European Network for Housing Research

COMPARATIVE HOUSING RESEARCH:
APPROACHES AND POLICY CHALLENGES
IN A NEW INTERNATIONAL ERA
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INTERNATIONAL FINANCIAL INSTITUTIONS AND HOUSING POLICY TRANSFERS

By

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[1] The views presented here are strictly personal. They should not be attributed to the World Bank group or other IFIs.

ABSTRACT

The central theme of this conference is the transferability of public housing policies and private practices from country to country – and presumably from city to city as well. To explore the role of international financial institutions (IFIs) in the transfer of these housing policies and practices, the paper is divided in three unequal parts.

The first part looks back at the road we have traveled since the 1960s in research and policy work on housing markets. Then it turns to the present and outlines the broad consensus that has emerged on the basic anatomy of any housing system. These "seven pillars" of housing are the foundations of modern comparative housing policy. Explicitly or implicitly, they can be used to organize the diagnosis of a national housing system or to understand the dynamics of a specific city in its economic, spatial, social and historical housing dimensions.

The second part emphasizes three major factors that are too easily overlooked in carrying comparative housing policy proper. Yet these three factors are determinant and shape the daily work of the IFIs. They have a decisive impact on the probability of success of proposed housing policy reforms, programs and/or projects. How is it that no type of project – not only in housing, but in any sector - can be "insulated" from poor macroeconomic policies? What is the role of the state in the economy and how has this role changed since the 1950s? Related to these first two questions is the changing structure of economies during the development and growth process. How might the structure of the economy also affect choices of housing policies? Overlooking these three questions is a recipe for failure. Unfortunately, this oversight is only too frequent in the name of the speedy transfer of "best practices".

The third part of the paper points at the drastically changed nature of the channels for transfers of policies and practices across the world. Aid fragmentation is now widely recognized as a very serious structural issue. How does such fragmentation affect the transfer of housing policies? What might be solutions? Can international networks be a new structure for the transfer of policies and the diffusion of institutional experiences?

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4 INTRODUCTION: THE CHANGED GLOBAL ENVIRONMENT FOR HOUSING

It seems to be a very good time to think again about the role of international financial institutions in the development of housing policies in "emerging economies" and in "developing economies" to distinguish two broad groups of countries moving along the development path: middle-income countries who have been achieving significant economic results and where per capita GDP is growing and lower-income countries where growth prospects remain so much more uncertain and where absolute poverty is a dominant concern.

1.1 Aftermath of the Global Financial and Economic Crisis of 2007-2009 for Housing

The subprime mortgage debacle in the US has been at the epicenter of the massive global financial and economic crisis of 2007-2009 whose aftershocks are still being felt everywhere. If anything, the US-led crisis should have convinced every myopic macroeconomist on the planet that the quality of housing policy and housing finance matters greatly to the overall performance of his/her national economy. Major tectonic shifts in the structure and in the governance of the global economy were already in motion before the crisis. They have become even more visible now as the economies of many countries are performing very differently during the recovery phase that has barely begun after the global economy hit bottom in 2009. Through falling incomes and rising unemployment, the impact of the crisis on the housing sector has been very direct.

The global crisis marks the first time in five decades that the global economy contracted in 2009. The problems faced by low-income countries and the poor who bear zero responsibility for this crisis are serious and lasting. In mid-2009, the Chief Economist of the World Bank expressed his widely shared concerns as follows:

> "Prior to the current crisis, World Bank research estimated the number of people living below the poverty line worldwide at about 1.4 billion. Preliminary studies of the impact of the global downturn indicate that an additional 53 million people will fall below the poverty line in 2009. The long-run consequences of the crisis may be more severe than those observed in the short run, possibly turning a short-run macroeconomic adjustment into a long-term development problem. When poor households pull their children out of school, there is a significant risk that they will not return once the crisis is over, or that they will not be able to recover the learning gaps resulting from lack of attendance. And the decline in nutritional and health status among children who suffer from reduced (or lower-quality) food consumption can be irreversible. The middle class will also be hit hard by soaring joblessness, losses in equity markets, possible currency depreciation, and anxiety over the safety of local banks. Constrained by already eroded fiscal space and by foreign exchange reserves, many developing countries will be unable to implement counter-cyclical policies on their own. Moreover, the crisis is reducing their income, hereby worsening public finances threatening existing levels of spending, and further

[2] The views presented here are strictly personal. In no way can they be attributed to the World Bank group.

reducing services to the poor. We may be facing nothing short of a development emergency." Justin LIN Yifu, Opening Remarks, ABCDE Conference on *"Lessons from East Asia and the Global Financial Crisis*", Seoul, Korea, 22 June 2009.

The hoped-for decoupling of performance between advanced G-7 economies and emerging economies during the crisis did not occur. On the other hand, a multi-track recovery has begun with some countries doing considerably better than others, especially China and India where large numbers of the world poor live. Yet, overall global economic demand has been seriously weakened. The record of past financial crises clearly shows that a 'new normal' and slower global growth rates should be expected. We should not expect a rapid return to the higher growth rates enjoyed prior to the crisis, especially in the US and Europe that represent a large share of global demand. There is no doubt that the overall level of new housing investment in many countries has abruptly shifted downwards significantly from its 2006 level. In the new environment of fiscal austerity, the quality of housing policy and housing practices will be important for recovery and growth. Yet the risks of harmful uses of housing incentives and of wrong short-term housing subsidies aiming to stimulate the economy are very significant. How much we have learned about the quality of public housing policy and private housing practices that is relevant across the overwhelming diversity of 186 countries that are members of IMF and the World Bank? Or merely across the 668 statutory cities of today's China?

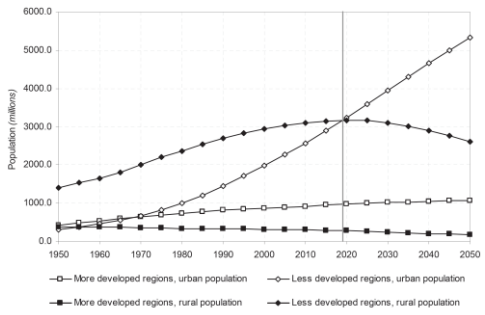
1.2 Global urbanization as a powerful driver toward better housing policies

The content, scope and implementation of housing policy have changed dramatically since the early 1970s when urban issues first entered the operational agenda of institutions like the World Bank. There have been two interacting drivers toward housing policies of considerably higher quality and greater scope. First, there is the very significant worldwide increase in the quality and quantity of housing research since the 1960s. The second driver is the rapid rate of urbanization of the world economy. These two drivers have been accompanied by historical events such as the collapse of the Soviet system and the demise of central planning, which have led to a major rethinking of the institutions of markets and has required difficult reforms in transition economies that represented about 35% of the world population in 1990.

From a global point of view, the second half of the 20th century was marked by the world's urban take-off. By now, the world economy is in its peak phase of urban growth as seen in FIGURE 1.

FIGURE 1

Peak of World Urbanization: Urban Population Dominance by Developing Countries

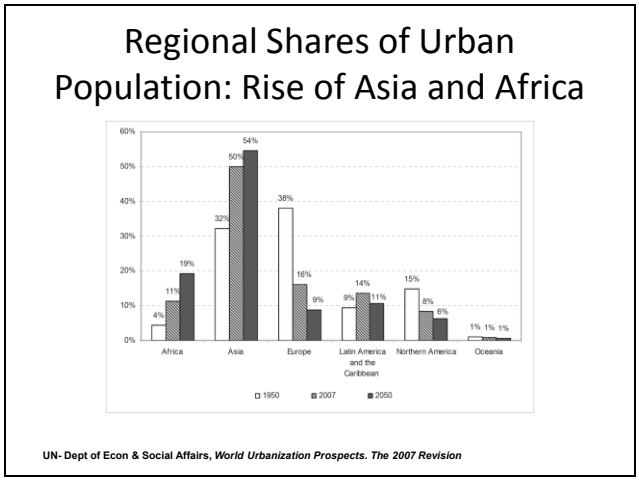


UN- Dept of Econ & Social Affairs, *World Urbanization Prospects. The 2007 Revision*

Urbanization is now dominated by large and rapidly growing emerging economies like China, India, Brazil and also Indonesia. However, housing and urban policies in the Middle-East, Sub-Saharan Africa, and other countries in Latin America are under considerable pressures to change also. Such diversity creates challenges for the transfer of housing policies. A corollary of these demographic trends is that we should anticipate that important institutional, engineering and environmental innovations are likely to emerge from these rapidly urbanizing economies. These innovations will add to the stock of mostly Western experiences that formed the base of policy reference in the 1950s at the start of the world's urban take-off. As FIGURE 2 shows, today the Western countries' share of world urban population has already declined from 53% in 1950

to 22% in 2007. Note also the rapidly growing share of Africa. [3] The environmental and housing implications in terms additional land consumption alone are very serious.[4]

FIGURE 2



1.3 Multiple dimensions of the transferability of policies and practices: organization of the discussion

The central theme of this conference is the transferability of public housing policies and private practices from country to country – and presumably from city to city as well. To explore the role of IFIs in the transfer of these housing policies and practices, the paper is divided in three unequal parts. The first part looks back at the road we have traveled since the 1960s in research and policy on housing markets. It lists briefly important analytical and operational milestones in our understanding of housing institutions and policies across different countries and cities. Then it turns to the present and outlines the broad consensus that has emerged on the basic economic structure or, if one prefers a more suitable biological analogy for the dynamic interactions that continually take place within a housing system, the basic anatomy of any housing system. Explicitly or implicitly, these "seven pillars" of housing are the foundations of modern comparative housing policy. They can be used equally effectively to organize the diagnosis of a national housing system or in the analysis of the dynamics of a specific housing market in its economic, spatial, social and historical dimensions.

It is trite to say that not all economies and societies are at the same stage of development, but why do some countries experience improving housing conditions while others do not? The second part reviews three major factors that should not be overlooked in comparative housing policy proper. The empirical evidence is that these factors are dominant and shape the likely of success in the daily work of the IFIs. They must be kept in mind when considering transfers of policy and practices because they have a decisive impact

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[3] … "Cities of the developing world will absorb 95 per cent of urban growth in the next two decades, and by 2030 will be home to almost 4 billion people, or 80 per cent of the world's urban population. After 2015, rural population will begin to shrink as urban growth becomes more intense in cities of Asia and Africa, which are set to host in 2030 the largest urban populations, 2.66 billion and 748 million, respectively. Poverty and inequality will characterize many developing-world cities, and urban growth will become virtually synonymous with slum formation in some regions. Asia is already home to more than half of the global slum population (581 million), followed by sub-Saharan Africa (199 million), which has both the highest annual urban growth rate (4.58 per cent) and the highest slum growth rate (4.53 per cent), and Latin America and the Caribbean (134 million)." Eduardo Lopez Moreno and Rasna Warah [2006] *Urban Population Growth and Slum Trends in the 21st Century*, By [2006]. U.N. Habitat Chronicle. http://www.un.org/Pubs/chronicle/2006/issue2/0206p24.htm#

[4] Over the next 30 years, a median projection is that the total land area of cities will grow by a factor of 2.75 from 400,000km2 to 1,100,000km2. Moreover, this land consumption affects better locations: already over 10% of coastal lands are consumed by urbanization. (Angel 2005, Martine 2007).

on the probability of success of proposed housing policy reforms, programs and/or projects. How is it that no type of project – not only in housing, but in any sector - can be "insulated" from poor macroeconomic policies? What is the role of the state in the economy and how has it changed since the 1950s? Related to these two dominant questions is the changing structure of economies during the development and growth process. How might the structure of the economy also affect choices of housing policies? Overlooking these three questions is a recipe for a failed transfer of policy, yet this oversight is only too frequent in the name of the speedy transfer of "best practices".

The third part of the paper looks at the drastically changed nature of the institutional channels for transfers of policies and practices across the developing world. Aid fragmentation is now widely recognized as a serious structural issue that appears to be imposing high transactions on the poorest developing countries that can afford these costs the least. What are some of the current thoughts on addressing this fragmentation problem? Will rapidly growing global information networks improve decentralized access to international experience by potential innovation adopters, whether they are local officials or private decision makers? The paper offers some speculative thoughts about the role of the new urban information networks. Will the development of critical nodes on core aspects of housing policy such as real estate property rights and land use or housing finance speed up the horizontal diffusion of information on successful housing policies and practices and facilitate the adoption of policy innovations by local government officials of developing countries? How would IFIs interact with such networks?

A brief conclusion sums up the findings on the changed role of IFIs in the transfer of public policies and private practices across countries in our new 21st century.

II. THE ROAD TRAVELED SINCE THE 1960s FOR HOUSING POLICY IN DEVELOPING COUNTRIES

2.1 Milestones in research and policy on housing and urban development in developing countries

This paper is not about the history of comparative housing policy. However, a rapid overview of milestones in our understanding of housing policy through research, policy analyses and project loans can throw light on the contributions of international financial institutions (IFIs) such as the World Bank, the Inter-American Development Bank (IDB) and the Asian Development Bank (ADB) and the UN network in the transfer of housing policy across developing economies. [5] This list of milestones is not even comprehensive: it mostly aims to show how a broad consensus on the structure of a housing system has emerged.[6] It should also be emphasized that this list of milestones reflects progress on two complementary but distinct work fronts of housing policy: the overall housing policy framework on one hand and the challenges of extreme poverty and slum upgrading on the other.

1958: *The Strategy of Economic Development* by Albert O. Hirschman was a discussion of backward and forward linkages between sectors of an economy during the process of economic development process. Hirschman's analysis had a direct bearing on economies of scale and urbanization during development and became influential just at a time when the World Bank was shifting its focus from the post-WWII reconstruction of Europe to economic development.

[5] This rapid overview of the history of urban and housing policy ideas has a strong focus on the World Bank experience, but this is by default and not by design. It quickly became clear that a fair review of milestones in the contributions of the UN agencies and the regional IFIs in Asia, Latin America as well as the transition economies of Central and Eastern Europe and the former Soviet Union would take us far beyond the space of this paper. There is not enough room either to cover significant experiences of bilateral donors of North America, Europe and Asia. There is also no attempt to review milestones in the *process* of delivering aid to developing countries such as the Pearson Commission Report of 1969 or the Millennium Development Goals of 2001.

[6] In 2000, the U.S. consulting firm PADCO, Inc that had played a pioneering role in housing and urban development projects in developing countries assembled an excellent "Urban Development Timeline" tracing decade by decade since the 1950s the development of housing and urban policy work in developing countries. This timelime identified milestones along four parallel tracks labeled: "Policies and Programs" such as the US Foreign Aid - Four Points Program of the 1950s; "Institutional roles" such as the birth of UNDP programs or the IBRD (World Bank) shifting from the reconstruction of Europe to the development agenda; "Best Practices and Lessons Learned" such as John Turner's pioneering upgrading project in Peru; and "Methodologies and Tools" starting with the attempted export of western development theory, methods, standards, and regulations in the 1950s! Unfortunately, neither the firm nor the timeline's website have survived today.

1961: *The Death and Life of Great American Cities* by Jane Jacobs was a powerful critique of the urban renewal policies of the 1950s in the United States that had a large and lasting impact that reached beyond urban planning issues to a view of the role of cities in socio-economic development that still affects current urban policy debates. Jacobs developed her insights further in *Cities and the Wealth of Nations; Principles of Economic Lives* (1984).

1966: Charles Abrams' *Man's Struggle for Shelter in an Urbanizing World* (MIT Press) was the first influential exposition of the significance of the world's urban take-off for housing. Abrams offered an analysis of how Industrialization and population explosion were contributing to an urban revolution in the developing countries of the world illustrated with case studies of 14 countries from every continent.

1969: Richard F. Muth's *Cities and Housing*. (U. of Chicago Press) marks the emergence of the modern field of urban economics. Another major contributor to the new field is Edwin Mills, whose *Studies in the Structure of the Urban Economy* (Johns Hopkins) appeared shortly thereafter in 1972.[7] The 1960s and 1970s were decades marked by an explosive growth of urban economic research worldwide, especially in North America.

1972: John Turner's *Freedom to Build: Dweller Control of the Housing Process*, (McMillan), in association with R. Fichter.[8] Turner's work represented a major breakthrough in the understanding of the spontaneous development of very low-income housing and its economic and social value. Turner's work had a worldwide catalytic impact on the analysis of spontaneous urban settlements. His work contrasted sharply with failed attempts to export directly the western urban development theories as well as the methods and standards prevailing for high-income, slow-growing western cities.

1972: First World Bank "sites and services" urban project in Dakar, Senegal.

1972: *Urbanization, a World Bank Sector Working Paper.* This paper was written originally at the request of Robert S. McNamara merely as an internal working document that would "describe the distinctive economic, financial, and institutional characteristics of each sector; outline the role played by each sector in the general process of economic development; review the scale and approach of World Bank operations in the sector; and summarize the Bank's philosophy about it own operations, together with the activities of other aid donors, can contribute to building up each sector," (McNamara's foreword). Forty years later, this paper remains remarkable for its freshness, analytical depth and insights compared with some of the more recent World Bank policy analyses. In contrast with to the damaging top-down ideological lending framework of the "Washington Consensus" that would follow later in the 1980s and early 1990s, the McNamara era stressed that given our limited understanding of development "for its project lending, the Bank places primary reliance on field-based country economic studies and sector surveys." The willingness to fund high quality original research and to facilitate the links between research, policy analyses and lending operations that marked the McNamara years had a major impact on the volume, composition and quality of research findings on housing and urban development at the World Bank. It can be argued that such quality research and policy analyses carried out in associations with leading universities around the world has played a role as important as direct lending operations in housing policy transfers by the IFIs; possibly much more as large numbers of future leaders of developing countries studied in these universities and brought these research findings back home.

1973: The "*Nairobi Speech*" by R. McNamara to the annual meeting of the World Bank's Board of Governors set absolute poverty and the urban as primary development objectives of the World Bank. These policy priorities remain to this day. As discussed in part IV, a major difference between 1973 and 40 years later in terms of policy diffusion impacts is that at the time of the Nairobi speech total government lending known as ODA (official development assistance) represented 82% of all capital flows to developing countries; and this ODA funding was heavily dominated by the World Bank. Thirty years later, ODA lending had declined to less than 17% of total capital flows in 2004 and the World Bank Group's market share of these ODA funds had also declined significantly.[9] (Frot and Santino, OECD, 2008)

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[7] For a valuable history of the analytical development of modern urban economics see Ed Mills "A Thematic History of urban Economic Analysis". *Brookings-Wharton Papers on Urban Affairs*, No.1, 2000. Pp 1-52.

[8] Demonstrating the key role that leading academic institutions can play in the maintenance of information and in the diffusion of housing policy innovations, the record of the World Bank's experience in sites and services and slum upgrading since 1972 remains readily available on the website developed by M.I.T. in association with the World Bank and maintained by M.I.T. at: http://web.mit.edu/urbanupgrading/upgrading/search.html

[9] The author is grateful to Emmanuel Frot and Javier Santino for providing him the official data on capital flows to developing countries assembled by the Development Assistance Committee (DAC) at OECD.

1975: "*Housing", a Housing Policy Paper*, World Bank reflects the limited direct operational experience in developing countries of the World Bank as well as other donors at the time. The paper has a focuses primarily on physical "sites and services" projects and slums upgrading operations as the most likely way of benefiting targeted poor urban families.

1977-1981: "*City Study of Bogotá and Cal, Colombia*" by the World Bank. This very large, five-year project reflected a genuine concern on the part of the World Bank staff that the basic tenets of urban economic theory that were developed in high-income and fully urbanized economies might not be immediately applicable to developing countries. Its source of inspiration – but not a direct model - was the study of New York under the leadership of Raymond Vernon, see *Anatomy of a Metropolis* (1959). The city study focused on five major dimensions of growth in a developing metropolis: housing, transportation, employment location, labor markets, and public finance. The general approach was "to study the workings of large cities in developing countries and test our understanding of the behavior and interactions among participants in the myriads of activities in a developing metropolis." The project resulted in numerous papers and reports as well as several books. It generated path breaking results, especially on employment location (Kyu Sik Lee, 1981) and public finance (Bahl and Linn, 1992). The reassuring conclusion was that there was similarity in behavior by households and firms making decisions in the market settings of a developing metropolis. Even if the "parameter values" could be significantly different the basic tenets of urban economic theory were indeed applicable. Owing to the demands of operational work on the team, an overview of the project results was published considerably later by Rakesh Mohan in *Understanding the Developing Metropolis: Lessons of The City Study of Bogotá and Cali*. (Oxford U. Press, 1994).

1973-1982: *Experimental Housing Allowance Program, United States.* No single research effort has had such a momentous worldwide impact on the economics of housing policy as the unique Experimental Housing Allowance Program (EHAP) which began in the United States in 1973 and whose final evaluation was completed in 1982. It generated "over a decade of work by well over one hundred researchers"…."at a cost of almost US $200 million" of the time. The core government budget alone was $158 million, which would be $435 million in 2009 dollars. The findings of EAHP are presented in Friedman and Weinberg eds. *The Great Housing Experiment* (1983). There were major positive externalities between the work done under EHAP and the housing policy and research work lead at the World Bank by Steve Mayo who had previously been a major research investigator under EHAP.

1977: Vernon Henderson, *Economic Theory and the Cities*. A graduate of the remarkably productive urban economics seminar led by George Tolley at the University of Chicago, Henderson did pioneering work on the critical analytical links between trade and the structure of cities. Drawing on NSF and World Bank funded research projects in Brazil and China he then punctured widespread misconceptions at the time about the role of cities in economic development in his comparative policy book on *Urban Development. Theory, Fact, and Illusion (1988)***.**

1983: *Urban Land Policy: Issues and Opportunities* edited by Harold Dunkerley for the World Bank was one of the first attempts to think systematically and from a policy transfer point of view about the legal, institutional and economic dimensions of the urban land issues challenging developing cities. There is today a particularly rich foundation of research and policy work done worldwide in this area of housing policy.

1985: *Housing Demand in Developing Countries* by Stephen Malpezzi and Stephen K. Mayo (with David J. Gross). World Bank Staff Working Paper No. 733. This paper consolidated research findings on the income and price parameters of housing demand across countries of different income levels and across cities within these countries. It demonstrated quantitatively for the first time that the housing demand behavior of households is remarkably stable and regular across a wide variety of countries and cultures, as long as free household choices are not severely distorted or eliminated by government controls, which was the case in centrally planned economies of the Soviet type without housing markets. In market economies, the worst housing policy distortions are usually on the supply side and tend to be more market specific.

1989: *The Other Path. The invisible Revolution in the Third World* by Hernando de Soto has had a major impact on the public's understanding of the causes and consequences of the rapid growth of the informal sector and the shadow economy in developing countries. The implications of the relative size of the informal economy for the design of low-income housing policies are major. Measuring the size of the informal sector is by definition an imprecise art. Using a uniform methodology, estimates of the average size over the period 1999-2007 of the shadow economy across 160 countries in 2007 range from less than 8% of GDP in the USA and Switzerland to ratios as high as 60% of GDP in Nigeria and almost 70% in Bolivia.(Schneider,

2009). The choice of housing policies and practices and their transferability across this very wide spectrum of informal sector conditions cannot be uniform.

1989: *Malaysia: The Housing Sector; Getting the Incentives Right*. World Bank Sector Report No. 7292-MA. This report was the first World Bank operational study of the combined effects of urban planning regulations, taxes and subsidies on the structure of incentives embedded in these regulations and their systemic impact on the composition and affordability national supply of housing. This analysis developed a methodology to quantify trade-offs between urban planning regulations and housing costs and aimed to measure the cost of policy errors. (See Malpezzi and Mayo, 1997).

1990: A *Global Survey of Housing Indicators* across 53 cities in 53 countries is conducted as a joint venture between the World Bank and the United Nations Center for Human Settlements. The comparative findings were a significant input in the formulation of the World Bank housing policy paper that followed in 1993. However, the publication of the survey results took place considerably later by Shlomo Angel who was a co-director of the project with Stephen Mayo as *Housing Policy matters. A Global Analysis* (2000). The survey provided the basis for the development of a diagnosis framework to evaluate quantitatively the performance of a housing system (see for instance the case of Panama by S. Angel, 2001).

1991: Paul Krugman**,** *Geography and Trade (1991).* The work by Paul Krugman on the dynamic relationships between trade and the location of firms across the cities shaping the economic space of a country filled a major analytical gap in economics between prevailing trade theory and what we know about the development of systems of cities. Krugman was awarded the Nobel Prize in Economics in 2008 precisely "for his analysis of trade patterns and location of economic activity." [10]

1992: Roy W. Bahl and Johannes Linn, *Urban Public Finance in Developing Countries* summarized a decade of research and operational experience by a network of leading local finance experts. It is a comprehensive review of critical issues encountered by state and local governments in financing cities. It remains to this date the dominant reference on urban public finance in developing countries. It reflects the long distance traveled in terms of gradual political and economic decentralization in about one decade; a decentralization that also benefits the operations of housing systems. [11]

1993: *Housing, Enabling Markets to Work, A World Bank Policy paper with Technical Supplements,* Washington DC (English, French, Spanish). Complementing the city level view of housing markets developed in the city study, the 1993 policy paper focuses on the overall structure of housing markets and on the institutional weaknesses and regulatory impediments to the sound functioning of the overall national housing system. The essential policy recommendations are presented in a table of "Do's and Don't". The paper is fully consistent with the broad consensus on the modern economics of housing markets (discussed next in section 2.2). The paper is mostly silent on the direct problems of social housing provision for the lowest income groups and on how to integrate informal housing and slum upgrading to the formal housing markets. The specific policy treatment of informal housing issues for the poor was expected to be addressed fairly rapidly after the completion of the "enabling policy" paper of 1993, which was laying down the critical foundations for the entire sector. Unfortunately, this second stage of housing policy development did not materialize. The net effect of this gap was that issues of designing social housing policies for the lowest income groups continued to be addressed case by case and country by country. The incompleteness of the

[10] Krugman, who credits Henderson's 1977 work, has played a key role in changing the views of academic economists on the fields of urban economics and of economic development. The previously dismissive attitude of these academic has changed. In his 1991 monograph and a companion monograph in 1995, Krugman develops at leisure his models of the relationship between trade and employment location. Free of the constraints of academic journals he also addresses the unexpected question of "why do economists reject ideas?" (Krugman 1995, p.4). He explains that academic economists often deliberately ignore factual evidence that they cannot handle in their formal models: "issues that are awkward to address are generally speaking not addressed." (Krugman, 1991,p.x). This peculiar professional behavior of the economics guild had been lampooned by Axel Leijonhufvud as early as 1973. In practice, it could also affect daily life in the IFIs in occasionally unpleasant ways. The rejection of important behavioral facts in the name of convenient but wrong economic assumptions has come for severe and legitimate criticism in the aftermath of the financial crisis (Cooper 2008, Stiglitz 2009). Krugman revisited this issue in a New York Times column. (Krugman, 2009).

[11] In contrast with today's decentralization trends, a 1981 survey of 54 national economic plans carried out by the International Union of Local Authorities found that *not a single one* of these policy documents explicitly considered the role of local governments in economic development (Bahl and Linn, p.2).

1993 policy paper on how to address informal housing issues led to a perception by some that this watershed document was an economic doctrine rather than the pragmatic policy framework that it was intended to be.

1999: The *Cities Alliances* is created as a decentralized network across multilateral organizations, bilateral donors and local governments in developing countries to speed up the exchange of information on policy experiences and practices for the benefit of local government officials and city managers. Housing and slum upgrading is a high priority of this network. Its secretariat is based at the World Bank (see: http://www.citiesalliance.org/ca/sitemap). This network represents a major departure from the traditional formal approach of IFI's in the transfer of housing policies and practices across developing cities.

2003. *High Noon: 20 Global Problems, 20 years to solve them* by J.F. Rischard . Admittedly this book is neither major research work nor a global policy document. Yet Rischard is remarkably effective in communicating the profound changes in our perception of global issues that have gradually occurred over the last two decades. This list of 20 problems may not be perfect: some issues could be added, other might be taken off. Yet, Rischard successfully communicates the range of problems we face as a global community within which housing solutions will have to fit.[12]

2008: *Decentralized Infrastructure Finance in the World Bank. Lessons for the Urban Century*, Clarke-Annez, Huet and Peterson reviews the past World Bank experience with the financing of urban infrastructure and evaluates the design changes that appear necessary in designing institutional mechanisms that might be able to serve in a sustained way the anticipated rapid growth of second and third tier cities in most developing countries. [13]

2008: *The Growth Report: Strategies for Sustained Growth and Inclusive Development.* This significant report was produced over the two-year period 2006-2008 by a Commission on Growth and Development consisting of 21 commissioners with the highest level of decision-making experience with economic development issues .[14] The creation of the Commission was motivated in part by the eight Millennium Development Goals agreed by the global community in 2001. The Commission's mandate was to determine what we have really learned so far about the necessary and sufficient conditions for sustained growth. The primary audience of the Commission are political and policy leaders in developing countries with responsibility for strategies and policies for growth. Unexpectedly, the Growth Commission completed its work in the middle of the worst global economic crisis in 70 years, thereby increasing the value of its findings. For a useful comment on the merits and limitations of the Growth Commission recommendations see Rodrick, 2008.

What the Commission's Report says about the strategies and policies required to achieved sustained high growth over long periods of time, has a direct bearing on our present concern for policy transferability. In particular, the Commission has highlighted that successful "urbanization is a key ingredient of sustained growth dynamics." Given that housing assets typically represent two-third in value of the assets of a city, housing policies are clearly not indifferent to urban development and growth. There is functional link between the Growth Report and the discussion of the context of housing policy transferability in Part III.

2009. *Housing Finance Policy in Emerging Markets (HFPEM)* edited by Loic Chiquier and Michael Lea, the World Bank. This major synthesis by 14 world experts with decades of international experience successfully

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[12] Rischard's list of our 20 global problems is as follows: *Sharing our planet: Issues involving the global commons:* 1. Global warming, 2. Biodiversity and ecosystem losses, 3. Fisheries depletion, 4. Deforestation, 5. Water deficit, 6. Maritime safety and pollution. *Sharing our humanity: Issues requiring a global commitment:* 7. Massive step-up in the fight against poverty, 8. Peacekeeping, conflict prevention, combating terrorism, 9. Education for all, 10. Global infectious diseases, 11. Digital Divide, 12. Natural disaster prevention and mitigation. *Sharing our rulebook: Issues needing a global regulatory approach:* 13. Reinventing taxation for the 21st century, 14. Biotechnology rules, 15. Global financial architecture, 16. Illegal drugs, 17. Trade, investment, and competition rules, 18. Intellectual property rights, 19. E-commerce rules, 20. International labor and migration rules.

[13] This operational analysis is usefully complemented by case studies of the financing of urban infrastructure in Brazil, China, India, Poland and South Africa by national experts in *Financing Cities* [2007] also edited by George Peterson and Patricia Clarke.

[14] The Growth Commission was chaired over two years by Nobel Laureate Michael Spence, former Dean of the Stanford Business School. Details about its mandate, members, funding, working methods, research findings, as well as the analytical materials generated by 21 workshops on various issues and its eventual conclusions can be found on the Commission's website: http://www.growthcommission.org/index.php.

pulls together knowledge and experience in advanced and emerging economies. It fills a long-standing gap in housing finance policy. In 16 chapters, HFPEM addresses every major recurring issue that policy-makers face when attempting to reform their housing finance system. Adopting a strong comparative perspective, this policy handbook identifies the recurring strategic questions that must be answered in order to make choices properly suited to the national context and it illustrate these options with choices made in significant country cases. HFPEM fully reflects the experience of the IFIs and of the World Bank in particular, in the development of the financial sector.[15] We have travelled a very long distance indeed since the pioneering comparative study of housing finance by Mark Boleat in 1985.

2009 *Systems of Cities: Harnessing the Potential of Urbanization for Growth and Poverty Alleviation. The World Bank Urban and Local Government Strategy, September.* This urban policy update provides a review of World Bank Urban Development Assistance. Both the organization and contents of this strategy paper reflect the increasingly decentralized and smaller scale nature of World Bank urban policy activities. Unexpectedly, the comparative policy contents of this update is lower than the findings of the 2008 Growth Commission with it s in-depth analyses of urbanization and development.[16]

2.2 Broad consensus on the basic anatomy of any housing system: the seven pillars of housing

Where do we stand today in our understanding of housing systems? As already mentioned, the American EHAP policy experiment of 1973-82 with its extraordinary budget has had a worldwide impact on the quality and depth of our understanding of housing systems. The basic analytical elements for the diagnosis of housing market remain the same whether we are looking at the national housing system of an advanced economy or that of a very poor developing economy and whether we are looking at a national housing system or at a specific urban market.

In any country, the economic performance of the housing sector and its impact on the wider economy is determined by institutional arrangements and public policies in seven areas of the system.[17] To understand the organization, structure and performance of a housing system implies the correct diagnosis of each of these areas. The overall strengh and stability of the housing system depends on the internal strength and mutual support of each of these "pillars." This diagnosis framework can be applied nationally or at the level of an individual urban market; it has been validated across a very wide range of housing systems around the world.

Demand-side questions

1. **Property Rights and Tenure Choice:** Are integrated and enforceable property rights easily tradable? Is there a tenure choice? Do rent controls and other price controls distort property rights?

2. **Housing Finance:** Are competitive banking services for housing available? Are there distorting "special circuits" based on a mix of special privileges and government constraints? Is the retail mortgage finance system linked to capital markets through mortgage securities?

3. **Taxation and Subsidies:** Is there a system of well targeted subsidies or are subsidies the cumulative result of piecemeal *ad hoc* decisions*?* Are the target groups of social housing policies the right ones? Are subsidies financed on budget? Are subsidies separated from credit services? Are fiscal resources wasted by subsidizing inefficient and stagnant privileged specialized housing institutions?

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[15] See the synthesis of World Bank financial sector experience written for policy makers by Gerard Caprio and Patrick Honohan *Finance for Growth. Policy Choices in a Volatile World* (2000). Given the focus of the present paper on the transfer of policy experience, it is relevant to mention that Patrick Honohan was appointed Governor of the Central Bank of Ireland in September 2009 to lead Ireland's financial system at an exceptionally challenging time, especially regarding the aftermath of the housing and real estate bubble. See http://www.centralbank.ie/index.asp

[16] In a different way, *Thirty Years of World Bank Shelter Lending* [2006] edited by Buckley and Jerry Kalarickal is not comparative either. Rather this monograph is more like a collection of short economic essays and is better suited to a dialogue with other economists than with decision-makers in developing countries.

[17] The present description of the seven pillars of housing is taken from the presentation made at the Symposium on Low-Income Housing In China held at Peking University in July 2009. See Renaud, 2009

Supply-side questions

4. **Supply of serviced urban land and local infrastructure:** What is the process for rural-urban land conversion? How is local infrastructure planned, financed and provided? How clear and predictable is the division of labor between public and private sector operators in the supply of serviced urban land?

5. **Land use and zoning regulations:** Are local regulatory frameworks for land development and land use raising the price of housing, especially for middle and low income families? Are urban planning decisions arbitrary and wasteful or are they consistent with land use efficiency?

6. **Organization of the real estate industry:** Is there a complete institutional framework to manage risks in the competitive construction and real estate industry? Do timely and reliable housing and real estate information systems exist?

Government questions

7. **Enabling role of central government, implementing role of local governments**: Is the national government providing a stable legal and regulatory enabling framework? Are autonomous and innovative local governments insuring a balanced and diversified supply of housing?

Using a medical analogy, a correct diagnosis of a housing system requires both knowing the personal history of the patient and measuring correctly his/her vital signs in each of these seven areas. Policy cures will differ depending on what pillars are weak and how these weaknesses interact. Like in medicine, successful treatment requires a combination of quality research and clinical experience, as well as the patient's own determination to get better!. Also like in medicine where the structure of the human body, and the brain in particular, evolves with age according to the stage of an individual's development from infant, to child, to young adult, to middle-age and old age, the internal structure of housing systems differs according to their level of development. We have to revisit the performance of the same seven pillars, but problems and treatment priorities will differ greatly.

Housing policy analysis is information intensive and also has a strong time dimension. Investigating the performance of the housing system of any country at any one time is a challenge. This challenge is best met when there are national experts and institutions who have collected reliable data on the solidity and performance of each of the seven pillars of housing; for instance on the legal foundations of local property rights and how these are affected by local practices. However, it is rare to find developing countries like Malaysia where a leading local institution carried out an in-depth strategic review of its housing system to better understand where improvements might be needed.[18]

National aggregate housing statistics are necessary to track trends in the housing sector and quantify significant deviations from past trends. However, the impact of national housing policies is most clearly understood at the level of specific individual housing markets, because aggregate national data cannot easily capture the dynamic interactions at work in these markets. The benefits of local analyses was shown by the comparative housing study led in 1991 by Björn Hårsman and John Quigley across Stockholm, Helsinki, Amsterdam, San Francisco, Budapest, Vienna and Glasgow. (See the review of this project in Renaud,1994). The 1990 Global Survey of Housing Indicators actually collected data across 53 major cities of the developing world. The merit of studying specific metropolitan housing markets to understand the likely impact and success of national policies has been demonstrated again recently by Glaeser and Gyourko in their 2008 study that calls for a reevaluation of housing policy in the United States.[19]

[18] *Cagamas Berhad* (National Mortgage Corporation of Malaysia) is historically the first successful secondary mortgage institution in a developing country. It was created in 1986. To mark its first decade of successful operations, Cagamas carried out a comprehensive study of the performance of Malaysia's housing system. This study was published as *Housing the Nation: A Definitive Study* in a large volume of close to 940 pages.

[19] Ironically, the Glaeser-Gyourko study that had been carried out during the US housing bubble was published at about the worst time of the US-led global financial crisis in December 2008. Because of the quality of its methodology, the study's structural findings and recommendations remain valid and important.

The UN-World Bank Global Survey of Housing Indicators led to the development of a rapid assessment methodology designed to identify parts of a national housing system where large quantitative deviation from the norm of the indicators would reveal important systemic problems. For instance, a land-price multiplier greater than three between the price of raw urban land and the price of developed land for housing might be an indication of serious distortions in the land market in need of institutional and/or regulatory reforms. The IDB carried out a significant number of such assessments in Central and Latin America. (See for instance the assessment of Panama in Angel, 2001). However, the impact of these assessments on the evolution of local housing policies in these countries is far from clear and no formal attempt at such an evaluation has been made.[20]

Were these analyses "demand-driven" by client countries or "supply driven" by the IFIs? Was the information traveling down the most effective channels of policy reform in each country case? Another question is whether different assessment indicators are needed at different stages of development? European housing policy analysts felt that methods and instruments different from the UN-World Bank indicators would be better to address leading housing policy issues across Europe today (Priemus,1992). Also, how much influence do country economic conditions have on the probability of successful housing policy transfers? What is the impact of country economic conditions on housing sector performance, and most likely on policy transferability?

III. STRUCTURAL IMPEDIMENTS TO THE TRANSFER OF HOUSING POLICIES AND PRACTICES

In a paper on the quality of comparative housing policy research Michael Oxley has lamented "a major omission of such studies" namely "a thorough analysis of the extent to which transfer is likely to work."[21] Oxley then elaborates his concerns:

> *"An examination of transferability would acknowledge that policies that work in one country will not necessarily travel well. It would demonstrate that the context of the 'success' and the 'failure' of policies has to be thoroughly understood before any recommendations about adoption elsewhere can be made with any degree of authority. Transferability analysis would attempt to make explicit those factors that work towards promoting the easy exportation of policies and those that act as impediments." (Oxley,2001, p.98).*

Studies in comparative housing policy are already challenged by the sheer magnitude and intensity of the information requirements for analyzing accurately the seven pillars of housing in a given country. There is therefore an incentive not to extend the scope of work by investigating three factors affecting policy transferability in a significant way: the quality of national economic management and policies, the changing role of the state between the 1950s and today, and the wide range of country experiences with economic growth.

3.1 Factors driving a country's economic performance and impact on housing sector investments

The performance of a housing system is linked to the overall performance of the national economy in at least two ways. First, housing assets form one of the longest-lived class of assets in any economy. The value of long-lived assets is very sensitive to interest rates and also to external shocks to the national economy to which developing economies are more prone than advanced economies. Second, as an economy urbanizes the weight of housing and other real estate assets in the national economy keeps getting larger and larger. This second point was forcefully made at the 2007 annual international meeting of central bankers hosted by the US Federal Reserve. That year, the conference's focus was on housing and the

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[20] "I never really understood the actual influence that our work has had on housing policy in developing countries. Did anyone really listen?" Shlomo Angel, private communication 18 February 2010.

[21] I am grateful to Rebecca L.H. Chiu for bringing the Oxley paper to my attention. Her own paper on the transferability of the public housing policy of Hong Kong is a good illustration of the merits of studying a specific housing market to under the dynamics effects of housing policies. (Chiu, 2010). Indeed a major reason why students of urban development are found of studying Hong Kong and Singapore in addition to the high quality of information is that the national macroeconomic dimension and the urban market dimensions are coterminous.

macroeconomy.[22] The US economy is now fully urbanized and Edward Leamer who is a leading analyst of US business cycles presented his US findings under the telling title "Housing IS the business cycle" (Leamer, 2007).

Housing problems are first and foremost the consequence of income problems. No lasting solution to poverty exists without economic growth. The record is also very clear that the quality of policies is critical for economic growth. The 1991 World Bank's Development Report on "the Challenge of Development" and the 2008 Growth Commission Report both reach the same conclusion: "Since 1960, the most successful economies have tended to maintain undistorted domestic prices, a stable macroeconomic framework, open trade regimes, and steady investment in people and selected public investments. " (World Bank,1991). The question is how?

In a unique study of 1,276 public and private investment projects financed by the World Bank Group over three decades from the late 1960s into the early 1990's, Isham and Kaufmann have found strong evidence that poor economic policies and institutions "adversely affect investments at three crucial stages: i) during project identification and preparation, through the wrong choice of output and scale – and of types of inputs and capital , including import and capital/labor intensities, ii) during project implementation, through restricted access and higher costs of inputs and capital investments; and, iii) during the project's operational life, through lower-than-anticipated demand for output as well as constrained access and higher cost of working capital and foreign exchange for inputs." (Isham and Kaufmann 1998, p.7). Restated in a more concise way, the linkage between country-wide policies and the productivity of projects in any sector including housing "operates through two channels: distortion of output choice and underutilization of capacity". While the adverse impact of poor economic policies was not a major new insight "the magnitude and significance of the results [in terms of dramatic reductions in the rates of return to investments] need underscoring" (Isham and Kaufmann, p.27). The study finds that a poor policy environment cuts the rate of return to public and private investments by "about six-to-ten percentage points" in real terms, which is a very large magnitude. When such large losses in productivity occur across the entire economy, the likelihood of finding the necessary resources to fund social housing programs for the poorest are close to nil. Moreover, one can also anticipate an accumulation of distorting housing subsidy programs resulting from political attempts by a poorly served middle-class to capture social housing programs. This is the context where "million houses national programs" are announced with great fanfare and quickly evaporate into unfinished projects.[23]

A second strong finding of Isham and Kaufmann 1998 is the complementarity between public investment programs and private investments, "in a non-linear fashion". In developing countries, government have been responsible for the provision of many services in particular basic infrastructure services in national transport, energy, urban infrastructure and agriculture (World Bank, 1994 and Clarke-Annez, 2008).There are often externalities and/or large economies of scale. In particular, serious gaps in the physical (as well as the institutional) infrastructure plague the informal housing sector. Where these services are absent, the economic efficiency cost can be large. Isham and Kaufmann find that there is an optimum proportion between public infrastructure and private investment that will maximize the economic returns to private investment. This optimum ratio is somewhere around 40% of public investment to 60% of private investments; see FIGURE 3. The implications for the design of housing policies are very significant.

From the perspective of the transfer of public housing policies and private practices, the likelihood and incidence of poor national economic policies on a transfer of experience is a significant factor that has not been investigated quantitatively. A seminar held in December 2009 by the Inter-American Development Bank (IDB) on the role of sub-national governments in housing provision in Latin America and the Caribbean provided suggestive evidence of the impact of the quality of national economic policies on housing sector

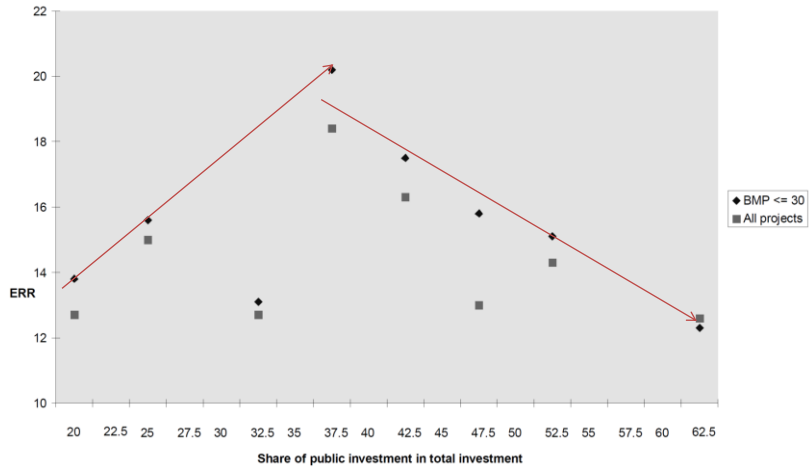
[22] The proceedings of the 2007 Federal Reserve Symposium on "Housing, Housing Finance and the Macroeconomy" contains a number of papers of significant value for comparative housing policy. See: http://www.kc.frb.org/home/subwebnav.cfm?level=3&theID=11442&SubWeb=10660

[23] The only exception to the all-to-predictable failure of "million houses programs" known to the author is Korea's "two million houses program' of 1987-92, which was even completed ahead of schedule. But this exception also proves the rule because (South) Korea is well-known for having maintained a sound policy environment for decades. Even then, the cost to the economic efficiency of urbanization in Korea was significant. It should also not be forgotten that the large public housing programs of Hong Kong and Singapore grew in a sound overall economic environment in an era where the strategic survival of these two fully open city states was a daily concern and waste was simply not tolerated.

performance—and also of the willingness to learn from foreign experiences.[24] Country presentations of on-going housing reforms in Brazil following the economic reforms initiated under President Cardoso during the period 1995-2003 and in Mexico after the Zedillo reforms continued during the Fox *sexenio* contrasted with the presentation on Argentina's of confused if not dysfunctional housing sector policies.[25] The profound economic reforms pursued in Chile in the aftermath of the 1980 crisis have also led to the closing of the large chronic housing deficit that had plagued Chile for decades. (Pardo, 2010) Owing to its sound overall system of government and effective financial regulations, Canada is one of the very few countries to have survived the global financial crisis with a very profitable banking system and limited economic damages outside the effect of the drop of exports to the US. The presentation of provincial and local housing policies in Quebec Province at the IDB seminar confirmed the strong correlation between sound national economic policies and effective social housing policies.

FIGURE 3

When infrastructure services are absent the costs are large:
THE PRODUCTIVITY OF PRIVATE INVESTMENTS PEAKS
WHEN PUBLIC INVESTMENT IS AROUND 40% OF TOTAL INVESTMENT



Source: Isham and Kaufmann, "The forgotten rationale for policy reforms", April1998, World Bank.
(NB: BMP Means "Black Market Premium" over regulated interest rates. ERR: real economic rate of return).

3.2 The changing role of the state

"Deux dangers menace le monde: l'ordre et le désordre" Paul Valéry, *Regards sur le monde actuel* (1931)
(Two dangers constantly threaten the world: order and disorder.)

The challenges of initiating and sustaining reforms were very usefully discussed in one of the two closing chapters of the 1997 World Development Report on "The State in a Changing World." In a contemporaneous historical analysis, Vito Tanzi who had had several decades of experience with fiscal policy reforms across developing and advanced economies at IMF pointed out that the role of the state in the economy has changes greatly in broad swings from the 19th century to the present (Tanzi,1997):

- "In the 19th century, the economic role of the government tended to be […] limited. For example, in most of the industrial countries, public spending was around 10 of GDP, and laissez-faire was the dominant economic philosophy."

[24] The presentations made at the seminar on housing of December 2009 IDB are posted in Spanish and English at: http://events.iadb.org/calendar/eventDetail.aspx?lang=En&id=1473

[25] The sustained decline of Argentina is baffling and remains unexplained. One hundred years ago, Argentina's exports accounted for 7 percent of world exports, and its per capita GDP was higher than France and twice as large as Italy's. The proximate cause of this decline has been fiscal management pure and simple. "A system with huge tax rates and almost no compliance enforcement would destroy taxpayer culture anywhere, even in Finland" (Eduardo Borensztein, 2008). But why did bad policies in such a rich country prevail for so long? See Tanzi, 2007.

- The 20th century saw a gradual but large expansion in the role of the state in the economy. For the new industrialized countries, the share of public spending in GDP grew, on average from about 12 percent in 1913 to about 45 in 1995."
- "The public sectors of many developing countries, through regulatory policies, have played a much larger role than the governments of the industrial countries in allocating investment, credit, foreign exchange, and economic resources in general."
- "As markets develop, they become more efficient and, for these reasons, they require a less normative role for the state."
- "One of the unpleasant realities of economic development is that the very countries that would seem to have the greatest need for an expanded public sector role may be the same ones where the public sector is least prepared to *efficiently* play such a role" (author's emphasis)."[26]

Path dependence is very likely to play a dominant role in the transfer of policies and practices. Tanzi concludes his 1997 examination of the role of the state with the view that "the current economic role of the state must be seen as the outcome of present and past economic policy decisions and cannot be assumed to reflect the role *desired* by the current government [….] That current role has been shaped partly or largely by historical developments." (author's emphasis).

The 2007-08 global financial crisis has brought us to another twist on the road. The often fierce conceptual attacks for more than two decades on the role of the state, in particular by conservative US economists, in the name of the "efficient market hypothesis" are bringing out a counter-reaction. (Cooper 2008, Stiglitz 2009). It is too early to tell whether a US consensus on a "golden mean" about the core function of the state will emerge. The multi-speed recovery that is emerging in 2010 differs greatly across the world and is likely to carry with it different government roles.

3.3 Making sense of growth patterns: dynamics of development and relevant housing policies

Can the search for policy transferability be improved by regrouping the 186 member countries of the IMF into a more manageable small number of country types with shared similarities in the dynamics of their growth.

Primarily interested in long-term growth modeling and starting with seven observed regularities, Lant Pritchett (2001, 2006) has regrouped the countries of the world into five categories of economies "in different dynamic states and characterized by their typical rate of growth and level of income". Pritchett's work remains at an experimental and exploratory stage. Moreover, it is doubtful that his work will help clarify the conditions of policy transferability for housing, because the priority seems to be creating formal, parsimonious academic economic models of growth.[27]

More pragmatic, the Chief Economist of the World Bank Justin Yifu Lin (2010) has recently proposed to rethink the endogenous economic development process around three basic ideas:
- "At every stage of development the optimal industrial structure of the economy is different, and each industrial structure requires a corresponding institutional and physical infrastructure to facilitate its operations and transactions."
- "Each stage of development is a point in a wide spectrum from a low-income, substance agrarian economy to a high-income industrialized economy. Given the endogeneity of the industrial structure at each stage of development, the target improvement in a developing economy should not necessarily to the industries and infrastructure found in high-income countries."

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[26] The World Development Report of 1997 has a box on Haiti (p.149). It recounts that Haiti became independent in 1804 and then explains that "a predatory state arose there between 1843 and 1915, a period characterized by short-lived rules, often removed by coups, driven by the creation of personal wealth. […] The United States occupied the country from 1915 to 1934, but the logic of a predatory state remained unchanged. In 1957, the democratically elected government of Francois Duvalier took that logic to a new level. […] The economic pillars of Haiti's predatory state were expropriation, extortion, the inflation tax, and corruption. […] After nearly thirty years of rule, the Duvalier dynasty fell in 1986. […] Haiti's history as a predatory state goes a long way toward explaining its dismal performance […] Given the legacies of the predatory state, Haiti's history remains perhaps the biggest obstacle to change".

[27] The five categories that Pritchett proposes (with his own country illustrations) are: (1) "high income and steady growth" countries like the US, Germany or Sweden; (2) "rapid convergence economies" like the East Asia Tigers or the Latin America "miracle" countries; (3) "non-converging growth states "that are neither technological leaders or advanced industrial countries and not in a poverty trap, with non-zero but non-converging growth rates like Colombia or Tunisia; (4) collapsing economies with negative growth rates for a decade or more (Madagascar, Guyana); and (5) "low-level poverty trap economies" with low income and no growth such as (Senegal, Nepal or Laos).

- "At each given stage of development, the market is the fundamental mechanisms for effective resource allocation. Economic development as the dynamic process of moving from one stage to the next requires industrial diversification, upgrading, and corresponding improvements in physical and institutional infrastructure. "In addition to an effective market, the government should play an active, facilitating role in the industrial diversification and upgrading process and in the improvement of infrastructure".

Moving away from the approaches and attitudes of the Washington Consensus, this proposal by Lin appears to be a return among the IFI's to a non-normative view of development and to the inductive analytical process that has long dominated development concerns in East Asia . See for instance Miyoei Shinohara's work on Japan (1970), the work on Taiwan by Fei and Ranis, or the series of studies of Korea's development carried out by the Korea Development Institute at three different times. It is easy to conceive of an analysis of the evolution of the housing system of the upgrading of the seven pillars in terms of the progression of the institutional and regulatory infrastructure along these seven axes.

IV. AID FRAGMENTATION: A CHALLENGE TO TRANSFERABILITY

5.1 **Accelerating aid fragmentation: does it affect the diffusion of housing policy and practices?**

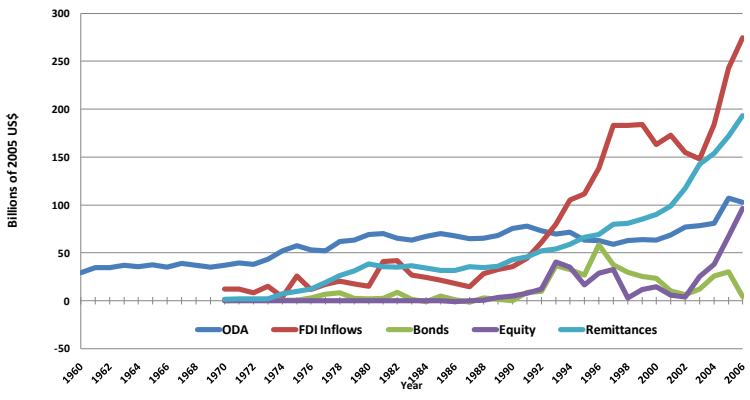
The structure of development aid has changed dramatically since the decade of the great EHAP experiment and the 1993 World Bank policy paper on "enabling housing markets to work." There has been a striking acceleration of aid fragmentation. The changes are bound to affect the transfer of public housing policies and private practices.

The volume and composition of the flow of public and private funds to developing has changed profoundly:

- The flow of funds to developing countries has expanded more than ten-fold since 1970. The latest survey by the Development Assistance Committee of OECD (OECD_DAC) of 2008, estimates that the *total* flow of funds to developing countries including official development assistance from multilateral and bilateral donors(ODA funds), foreign direct investments (FDI), bond issued by developing countries, and overseas remittances has grown in constant 2005 dollars from USD 51 billion in 1970 to USD 671 billion in 2006, just prior to the global financial crisis .[28] See FIGURE 4. The periodic OECD-DAC surveys do not attempt to quantify comprehensively the activities of private foundations and the myriads of NGOs.[29]

FIGURE 4

NET FLOW OF FUNDS TO DEVELOPING COUNTRIES BY TYPE.
1960-2006 (Billions of 2005 US dollars)



Source: E. Frot and J. Santiso (2008) "Development Aid and Portfolio Funds: Trends, Volatility, Fragmentation, OECD Development Center, Working Paper 275, p.15

[28] The author is grateful to Emmanuel Frot and Javier Santino for providing him the OECD-DAC 2008 survey data.
[29] To illustrate the challenge, some unverified US press reports mentioned the presence of 10,000 NGO personnel in Haiti at the time of the January 2010 earthquake, for a total estimated Haiti population of 9 million.

- The market share of ODA funds in the total flow of funds to developing countries declined from 73% in 1970 to 15% in 2006.

- At the time of the first World Bank Urban Paper of 1972, the ODA market share was 77%. Within these ODA funds, the World Bank's share was high. Few donors made loans to a limited number of countries. Loans of significant size were an important vehicle for the testing of housing policy reforms in member countries. Inevitably, the policy views of the World Bank carried considerable weight among the countries who took IFI loans.

- At the time of the World Bank's policy paper on 'enabling housing markets' in 1993, the ODA share had already declined to 25% of the fund flows. Within ODA, the market share of the World Bank had also declined given the growth of the regional IFIs and of bilateral donor funds.

The channels of diffusion of public policy experiences and private sector practices have become complex and increasingly diffuse:

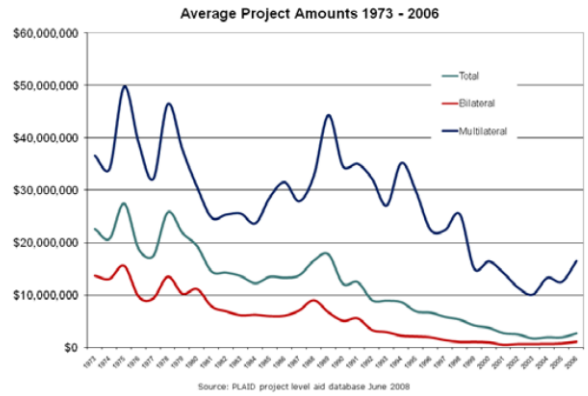
- There are 280 bilateral donor agencies, 242 multilateral programs, 24 development banks and about 40 United Nation agencies are working in the development business.

- An increasing number of countries have shifted from being recipients of financial and/or technical advice in previous decades to becoming aid donors either within their geographic region or globally in Asia (China, South Korea, Singapore, Malaysia), in Latin America (Brazil. Chile), and in the Middle East (Saudi Arabia, the United Arab Emirates),

- The average size of projects by bilateral donors is well below USD 3 million. FIGURE 5

FIGURE 5

THE SIZE OF ALL AID PROJECTS HAS DECLINED
THE SIZE OF BILATERAL PROJECTS IS VERY SMALL



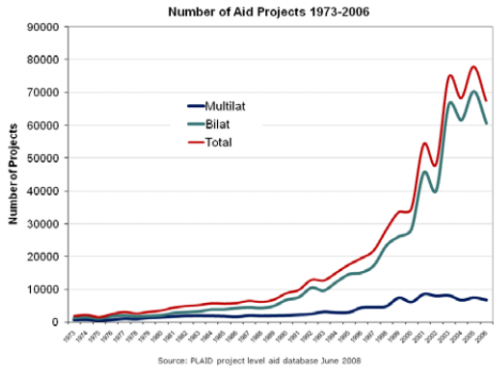
Source: Owen Barder, "Beyond Planning: Markets and Networks for better Aid," Center for Global Development Working Paper 185, October 2009, p.28

"The aid industry is becoming more bilateral. More and more countries chose not to have their objectives diluted by multilateral government structures. …As countries' objective diverge, compromise through multilateral structures is harder to achieve and the ability of those institutions to adapt and innovate diminishes, As a consequence, the recent growth in aid has been by bilateral, global funds, and private philanthropies that respond to specific issues like HIV or education, *without requiring compromises on a broader development agenda*." (Minouche Shafik, 2009)[30] (Emphasis added)

[30] Minouche Shafik is the current Permanent Secretary of the UK Department for International Development (DfID)

FIGURE 6

RAPID GROWTH IN THE NUMBER
OF BILATERAL AID PROJECTS, 1973-2006



Source: Owen Barder, "Beyond Planning: Markets and Networks for better Aid," Center for Global Development Working Paper 185, October 2009, p.28

It is important to note the entry into comparative housing policy since 2003 of major international players that previously had little or no active interest in this area of public policy. The International Monetary Fund, the Bank of International Settlements in Basel, the European Central Bank in Frankfurt, the US Federal Reserve System and an increasing number of national central banks have become actively interested in the performance of the housing sector and the real estate economy. They have often produced significant comparative analyses for our understanding of the forces shaping housing markets, with the likelihood of policy changes in the areas of monetary policy, financial regulation and supervision of residential and commercial real estate lending, and consumer protection. Another important source of comparative findings on housing in high income countries is the OECD as part of its regular monitoring of the performance of its members countries.

4.2 Decentralized aid networks: centralized quality control versus the wisdom of crowds

> *"Under conditions of true complexity – where the knowledge required exceeds that of any individual and unpredictability reigns – effort to dictate every step from the center will fail. People need room to act and adapt. Yet they cannot succeed as isolated individuals either – that is anarchy. Instead, they require a seemingly contradictory mix of freedom and expectations – expectations to coordinate, for example, and also to measure progress towards common goals."* Atul Gawande, *The Checklist Manifesto, (2009, p.79).*

A series of official reviews and analytical papers explore ways to address the serious problems of aid fragmentation.[31] The new paper by Owen Barder (October 2009) is especially interesting because Barder first examines the behavioral factors behind the fragmentation of aid. He identifies four recurrent problems in the delivery of aid and in the interactions between donors and recipient countries: (1) imperfect information and broken feedbacks between intended beneficiaries and the original providers of aid. (2) The problems created by the multiple, competing objectives of aid providers and recipients which also differ from provider to provider, and recipient to recipient as well. Competing objectives appear to be an important factor behind the growing aid fragmentation. For instance, donors may have poverty reduction as their primary objectives but they may also pursue additional objectives such as national security, commerce, prestige, access to resources, and even the promotion of specific values. (3) There are also the familiar principal-agent problems of public agencies and large private organizations. (4) Then there are the problems of "collective action": what are effective ways to coordinate the actions of multiple decisions-makers with diverse and competing interests? These problems are not always all four present, and also their intensity varies by types of projects.

[31] See Eckhard Deutscher and Sara Fyson (2008), Eckardt Deutscher is Chairman of the Development Assistance Committee whose secretariat is at OECD. See also Homi Kharas (2008).Owen Barder (2009), Minouche Shafik (2009). In addition major gatherings of donors have produced negotiated agreements to improve aid delivery such as the *Paris Declaration on Aid Effectiveness of March* 2005 and the Accra *Agenda for Action* of 2008.

Then Barder asks what mode of collaboration seems most effective in addressing each of these four problems: formalized and hierarchical planning, market mechanisms, or networks? His results are summarized in FIGURE 7.

FIGURE 7

FOUR PROBLEMS BEHIND AID FRAGMENTATION:

WHAT MODE OF COLLABORATION IS BEST SUITED TO EACH?

	Modes of collaboration		
Problem:	**Planning**	**Markets**	**Networks**
Imperfect information and broken feedback	No	Partly	Yes
Multiple, competing objectives	No	Partly – but only if incentives can be enforced.	No
Principal agent problems	No	Yes – through explicit contracting.	Yes – by increasing transparency and accountability
Collective action	Yes – where interests are broadly aligned or if decisions can be enforced	Partly – but only if market incentives can be enforced	Partly – but only where interests are broadly aligned

Source: Owen BARDER, Beyond Planning, Markets and Networks for Better Aid, CGD WP185, October 2009, Table 2, p.28.

Today, our interest is the diffusion of sound public housing policies and effective practices in the broader context of urban development. As emphasized in Part III, aid is not the most important determinant of how quickly a country develops. Good policies and persistent leadership are.[32] Given the information intensive-nature of the seven pillars of housing, a network structure directly accessible to policy markers at the national level as well as local official a network structure would be a important vehicle for the diffusion of policy innovations. Networks are very congenial the decentralized nature of urban development.

Barder finds that "Networked organization have so far had most impact in applications that involve sharing knowledge and ideas, particularly where these can benefit from tapping the collective wisdom and experience of diverse individuals." (Barder, 2009, p.24) However, an element that Barder does not mention explicitly will be very important to the effectiveness of a policy network: who is going to manage the critical *nodes* in the network and how will the credibility and quality of the reported information be vetted? The CGAP network has played a very effective role in the past in the diffusion of microfinance innovations, because it enjoyed three critical features: it had administrative autonomy and was not subject to the short-term internal administrative vagaries of managers with misaligned incentives; it had adequate and stable long-term funding and stability; and it had access to high-quality professional human resources who could make long-term commitments.

What kind of new network structure is likely to emerge or should be encouraged for comparative housing policy? Where will the IFIs fit in for the sound transfer of housing policies? Should there be one node for

[32] During my years at the World Bank, I liked to say that we had two kinds of clients. We had the "good" clients who were making significant reforms plans and were keenly interested in comparing their plans with those made by decision-makers of other countries who had face comparable problems. They were mostly interested in receiving comparative advice free of the potential biases or one-dimensional experiences of bilateral lenders. For them the loan was a second order consideration, yet obviously helpful as "bridge financing" during the policy transition. Then there were the "bad" clients, usually operating in poor policy environments with distorted public housing programs, who were primarily interested in the money. They who would try to minimize our recommendations and tell us that if the project failed they could always ask for another loan. After all wasn't the World Bank a financial cooperative? They were entitled to our financing!

each pillar of housing policy? For illustrative purposes only, one can mention some significant nodes already in existence. The Lincoln Institute of Land Policy based in Cambridge, Massachusetts with its stable and autonomous status as a foundation has long been a major contributor on property rights and land policy issues. Some of the most productive nodal structures seem to be based in universities. In housing finance, the Wharton School is hosting this year its 25th annual International Housing Finance Program. The IHFP is designed for banking executives and policy makers from emerging markets. Similarly, the University of Georgia has long been a major contributor on state and local finance issues developing countries. Are such nodes the best design for a global aid network in housing?

CONCLUSION:

There is a broad professional agreement on the structure of every housing system with its "seven pillars", but we should not fall into the trap of believing that there is a unique model of a housing system. The economic framework that grew out of the great EHAP research decade that is reflected in the 1993 World Bank "enabling housing" paper is to the economics of housing what Gray's Anatomy is to the field of medicine.[33] It is a critical scientific foundation on which to build housing policy, but a lot more work has to follow.

We should exorcize the ghost of the "Washington Consensus" when thinking about housing policies in developing countries (Rodrick, 2008). Rejecting the economic framework underlying the 1993 "enabling housing" paper because the paper did not directly address the technical problems of informal housing and the shadow economy would be strategically very wrong: the size of the informal sector in an economy is for the most part a measure of the failure of public policies and flawed or missing institutions.[34] Much institutional work needs to be done speed up the integration of informal housing markets into the overall national system. However, as the 2008 Growth Commission pointed out: "It takes a minimum of 50 years to make the transition from low to advanced income levels."[35] Specific support to the poor and to lowest income groups is needed right now, The global crisis has heightened the need for reliable information on the lessons of experience on the design of housing policies and institutions. In the new environment of heightened fiscal austerity, poorly designed subsidies should not undercut the performance of the rest of the housing system and jeopardize its long-term growth prospects.

In terms of the diffusion of public housing policies and private practices, the fragmentation of aid is most costly for the poorest countries on which it imposes high transaction costs in proportion to their scarce human resources. We seem to be moving in the direction of decentralized aid networks. In the case of housing and urban policies, solutions congenial to the network nature of city systems exist. Access by the local public leaders and private decision-makers of developing countries to strong network nodes on land policies, urban transport, housing and housing finance and the other pillars of housing can make a significant difference.

[33] *"Henry Gray's Anatomy of the Human Body,"* is the textbook on human anatomy that has become a classic for first-year students in UK and US medical schools. Its first edition was published in the UK in 1858.

[34] remaining part of informality probably reflects the income level of an economy.

[35] London Launch Presentation of the Growth Report, May 2008:

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Kaufmann Two critical points: (1) critical role of the policy environment, (2) major importance of the relative balance between public infrastructure investment and the efficiency of private investment.

See "Paris Declaration on Aid Effectiveness: Ownership, Harmonization, Alignment, Results and Mutual Accountability," at http://www.adb.org/media/articles/2005/7033_international_community_aid/paris_declaration.pdf.

Opening Remarks at the Seoul ABCDE **Justin Yifu Lin.**
Draft, June 16, 2009

Prior to the current crisis, World Bank research estimated the number of people living below the poverty line worldwide at about 1.4 billion. Preliminary studies of the impact of the global downturn indicate that an additional 53 million people will fall below the poverty line in 2009. The long-run consequences of the crisis may be more severe than those observed in the short run, possibly turning a short-run macroeconomic adjustment into a long-term development problem. When poor households pull their children out of school, there is a significant risk that they will not return once the crisis is over, or that they will not be able to recover the learning gaps resulting from lack of attendance. And the decline in nutritional and health status among children who suffer from reduced (or lower-quality) food consumption can be irreversible. The middle class will also be hit hard by soaring joblessness, losses in equity markets, possible currency depreciation, and anxiety over the safety of local banks.
Constrained by already eroded fiscal space and by foreign exchange reserves, many developing countries will be unable to implement counter-cyclical policies on their own. 3
Moreover, the crisis is reducing their income, hereby worsening public finances threatening existing levels of spending, and further reducing services to the poor. We may be facing nothing short of a development emergency.