

## **2006 KfW Financial Sector Development Symposium**

### ***Financing Housing for the Poor: Connecting Low-Income Groups to Markets***

November 9th and 10th, 2006

KfW, Berlin

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## 1 Symposium Overview

The Financial Sector Symposia, organised by KfW under the direction of Ingrid Matthäus-Maier and in cooperation with its partners, are an established annual tradition. The Symposia seek to offer state-of-the-art contributions and discussions within a selected group of leading professionals.

The 2006 Symposium will retain the global perspective established in 2004 and 2005. It will broaden the scope of the symposia series beyond classical microfinance to focus on housing finance for low-income households within the framework of sustainable financial sector development.

Next to microfinance, housing finance for low-income groups is at the top of the international agenda for the development of financial systems. The Monterrey consensus emphasises the provision of shelter as a basic requirement for poverty alleviation. Moreover,

- a) the creation and improvement of housing is a basic imperative for post-conflict reconstruction and for restoring civil society;
- b) through the reduction of emissions and the improvement of energy efficiency, housing is directly related to the protection of the environment; and
- c) housing contributes significantly to various Millennium Development Goals (MDGs) by improving living conditions.

Actual and potential demand for housing finance is enormous, especially for housing improvement loans and certainly among the poor. Yet, the supply of housing finance remains severely constrained. Financial intermediaries lack adequate refinancing and the appropriate tools, processes and products to realise the market potential and improve the housing conditions of the poor. These problems and relevant policies are attracting increased attention by donors, development finance institutions (DFIs), governments and researchers.

In March 2006 a World Bank conference on housing finance in emerging markets was devoted to technical aspects of housing finance issues. An event organised by Habitat for Humanity in June concentrated on urban development policies. The 26<sup>th</sup> annual International Union of Housing Finance (IUHF) World Congress held in September explored issues ranging from the impact of Basel II on housing finance

to the development of mortgage insurance in new markets. The 2006 KfW Financial Sector Development Symposium will combine technical and political aspects of housing finance with private sector issues. In contrast to the large assemblages noted above, KfW and its partners will maintain the tradition of organising a small scale symposium attended by invited participants. It will have a strong focus on housing microfinance and housing improvement finance, which will differentiate it from the preceding events.

## **2 Goals of the 2006 Symposium**

**The 2006 Symposium will focus on how to develop housing finance as an integrated and sustainable part of financial systems in developing and transition countries. It will explore how access to housing finance by low-income groups, particularly those currently lacking access, can be facilitated and improved.**

The Symposium will serve as a platform to explore these frontiers of finance. It will be a two-day think tank that assembles leaders from various areas of financial sector development. Donors, DFIs, bankers, financial managers and academics are invited to examine and discuss cutting edge financial products and policies. The Symposium will provide a forum in which participants can review experiences, exchange and share approaches, evaluate strategies and tackle the challenge of connecting low-income groups to financial systems. It will offer important players in development finance the opportunity to help foster new ways of creating assets within poor societies.

As in the past, the expert papers presented at the Symposium will be published. KfW's series of symposia publications provide reference points for new approaches and initiatives and are read by policymakers, practitioners and academics.

### 3 Symposium Topics

#### 3.1 Assessing the Potential: Connecting Low-Income Groups to Financial Markets

- *Goal:* to develop a systematic approach to quantify the outreach of financial markets and to identify challenges in efforts to increase outreach
- *Key issues and points for discussion:*
  - describe the importance of financial systems for the housing sector and housing finance (long-term end of the market, bond markets, etc.)
  - map the financial market for low-income housing (discuss characteristics of target groups, what types of housing are required and how they are financed, importance of housing improvement)
  - categorise financial instruments and their outreach (outreach of current instruments; what could be changed to engage more households, especially poorer ones; what needs to be addressed on the systemic level to stimulate these changes)

#### 3.2 Setting the Framework: Connecting Public and Private Interests

- *Goal:* clarify the respective roles of the public and private sectors in increasing outreach; clarify the interaction between these sectors; outline the challenges of blending public subsidies with private lending; discuss the interface between the housing market and the land market.
- *Key issues and points for discussion:*
  - developmental impact of housing policies and housing finance (capital mobilisation and accumulation, savings, etc.)

- subsidies that promote housing: are they required and how can they be used without distorting financial markets?
- property rights: how important are land reform and land titles? Do titles stimulate the market or is the evolving financial market creating demand for titles?
- what is the role of the huge non-mortgage based market; are special approaches required for housing improvement finance?

### **3.3 Regulation and Public Sponsorship: Connecting with the Financial Sector**

- *Goal:* clarify the interaction of regulation, the legal environment and financial intermediation; outline strategies for further reform and development
- *Key issues and points for discussion:*
  - financial sector regulation and its impact on institution building, role of land register and cadastre
  - banking supervision and the effects of changing international standards (Basel II)
  - links between regulation and intermediation (product design, wholesale and retail instruments, etc.)
  - trade-off between regulation and solutions within the reach of the poor; regulation of building and construction of structures adequate for the poor; interaction with financial regulation (may constrain fuel bubbles)

### **3.4 Retail Instruments: Connecting with Clients**

- *Goal:* identify and define client demand and market potential, assess existing products, identify required changes and provide an overview of recent innovations

- *Key issues and points for discussion:*
  - explore the limits and potential of microfinance for housing
  - how to improve supply, especially how to facilitate home improvement through innovative products (non-mortgage-based lending, track-record approach etc.)
  - categorising innovations and challenges in housing finance:
    - a) reducing transaction costs (reforming approval processes, lending techniques), b) extending term structures, c) refining valuation processes
  - housing finance beyond housing loans: the role of savings and insurance for clients (home, property, life)
  - how to serve the resale market for informal housing

### **3.5 Developing the Market: Connecting Wholesale to Retail**

- *Goal:* explore potential innovations that could facilitate the refinancing of low-income / non-mortgage housing portfolios
- *Key issues and points for discussion:*
  - local currency lending and foreign resources: explore possibilities to manage exchange rate risk
  - securitising housing loans for low-income groups
  - using waterfall structures like those in investment funds
  - credit insurance mechanisms (leverage, risk mitigation)

### **3.6 Looking ahead: Connecting to the Future**

- *Goal:* summarise and identify challenges and opportunities
- *Key issues and points for discussion:*

- summary focus on the development of market potential and how to improve supply of housing finance for the benefit of low income groups
- identify future challenges