Concept Note on Affordable Housing and Housing Finance in the Face of the Global Financial Crisis for the Luncheon Meeting, New York, 25 June 2009

Introduction
In its resolution A/RES/63/221 entitled “Implementation of the outcome of the United Nations Conference on Human Settlements (Habitat II) and strengthening of the United Nations Human Settlements Programme (UN-HABITAT)”, the General Assembly “invites the Governing Council of UN-HABITAT to keep under review developments in the housing finance systems in view of the current financial crisis, and further decides to explore the possibility of convening a high level event of the General Assembly on this subject.”

As a follow up the theme of the 22nd Session of the Governing Council of UN-HABITAT, was “Promoting affordable housing finance systems in an urbanising world in the face of the global financial crisis and climate change” and the theme paper of that title was published on the UN-HABITAT web-site as a pre-session document (HSP/GC/22/4).

During the discussion the Governing Council noted that the global economic crisis is having a detrimental effect on the progress being made to the implementation of the Millennium Development Goals in general and on affordable housing finance in particular, especially in developing countries, with new pressures being brought on inflation and high interest rates. Several representatives saw opportunities arising from those challenges, which could be a springboard for the development of innovative mechanisms to promote affordable housing. There was some discussion of the role of the State in that process, with a number of representatives speaking of the need for the public sector to facilitate the sustainable development of human settlements through supportive policy formulation and legislation, priority budget allocation, infrastructure development, and targeted subsidies for the poor. It was generally recognized, however, that the current financial crisis required innovative approaches that encouraged the involvement of all stakeholders, including international donors and agencies; private sector developers; financial and banking institutions; and non-governmental and community-based organizations. Most representatives gave examples of the specific measures being undertaken in their own countries to build partnerships in a manner appropriate to the national setting. They concluded that as he global economic crisis continued, it was likely that the demand for microfinance would grow, and there was an urgent need to build further robust financing instruments at all levels. Innovative solutions were needed, including constructing new value chains that linked partners in unconventional ways.

In its resolution 22/2 entitled “Affordable Housing Finance” the Governing Council, “Supports the efforts made in exploring the possibility of convening a high-level special event at the General Assembly on the issue of housing finance systems in the face of the global financial crisis.” This luncheon meeting offers an opportunity to discuss the issues and suggest ways to frame the debate for the United Nations High-Level Conference on the World Financial and Economic Crisis and its Impact on Development.

Housing Markets:
In the recent period of high global liquidity prior to the global financial crisis, beginning with the recovery from the dotcom bubble of 2001 through the onset of the subprime crisis in July 2007, housing markets in emerging and frontier economies benefitted in major ways:

- Increased flows of financing (both direct and in the form of credit enhancement) and technical assistance from international and regional development banks and development programs seeking to encourage:
  - Establishment or expansion of mortgage lending
Adoption of legal and regulatory regimes favorable to housing finance
- Growth of domestic pension fund savings schemes, including self-directed pension funds (pension funds being the logical investors in long term assets such as real estate and mortgage refinance)

- Establishment or expansion of domestic bank lending into real estate development
- Targeted efforts by the IFI’s and emerging market governments to promote regional mortgage and home improvement lending and affordable housing finance lending to the working poor, including, for example:
  - The creation of the Korean Mortgage Corporation (KoMoCo) by IFC in partnership with Merrill Lynch to refinance affordable housing debt of the National Housing Bank in South Korea
  - The establishment of Affordable Housing and Mortgage Lending Corporation in Russia to make secondary finance available to banks in the regions and to encourage lending by domestic partner banks at affordable levels through the provision of lower cost long term financing by AHML
  - The promotion of single-purpose mortgage banks by US Seed Act sponsored Enterprise Funds throughout Eastern Europe and in Russia and Ukraine (Delta Bank and International Mortgage Bank, respectively), and the subsequent success and sale of those banks to private market investors, including GECC and Société Générale
  - Asian Development Bank initiatives to create credit enhancement facilities to support a long term mortgage securitization market in India, with participation by Reserve Bank of India, National Housing Bank, HUDCO, ICICI, HDFC and other key sector players
  - African Development Bank’s Shelter Afrique program investments
  - Expansion of the Sofales in Mexico and a,b,c savings, subsidy and credit programs in Chile
  - FNMA’s international assistance programs

- Diaspora remittance flows, significant in volume in all countries, but particularly significant for the least developed nations (amounting to, for example, more that 25% of the national expenditure budget of Ethiopia in 2006-07), which flows have been recycled into
  - Housing for diaspora individuals on return trips to home
  - Improvements in housing for families of diaspora workers, including spouses, children, parents and extended family
  - With a powerful effect which can be seen in countries ranging from Mexico to Ghana to Ethiopia to the Philippines

- Cutting edge donors such as Rockefeller Foundation focused increasing attention on the pace of urbanization and the plight of the urban poor
- Direct subsidies by governments increased
  - Construction by the Republic of South Africa of over 2,000,000 homes on fully titled land plots to those with incomes at the bottom of the pyramid
  - The Government of Mexico rolled out the Piso Firme program as a national initiative

- Private companies such as Cemex, with its Patrimonio Hoy program, found it both profitable and socially responsible to add technical homebuilding assistance programs and financing programs for building materials to both promote building materials sales and to encourage self-help construction of homes by families interested in improving their living conditions
- NGO involvement in promotion of better housing conditions increased
- Community group participation in savings schemes increased

While these positive developments were not always linear or geographically balanced, and did not, in many instances, directly affect the shelter needs of all, especially those living in the poorest of shelter conditions, the flow of funds and focus on expansion of international and domestic housing finance was trending upward in an encouraging way. In addition, the continued search for yield in the liquidity bubble period had the positive effect of expanding the interests of public and public-private investment partnerships (for example, government-sponsored emerging markets investment funds like the OPIC regional private investment and mezzanine funds focused on Africa) into housing finance investments, and public-private investment was reaching many more people in the middle to lower middle of the income pyramid.
Economic Crisis

Not surprisingly, the impact of the global financial crisis has been to reverse the flow of funds, and to curtail the ability of many key actors in both the development and financial arenas from promotion of increased access to clean, safe and comfortable housing.

- Domestic financial institutions in developing economies have been faced with lack of access to funding sources, particularly long term financing, curtailing their activities in longer term lending in the real estate sector, and in mortgage lending, including of course expansion of mortgage lending at affordable levels
- Governments have faced many competing demands on their funds
- Foundations and NGO’s have seen diminution in their finances and thus their abilities to provide financial support for affordable and pro-poor housing and housing finance
- Diaspora remittance flows have decreased, negatively affecting the housing construction and incremental improvements previously stimulated by these flows
- Communities and lowest income individuals are negatively affected both by the economic downturn, and because they cannot address their shelter needs in many instances through savings alone.

Yet despite these negative developments, the pace of urbanization, particularly in the new and growing cities of the developing world, continues, and the humanitarian and environmental challenges posed by substandard living conditions must still be addressed.

How can we come together at this time to create an effective response?

Houses on the Ground

Recognizing the importance of collaboration and concrete response in a time of crisis, UN-HABITAT has created a specific investment pipeline of affordable housing finance and development finance lending transactions designed to ensure a continued flow of funds to well-designed affordable housing construction and affordable housing finance during the economic crisis.

The investments are designed to provide:

1. Improvements in shelter
2. Improvements in servicing (including access to clean water and sanitation)
3. Security of tenure
4. Access to the formal financial system for both borrowing and savings for those previously excluded from the system
5. Creation of jobs at a time of need for economic stimulus, particularly in those developing markets hit hard by the slowdown in world trade and remittance flows, but where governments cannot create the level of economic stimulus package for their own countries comparable to the stimulus packages which are now being implemented in the wealthy countries.

The specific investment projects include projects of collaboration with the International Finance Corporation, OPIC, DFID, Central American Bank for Economic Integration, Habitat for Humanity International, Palestinian Investment Fund, CHF, GHF, Bank of America, Prodel (SIDA), CODI, and banks and real estate developers in over 20 developing countries.

In each of these projects, UN Habitat is providing catalytic capital which, for example:

- Completes the capital structure to allow the creation of an affordable mortgage and lending corporation in the West Bank, while adding an element of targeted subsidy for those who cannot afford to purchase with savings and credit alone
- Creates a takeout finance facility for local financial institutions lending to affordable housing borrowers in Nicaragua, thus stimulating the volume of such lending, while providing a long term capital source to participating banks and MFI’s, and arranging with regional bank CABEI for pump-priming lending to developers building lower cost homes
- Assists in the geographic expansion of the Patrimonio Hoy program of self-help build financing and technical assistance in Central and South America
- Provides funding for slum upgrading programs in conjunction with local governments and community groups in Africa and with Habitat for Humanity International in Latin America and Asia

But how can we scale up further, with support from member countries, to leverage significant sums in public-private finance for construction and home lending to benefit those with income levels of from 1-2x minimum wage (slum upgrading and community financing) and from 3-6x minimum wage (affordable housing and affordable housing finance)?

Points for Discussion

Specifically, our discussion will focus on:

i) How can the United Nations create heightened consideration of the use of housing investment in developing markets as an effective avenue for economic stimulus, as well as an environmental and humanitarian imperative?

ii) How can we build support among member governments for targeted, catalytic interventions by agencies such as UN Habitat to:
   1. Improve access to market-driven finance for affordable housing in all countries, not just wealthy countries
   2. Increase the supply of formal lower cost housing
   3. Promote well-targeted, efficient subsidies and
   4. Attract scale funding sources

iii) How can we continue to attract private investment flows into housing in emerging economies?

iv) What levels of government participation, IFI participation, and credit enhancement from housing and housing finance specialty agencies like UN Habitat can encourage private co-investment in housing for the majority internationally in this economic climate?

The participants will be encouraged to make their interventions following the above-mentioned points in order to stimulate specific recommendations and proposals for the way forward.