than 4 per cent. In the Ukraine, where households cover 80 per cent of the service cost and incomes are much lower, housing expenses require more than 10 per cent of average household income.

The impact of the above processes on the poorest households largely depends on the implementation of targeted social support programmes. Most countries in the region have introduced housing allowances (subsidies) for rent and utility payments. The effectiveness of these programmes is related to the readiness of the authorities (at the national or local level) to assume the financing obligations associated with housing allowances; and the scale of rent increases.

Russia, Ukraine, Poland, Estonia and Kazakhstan have developed broad programmes of targeted social assistance for low-income households in the form of subsidies for housing and utility payments. At present, about 7 per cent of the poorest Russian households benefit from the programme, over 8 per cent in urban areas. In the Ukraine, about 20 per cent of all households receive this subsidy, and in Estonia the figure is about 16 per cent. The size of subsidy is tied to the recipient's income; on average, it covers from one-third to one-half of the payments due. The magnitude of the household's maximum contribution rates varies from 12.5 per cent of household income in several Russian regions to 30 per cent in Estonia and Kazakhstan.

This subsidy arrangement has cushioned the impact of rent increases on the low-income households, provided a guaranteed standard of housing services, and stabilized the public reaction to higher rents. However, Latvia, where the burden of payments for public services was the highest, did not implement such a social assistance programme. In general, housing allowances have not been implemented in countries where the decision rests exclusively with the local authorities and where there have been no dramatic rent increases, for example in Hungary. Several other countries (eg Slovakia) have just started to introduce housing allowances because the first rent increases occurred only recently.

Where housing allowances were implemented, they covered only a portion of the population with household incomes below the official subsistence level

In all countries where housing allowances were implemented, they covered only a portion of the population with household incomes below the official subsistence level. The share of such households varies in CIS countries, from about 25 per cent (Russia before the 1998 crisis) to more than 60 per cent in Kyrgyzstan and Tajikistan. Within this group, housing allowances are targeted to those with the largest utility expense burden, mostly the urban population.

Several countries (eg, Armenia, Kyrgyzstan) have rejected the idea of a housing allowance programme because they implemented unified family assistance programmes. However, most of the unified benefit recipients belong to the poorest households who consume few public services (eg in Kyrgyzstan most of the unified monthly benefits go to rural areas where often the only utility consumed is electricity). On the other hand, the low-income working groups such as teachers and doctors are dependent on heating and water supply systems which they cannot individually give up for cheaper substitutions. They are not among the poorest and therefore might not be covered by family assistance programmes. However, they may face a much higher burden of housing expenses. This situation may eventually result in 'de-urbanization' of important professional groups and unprecedented changes in the social structure of urban society.

Regulation of local natural monopolies

At the beginning of the transition, in nearly all countries of the region, regulation of tariffs and financing of water supply, sewerage and central heating services were placed within the authority of local governments. With respect to tariff regulation, greater progress was achieved in Central Europe, particularly Hungary and Poland, but even there, activities of the local authorities failed to expand beyond a very limited scale. In CIS counties, little has changed from the pre-reform period; providers of communal services still operate without clear contracts with the local governments.

The replacement of state monopolies in public service provision by new monopolies of private service providers is hurting the poor

As a result of the delay in the formation of a tariff regulation system, the monopoly of the state has been replaced by a more dangerous monopoly of private service providers. When housing stock managers relieve themselves of the obligation to secure public services, and resource providers enter into direct contracts with individual households, the latter are left without any recourse to protect their rights both in terms of reasonable tariff rates and volume of service (for the majority of services, no metering/controlling equipment is available). As in other situations, the poorest households find themselves in the worst position.

Growing income dependence of housing consumption rates and housing segregation

The socialist planned economy did not do away with income-dependent housing consumption, nor did it eliminate housing segregation. By the end of the 1980s, this dependence was pronounced even in cities, where a state or municipal unit allocated according to a single standard was the only officially mandated means of improving living conditions. Moreover, for some population groups a free unit served as compensation for a low income. High-income groups improved their living conditions by exchanging units with a semi-legal bonus and through special access to allocated housing, particularly elite units. Construction of elite housing was usually concentrated in selected districts, dividing cities into 'prestigious' and 'non-prestigious' residential districts resulting in housing segregation. Neither of these phenomena developed to the extreme, but they were visible enough to be documented in the literature of the period.[7]

The result of the transition to market-oriented functioning of the housing sector changed the relation between income and living standards. Changes in the income status of selected social and occupational groups early in the transition were too fast for an adequate response from the housing market. But surveys conducted during the same period in other Russian cities (eg Nizhni Novgorod, Barnaul) revealed a stronger link between income and housing consumption. This may signify that in medium and small cities, changes in the relative status of different groups were smaller and that the 'new' elite formed mainly from the 'old' one.

The accessibility and quality of occupied housing has grown increasingly dependent on household income, but no fundamental changes have yet taken place

More recently, the accessibility and quality of occupied housing has grown increasingly dependent on household income, but no fundamental changes have yet taken place. For example, while the median housing consumption in cities of Khabarovsk krai in 1998 was about 19 m^2, it was less than 14 m^2 for the 10 per cent of households in the lowest-income group, and over 24 m^2 for households in the top decile. The trends and scale of the problem are typical for all transitional economies. For example, median housing consumption in Kyrgyzstan is about 15 m^2 per person (14 m^2 in Bishkek), whereas households below the poverty level have 13 m^2 on average (9 m^2 in Bishkek).[8]

The dispersion of household incomes is not the only factor that shapes the complicated patterns of housing dynamics. Another important factor is the relatively high housing consumption among single pensioners. In the past, the powerful but slow-moving machine of centralized housing allocation created a system in which households in need of better housing were often provided with a unit meeting their needs not long before the children moved out. As a result, the regular relationship between housing consumption and income has been distorted by a strong peak of disproportionately high housing consumption by single pensioners who are well represented among the poorest population groups (Table 7.2).

The situation is typical for other countries of the region that pursue a policy of phased rent increases. The burden of housing payments is not an incentive for households to move to smaller units, and thus the state is effectively subsidizing certain households at levels that exceed the official standards. This has a negative impact on the efficiency with which the existing housing stock is used and also creates inequities in the allocation of state assistance.

Thus in general one may state that, so far, the development of market relations in the housing sector has not yet produced a significant increase of housing segregation, but the possibility of deepening inequality in housing remains. A new class of rich households has moved to new elite residential complexes and suburban residences, but the number of such households is still too small to affect the overall picture. One of the most important constraints is the uniformity of the housing constructed during the period of the planned economy, which still makes up a great majority of the housing stock, as well as the strong inertia of the construction industry that continues to produce 'standard housing units'. To date, there are no examples of housing being constructed specially for the poor in countries of the former Soviet Union, although discussions of the prospect take place from time to time.

Decentralization

Increased role of local authorities and the burden of housing payments

Most municipalities now have the authority to establish rents and utility rates, normative usage for these services and social safety net parameters. As a result, there are large local differences in housing cost burdens

Under the system of the centrally planned economy, nearly all decisions concerning people's living conditions were taken at the federal level. The political reforms have given a greater role to municipalities. In Russia and most other countries of the region, municipalities now have the authority to establish the rates for rent and utility services, normative usage rates for these services and basic social safety net parameters. In particular, they set maximum levels of household expenses for housing and utilities. As a result, the burden of housing-related payments differs strongly depending on location.

For example, in Russia the greatest protection from undue housing burdens is provided in Moscow, the city with the highest income levels. Muscovites are entitled to a subsidy if housing costs exceed 12.5 per cent of their income, while in most other cities the threshold is 18–20 per cent. However, housing costs in Moscow account for less than 5 per cent of average household income, while in such regions as Ivanovo, Chita and Kurgan they exceed 10 per cent. As a rule, local authorities try to postpone the inevitable but unpopular rent increases and enact them only if there is an acute budget crisis. These attempts to alleviate social tension and avoid inequality only make the problems worse. In addition, these practices undermine the principle of equal protection of citizens' rights, including the right to housing.

Table 7.2

Households with units exceeding social space standards, by income group

Income group	Excess over social space standard, %*				
	0	Up to 10%	10–20%	20–30%	Over 30%
Bottom quintile (20% of lowest-income households)	57.6	11.3	6.7	8.0	16.4
City average	65.7	11.9	6.6	5.0	10.8

Note: Excess space was not counted in communal apartments and one-room apartments.
Source: Moscow, 1995.

The danger of accelerated decay

Capital repairs in the housing stock have either dropped sharply or ceased entirely

In the past decade, the trends of a decaying housing stock and decreasing reliability of a crumbling public infrastructure have not been reversed. As a result, there is an increasing number of accidents and sickness caused by the collapse of buildings, disruption of heating services, lower quality of tap water, etc. An important reason is lack of adequate financing for maintenance of housing and public infrastructure. While households show strong payment discipline (average collection in Russia stays at about 90 per cent), actual payments are only half of the needed budgets. The situation is worst with capital repairs and replacement of depreciated equipment. The slowing pace of capital repairs is of special concern. In 1992, in Russia such repairs were made in about 22 million m^2 of housing; in 1998 this figure had fallen precipitously to only 4.9 million m^2. In a majority of CIS countries the situation is even worse: capital repairs in the housing stock have almost completely stopped.

Concerns and Challenges

- The search for a speedy transition to a market-based housing sector under a weak market infrastructure has forced the leadership of transition countries to create 'substitute' non-market mechanisms. These include subsidizing privatized housing, excessive licensing systems, certification and supervision of management, maintenance of housing and public infrastructure, and other, more complicated, administrative procedures for setting the rents and fees for housing and public services. Many of these measures were initially intended to protect the housing rights of the citizens but with time have turned into instruments of bureaucratic control and corruption.

- Deregulation and decentralization have changed the form of relationships in the housing sector rather than their essence. Households have generally failed to take advantage of the potential benefits of globalization. However, the associated risks (primarily, polarization and segregation) are also less evident than in other countries. On the positive side, some observers suggest that the reforms have mobilized some private resources and intensified utilization of the material wealth already accumulated in the housing sector. These additional resources may help to maintain the living standards created in the planned economy in many of the countries of the region, despite the dramatic declines in housing production and household incomes. They may also help to avoid drastic decisions that would affect the population at large and could have particularly negative consequences for low-income groups.

The reforms have mobilized private resources and intensified utilization of the existing housing stock

- At present, the lack of stability of the 'status quo' is a major issue. The continuing dilapidation of the housing stock and deteriorating infrastructure in almost all countries of the region foreshadow serious problems in the years to come with potentially disastrous consequences for public service provision and a dramatic transformation of basic elements of the housing sector.

The continuing dilapidation of the housing stock and deteriorating infrastructure foreshadow serious problems

Notes

1 This chapter is based on 'The implications of globalization and privatization for the provision of and access to housing and urban development in the transition economies,' a background paper prepared by N Kosareva and A Puzanov, Institute for Urban Economics, Russian Federation.

2 See for example, Struyk, 1996; 1997.

3 Nozdrina and Sternik, 1999.

4 USAID, 1996.

5 Struyk, 1997, Table 9.9.

6 'Public' means state or municipal housing provided under a lease in the economic sense, which in Russian law corresponds to a *naim* or lease contract.

7 See, eg Szelenyi, 1983; Daniel, 1985; Alexeev, 1988. See also Kosareva, 1992; Hamilton, 1993.

8 See also Chapter 1 for discussion of inequality in the transition economies.

CHAPTER 8

THE INDUSTRIALIZED COUNTRIES[1]

This chapter examines the impacts of globalization on the housing finance systems of the more advanced economies. The impact of housing finance instruments on whole housing systems is examined within their social and economic context. The framework adopted draws on some of the typologies of housing systems that were developed in the 1990s. These attempts move beyond descriptive tenure-based comparisons in order to capture the dynamics of housing systems. Two schemas are most notable. The first is the application of Esping-Andersen's typology of welfare states to housing systems, and the second is Kemeny's parallel 'unitary'/'dualist' dichotomy.[2] The countries that fit the social democratic and corporatist categories in the Esping-Andersen schema roughly parallel with Kemeny's 'unitary' rental systems. In unitary systems the market and cost rental[3] sectors form part of the same market. Further, Esping-Andersen's 'liberal' category parallels with Kemeny's 'dualist' category, in which the cost rental sector is residualized and owner-occupation is the tenure of choice. Unitary/social democratic/corporatist systems are associated with countries in northwest Europe, such as Germany, The Netherlands and Sweden. The dualist/liberal systems are associated with English-speaking countries, such as the US, Australia and the UK. It is more difficult to categorize Japan, and to a lesser extent France.

Housing finance comes from three principal sources: loans from intermediaries, households and governments. The globalization of trade and finance has implications for each of these sources of housing finance:

- *Loans from intermediaries.* Perhaps the most tangible aspect of globalization is the much greater freedom of movement of finance, as legal barriers to movement are reduced or removed and technology reduces the cost of movement.
- *Households.* Globalization has been associated with widening wage inequality as demand for less skilled labour in advanced economies falls, while the most skilled are able to bid up their wages.
- *Government.* The mobility of tax bases makes taxation more difficult, so there is downward pressure on government spending.[4] While some tax bases are clearly more mobile (eg multinational corporations), the mobility of labour is greatly exaggerated (note the variations in tax rates within the European Union), although electoral resistance to rising taxes is a common phenomenon.

Further, globalization has an important effect on the economic context for the provision of finance:

- *Macroeconomy.* The free movement of capital makes it more difficult for countries to run high-inflation economies. There has been a significant convergence of monetary economic variables between the advanced economies since the early 1980s.

Since the impacts of globalization on housing finance are complex, three areas require special consideration:

1. The way in which the liberalization of finance flows affects access to housing finance for owner-occupation.
2. The ways in which globalization affects the government's role in housing finance, particularly in the provision of social rented housing.
3. The impact of globalization on individuals' ability to pay for housing.

Housing Ownership

Most people in the industrialized countries live in owner-occupied housing. Nevertheless, the tenure patterns vary greatly between countries (Table 8.1).

In the so-called 'liberal' or 'dualist' housing systems, between 64 and 72 per cent of households are in owner-occupation. In the US and Australia, owner-occupation expanded very quickly in the 1950s, reflecting government programmes that promoted it, but owner-occupation has been relatively stable since then. Japanese home-ownership rates have been similarly stable since at least the 1960s, albeit at a somewhat lower level than in these countries. Owner-occupation rose more gradually in the UK, until the 1980s when it was boosted by discounted sales of social rented housing to sitting tenants. In many countries, owner-occupation has strong cultural connotations. Home ownership was and still is a key part of the 'American Dream'. The US government attaches great importance to edging up ownership levels by even a few percentage points.[5] The British aspire to a 'property owning democracy', while the Belgians are said to be born 'with a brick in their bellies'. These cultural attributes of owner-occupation have not been established independently of a long-term financial advantage associated with owner-occupation. But it is clear that owner-occupation plays a

	Owner occupation[i]	Rental[ii]	Mortgage debt as % GDP[iii]	GDP per capita (OECD = 100)[iv]
Australia	71.6 (1990)	28.4	25.1 (1994)	111.9
Canada	64.1 (1993)	35.9	41.2 (1994)	115.8
EU-15	56.0 (1990)	44.0	36.0 (1997)	99.0
France	54.5 (1997)	45.5	21.0 (1997)	98.4
Germany	38.0 (1990)	62.0	51.0 (1997)	107.0
Italy	68.0 (1990)	32.0	7.0 (1997)	99.3
Japan	61.0 (1988)	38.7	–	111.9
UK	67.3 (1997)	32.7	57.0 (1997)	100.8
USA	66.8 (1999)	33.2	53.8 (1994)	150.4

Notes: i Tenure figures are often outdated due to the timing of the census. ii Includes both market and social renting. iii For the non-EU countries these are estimates derived from Lea, 1995. For the EU countries the source is the European Mortgage Federation (EMF). However, problems arise in figures due to difficulties in distinguishing between tenures and occasionally between residential and commercial real estate. Sometimes lending by institutions not affiliated to EMF lead to underestimates. iv Purchasing Power Parities, 1999.
Sources: European figures: Maclennan et al, 1998, and national sources; non-European figures from Lea and Bernstein, 1995, except US from HUD web site www.hud.gov/.

Table 8.1

Housing tenure and mortgage debt

crucial role in housing these populations independently of any perceived cultural advantage.

The cultural attributes of owner-occupation have not been established independently of a long-term financial advantage associated with owner-occupation

Equally fundamental is the role that housing finance plays in enabling households to enter home ownership. In the social democratic/corporatist countries with unitary rental systems, owner-occupation is at much lower levels, notably in Germany where fewer than 40 per cent of households own their own home. Owner-occupation levels are typically under 55 per cent in these countries which include Austria, Denmark, Switzerland, Sweden and The Netherlands. The fact that this group includes many of the world's richest countries demonstrates that home-ownership levels cannot be taken as a symbol of national prosperity.

The fact that many of the world's richest countries have a large rental sector demonstrates that home-ownership levels cannot be taken as a symbol of national prosperity

Table 8.2

Mortgage terms

	Loan to value ratio (%)	Duration of mortgage (years)	Interest rate adjustment
Australia	90–100	20–25	90% reviewable; some renegotiable after 1–2 years
Canada	95[i]	30	renegotiable after 5 years
France	70–80	15–20	80% fixed
Germany	60–80	25–30 (*Bauspar* = 10)	20% fixed (*Bauspar*); 40% renegotiable; 40% reviewable
Italy	40	15	60% fixed; 40% variable
Japan	80[ii]		mixed
UK	100	25	70% reviewable; 30% renegotiable
USA	>90	30	mix of fixed and variable

Notes: Fixed: fixed for duration of mortgage. Renegotiable: fixed for at least 1 year, but less than period of loan. Reviewable: adjusted at discretion of lender. Variable: adjusted automatically according to reference index. Bauspar: loan from a Bausparkassen (a type of specialist housing-savings institution found in Austria and Germany). i The minimum deposit on a NHA loan was dropped to 5 per cent in 1992. ii Valuations are extremely conservative, being based on construction costs, hence actual LTVs are reduced to 50–60 per cent.
Sources: Lea and Bernstein, 1995; Maclennan et al, 1998; personal communications.

Indeed, some of the highest levels of home-ownership among the advanced economies are found in some of the less prosperous countries, as the southern European countries demonstrate. Italy and Portugal have owner-occupation rates in the 67–68 per cent range, and Spain and Greece have levels approaching 80 per cent. These countries are omitted from the unitary/dualist typology and have only been tacked on to the housing version of Esping–Andersen where they have been characterized, with a somewhat ethno-centric view of welfare, as 'rudimentary' because much welfare and significant amounts of housing finance in these countries are arranged within families on an inter-generational basis.[6] With the decline of the extended family, owner-occupation in these countries will become more reliant on formal systems of intermediation.[7]

With the decline of the extended family, owner-occupation in southern Europe will become more reliant on formal systems of intermediation

Intermediation is not the sole factor in explaining levels of owner-occupation, but it is an important one. Globalization might be expected to facilitate a convergence in intermediation systems, as investors become reluctant to accept poor rates of return and intermediaries are exposed to greater competition. Its likely impacts are examined in the next section.

In the English-speaking 'dualist' systems globalization might be expected to have the least impact. These countries generally opened up their finance systems in the 1980s and experienced a shift from non-price to price rationing, which helped to expand the supply of mortgage finance. This manifested itself in more generous loan terms, and hence an improved access to mortgage finance (Table 8.2).

The English-speaking countries are notable for high loan-to-value ratio loans of a long duration. These factors, which by definition imply a wide level of access to housing finance, are derived in part from competition between lenders, but more fundamentally by the way in which risks are passed on from intermediaries to borrowers or third parties. Loan insurance is provided by a variety of mechanisms. In Australia the Housing Loan Insurance Corporation protects lenders against losses made on mortgages. In the UK, lenders are protected against losses arising from loan default, normally by mortgage indemnity guarantees (MIGs) paid for by borrowers on high loan-to-value loans. In Canada and the US, the governments insure some mortgages (Table 8.3).

These are purchased by government-sponsored enterprises which in turn issue mortgage-backed securities. This passes interest rate risk on fixed rate mortgages on to the investor. Intermediaries in Australia and the UK pass interest rate risk on to borrowers by using variable rate mortgages, although interest rate swaps have been used to provide fixed rate loans of limited duration (up to five years). Access to finance in these countries is enhanced by valuation systems that normally are based on the current market value of the property (cf Germany and Japan) and foreclosure laws that allow for relatively quick repossessions (cf France and Italy). Nevertheless, important institutional differences exist between these countries. For example, defaulters in the US can limit their liability by voluntary repossession, but in the UK the liability continues, even after a house has been repossessed and even if the loan was covered by a MIG. However, the similarities between these countries mark them out from those in the other groups.

The owner-occupation market tends to be more volatile in financially deregulated countries

The social and economic significance of high levels of owner-occupation is increased by the framework of a liberalized financial system. The owner-occupation market tends to be more volatile in financially deregulated countries, with periodic speculative house price booms and busts. Owner-occupiers carry more risk, manifested by the rise in default and foreclosure rates in countries such as the US and the UK following mortgage market liberalization.[8] Important debates in Australia and the UK have taken place concerning the role of government and private insurance in protecting borrowers against the loss of earnings. While the situation of marginal owner-occupiers is an important one, the proportion of arrears cases is low, and the vast majority of owner-occupiers gain from their ownership. The significance of housing wealth is enhanced since liberalized systems make it more liquid, with equity release instruments being used to boost consumption, and sometimes, in the case of the elderly, to enhance pension income or pay for long-term care. The ability of owner-occupiers to enjoy untaxed imputed rental income and capital gains is important in providing owner occupiers with these benefits.

The economic advantages of home-ownership increase the divide with renters

The economic advantages of home-ownership increase the divide with renters, who generally do not benefit from imputed rental income or capital gains. This may explain why so much effort in the US is devoted to increasing access to mortgage credit for groups, particularly some ethnic groups, through an education and counselling programme (see Box 8.1).[9] Technology has already widened access to mortgage credit among higher risk groups by enhancing risk assessment through credit scoring, and has led to the growth of sub-prime lending, especially, but by no means exclusively, in the US. Some commentators predict the further development of this trend as automatic underwriting systems measure risk more accurately and distinguish between risks once thought to be similar (and priced the same).[10] As risk assessment is improved, the rigid division between prime and sub-prime lending could disappear, leading to a marginal widening of access to mortgage credit, albeit with a wider range of prices. Further competitive gains may arise from internet origination as pricing becomes more transparent, although there are significant barriers to on-line originations, notably fraud.[11]

US banking literature often emphasizes the possibilities of further developing mortgage-backed securities (MBS) markets as risk assessment allows other risks to be passed on to increasingly globalized capital markets. However, while securitization has developed elsewhere, particularly as legal frameworks have been put in place, the extent of securitization in the US arises from special circumstances, not least the existence of government-sponsored enterprises. Outside the US, the conditions for securitization are less favourable: there are fewer credit-constrained institutions and seldom are there government-supported enterprises. More significant restructuring of mortgage industries is occurring, partly through the rise of new entrants using new technology to originate loans, without carrying the legacy of expensive branch networks. Consolidation in the industry is common, and Australia and the UK have seen the decline of mutual building societies that have often converted into banks (Table 8.4). But these revolutions in mortgage delivery systems have not fundamentally altered the nature of mortgage products or access to mortgage credit.

Table 8.3

Mortgage public sector agencies

	Agency	Role
Canada	Canada Mortgage and Housing Corporation (CMHC)	Provides insurance on National Housing Act (NHA) mortgages Issues mortgage-backed securities (MBS) on NHA loans Little direct lending
Japan[i]	Housing Loan Corporation	Provides low-interest loans via postal savings scheme Main provider of mortgage finance
USA	Federal Housing Authority (FHA)/ Dept. Veterans Affairs	Mortgage insurance
	Government-sponsored Enterprises (FNMA, GNMA)	Purchase insured loans and issue MBS

Note: i Under the Administrative Reform Act (1998) the postal savings scheme will be transferred from the post office to a new agency, the Postal Service Agency sometime in 2001–2003. Traditionally post savings have been automatically transferred to the Ministry of Finance's Trust Fund Bureau for distribution to state-favoured programmes, but this will cease to be the case (see OECD, 1998).

Convergence in monetary indicators produces mixed signals for borrowers. Lower and more stable interest rates reduce risk, but lower inflation also slows down the rate at which the real value of debt declines

Box 8.1 Capacity building in mortgage finance

In order to increase the number and role of minority professionals in mortgage finance in the US, the Fannie Mae Foundation established the Community Colleges Initiative. It supports the development of mortgage finance training programmes at community colleges to prepare minority students for mortgage finance jobs. Such programmes have been started in Cleveland, Miami and Los Angeles. The curricula offer an array of courses in mortgage lending, fair housing and diversity awareness. Through a comprehensive internship, full- and part-time students gain direct, hands-on professional experience. The community college programmes are supported by an active local industry collaborative that involves a committee with representatives from mortgage banking and finance. These groups support and guide the development of the programmes. Their members form an essential linkage between the academic programme and the local housing finance sector by mentoring students and providing internship and job opportunities. Many graduating students have found jobs in the field or improved their position as a result of completing the certificate programme.

Source: Fannie Mae Foundation, 1999.

	Principal intermediaries	Comment
Australia	>80% commercial banks (est. 1999)	Market share is concentrated between four banks. There was widespread building society demutualization in the early 1990s
Canada	85% chartered banks (1998)	Chartered banks allowed entry to market in 1969, since when they have swallowed up the trusts
France	70% commercial banks, savings banks and mutual co-ops 10% mortgage banks (1995)	The loss-making state mortgage bank (Crédit Foncier) was sold to the savings banks in 1999
Germany	First mortgages: mortgage and savings banks Second mortgages: *Bausparkassen*	Germany operates a system of packaged loans Commercial banks tend to own mortgage banks and *Bausparkassen*
Italy	100% commercial banks	There is still a tradition of direct (inter-generational) lending in Italy
Japan	> 50% public banks 35–45% Housing and Loan Corporation (1999)	The government-owned Housing and Loan Corporation has the largest mortgage loan book in the world
UK	70% commercial banks 30% building societies (1999)	Widespread building society demutualization from 1995
USA	50% mortgage banks 25% commercial banks 20% thrifts	Widespread use of securitization

Note: Intermediary – an institution that collects funds from savers and converts the savings into loans. Savings may be obtained either from many individuals ('retail' funds) or from institutions, such as pension funds, that purchase bonds issued by the intermediary ('wholesale' funds).

Table 8.4

Mortgage intermediaries

There is simply less scope for developments in intermediation to make much difference to the access to mortgage credit in systems that have already liberalized and already supply long-term mortgages with high loan-to-value ratios. Two other aspects of globalization should not be neglected. Convergence in monetary indicators produces mixed signals for borrowers. Lower and more stable interest rates reduce risk, particularly when mortgages are at variable rates, but lower inflation also slows down the rate at which the real value of debt declines. The long-term impact of these contradictory factors on the user cost of capital is not yet clear, but it is possible that the relative attraction of owner-occupation might be altered.

The overemphasis on mortgage delivery systems leads to a conflation of the related issues of access to mortgage credit and access to housing

The overemphasis on mortgage delivery systems also leads to a conflation of the related issues of access to mortgage credit and access to housing. The two are related, but there are clear limits to the ability of easy access to mortgage credit to be translated into access to owner-occupation. If house prices cease to be affordable, then access to owner-occupation is diminished. For example, Australia's home ownership rate is sustained by demographic ageing which masks falling home ownership rates in younger age groups and shows up in the diminishing proportion of owner-occupiers with mortgages.[12] There are several possible explanations for this trend, but the most likely is that house prices are now less affordable, meaning that issues of land supply and income inequality are equally important.

Globalization might be expected to have a greater impact in the countries with social-democratic housing systems and in the countries with 'rudimentary' systems. Globalization of capital might lead to greater competition in these countries, broadening the access to mortgage credit by shifting to price rationing in countries such as Germany while leading to a greater role for intermediation in countries such as Italy (which has a strikingly low mortgage debt:GDP ratio; see Table 8.1). However, Europe demonstrates that, ironically, the internationalization of finance has comparatively little impact on mortgage systems.

Europe demonstrates that, ironically, the internationalization of finance has little impact on mortgage systems. Great diversity remains in types of intermediary and the terms of mortgage products are similarly diverse

The members of the European Union have passed legislation that is designed to facilitate greater competition in banking, as part of the Single Market programme. Since 1993, all credit institutions must meet basic prudential criteria (modelled on the Basle accord), but can operate throughout the EU on the basis of a home country passport. Free movement of capital was also introduced, and currency fluctuations were limited by the Exchange Rate Mechanism. Since 1999, 11 of the 15 members of the EU have been members of the single currency with a single interest rate set by the European Central Bank. Despite all this, mortgage credit systems have remained stubbornly divergent.[13] Great diversity remains in types of intermediary, and the terms of mortgage products are similarly diverse.

Part of the reason why the types of intermediary have remained unchallenged by cross-border competition is that some lenders, particularly retail lenders, often enjoy regulatory privileges and privileged access to funds. For example, French retail banks enjoy access to tax-exempt savings which are used to subsidize housing loans, and which place wholesale and cross-border lenders at a disadvantage. German *Bausparkassen* have the monopoly over contract-savings schemes that enjoy tax privileges and provide subsidies to lower income home buyers. These commonly form part of a 'packaged' loan, which is provided by either banks or mortgage banks that own the *Bausparkasse*. The structure of the mortgage market and the conditions attached to establishing a *Bausparkasse* makes the system extremely robust. Attempts at cross-border lending have been small scale, frequently loss-making, and often brief. They have had negligible impacts on mortgage system convergence. The advent of the euro is likely to see some diminution of the privileges enjoyed by some retail lenders, since small investors can now look abroad for more competitive savings rates. Yet, it is important not to assume that systems that produce conservative loan terms are necessarily inefficient. For example, German mortgage banks are among the most successful financial institutions in Europe, and the *Pfandbrief* is a viable alternative to US mortgage-backed securities on the international capital markets, especially since their liquidity has been improved.

The unique feature of mortgages is that the most mobile factor of production (global capital) meets the least mobile factor (local property/land)

To understand fully why mortgage systems do not easily converge, one must look beyond the financial part of a mortgage (the loan) to the legal part (secured on property). The unique feature of mortgages is that the most mobile factor of production (global capital) meets the least mobile factor (local property/land). It is the factors affecting a loan's security that lead to distinct mortgage products. Valuation systems vary between countries, and can be rudimentary or conservative. An example of a conservative valuation can be found in Germany where the 'mortgage lending value' approach to valuation is used. This attempts to establish the 'long-term' value of a property, which is generally lower than the 'market value' approach used in many English-speaking countries. In Japan, construction costs are used as the basis of valuation, which has a similarly depressing effect on loan sizes. While loan-to-value ratios are limited by law in Germany (to 60 per cent for loans funded by mortgage bonds), in other countries, loan-to-value ratios are restricted by foreclosure systems that offer poor security for a loan. In France it can take five years to repossess a property, in Italy it can take up to seven years. While from the outside it is tempting to attribute conservative loan criteria to inefficient intermediaries, the reason is often a good one: it is too risky to lend more.

For these reasons, European mortgage systems may see some equalization of funds between lenders, so the risk and option adjusted price of loans might be equalized over time, but important differences will remain in mortgage products, and hence access to mortgage credit will continue to vary between countries. This has some interesting social and economic implications. Restricted access to mortgage finance implies artificially constrained levels of owner-occupation. Of course, restricted access to mortgage credit provides only a partial explanation for home ownership levels. After all, Sweden has a liberalized mortgage system, but a low level of owner-occupation, partly because flats can be owned only through a company, and partly because renting is more attractive than in many liberal countries. The German tax system has encouraged people to postpone house purchasing while private renting has been treated more favourably than elsewhere. In countries where access to mortgage credit is limited, there seems to be less scope for house price volatility, which has both social and economic benefits, especially within the context of a single currency zone.[14]

Lower levels of owner-occupation facilitate less polarized housing systems because the larger rental sectors contain a broader band of the national income distribution and are therefore less residualized

Further, lower levels of owner-occupation facilitate less polarized housing systems because the larger rental sectors contain broader bands of the national income distribution and are therefore less residualized.

	Tax on imputed rent	Mortgage interest tax relief	Capital gains tax
Australia	✗	✗	✗
Canada	✗	✗	✗
France	✗	✔	SPEC[i]
Germany	✗	✗[ii]	SPEC[i]
Italy	✔	✔	✗
Japan	✗	✗	✔[iii]
UK	✗	✗[iv]	✗
USA	✗	✔	ROLL OVER[v]

Notes: i Capital gains may taxed if property is resold within a short period. This is to discourage purely speculative behaviour that might disrupt the market. ii Mortgage interest tax relief was applied 1991–1994. Germany's principal tax concession has been an eight-year depreciation allowance. iii Described as 'very high'. iv The UK phased out mortgage interest tax relief in the 1990s, with abolition in April 2000. v Roll over relief applies. This means that capital gains are not taxed provided that they are re-invested in another property. The exemption from capital gains tax also applies to older people making their final sale.
Sources: Europe: Maclennan et al, 1998; USA: *Housing Statistics of America*; Australia: Yates, 1997; Canada and Japan: personal contacts

Table 8.5
Tax treatment of owner-occupied housing

Globalization and the Role of Government in Housing Finance

Governments have intervened in three ways in order to widen access to owner-occupation. First, some countries have had formal subsidy programmes that either lowered the construction cost of housing or the interest rate on loans. These schemes, such as grants for home owners that are provided under the Australian Commonwealth and State Housing Agreement and the subsidized PAP loan programme in France, are very much in retreat. Second, governments often treat owner-occupation favourably in the tax system. Imputed rental incomes are commonly untaxed, as are capital gains on owners' principal homes, although there are exceptions. Mortgage interest tax relief is available in some countries, but not others, and was phased out recently in the UK (see Table 8.5). Third, governments provide loan insurance in some countries, including the US, Australia and Canada.

A possible reason for the retreat of government from direct and indirect financial support to owner-occupation is the general climate of fiscal austerity. This is often attributed to globalization, which has increased the mobility of tax bases. However, when one considers that levels of taxation and spending vary greatly between countries, but that spending levelled out in the 1980s, internal resistance to higher taxes seems to provide a more convincing explanation for fiscal austerity. Nevertheless, globalization seems to have made large government deficits less acceptable, and in Europe the limitation of government borrowing has been formalized first by the Maastricht convergence criteria for countries wishing to join the single currency, and second by the Growth and Stability Pact.[15]

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	Size of social rental sector (%)[i]	Type of landlord
Australia	7	Public housing authority
Canada	5	Public housing authority
EU–15	18	–
France	17	Local authority companies; trade union/ employer companies
Germany	26	Municipal housing companies, trade union/employer/church companies; co-ops
Italy	6	–
Japan	8	–
The Netherlands	38 (1995)	Housing association
UK	23 (1995)	Mainly local authority; housing association
USA	1–2	Public housing authority

Note: i Around 1990, unless stated otherwise.

Table 8.6

Table 8.6 Social rented housing

state assistance. In many countries, governments have intervened to lower the cost of rental housing, usually by means of some form of 'social' rented housing. Among the advanced economies, the largest stocks (proportionately) of social rented housing are found in northwest Europe and Scandinavia, where the sector accounts for around one in five dwellings. The sector is much smaller in southern Europe and in the English speaking countries, other than in the UK. Nevertheless, even when social rented housing provides only a small proportion of the total stock, as in the US, in some urban areas there are some very big landlords. For example, the New York City Housing Authority owns 181,000 units housing 535,000 tenants, while it uses the Section 8 program to assist another 77,000 tenants living in private housing.[16] Social rented housing in the English-speaking 'liberal' countries tends to be 'residualized', that is, primarily for the poor, whereas it serves a wider client base in the social democratic/corporatist countries (Table 8.6).

In the 'liberal' countries, such housing has traditionally been provided directly, mainly by the state or by state agencies, such as Public Housing Authorities in the US, Canada and Australia, and local authorities in the UK. In the social democratic countries a more pluralist view has been adopted, with a variety of landlords including municipal housing companies, housing associations, trade unions, employer and church companies, cooperatives and, in the case of Germany, private landlords.

Government support in the form of finance has been in long-term retreat. In the 1980s, state loans often disappeared. They are now almost unheard of, although they are still used in France and Finland. Landlords wishing to build new stock now depend more heavily on private finance, usually raised through the banking system, but sometimes through capital markets. Government subsidies for new construction have declined in virtually all countries and in recent years there has been no support at all from federal or central governments in several countries including Australia, Canada, the US and The Netherlands.

Three examples point to ways in which governments have attempted to maintain the ability of social landlords to provide new, affordable accommodation:

The Netherlands. The Netherlands has the largest social rented sector of any of the advanced economies (36 per cent). It is almost exclusively owned by housing associations. State loans were withdrawn in the 1980s. From 1995, the government wrote off the sector's outstanding state loans, but phased out new subsidies by the year 2000. Two institutions have been put in place to assist the newly marketized sector: a guarantee fund helps to reduce the cost of private finance, while a mutual guarantee fund exists to provide loans to distressed associations. So far, the new regime has led to a rapid consolidation of the sector with the average size of landlords growing and their areas of operation expanding.[17]

Finland. In Finland, a semi-autonomous Housing Fund was established in 1990 through which government subsidized (ARAVA) loans are channelled to the social rented sector, which is composed of municipal housing companies and other non-profit companies. From the mid-1990s, tranches of low risk ARAVA loans that had been transferred to the Housing Fund were securitized using a Special Purpose Vehicle established in Ireland (for legal reasons). The money raised from securitization has been used to support future subsidized housing. This was the first example of securitization applied to loans secured on social housing loans.[18]

United Kingdom. In the UK, non-state housing associations were adopted as the main providers of new social rented housing beginning the late 1980s. Private borrowing by housing associations, in contrast to local authorities, does not score as public spending. In the 1990s, many local authorities with housing stocks that were worth more than outstanding debt transferred their entire stocks to new housing associations which were able to refinance the stock and improve the housing. Unfortunately, the worst housing conditions are found in urban areas, where housing stocks are often worth less than the outstanding debt. However, government debt write-offs and loan servicing are being used to transfer big city stocks of up to almost 100,000 properties to housing associations (subject to tenant ballots) and to lever in private finance to renovate the housing.

Rents have commonly risen in the 1990s, which, combined with the rise in unemployment, has increased dependence on housing allowances

These examples indicate that it is not correct to characterize governments as simply washing their hands of housing. However, rents have commonly risen in the 1990s and, combined with the rise in unemployment during the first half of the 1990s, dependence on housing allowances has risen. This has prompted some governments, notably Sweden, to restrict eligibility in order to reduce costs.

Globalization and the Ability to Pay for Housing

Housing outcomes are determined not only by housing policies, but also by contextual factors, such as labour markets and social security systems. Globalization has been associated with increased wage inequality. One explanation is that the demand for skilled labour, relative to unskilled labour, rose in the 1980s and early 1990s, and in countries where there are few corporatist institutions in the wage-setting process, an increased pay differential emerged. OECD data confirm that wage inequality in the English-speaking countries rose markedly in the 1980s. Smaller increases in inequality were experienced in Japan, Austria and France, but in many of the social democratic countries, inequality actually declined in this period. In the 1990s, corporatist wage structures were in decline in some of these countries (such as Sweden and The Netherlands) and it is possible that wage differentials will begin to widen in these countries too (Figure 8.1).

However, the social democratic countries also do more to counter wage inequality through the tax and social security system. These countries tend to rely much more heavily on systems of social insurance that deliver generous benefits in relation to previous earnings. For example, the replacement ratio provided by Swedish unemployment benefit is 80 per cent of previous earnings. In contrast, the ‘liberal’ welfare states rely much more heavily on means-tested social assistance benefits that generally provide very basic incomes. These differences are reflected in pre- and post-transfer Gini coefficients (Table 8.7).

At first sight, these differences seem likely to be reflected in housing outcomes. Not only are the poor more likely to exercise market choices in housing in the social democratic countries, but they are less likely to be dependent on means-tested housing allowances. Further, because social security benefit income is above subsistence levels, it is possible to retain housing price signals even when the housing allowance is being claimed.

However, the cohesiveness of housing systems in some social democratic countries is being weakened by unemployment, which neo-liberal economists often attribute to inflexible labour markets, the non-wage costs of labour (social security taxes) and the impact of generous benefits on the reservation wages of (particularly) unskilled workers. As a result of higher- and longer-term unemployment, dependence on social assistance benefits and housing allowances rose in the 1990s, although there have been some reductions in housing allowance dependence as unemployment has fallen. However, The Netherlands stands out as a country that has retained a generous welfare state, but also has some of the lowest levels of unemployment among the advanced economies. The link between welfare states and unemployment is certainly not as straightforward as is sometimes assumed.[19]

Countries with liberal/dualist housing systems

The English-speaking countries have attained high levels of owner-occupation, but there seems to be an upper limit of around 70 per cent. Owner-occupation is the tenure of choice, and this results in polarized housing systems. Globalization is unlikely to make fundamental differences to the access to housing finance, since intermediation systems are already producing long-term loans with high loan-to-value ratios. Other policies, such as assistance for marginal owner-occupiers or counselling programmes, may make a marginal difference, but the sustainability of home ownership levels is more likely to be shaped by labour market developments. A key challenge faced by these countries is the residualization of the social rented sector, which can be seen as the flip side of achieving high levels of owner-occupation. Polarization of housing outcomes is also promoted by income inequalities arising from flexible labour markets and a reliance on social assistance for income transfers.

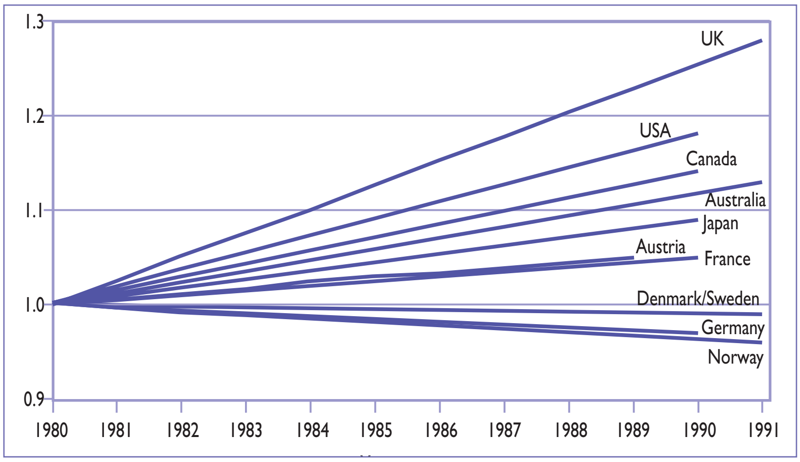

Figure 8.1

Changing wage inequality

Countries with social democratic housing systems

These countries enjoy relatively cohesive housing outcomes. While commentators in these countries have detected adverse trends, there is a great deal of ‘safety’ room in these systems before they move into the ‘liberal’/’dualist’ category. Relative cohesion in the social rented sectors arises in part from the way in which finance systems, and other features of the housing system, limit access to owner-occupation among middle income groups. The greater diversity among renters, and less sharp divisions between the social and market rental systems also contribute to cohesion. Globalization may have a limited impact on access to mortgage credit, since key features of mortgage products are derived from regulation, valuation systems and property rights. The cohesiveness of housing

Table 8.7

Income inequality before and after taxes and transfers (Gini coefficient)

	(1) Before taxes and transfers	(2) After taxes and transfers	(3) % changes due to taxes and transfers (2)/(1) – 1
Australia 1994/94	46.3	30.6	–33.9
Belgium 1995	54.5	29.9	–48.4
Canada 1994	–	28.4	–
Denmark 1994	42.0	21.7	–48.3
Finland 1994	42.0	21.7	–48.3
France 1994	39.2	23.1	–41.0
Germany 1994	43.6	28.2	–35.3
Italy 1993	51.0	34.5	–32.4
Japan 1994	34.0	26.5	–22.0
The Netherlands 1994	42.1	25.3	–39.8
Sweden 1995	48.7	23.0	–52.9
USA 1995	45.5	34.4	–24.5

Note: The lower the Gini coefficient, the more equal incomes are.
Source: OECD (1999) *Economic Surveys Sweden*, p 112.

systems has not been undermined by the rapid growth in wage inequality seen in the liberal economies, and social insurance provides more generous support for the unemployed, sick and elderly. However, cohesiveness is often challenged by unemployment. Much will depend on developments in the labour markets in these countries. Further, reductions in subsidies to social housing, which arise partly from the global tendency towards fiscal austerity, might be expected to undermine cohesion in the longer term.

Countries with 'residual' housing systems

These countries have some of the highest levels of owner-occupation, despite the weakness of intermediation systems in some countries and the lack of reliable valuation systems and security. Again, globalization might be expected to have limited impacts on access to mortgage credit. However, given the weakening of the extended family in southern Europe, considerable welfare gains might be derived from a reform of valuation systems and foreclosure rules when these inhibit intermediaries from providing long-term, high loan-to-value ratios.

Notes

1 This chapter is based on 'Implications of globalization for the provision of and access to housing finance in the advanced economies', a background paper prepared by Mark Stephens, University of Glasgow.

2 Esping Andersen, 1990; Kemeny, 1995.

3 Kemeny uses the term 'cost-rental housing', although the term 'social rented housing' is more commonly used to refer to rental housing that is allocated administratively at sub-market rents.

4 This argument is proposed by Tanzi (2000).

5 Former President Clinton initiated the founding of a Partnership, under the leadership of the HUD Secretary, to promote home-ownership, which aims to 'Make the American Dream a Reality in the 21st Century'. It aimed to increase the level of owner-occupation from 66.8 per cent (in 1999) to 67.5 per cent by the end of 2000.

6 Barlow and Duncan, 1994.

7 There are parallels between the southern European countries and the housing systems emerging in Central and Eastern Europe. The sale of state-owned rental housing to tenants at discounts has raised the level of owner-occupation, but often a strong mortgage system has yet to be created to sustain the levels of owner-occupation. Inheritance and informal transfers are likely to become important features of these systems.

8 The proportion of loans in foreclosure in the US rose from 0.68 per cent in 1984 to around 1 per cent in 1987 (figures from van Vliet, 1998, p 195). In the UK, foreclosures rose from 0.17 per cent of all loans in 1984 to a peak of 0.69 per cent in 1992, falling to 0.3 per cent in 1997 (Council of Mortgage Lenders).

9 Housing America Update, 2000.

10 Glenn, 1999.

11 Beidl, 1999.

12 Yates, 1997.

13 Lea et al, 1997; Stephens, 2000. See *Financial Times*, 2000. See also Driver, 1998.

14 Maclennan et al, 1998.

15 See Butti at al, 1998.

16 See http://www.nyc.gov/html/nycha/.

17 Boelhouwer, 1997.

18 See Tulla, 1999.

19 See Nickell, 1997.