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**INTERNATIONAL FINANCING FOR HOUSING: REGIONAL EXPERIENCE  
IN LENDING TO GOVERNMENTS AND THE PRIVATE SECTOR**

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## I. INTERNATIONAL FINANCING FOR HOUSING

### A. GENERAL ASPECTS

Developing countries such as ours in Latin America, tend to have significant housing requirements. These stem from the low standards of living of the population in relation to the cost of obtaining or constructing a house on the one hand, and to the growth of the number of families on the other. This phenomenon is heightened in cities owing to the constant in-migration from rural areas.

Since shelter constitutes a universally recognized basic need, for many years now, governments have implemented mechanisms to facilitate adequate shelter for middle and lower class families. However, because we are dealing with developing countries, the resources available have not been sufficient, and in general, the housing shortage has steadily risen. This trend was enhanced by the economic crises experienced in the region during the so-called "lost decade" and consequently, today the problem has become still more acute.

In Chile's case, the housing problem is significant, the magnitude of the shortage is considerable and the task ahead will use up sizable private savings and will consume significant fiscal resources.

Unfortunately, updated and accurate figures on the housing stock and shortage will only be available as of 1993 with the background information from the new national census to be taken in the course of 1992.

In order to deal with the above mentioned situation recent attempts have been made to:

- a. Ensure a certain amount of resources for both public and private sectors, that is sufficient to at least build an equivalent number of housing units to the net natural household growth;<sup>1</sup> and,

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<sup>1</sup>. Housing production in Chile is close to 80,000 units; 1991 was outstanding with around 90,000 units. A similar number of units is expected for this year.

b. Design an effective system of accessibility in order to maximize the efforts of all those involved and to eliminate any wastage of resources.

With the coming of democracy the option opened up for the Government of the country to increase social spending on housing. Interest also arose on the part of the international community to cooperate with the Government and with low-income groups in resolving these problems.

Developing countries such as ours, tend to have inadequate savings in relation to investment projects. This leads to current account deficits in the balance of payments, also known as "external saving". Year to year, this external saving in Chile accounts for three or four points of the GDP i.e., between one-sixth and one-fourth of total investment.

Therefore it follows that housing construction will also require external financing.

However, it is difficult to find private voluntary funding in the form of external loans for Latin American and Caribbean countries after the external debt crisis of a decade ago. Direct private investment is usually concentrated in production projects involving tradable goods or, at most, in hotel and tourism construction, but not in housing. And there is a reason for this.

External financing for housing construction focuses on multilateral and official lending institutions which do not necessarily define their investments in terms of market criteria.

This stems from the fact that a large part of the population lacks the conditions and resources to pay for long-term loans, sometimes at high interest rates. Consequently, they do not count as qualified borrowers for housing. Likewise, foreign investors wish to be covered against the risk of change, which investing in nontradables does not afford.

Since the second of these problems is definitory, the analysis of international financing for housing should essentially limit itself to non-private sources such as international aid government organizations and intergovernmental organizations commonly referred to as multilateral lending institutions.

## B. THE HOUSING FINANCING SYSTEM IN CHILE

Although early legislation on low-cost housing dates back to the first decades of the nation as an independent State (1840), it was only in 1953 that a national housing sector policy was established through the Housing Corporation. With it began a

system promoting self-construction in the country, with international cooperation from the United States.

In the years that followed, housing standards were established in keeping with the economic capacity of each population sector; more weight was given to private sector initiative and to the use of self-help among the most modest sectors in building their dwellings.

In the latter part of the sixties a flexible prior saving requirement was incorporated. In another order of things, housing policy recognized that shelter should be within reach of all family groups, and paid particular attention to low-income groups. Besides, it was declared that housing should never be fully subsidized and that the participation of the sectors involved should be sought.

In the early seventies the Government decided to eliminate the differentiation of standards according to family income level, freezing a large number of mortgage debts and applying particularly low interest rates. All of this led to subsidies of up to 85% of the value of what was being built. Besides, all State-financed construction was also built by it.

In the mid seventies there was a return to the system of contracting of works by open bidding, though state financing of construction was maintained. In practice, state financing of construction firms at the behest of the State still continues.

In 1977 the Unidad de Fomento (UF) was created. It is an accounting unit which daily incorporates the previous month's inflation, and safeguards both mortgage debts and savings against inflation.

That same year saw the creation of mortgage-guaranteed mortgage credit bills, tradable on the secondary market and expressed in UF.

Pension funds administrators and life insurance companies are the main consumers of these long-term financial savings instruments (i.e. mortgage credit bills), which are, in turn, an important source of resources for housing construction.

In 1988 mortgage loans for consumable items were also introduced. In practice these are preferred by those credit consumers that could be affected by variations in interest rates, owing to the attendant effects on the transaction value of mortgage bills on the secondary market.

Since 1978 direct subsidies for housing have also existed. One applies by submitting background information on family composition, savings agreed to and effected, and the amount of

subsidy requested. This system is also based on Unidad de Fomento indexing.

At present, the financial system attends to upper and upper-middle classes without offering any kind of subsidies. For dwellings under US\$ 50,000 it is possible to apply for the Unified Housing Subsidy, which, in the case of more expensive dwellings, cannot exceed 5% of their value. The subsidy generally amounts to between US\$ 1,700 and US\$ 3,400.

In this programme, which encourages people to request less subsidies through a greater probability of selection (by means of higher points), complementary mortgage credits are granted directly by the private lending system, except in the case of dwellings of up to US\$ 10,000, where the only truly operative Bank is the State bank.

Although this system, in conjunction with the similar Rural Housing Subsidy, could formally cover the entire spectrum of housing demands requiring state support, in actual fact it is directed at middle-class sectors. Consequently, three other programmes exist, aimed at meeting the housing requirements of the poorest levels of the population.

First, there is the Special Workers Programme which permits delivery of US\$ 7,000 (40-50m<sup>2</sup>) housing units to workers, with a state subsidy of almost US\$ 2000. This is targeted at middle and lower-middle income families, and requires a minimum prior saving of US\$ 730. This credit is also granted by the State Bank and guaranteed by MINVU.

Then there is the Basic Housing Programme aimed at for the poorest sectors. It delivers a significantly larger subsidy than the preceding programme and requires a substantially lower prior saving. The housing mortgage credit (for 35-40m<sup>2</sup>, valued at US\$ 5,200) is granted directly by MINVU.

Finally, there is the Progressive Housing Programme which, as a "first stage", offers servicing and the installation of a sanitary unit (at a cost of US\$3,400) on sites similar to those of the average Basic housing units (100m<sup>2</sup>). A minimum prior saving of US\$ 240 is required and the rest is subsidy. By the second year, one can apply for a credit of US\$600 and an additional subsidy of US\$485, in order to finish building the house.

The credits granted by the State are at a fixed interest rate, sometimes below the market rate. In the case of mortgage credit bills, they are effectively valued by the market and the difference generated by the lower nominal rate of close to US\$2,000 is absorbed by the State. When the market is unwilling to lend at any rate, a rate is assigned which is similar to the nominal rate of the mortgage bills indicated. In both cases there is an implicit

subsidy that seeks to guarantee the buyer a similar interest rate between the time he made the decision and the time the operation is formalized. This problem is not a cause for concern at this time owing to the pervasive drop in interest rates.

### C. EXTERNAL LENDING FOR HOUSING IN CHILE

External lending for housing in Chile is being granted by developed countries and international agencies. It is always preceded by a well-prepared project to back it up and is aimed at material investment, i.e., sewage, infrastructure for services, housing or renovation, and at various kinds of technical assistance that seeks to improve the performance of the sector, its institutions and its settlers from different angles; i.e., to improve knowledge and ways of doing things.

All programmes contain a broad spectrum of areas that normally need to be analyzed and that are the object of concern by one or another external lending agency. Noteworthy among these are the following:

- Definition of the programme's target group.
- Proper programme targeting of its beneficiaries through objective procedures.
- Target group participation in undertaking the project.
- Non-duplication of efforts with existing programmes and programme consistency within the country's housing assistance system.
- Programme consistency with an adequate urban development policy.
- Analysis of the capacity of existing public organizations to fulfill their expected roles.
- Proper conceptualization of the housing financing system from the standpoint of target groups, in terms of their capacity to prior save and pay dividends, the rescheduling of the debt and dividends and subsidies.
- System's mortgage credit recovery policy.
- Mechanisms through which housing construction is assigned in terms of its competence, objectiveness, guarantees, supervision and financing.
- Capacity of existing construction firms in the sector to cope with the building programme and feasibility of the participation of external firms, if necessary.

- Environmental aspects.

The knowledge and improvement of each of these areas clearly means a step forward in resolving housing sector problems in our countries, and they have positive repercussions at other levels of national development.

Three years ago, the World Bank was the only entity granting external financing for housing in Chile. Today there are over 12 external organizations involved in financing sector activities in Chile or planning to do so. Some grant credits and others nonrepayable cooperation. (See annexes).

From another perspective, cooperation can be in the form of investment and/or technical assistance.

All are particularly concerned with low-income population. Also, they either seek a public or private national financing complement. And in some cases they seek to stimulate self-construction of dwellings by those interested and involve some component of technical assistance.

With regard to credits, operating entities are multilateral lending institutions i.e., the World Bank and the Inter-American Development Bank which grant loans to the Ministry of Housing and Urban Development (and to the Ministry of the Interior, in the case of the Neighbourhood Improvement Programme). In the case of government agencies there is an operation approved and ready for implementation with the United States Government, through the Agency for International Development (AID), which includes a loan and non-repayable cooperation in technical assistance.

Also the international technical cooperation agencies, the United Nations Development Programme, UNDP and the United Nations Centre for Human Settlements, UNCHS-Habitat, provide advisory services to the Government of Chile. These entities, among other things, are preparing to offer institutional support to MINVU for improvement of the sector's financial administration and rationalization of management.

The type of operation these organizations engage in, consists of comprehensive evaluations ranging from the definition of official sectoral policies to the implementation capacity of the various agencies and institutions involved in the programme. Based on these they generate sustainable projects.

Cooperation between friendly Governments ordinarily relies on the presence of a resident representative in the country, and consists of donations. They work with MINVU and/ or directly with non-governmental organizations (NGO's). They generally place particular emphasis on community participation and on self-construction methods for progressive housing.



The developed countries that are currently lending or are about to begin their material collaboration are Denmark, France, the Federal Republic of Germany, Holland, Italy, Norway, Spain, Sweden and the United States. Mention should be made of such initiatives as, for example, the Swedish cooperation currently underway in which a non-repayable contribution by the donor country is expected to lead to loans for target groups to partly finance housing costs. Recovery of these loans should serve to finance additional housing solutions in what has been called the "Revolving Fund" mechanism.

Annex 2 summarizes the main features and stated objectives of the external institutions that currently finance programmes in Chile's housing sector.

#### D. EXTERNAL FINANCING FOR HOUSING AND EXTERNAL ACCOUNTS

Two types of objections are commonly heard against the external financing of housing, reducing it to a philanthropic task which economically wealthier countries undertake in favour of poorer countries, previously referred to as "the third or fourth world".

The first has to do with the fact that to get a country into debt in hard external currency in order to invest these resources in non-tradables, only contributes to worsening external accounts, and is consequently seen as being counterproductive: "bread for today, hunger for tomorrow".

The second of these has to do with the political gains which authorities in power can reap from housing investment, since selection systems and criteria tend to lack the minimum security to guarantee their transparency and identify their subsidies.

Both arguments have some empirical substance in our countries. However, it is evident that there is more to both of them than this.

With regard to the first, we should at least evaluate the following considerations, in addition to the obvious social ones we always bear in mind:

i) The effect of housing investment on development and economic growth. Although it is no mystery that housing activity sets an economic chain reaction in motion that activates the entire system from production, banking, insurance, transport, professional services and consequently, to employment, our purpose here is not to focus on this aspect, although we cannot ignore the impact of urbanization or housing on health and education.

In this regard, health is greatly affected since it is well known that medical equipment and medicines (at least the raw materials used in manufacturing them) correspond to imported components, i.e., greater spending on health means a proportionately greater expenditure in foreign or hard currency. Therefore, a saving in them eases the pressure on imports.

In education an adequate space or place allows for concentration in study and making the most of it. Personal development of reading skills and analysis are made possible. We all know the influence that educational level has on development.

ii) The housing sector, like commercial, industrial and public works construction, is a subsector of the construction sector in a broad sense.

The construction sector in open economies is generally a great source of foreign exchange, since it always accounts for a high component of foreign investment. In Chile, investment in construction greatly exceeds the return and credit on capital of the country's housing loans.

iii) On the other hand, housing construction does not generally consume imported components or materials, i.e., loans inject hard currency that will be used for other purposes (imports of other goods, dividend payments, etc.) and have no need of it.

The foregoing is reinforced by nonrepayable cooperation, which ultimately only amounts to foreign exchange revenue.

With regard to the second objection noted, we can also mention that systems of impersonal and objective accessibility can be designed and implemented, if easily identifiable non-discretionary elements are used. This will be so if there is political will. In this regard, magnitude is important. Oftentimes these systems are unknown and problems arise not only because of political decisions, but also because of ignorance of the techniques that can be successfully used for this. Consequently, a good transfer of techniques in this respect could prove invaluable.

#### E. CHALLENGES AND FINAL WORDS

We are very grateful for contributions by the international community to housing sector financing in Chile. And we are also very thankful for contributions that can be grouped under the term "technical assistance".

External agencies, particularly international ones, have a major responsibility.

They are compelled by all homeless families in Chile, Latin America and the rest of the developing world to be effective in their actions, not only contributing funding, which only produces a one-time effect (except perhaps for those resources contributed to revolving funds), but also knowledge that can and should be permanently applied in the interest of generations of families.

Our countries should not expect everything to come from the outside, but should also make great joint efforts, both in family savings, state support and in the increased efficiency of public apparatus and in the study of new techniques. Many of these have already been implemented in other countries, with varying results. These experiences should be shared.

However, one should not fall prey to rigidity and voluntarism, attempting to impose formulas on any given country, ignoring its distinctive features. No country should be pressured into implementing measures, but rather should jointly pursue appropriate solutions, taking advantage of international experience and the specific knowledge of the country.

In Chile we wish to adapt formulas that have proven useful in other countries and apply them. At present we are attempting to improve the system's mortgage debt recovery, enhancing the role of the private sector in all instances, involving citizen participation and their efforts in solutions provided them, adjusting the internal consistency of housing programmes as a whole, formulating new products within the national market such as housing leasing and unemployment insurance, and more effectively targeting so as to reach those who need it the most and who make efforts for it.

Much remains to be done and much to share. Taking steps such as these is necessary and will continue to be so. There is no time to lose.

Thank you.

Annex 1

LOANS	MULTILATERAL LENDING INSTITUTIONS	INTER-AMERICAN DEVELOPMENT BANK-IDB	INVESTMENT
		WORLD BANK	
INTERNATIONAL FINANCING OF HOUSING IN CHILE	GOVERNMENTAL AGENCIES	U.S.A. - AID	TECHNICAL ASSISTANCE
NON- REPAYABLE FINANCING	INTERNATIONAL AGENCIES	UNDP-HABITAT	
	DEVELOPED COUNTRIES	DENMARK FRANCE GERMANY (FED.REP) HOLLAND ITALY NORWAY SPAIN SWEDEN UNITED STATES	INVESTMENT     TECHNICAL ASSISTANCE

# Annex 2

ANNEX TO DOCUMENT LC/R.1129

Institution	Presently operating	Type of financing	Representatives and/or negotiators	Appraisal elements	Components if financing	Attract private capital to housing sector	Provide technical cooperation	Policies to finance the demand	Others
Inter-American Development Bank (IDB)	Yes, with the Ministry of Internal Affairs, in negotiations with Ministry of Housing (MINVU) and Ministry of Interior	Loans, technical cooperation on reimbursable or no reimbursable terms	Experts missions. Local representation team	Institutional evaluation, financial, legal and impact on growth, redistribution and environment	- Infrastructure services but not housing units - Credit for materials or progressive housing	Promote public or private investment for development	IN: efficient public policy formulation, institutional strengthening and project preparation and execution	Focusing on the target population	- Support regional technological integration - Promote intermediate and non-capital intensive technologies - Promote women's participation - Promote environmental quality (in programme definition and technologies)
World Bank (IBRD)	Yes, with MINVU	Loans	Experts missions	Idem IDB	Studies, training, technical assistance and equipment, public investment in housing	Mobilizing financial resources and efficiency of private sector on housing	IN: policy development, instruments and institutions	Market interest rates and increased previous savings	- Reduce implicit subsidies - Should be separate institution such as Ministry of Welfare
German Cooperation (GTZ, KfW)	Yes, with MINVU and NGOs	No reimbursable	Resident representative, local and international experts	Idem IDB and degree of institutional capability to accept NGO and community participation	Housing regularization, production and maintenance, includes organization, social and technical infrastructure	- Yes - Additionally stimulate investment in small enterprises and production of building materials	IN: efficient public policy formulation	Market interest rates and revolving funds	- Obtain legal tenure for beneficiaries - Include women interests in planning and execution - Self-help programme - Support neighborhood organizations
DANIDA Denmark	Yes, with MINVU	No reimbursable	International experts	Impacts on redistribution	- progressive housing services - community services	Promote self help construction	IN: project preparation and execution	previous savings	- Consolidation of democracy and community organizations - Decentralization
Government of Andalusia (Spain)	Yes, with MINVU	No reimbursable	International experts	Impacts, project proposal, urban renewal	Training and urban renewal	Promote investment in deteriorated city centres	IN: urban planning and management	Regular savings systems	- Assist in renewal areas of Santiago - Promote theme of residential intervention