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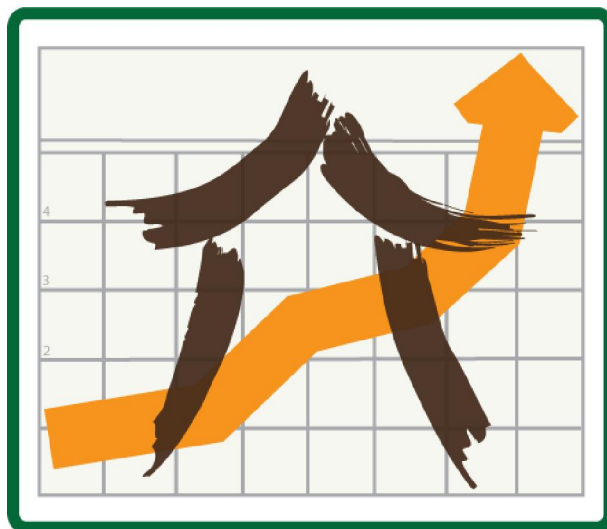
**United Nations Human Settlements Programme**



**National Housing Bank, India (NHB)**

# **Proceedings of the Regional Policy Dialogue on Pro-poor Housing Finance**

**30 to 31 January 2008, New Delhi, India**



## **Acknowledgements**

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## INTRODUCTION

Housing is a basic and fundamental right, since it not only provides shelter and the space for households to live in privacy, security and dignity, but also provides a point of reference through which households can access other services and utilities. Access to housing is a key determinant of urban conditions and of the social status and well-being of households. Therefore, access to adequate housing is essential for the achievement of the Millennium Development Goals.

Housing is a key driver of a country's economy. More than six hundred industries are linked to housing. It is a labour intensive industry that provides employment to both skilled and unskilled workers. Land and housing market turbulences often translate into capital and labour market turmoil. A well functioning and well governed housing market is crucial not only for providing shelter and security to individual households, particularly to the poor, but is also critical for a country's macro-economic stability.

Access to housing-finance is limited in countries of Asia and the Pacific. A key reason is that the formal housing finance sector is relatively small in most countries. In addition, the formal banking sector (commercial banks, housing banks, house building finance corporations etc.) prefers lending to those with established credit records and regular incomes to ensure monthly installment payments. The formal sector prefers borrowers with some sort of collateral (e.g. land or the house itself) so loans can be recovered in event of default.

Most poor people do not have formal credit records, regular incomes or collateral. Moreover, they tend to build, improve and expand their houses step by step – as and when their incomes permit. They often require a series of small housing loans that they can pay off easily. Processing such small loans is not cost effective for formal housing finance institutions. In response to the formal housing finance institutions' inability to reach the poor, many governmental, non-governmental and community-based organizations have added housing finance to their savings and credit schemes. These institutions often rely on social collateral and community-based screening processes to ensure repayment. However, such programmes are often small in scale and reach only a limited number of the poor.

In order to provide access to housing finance to a larger number of the poor, financial and institutional linkages between formal and community/civil society (CSO)-based housing finance institutions need to be strengthened. This would, on the one hand, enable the community-based institutions to increase their coverage. On the other hand, it would enable formal sector institutions to reach markets that were hitherto too risky or altogether inaccessible.

The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the National Housing Bank, India (NHB) have jointly initiated a programme on "Pro-poor Housing Finance" that seeks to establish a regional network of formal and community/CSO-based housing finance institutions to promote experience and information exchanges and to undertake joint or collaborative activities. The programme aims to move pro-poor housing finance approaches beyond individual micro-credit schemes to country and regional level financing structures.

The first activity of the project was the Regional Policy Dialogue on Pro-poor Housing finance. It was held at New Delhi from 30 to 31 January 2008 and was organized by the UNESCAP and NHB.

## **Objectives of the Regional Policy Dialogue**

The objectives of the Dialogue were to:

- Identify and discuss critical and emerging issues in housing finance in general and financing housing for the poor in particular.
- Discuss the need for information exchange and networking on pro-poor housing finance in the Asia and Pacific Region.

## **Participation**

Participants of the Regional Policy Dialogue included chief executive officers and senior officials from selected governments, housing finance banks and institutions and senior decision-makers from community-based and CSO-based housing finance institutions. Representatives of UNESCAP, UN-HABITAT, the World Bank and USAID also took part. A list of participants is annexed.

## **PROCEEDINGS**

The Regional Policy Dialogue was divided into five sessions. These comprised the inaugural session, three substantive sessions on (i) capital market related issues; (ii) mortgage and project lending related issues; and (iii) making housing finance accessible to the poor. The substantive sessions were followed by a session that discussed possible regional actions to promote pro-poor housing finance in Asia and the Pacific, which, in turn was followed by the concluding session. This section provides brief summary of the presentations made and the discussions that followed.

### **Inauguration and overview**

The inaugural session was chaired by Dr. Ravi Ratnayke, Director, Poverty and Development Division, UNESCAP. Dr. Nagesh Kumar, Director General RIS gave the keynote address. Mr. S. Sridhar, Chairman and Managing Director, NHB, delivered the inaugural address. Dr. Vinita Kumar, Economic Advisor, Ministry of Finance, Government of India and Mr. Shri Gandhi, Regional Director, Reserve Bank of India were present on the occasion.



The Dialogue opened with Mr. P.K Kaul, General Manager, National Housing Bank extending a warm welcome to all the participants. He stressed the importance of creating a mechanism for knowledge and experience sharing among the countries and pointed out that the Dialogue provided an ideal platform for laying the foundation for building of a network of institutions in the area of pro-poor housing finance for the mutual benefit of the institutions as well as the sector.

Mr. Ravi Ratnayake, Director, Poverty and Development Division, UNESCAP said that housing is a basic human right. Access to legal housing enabled people to access basic services such as electricity, clean drinking water and sanitation. It also provided access to other public services and programmes, such as education and health care, citizen registration and voting rights. A formal residential address facilitated finding jobs and accessing credit and other financial services. Households, particularly poor households, he said, often used their homes for economic activities such as small manufacturing workshops, retail shops and renting rooms for additional income. Housing was therefore much more than a roof over one's head; it was a major factor in defining a household's economic and social status and well-being.



Mr. Ratnayake outlined major reasons for limited access of low-income groups to housing finance. Formal finance institutions did not provide pro-poor housing finance because their normal operations required clients to have established credit records, regular income and collateral – all of which most poor people lacked. On the other hand, many non-governmental and community-based organizations had added housing-finance to their micro-finance schemes. However, these schemes operated on too small a scale to make a real difference. In order to reach a greater number of the poor, he stressed, formal and non-governmental/ community-based organizations needed to be linked.

He informed participants that a Meeting of Country Reporters on Pro-poor Housing Finance was taking place back-to-back with the Regional Policy Dialogue, to finalize guidelines for the preparation of country reports on the state-of-art on housing finance in India, Indonesia, Mongolia, Pakistan, Thailand and Sri Lanka. The findings of the country reports would form the basis for discussions at national workshops as well as provide inputs for a comparative regional analysis on housing finance systems with a particular focus on providing housing finance to the poor. Lastly, he thanked the National Housing Bank for hosting the Regional Policy Dialogue and the Country Reporters Meeting.

In his keynote address Dr. Nagesh Kumar, Director-General, Research and Information Systems for Developing Countries (RIS) made a strong case for closer regional cooperation in Asia and the Pacific as the region is emerging as a new centre of gravity for the world economy. He noted that the Asian crisis of 1997 had been a wake-up call for Asian countries to think and act collectively rather than individually.



Dr. Kumar outlined two important economic trends in Asia. The first trend was the widening deficit in infrastructure supply, which amounted to between US\$ 400 to US\$ 500 billion, over the next five years in India alone. The second trend was the increasing accumulation of foreign exchange reserves, amounting to around three trillion dollars for Asia and the Pacific. At present these funds were mostly invested in US treasuries, where they were earning negative returns. He stressed the need to create a powerful regional mechanism which could efficiently utilize the region's foreign exchange reserves for its infrastructure development, including housing finance.

Mr. S. Sridhar, Chairman and Managing Director of the National Housing Bank delivered the inaugural address. Stressing the importance of housing he said that in recent years housing had emerged at the centre of the development agenda for many countries. He further stated that owning a house promoted financial stability to a household as a house could be monetized or leveraged at times of need.



He also informed the participants the United Nations had highlighted the issue of adequate shelter through inclusion of slums in the Millennium Development Goals. In India, he said, the government had adopted “affordable housing for all” as the theme of its National Shelter Policy. He emphasized that the issues of availability, affordability, risk mitigation and enabling legal policy framework were vital in this regard. In this context, the reconciliation of the developmental

objectives with the commercial compulsion of the financial sector was also very important. The issue of pro-poor housing finance, particularly in developing countries was quite complex. To make it work at ground level using market based solutions and combining them with the programmes of the state was a great challenge in itself. “Internationalization” in the form of experience sharing, capacity building and lessons to be learnt from the experiences (both successes and failures) of the others, Mr. Sridhar concluded, would be very useful for moving any pro-poor housing finance initiative forward.



Mr. Sridhar’s inaugural session was followed by a presentation by Mr. Adnan Aliani, Economic Affairs Officer, Poverty and Development Division, UNESCAP. He presented a conceptual overview of housing finance in Asia and the Pacific and explained the objectives of the regional pro-poor housing finance initiative and outlined the structure of discussions for the three substantive sessions and the session on regional cooperation. His paper and presentation are annexed.

## **Capital markets**

The session was chaired by Dr Ravi Ratnayake. Participants acknowledged that before lending, housing finance institutions needed to raise economical, long term financing from domestic and international capital markets. It was felt that raising funds at a reasonable cost was extremely important for providing housing finance to the poor. To ensure focus discussions were further divided into four sub-categories, namely: constraints and challenges; opportunities; areas of research; and future directions.

## **Constraints and challenges**

In discussing constraints and challenges, the participants identified accessibility to capital markets and cost of raising funds as key problems. They pointed out that there was a lack of understanding about the working of housing finance system by the principal players and insufficient interest in Mortgage Backed Securities (MBS) by investors due to high transaction costs, regulatory issues, lack of title guarantees, lack of reliable rating systems

etc. Participants noted that capital markets in the region were not well developed and rather volatile and that without credible risk mitigation, including those related to natural disasters, investors would not be interested in long term investments that were necessary for housing finance. They pointed at big information gaps and misconceptions about the recovery of loans from the poor and at the inadequacy of current legal and institutional frameworks for pro-poor housing finance.

## Opportunities

Participants said that Asian economies as a whole were currently doing extremely well.



Rising incomes were leading to construction booms and housing finance demand could be expected to rise significantly, leading to huge capital market growth potential. Because informal financing mechanisms, such as community-based housing finance schemes and micro-finance institutions (MFIs) were already in place, many opportunities were available for scaling-up. Many such housing-finance institutions had valuable experiences and successes providing housing finance to the poor.

Participants said that in many countries of the Asia-Pacific region, government policies were turning pro-poor and budgetary allocations for housing the poor were increasing. Governments had begun implementing various guarantee programmes for lending to those without stable incomes and providing subsidies. Many governments had established specialized housing finance institutions to run pro-poor programmes and schemes that could establish and assess credibility of the poor, such as contractual housing finance systems or home loan account schemes.

Participants also saw huge potential in securitization, which was still a fairly new concept in most Asian countries. However, they cautioned that although much needed, the creation of functioning secondary markets would be a systemic and complex task. In this regard, the potential of accessing provident and pension funds for financing pro-poor housing and using emerging investment products such as Real Estate Investment Trusts (REITs) and Real Estate Mutual Funds (REMFs) were highlighted.



Participants also pointed out that poor people's

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