

# The Forum

promoting dialogue among Habitat for Humanity's worldwide partners

## Housing and economic development

by Susan Aspinwall



A child peers through the slats of a church at a Habitat for Humanity Uganda training in Mayuge, Uganda.

EZRA MILLSTEIN

What do we mean by “Housing and Economic Development”? In the Habitat for Humanity context, we generally approach it from two angles: the community level and the family level.

On a community level, how do improved housing and neighborhood revitalization affect economic development? Taking the opposite view, in what ways can economic development hinder or even destroy neighborhoods? How can we find the best balance of these two outcomes of

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HOW SHOULD DECISIONS BE MADE TO  
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ENCOURAGING PEOPLE TO LIVE AND  
WORK IN A COMMUNITY?

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economic development? And how should decisions be made to create viable neighborhoods that complement economic development, encouraging people to live and work in a community?

On a family level, housing is frequently the base of entrepreneurs to create a business. Particularly in the developing world, the home is a business asset. A report on

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## Housing and economic development

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the informal economy published by Sida in 2004 finds that home-based workers and street vendors represent 10 to 25 percent of the work force in developing countries. What economic development policies can encourage this type of entrepreneurship?

We also should consider a broader scale. How can housing affect a national economy—positively or negatively?

This issue of *The Forum* explores many of these questions and offers real examples of how Habitat for Humanity's work can affect—or be affected by—economic development.

You will see a discussion on housing as an economic stimulus in the Philippines and around the Asia/Pacific region, an advocacy view from Hungary, and a perspective from Brazil, Paraguay and Argentina on the impact of incremental housing improvements. In addition, we have

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commentary exploring the root of the housing crisis from an international perspective.

I am also pleased to provide a Q-and-A with Dr. Eric Belsky, managing director of Harvard University's Joint Center for Housing Studies, which is Harvard's center for information and research on housing in the United States. The center analyzes the relationships between housing markets and economic, demographic and social trends, providing the knowledge needed to develop effective policies and strategies. We are fortunate to be able to include Belsky as an external voice in our dialogue on this subject.

### A change at the helm

With this issue of *The Forum*, we say goodbye to Karan Kennedy as senior adviser. Karan wonderfully guided this publication from its inception but has moved into the Resource Development Department of HFHI to lend her talents and expertise on international issues to engaging donors in the work we do. Thank you, Karan, for all of your work to advance *The Forum*.

I join Habitat for Humanity International's International Programs department after some time in Resource Development on the corporate programs team. I

look forward to interacting with the readers of *The Forum* as part of my new role as adviser. I will continue to work to expand the publication's reach by providing you with even more in-depth programmatic content, including making connections with external subject matter experts applicable to our international audience. You will start to see some of these changes in this issue on Housing and Economic Development. I hope you find the content thought-provoking and applicable to your work. Please be in touch with any feedback on this issue and suggestions for the future by e-mailing me at [theforum@habitat.org](mailto:theforum@habitat.org). 

*Susan Aspinwall is international programs project manager and adviser to The Forum.*

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## The Forum

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**Executive adviser:**

Susan Aspinwall

**Content editor:**

Jennifer Lindsey

**Copy editor:**

Adam R. Smith

**Editorial support:**

Stephen Seidel

**Graphic designer:**

Debbie Nessamar

**Spanish translations:**

Translation Station, Inc.

**Distribution manager:**

Alicia LaFrance: [alafrence@habitat.org](mailto:alafrence@habitat.org)

**Editorial policy:**

We welcome the submission of articles, photos and ideas for topics. For more information, please e-mail [TheForum@habitat.org](mailto:TheForum@habitat.org).

**Mission statement**

The Forum exists to connect the worldwide partners of Habitat for Humanity International as well as provide a link to other organizations and individuals concerned with the effects of poverty by providing a means to:

- Explore issues related to housing and poverty.
- Describe the work that Habitat for Humanity is doing around the world to address housing and poverty issues.
- Present success factors and in-depth analysis of innovative and signature Habitat programs.



121 Habitat St., Americus, GA 31709-3498 USA

# Economic impact through incremental and complete housing solutions

By Demostenes Moraes, Mary Lechenuk, Andres Maidana Legal and Ana Cutts

The factors of adequate housing as defined by the United Nations —legal security of tenure, availability of services and infrastructure, affordability, habitability, accessibility, location, cultural adequacy—work together to ensure that housing can allow its inhabitants to produce economic benefits for both the family and the community as a whole. A healthy neighborhood, and an inclusive city, start with housing that has optimum conditions for habitability.

But in most Latin American and Caribbean countries, the ability to access complete housing solutions all at once is a luxury enjoyed chiefly by the middle and upper classes. Lower-income families must improve their homes in stages, often taking up to 20 years to reach the same objective. Although progressive housing solutions provide affordable, immediate options for home improvement,

these incremental methods must not lose sight of the final objective of a complete, adequate house that meets the standards established by the United Nations. To ensure that families are not “overinvesting” during the lengthy process of developing their homes, it is vital that programs improve both the quality and the time involved in progressive construction.

Thus, when contemplating progressive home improvements, it is important to first consider the immediate economic advantages distinct to complete housing solutions, including:

- **Access to the formal financial sector.** A complete housing solution creates immediate capital for a family, allowing them to “exist” within the formal market. This new access to credit can be used for small

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## General factors of adequate housing that have a direct effect on home economy, as related to the U.N. standards for adequate housing:

- **Formal inclusion:** A complete housing solution creates initial capital for a family, which allows them to “exist” within the formal market, providing access to credit and larger investments.
- **Health:** According to surveys carried out by Habitat for Humanity Argentina, adequate housing notably decreases illnesses such as gastrointestinal infections, bronchitis and respiratory and skin diseases. This can affect the family economy by up to 30 percent, taking into consideration savings on medical expenses, school and work absences, and other factors.
- **Education:** Based on the same surveys, a high percentage of elementary school children raise their grades significantly when they have favorable conditions for studying. Although education is the fundamental basis for community progress, it is difficult to quantify a community’s economic gain when housing improvements increase children’s ability to complete schoolwork at home.
- **Energy:** The basic conditions of comfort inherent in

an adequate, formal housing solution can generate substantial savings in gas and electricity. The cost of heating individually—via the purchase of gas cylinders, for example—is more expensive than heating a home with access to public gas lines. Housing with properly installed electrical systems promotes more efficient use of resources and can reduce costs up to 15 percent. In informal settlements where there is no clean public water source, it is common to extract groundwater via costly mechanical means. If the water is poor, there are further costs associated with health care and absence at work and school. Simple access to safe, public water sources breaks this cycle.

- **Employment:** Adequate housing is also a fundamental element in securing employment. Habitat for Humanity Argentina has seen significant improvement in the employment sources of families that do not need to dedicate time to the constant repair of their houses, and that have a stable address accepted by formal labor sources.

## Economic impact through incremental and complete housing solutions

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businesses, additional home improvements or other family consumption needs. For this capital to exist, housing solutions must include legal tenure.

- **Influence in economic decisions of the nuclear family.** Homeownership influences decisions regarding a family's short- and long-term economy, such as whether to change jobs, where to send children to school, the cost of public transportation, etc.
- **Self-esteem and social status.** One of the most important factors of homeownership is the image of the family to themselves and society. Societal recognition of one's home as a "house" often affects one's ability to obtain formal employment. Although small improvements can drastically change the quality of life



HABITAT FOR HUMANITY ARGENTINA

A Habitat partner family member participates in masonry tasks in Habitat for Humanity Argentina's progressive improvements program.

within a house, they are less likely to change the self-esteem of a family until society ceases to see the house as a "shack." In Buenos Aires, Argentina, for example, a family emerging from a context of poverty will feel they have "made it" only if the house has a floor covering such as ceramic or tiles, if the bathroom has a bidet, and if the plot of land is adequately enclosed with an entrance gate and pathway to the front door. Infrastructural conditions are also a factor—paved rather than gravel roads, for example. In Paraguay, a house needs to meet the basic needs of security and hygiene, including running water, electricity and sewage. These are cultural aspects that are not necessarily the same as minimum standards of housing as perceived

by housing organizations.

- **Stability and community belonging.** Homeownership changes the social fabric of communities. A classic example in Paraguay is the emergence of neighborhood associations that work to improve community infrastructure, such as streets, pedestrian walkways and public lighting. The work of these associations helps to create interfamilial ties and raise the economic value of the neighborhood. The associations also increase the opportunity and likelihood of families to invest in home improvements, thus increasing the value of the individual homes.
- **Immediate relief from home repair expenses.** A complete housing solution frees families from having to repair problem areas. If funds that went into temporary solutions can instead be invested in savings, there is a greater potential for home expansion instead of repairs.

Incremental housing solutions aim to achieve these economic advantages over time and according to the family's financial capacity to commit to a loan. Other economic effects can be distinct to the progressive approach, such as:

- **Ability to establish and strengthen small home businesses.** As a significant portion of low-income families' economic resources come from home businesses, progressive improvements are ideal for creating or adapting spaces for economic activities.

A survey conducted by Habitat Argentina on a progressive improvements project revealed that after the home improvement, families began to consider options for home businesses that would meet basic needs of the community.

In Brazil, large financial service providers are developing housing improvement programs that allow for spaces that can be used for small-business activities. Habitat Brazil is building relationships with these banks to develop large-scale programs that associate credit with technical assistance, including the possibility of creating additional space for home businesses.

An unexpected outcome of Habitat Brazil's Varjada Project, the creation of a women's association for the production of embroidery products, was possible only with the construction of communal cisterns. Before the project, women spent a large part of the day gathering water from sources far from their homes, leaving little time or energy for income-generating activities. In addition, precarious housing conditions had complicated the integrity of the women's products and did not allow for an adequate home workspace.

Habitat for Humanity Paraguay's home repair, amplification and improvement project in Areguá partners with the Loma Clavel association of handicraft producers, who work out of their homes, helping them to improve conditions and raise the quality and quantity of their production.

We must remember, however, that several aspects must be considered in the design, implementation and technical support given to home business adaptations.

- **Separating home from work.** Living and working in the same environment can be stressful and unhealthy, particularly if the business involves production (carpentry, cooking, sewing, etc). For this reason, it is necessary

to separate the workshop from the home, with separate entrances if possible.

- **Electricity and water.** The electrical appliances of a workshop often exceed the voltage of a family home. In many settlements, this can mean risk of explosions and fires. In addition, some enterprises require water use and waste disposal that may exceed that of a normal household.

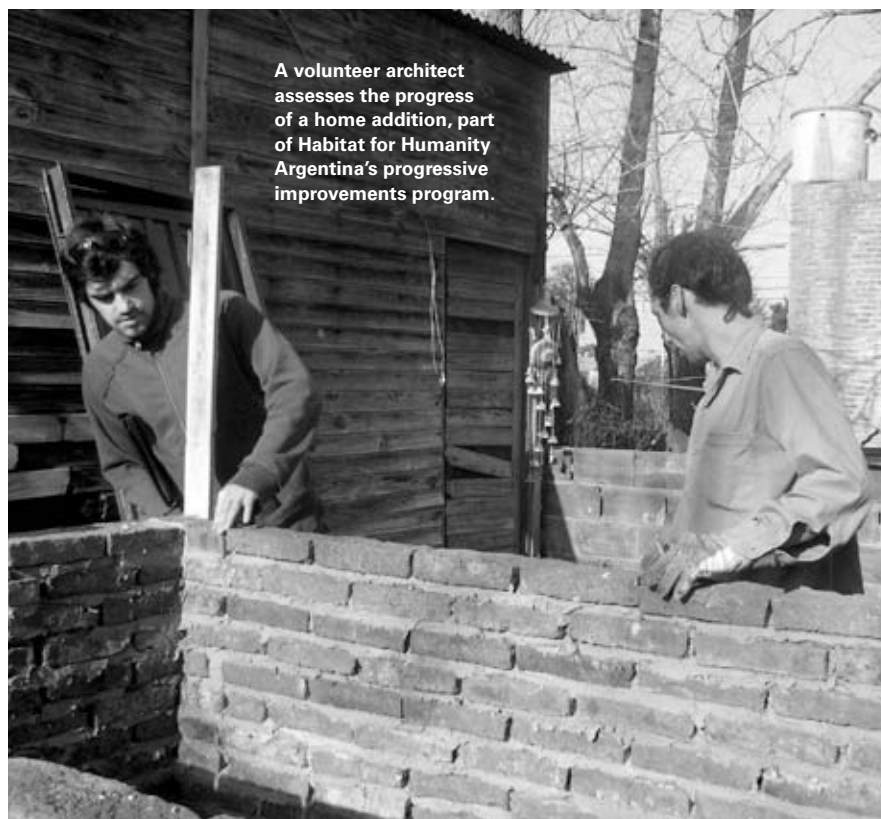
- **Security.** In most settlements, security is an issue whether it is in the workshop or the home. A home business may require additional security (a food shop, for example, has a higher security risk than a home bakery).

- **Ventilation and lighting.** When concentrated for long hours on some form of production, workers need both fresh air and adequate lighting in a home-workshop environment.

- **Resolution of specific home improvement needs.**

The decision to invest part of a family's resources in home improvements is influenced by factors both internal and external to the family sphere. For example, adolescent children need their own space to sleep.

From the perspective of the family's satisfaction with the change, the results of a progressive solution can be similar to those of a complete housing solution.



A volunteer architect assesses the progress of a home addition, part of Habitat for Humanity Argentina's progressive improvements program.

HABITAT FOR HUMANITY ARGENTINA

Such improvements imply a quantitative impact, as they increase the value of the home, and a qualitative impact, in that they respond to an immediate need, resulting in greater comfort, reduction of risks to health and security, and a general improvement to quality of life—all of which result in an indirect improvement to home economy.

- **Ownership of the housing process.** Incremental home improvement programs tend to require greater involvement of the family for decisions. This leads to greater ownership of the entire process and affects subsequent responsibility for the maintenance of the house. In Argentina, families with complete solutions at times call on Habitat to fix problems in their homes, seeing Habitat as the "owner" of the solution even though the family participated in the construction process. But families who have received loans for improvements have a distinct sense of ownership of the housing solution.

Although they are often the most affordable and appropriate option for low-income families in Latin America and the Caribbean, incremental housing solutions do have certain economic disadvantages. In the long term, they could be more costly than housing obtained in a direct and complete manner.

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# Q&A

## 'More than shelter'

A conversation with Dr. Eric Belsky, managing director, Joint Center for Housing Studies of Harvard University

**Q** • Habitat for Humanity's belief is that a house is far more than a roof over one's head. It is an investment in economic security, a safe and secure place to raise a family, a conduit for safer and more cohesive communities, and sometimes a place in which to build a family business. Can you reflect on a few of the functions of a housing policy that would serve as a microeconomic stimulus, foster community development, and support family self-sufficiency and advancement?

**A** • The Habitat for Humanity view of the importance of housing is one I fully agree with. I think that the nature of people's lives is that their housing is more than shelter; it provides a place from which they can get to other opportunities. It provides a place for them to have a home business. It provides access to resources. It is very fundamentally engaged with the type of health conditions under which one lives.

Of course housing plays out differently in different parts of the world. When you look at places where just basic shelter is a challenge—the quality of the

housing itself is very poor, and the housing is also very poorly serviced—it becomes very essential to provide basic sites and services for poor and low-income people. At the most fundamental level, you want to make sure people have decent-quality housing that doesn't expose them to health and safety hazards, either in the home or in the community in which they live. This is an enormous challenge and a rapidly growing one around the world.

When you move beyond that, and you make the assumption that you've solved that problem—that people are living in decent housing and decent communities—then there are a whole series of other things that you would want to do from a public policy perspective to help people use housing as a platform for other things. One of which can be, in a developed nation context, zoning that allows for certain home businesses and to have live- and work-space built into subsidized housing policies and programs.

Another very important one—because this governs outcomes for future generations—is to attend to the conditions under which children are living, especially in places where the government or private sector may be engaged in helping people to afford their housing. One way to do this is through the delivery of child care services that help children achieve more

in school and day care when parents are working. But it also can include support of economic self-sufficiency strategies. And you can combine some level of job training and services or help with entrepreneurship and small business, if that's what members of a household want and need.

Lastly, there could be programs to help people save, because savings is just such a fundamental necessity if you are going to succeed in investing in yourself, your children and your home—both keeping your home and, if you're a homeowner, making repairs. If a policy can try to create opportunities that get people to save, that is a wonderful thing. In the United States, an example is using the family self-sufficiency program with Voucher and Section 8 certificates in order to help people save for a variety of different kinds of investments.

**Q** • As the global population continues to increase and move to cities, and the resulting demand for shelter grows and changes, what would you say are three key ingredients to an economically, socially and environmentally sustainable shelter approach in the developing world?



Dr. Eric Belsky,  
Managing Director,  
Joint Center for Housing Studies  
of Harvard University

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**A** • One of the things that I think is just an unbelievably significant challenge around the world is how to deal with rapid rates of urbanization. UN-HABITAT has estimated that the number of slum dwellers jumped by about 55 million to 828 million, which is really a staggering figure, over the 2000s. So dealing with these issues is absolutely critical. And the scale of the problem far outstrips the resources that are available to deal with it.

In terms of key ingredients, I think the first is the resources to get it done. The second is to create effective public/private partnerships. In the context of Habitat for Humanity, that would involve the government acknowledging the importance of creating environments where Habitat can build housing where the people who live in the house own the clear title and that they are provided with the kinds of municipal services and infrastructure they need in order to create an environmentally sustainable community—and one that works.

There is also, of course, the question of settlements and slums that are in very poor condition. These are not places that are amenable to being laid out with new construction for sites and services. Those pose really significant

challenges because you want to try to help people improve these places or move to places that are safer environmentally if they are in places that expose them to natural hazards. But it's challenging to do.

And as challenging as the conditions may be, the people in the communities are communities, and they want to stay with their communities. So another key ingredient is to think and plan carefully around what to do with those communities in ways that fully engage the people who live there.

Thirdly, there is a need to think more proactively about the continuing flow of people who are poor and need housing in cities. We need to engage in a much more robust planning exercise about what kinds of pressures development may place on existing slums. More importantly, we need policies to help people in those places to build their incomes and assets. In the end, it's desirable for them to have the income and the assets to invest in their communities, to potentially make stronger demands—for the land to be titled, for example. And it provides people an opportunity to move up and out of those communities into perhaps even better housing elsewhere.

**Q** • Pervasive, large-scale housing inadequacy has enormous costs to society at large. For example, slum conditions make it harder to attract investment to developing cities. Slums also create higher costs for city-scale infrastructure development. They reduce property values for better-off households. Yet slum dwellers typically cannot afford to upgrade their housing on their own. Given this market failure, how can housing policy best address the positive externalities of housing, especially for low-income communities?

**A** • It is really a human tragedy. Many people are living in deplorable conditions without the resources and capacity to improve their housing to a point where you and I would consider it decent, safe and within a community that is safe. As you pointed out, these communities have enormous negative externalities. Often, those communities have living conditions where sanitation isn't adequate, where water isn't distributed in any safe and simple and easy way. So I

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## Q & A: “More than shelter”

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think the negative externalities are often very strong for them.

And in addition to these challenges, the communities often come under pressure from development, which leads to potential displacement of people. What can housing policy do in those situations? There are a number of things that people are trying to do. Some successfully, but not at a scale that is addressing the problem. One is to help people improve their own housing through microloans. I think this is important and should continue. Another is to get governments—national typically, sometimes municipal governments—to recognize the importance of making investments in those communities and using those investments to improve living conditions.

Certainly, nongovernmental organizations are very active in doing this. Often the NGOs are operating with some government support, sometimes financial. The scale has to be increased dramatically if these issues are going to be addressed meaningfully.

There are other creative examples of efforts to help people in these communities. One example is a program called *Patrimonio Hoy* in Mexico. In this example, a large cement company (CEMEX) wanted to find a way to help serve a poorly developed housing market and help build with cement and concrete in a way that would make their housing stronger and more secure. They realized that people were spending an enormous amount of money just getting the building materials to the work site. When they got the materials there, they often had to pay someone to advise them on how to use it because they were unfamiliar

with the construction techniques. It was possible for this company to help facilitate the movement of those materials to the community on a larger scale. They also helped organize a savings scheme to help people save as a group to build sequentially on each of the families’ homes using the cement. And they helped them with the technologies to do it. They could do all this in a way that was at least marginally profitable for the company because so much money was being spent on services that could be provided more cost effectively through a more organized effort.

So there are promising programs, and we should try to replicate them in some fashion, adjusting for local building materials and other issues in other places.

**Q** ● We’ve seen that insecurity of tenure and lack of property rights deprive the poor of basic economic security in many countries around the world. This has been one of the overwhelming challenges in developing housing for the poor, especially in the reconstruction of houses in Haiti. What type of viable solutions do you recommend to address and overcome land tenure issues?

**A** ● It is challenging for a number of reasons. One is because there are already people living in these communities. And sometimes these communities are devastated by natural disasters. But even when they’re not, deciding who “owns” the housing is often challenging because there will be people paying rent to someone who perceives themselves as owning that

property. But there may be no recognition of renters there, suggesting that there is an absentee owner. Other people would say, in that situation, that the renters have lived there long enough and they should have the rights to the land.

It is important to begin to document land rights, so if there is a decision made on the part of the government to grant title to somebody for this space, there is a sense of whom that titling should go to. This was discussed extensively in Hernando de Soto’s book “*The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*,” when he talked about a variety of informal or reasonably formal ways these rights are established and internally recognized but may not be legally recognized. So the first question is, can you sort all that out?

Then the second absolutely essential element is for the government to support the granting of legal title to people who are occupying places or have been renting places for some time. Some governments are willing to do this. Other governments are reluctant to do it. In some cases, the same areas we are talking about come under pressure from formal development. Therefore, people that are interested in developing it formally are willing to try to pay to establish legal rights there. Then there is a question of what would happen to the people there, just as there would be in a developed country. What rights do they have to stay or not stay if there is going to be a redevelopment of that area? As I said, different governments have different takes on what they are going to do. When you look at most countries around the world that we consider developed, most of them have significant areas in which these kinds of informal



methods of title were eventually recognized formally by the governments. But not all governments are willing, or feel they are able in some cases, to grant title to people.

**Q** • In many developing countries, housing is built by the poor through incremental housing and using microfinance methods rather than traditional mortgage lending. This has become quite an issue in India, where microfinance is now being dealt a harsh blow with increased foreclosures. Can you comment on the use of housing microfinance as a tool to build capacity and economic growth for the poor?

**A** • This kind of lending is not a panacea. It is not easy. Using it in the context of housing is something that is still relatively recent, and people are trying to understand the dynamics of doing it. But it has been demonstrated in a number of places that people whom we would perceive of as being very poor and having erratic incomes often are able to make payments on very small loans. And they really need those small loans if they are going to try to improve their economic or their housing situation. Doing it is a very challenging business, and it certainly has high transaction costs relative to the tiny size of the loans. But I think work in this area is going to continue. In fact, there has been some discussion of what lessons might be learned as far as lending to the poor in this way that are transferable to the developed world.

Nothing like that is going to go without problems. It's not going to be a linear path to getting it right. Like

any form of lending, it is going to be heavily influenced by what happens in the broader economic environment in which people are situated. It is going to be part of the solution and mix. What people would like to see, of course, is a way to move the formal bankable frontier down into these markets. This has been described by a colleague of mine, David Smith, who I think is a really great thinker on these issues, and also David Porteous, who named his organization Bankable Frontier Associates. The goal is to move the formal bankable frontier down into these markets rather than tapping into very small-scale loans in very specific ways. In this way, the broader financial system begins to work out how it can reach into those markets, and deeper pools of capital can be tapped.

**Q** • A recent article in Time Magazine made the case against homeownership, stating that people put far too much of their money into paying for housing, that homeownership contributed to the hallowing out of cities, that it fed America's overuse of energy and oil, and that it made it more difficult for people who had lost a job to find another. What is your reaction to this argument? And is the case for homeownership different in the United States than in other parts of the world?

**A** • A lot of people got into homeownership with the expectation that they were going to accumulate wealth through building equity in their home. And they found that is not always the case. In fact, if you look back over time, you see that in different cities and different

communities across the United States over the last 20 or 30 years, there were periods that many saw some level of price decline and therefore were at risk of not accumulating wealth but in fact losing money on their homes or ending up in foreclosure. So people's view of homeownership has been influenced by this. And this helps people recognize that when they make the decision to own or rent, by owning they are investing. And that investment carries both potential risks and returns.

**Q** • What impact do you think this change in the view of homeownership as an investment has had internationally?

**A** • There really isn't an active rental market in many developing countries. And in the slums, where many people aspire to own their homes, they are not worried about appreciation. They are worried about just being in a place they feel that they have some rights to, that they either can't be evicted from or if they are they are going to be compensated in some way if they are evicted. They are thinking of homes as someplace to live and much less as investment. Although in the back of their mind they may be hoping that the things go up in value.

**Q** • The Joint Center for Housing Studies has been mostly focused on housing and the United States. It seems like you are moving into the international side. What is the Joint Center doing now, and what are your strategies?

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## Habitat for Humanity Hungary: From building to advocating

By Lea Köszeghy

The foreclosure crisis that hit the world's economies in 2008 was particularly painful in Eastern European markets, which had recently emerged from the long transition of a centrally controlled to a laissez-faire system.

In Hungary, a country of 10 million people, more than 100,000 households went into mortgage arrears. This was mainly caused by the ownership-oriented housing policies. Many of the now-indebted low-income families chose loans because there was no properly functioning rental system. At the same time, as part of an austerity measure, the state scrapped almost all construction subsidies in the summer of 2009. Only interest-bearing assistance was left intact, but it was significantly cut and oriented for the better-off, leaving low-income families aside. In the summer of 2010, the newly elected government announced a temporary ban on foreclosures, but the new government still lacks a comprehensive housing strategy.

All of these developments triggered the creation and launch of Habitat for Humanity's advocacy agenda in Hungary. Its main aim is to put housing-related issues higher on the political agenda. During 15 years of its work in Hungary, Habitat came to realize that providing decent homes for all requires a better understanding of the nature of housing poverty and its policy context. Analysis revealed that housing poverty, in one form or another, affects more than 1 million people in Hungary. At the same time, there is a clear lack of public attention to the problem and public resources allocated to tackle it.

The new program focused on identifying key housing poverty issues, conducting desk research, developing and presenting a statement on housing poverty, formulating expert opinions on housing-related policy papers, and identifying and networking with relevant actors and the media. As a result, the organization is now recognized as



Habitat Hungary feels that its advocacy efforts can act as a powerful supporter of its home-building and reconstruction activities.

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a reliable partner in Hungary on housing policy, and Habitat's housing policy statement was used by state officials in designing a response to the floods that affected some parts of the country in the summer of 2010.

Habitat for Humanity Hungary's housing policy statement was completed in June 2010 after months of deliberation. The statement identified three key problems:

1. Failure of an ownership-oriented housing policy to address certain problems of the housing market.
2. Affordability and fuel poverty (e.g., when people cannot afford new homes or cannot afford to pay energy bills as fuel prices in Europe rise).
3. Spatial segregation, that is, the increasing physical distance between different social groups, the concentration of poor households in particular areas, and the tremendous social costs of those developments.

To combat these, Habitat for Humanity Hungary advocates for:

1. The development of an operational social rental sector.
2. The introduction of measures to improve affordability.

3. The launch of multicomponent programs addressing energy poverty.
4. A decrease in spatial segregation.

### **Strategic challenges and planned responses**

The new advocacy activities and new knowledge in the organization brought forth additional challenges and opportunities, mainly in the correlation between traditional building programs and advocacy. The original idea was to allow the programs to run parallel. But this premise was challenged from the beginning, as the information gained through the advocacy program proved to be useful for program planning and development. At the same time, construction programs could act as a powerful supporter of advocacy efforts.

It became obvious that the more coordinated the activities of the two programs are, the stronger the programs—and the organization's advocacy—become.

This approach is now used in formulating Habitat for Humanity Hungary's strategy for 2011–13. This strategy states that the organization aims to become a knowledge center in housing poverty. Activities will be centered on

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## Europe and Central Asia Housing Forum 2011

Habitat for Humanity is partnering with the International Federation of Red Cross and Red Crescent Societies, the United Nations Economic Commission for Europe Land and Management Committee, and the United Nations Development Program to host a forum to identify action-based solutions and ideas to address housing issues in the region.

The goal of the Europe and Central Asia Housing Forum 2011 is to create a platform for exchange, mutual learning and consensus building among people and organizations committed to the cause of affordable, sustainable housing. To achieve these

goals, the forum will be highly engaging and creative, with significant participant interaction to generate discussion and debate. We are inviting participants from throughout the housing sector, including nonprofit organizations, corporations, civil society and individuals involved in policy and research.

The time has come for the key decision-makers and stakeholders in the housing field to come together to build a vision and agenda for a sustainable and resilient future for all, and to bring the issue of decent housing to the forefront of the development agenda in Europe and Central Asia.

### **Europe and Central Asia Housing Forum 2011**

**April 4-6, 2011**

**Budapest, Hungary**

#### **For more information, contact:**

Housing Forum Europe and Central Asia  
Conference Secretariat  
Habitat for Humanity International  
Europe and Central Asia office  
Zochova 6-8, Bratislava 811 03  
Slovakia

#### **E-mail:**

[ecahousingforum@habitat.org](mailto:ecahousingforum@habitat.org)

## Habitat for Humanity Hungary: From building to advocating

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strategic themes representing key challenges in housing poverty, such as social rentals; housing solutions in deep, locally concentrated poverty; affordability; and fuel poverty. The devised knowledge center endeavours to collect and disseminate information, consult, carry out scalable showcase projects and pursue advocacy efforts with one global aim embedded in Habitat's mission: to ensure decent homes for all.

The launch of Habitat's advocacy efforts in Hungary had far-reaching consequences for the organization, pushing it toward more strategic thinking on the problems of housing poverty and relevant responses, along with better integration of the various types of knowledge in the organization. Habitat Hungary hopes this effort will help it leverage its effectiveness in combating housing poverty, including those problems brought to light by the economic crisis.

The crisis affected Habitat Hungary's capacity in a number of ways. Available household resources and potential donors have been depleted, and there is a threat that housing poverty can drop even further on the political agenda, especially when it's compared with the overall government goals of revitalizing economies. However, Habitat Hungary believes that the current crisis can also be perceived as an opportunity to reconsider past decades' policies and activities aimed at combating housing poverty, i.e., the potential and limitations of ownership-oriented versus sector-neutral policies, and housing-only solutions versus housing interventions embedded in integrated programs. Habitat Hungary hopes that in the long run it will be able to develop and implement more relevant responses to the existing housing issues. 🏠

*Lea Köszeghy, a sociologist, is the advocacy officer for Habitat for Humanity Hungary.*

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## COMMENTARY

# Housing and the Great Recession: Finding the cause

By Ted Baumann

Everyone understands that the current recession, the worst since World War II, started with transatlantic housing markets, and has in turn had a dramatic impact on them. Housing values have collapsed, and it is extremely difficult to obtain a mortgage. The contrast with the previous decade is stark: From 1997 to 2007, housing prices rose 175 percent in the United States, 180 percent in Spain, 210 percent in Britain, and 240 percent in Ireland. By contrast, the most recent Schiller-Case index of U.S. housing prices<sup>1</sup> shows year-on-year price declines of up to 20 percent per month in mid-2009. U.S. house prices are now at 2003 levels.

Why did housing prices rise so fast and then crash so hard?

As New York Times columnist Paul Krugman and author Robin Wells argue in a recent two-part summary of new literature in the New York Review of Books, there are four popular explanations: "the low interest rate policy of the Federal Reserve after the 2001 recession; the 'global savings glut'; financial innovations that disguised risk; and government programs that created moral hazard."

Krugman is a Nobel laureate for economics. Wells is the co-author, along with Krugman, of "Economics" and has taught economics at Princeton, Stanford Business School and MIT. Let's consider their views on these theories.

Krugman and Wells acknowledge that low Federal Reserve short-term interest rates from 2001 onward might have played a role in driving up housing prices in the United States. But European prices rose even faster under much higher Euro Zone rates. In any case, the interest rates set by the Fed are short-term, which are not central to housing markets. So low short-term interest rates on their own are unlikely to be the whole explanation, they argue.

By contrast, Krugman and Wells observe that massive capital inflows to the United States and the Euro Zone from capital-surplus countries (primarily China), arising from trade imbalances, helped to push down long-term interest

rates, which do influence housing markets (low long-term rates encourage rising house prices, as well as speculative investment in new housing stock).

The third explanation they consider is the “originate-and-distribute” system, i.e., the separation of loan origination from risk through mortgage securitization. Krugman and Wells observe that housing prices actually rose faster in economies without sophisticated risk-distribution mechanisms (such as those in Spain). They also point out that commercial real estate values in the United States inflated just as fast as residential, without any securitization of the associated loans. So the evidence does not support this explanation, at least not in isolation.

The final explanation considered is that the U.S. Community Reinvestment Act, and the implicit government underwriting of Fannie Mae and Freddie Mac, created a moral hazard. Banks assumed that the government would bail out housing-exposed markets, which encouraged reckless lending. The problem with that theory is that the Community Reinvestment Act was passed in 1977, and the bubble only took off 20 years later. Also, “blame-the-CRA” doesn’t explain the rise in commercial real estate values or Euro Zone markets.

So which of these explanations, or which combination, do Krugman and Wells find most persuasive? Ultimately, they argue that the glut of money flowing into the transatlantic economies from China and other trade-surplus countries led to historically low long-term borrowing costs, and therefore inflated housing prices. The resulting explosion of housing construction in turn fed the trade deficit with China, creating a self-reinforcing bubble. U.S. imports from China, of both housing materials and wage goods, rose steeply, but Chinese purchases of U.S. Treasury bonds kept the Yuan artificially weak and U.S. long-term interest rates low. Krugman and Wells accept that mortgage securitization helped it to inflate this bubble, but in the end, the main problem was insufficient oversight of the growing imbalance between housing asset prices and underlying economic fundamentals. The U.S. Federal Reserve under Alan Greenspan knew that long-term interest rates were encouraging housing asset values that were wildly out of line with historical trends, but failed to act. By the time they did, it was too late.

The key insight of Krugman and Wells’ review of the housing bubble, however, is that the policy response to its

collapse has been all wrong. A burst financial bubble damages banks by suddenly devaluing the asset side of their balance sheets, calling their solvency into question.

The transatlantic policy response has been to help the banks by capital injections and by maintaining extremely low short-term interest rates, increasing banks’ earnings spread from their lending activities, and thereby rebuilding their balance sheets (and bonuses).

But households also have “balance sheets,” and by refusing to address the post-bubble mismatch between mortgage balances and housing values, policymakers have made the recession “Great.” Households that are “underwater” on their mortgages or other asset-related debts are forced to try to deleverage by prioritizing debt reduction over consumption spending.

This has created a demand deficiency for the economy as a whole. The result: a superficial recovery with high levels of unemployment.

In effect, Krugman and Wells say, the policy choices made by transatlantic leaders, both during and after the housing bubble, have prioritized the needs of the banking sector above all else. So, while the banks have recovered, the rest of us have not. 🏠

*Ted Baumann is director of international housing programs at Habitat for Humanity International.*

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# Housing's multiplier effect on the economy

By Hiew Peng Wong

Government investment in low-cost housing has a powerful "multiplier effect," including the creation of many jobs, says Filipino economist Cielito F. Habito.

According to Habito, "Housing can be one of the most effective ways of stimulating consumption and production activity in other sectors of the economy."<sup>1</sup>

"The key to the impact of government spending is the way a one-off expenditure by the government raises total production and incomes by several times the amount of the original expenditure, or the so-called multiplier effect," he wrote in a Philippine newspaper column.<sup>2</sup>

"If the government spends 100 million pesos to build a new road, that amount turns into 100 million pesos in total incomes received by contractors, engineers, equipment suppliers, construction workers and others. But that's not the end of it. Those various people now have money to spend or save as they choose."

Habito, a professor at Ateneo de Manila University in the Philippines, also presented a paper titled

"Housing as Economic Stimulus: How and Why?" at Habitat for Humanity's second Asia/Pacific Housing Forum, held in Manila in 2009.

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THE MULTIPLIER EFFECT CAN ALSO BE SEEN ON A MICRO LEVEL IN HABITAT FOR HUMANITY'S PROGRAMS IN THE ASIA/PACIFIC REGION. LOCAL SKILLED LABOR WILL ALWAYS BE IN DEMAND, BUT SPECIAL BUILDS AND DISASTER RESPONSE PROJECTS CREATE GREATER EMPLOYMENT OPPORTUNITIES.

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The multiplier effect can also be seen on a micro level in Habitat for Humanity's programs in the Asia/Pacific region. Local skilled labor will always be in demand, but special builds and disaster response projects create greater employment opportunities. For example, local masons and carpenters were employed for Habitat Nepal's 40-house Everest Build completed in October

2010 and Habitat Mongolia's 30-house Blue Sky Build completed in July 2010.

For the Everest Build, about 30 people from local communities were trained in building prefabricated bamboo housing. In Mongolia, several of the homeowners who were trained during the Blue Sky Build became part of Habitat Mongolia's construction team or joined a local construction company.

In tsunami-devastated Sri Lanka, between 2005 and 2009, Habitat trained nearly 200 homeowners in block making, carpentry, electrical wiring, painting and masonry. After work was completed on the tsunami response projects, the homeowners found employment in construction projects in eastern Sri Lanka and the Middle East.



HABITAT FOR HUMANITY ASIA/PACIFIC

In Habitat for Humanity Nepal's bamboo enterprise, approximately 3,500 women are involved in weaving bamboo wall panels.

Through Habitat Sri Lanka's Save & Build program in Central Province, Habitat homeowners have created home-based businesses after being registered with the provincial councils. Many families package the spices for which the Matale district is famous and sell them in the local markets. Their business acumen impressed the local government, which gave loans amounting to 1 million rupees (US\$9,000) to the Save & Build groups. In turn, the Save & Build groups lend small amounts of about 25,000 rupees to other low-income families who wish to set up businesses.

One Sri Lankan family who once lived in a small hut before moving into a Habitat house is now cultivating four hectares (10 acres) of land and rearing cattle with help from the local government. A female head of household who started selling finger food from her Habitat house is now supplying delicacies to shops and hotels in Matale.

In Cambodia, livelihood training is incorporated into all of Habitat's housing and community development projects. In the capital, Phnom Penh, community members are trained in business management and provided with small loans for business startups. In Siem Reap, families are trained in agriculture and animal husbandry and provided with seeds and chicks, ducks or pigs.

In Oudong, about 40 kilometers (25 miles) northwest of Phnom Penh, community members have been trained to produce handmade stabilized soil blocks, make liquid soap to sell in local markets, create handicrafts for sale to tourists, and raise chicks or ducks. In January 2011, Habitat Cambodia began partnering with International Children's Care Australia to provide families in Oudong with agricultural training and work on a cooperative farm.

Habitat Cambodia's newest project in Phnom Penh and Prey Veng, in the southeast, will offer livelihood training to people living with HIV/AIDS and caretaker families of orphaned and vulnerable children, in addition to providing microloans for business startups.

Habitat's enterprises also boost the local economy. With the November 2010 launch of Habitat Nepal's bamboo enterprise in Jhapa in the east, more jobs are created for people who work in the enterprise along with



Masons and carpenters from the local communities were employed through the 30-house Blue Sky Build in Ulaanbaatar, Mongolia, which was completed in July 2010.

those who cultivate the bamboo.

The factory will initially produce 180 corrugated bamboo roofing sheets and wall panels each day, eventually increasing to 280 sheets. About 3,500 women in Jhapa will help weave the wall panels, which will then be sent to the factory for laminating. Each woman will be paid 150 rupees (US\$2) for weaving 1½ mats.

Initially, raw materials will come from within Nepal, as it takes three to four years before bamboo can be harvested. Habitat Nepal has already engaged women groups and other organized groups in cultivating bamboo on 100 hectares (248 acres) of land and nurseries in and around Jhapa.

Just as Habito states that government investment in low-cost housing can create a multiplier effect for local economies, Habitat's investment leads to greater employment in communities where Habitat works. 🏠

*Hiew Peng Wong is an editor/writer at Habitat for Humanity's Asia/Pacific area office.*

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## Q & A: “More than shelter”

Continued from page 9

**A** • The Joint Center for Housing Studies is largely a domestically (U.S.) focused research center and continues to be. Over the years, we have done some international work. We looked at assessing housing conditions in Mexico and developed a couple of reports that we modeled after a report we do here in the United States called “The State of the Nation’s Housing.” It was an attempt to draw together information about what was going on in terms of housing, housing markets and housing needs in Mexico with an eye toward the government and the private sector together formulating a more complete view of what might be helpful to advance housing policy in the country.

We also did a conference that was funded by the Rockefeller Foundation

with a number of countries. The goal was to encourage the countries to discuss and describe ways in which they viewed housing as more than shelter—as a potential engine for social and economic development, and what principles would guide that.

What we are exploring now, with support from the Ford Foundation, is how to address the issues of very rapid urbanization. Urban poverty in developing countries takes a very specific spatial form in unplanned and untitled slums, sometimes called informal settlements. We thought it was important enough to begin to look at that. So we are working on a project to understand what scope there might be for urban planning and design and municipal authorities to play a much stronger role in dealing with urban poverty that understands its spatial context and is aimed to help people build income and assets and improve their living conditions. We want to help think about what would be the right steps

to take in these situations to improve planning and what are some of the policies and programs that would help municipal governments have more authority to think more deeply and with a longer-term vision around dealing with urban poverty and housing for the poor. 🏠

*Eric Belsky is managing director of the Joint Center for Housing Studies of Harvard University and lecturer in urban planning and design at the Harvard Graduate School of Design. The center is a collaborative venture of the Graduate School of Design and the John F. Kennedy School of Government.*

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## Economic impact through incremental and complete housing solutions

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With the help of loans that can lower the typical 20- to 30-year period, families still find themselves investing in their house over the course of 10 to 15 years. With a complete housing solution, monthly payments over 15 years are lighter on the family budget and allow the family to work toward improving their economic situation more so than a family that continues living in partially inadequate conditions throughout the incremental construction process.

Nevertheless, 95 percent of the families interviewed after the progressive improvements project

expressed that the home improvement created a benefit.

Thus the manner and timeline by which the gamut of economic effects of adequate housing becomes visible depends on programs designed to help families work toward this goal while improving their home economy through a variety of housing solutions and technical assistance that meets their current financial capacity. In Latin American countries, the economic and contextual situation of many families is such that incremental solutions and complete house solutions are equally necessary. When there is a plan for progressive improvements that contemplates

the time and quality of the housing solution, as well as adequate space to live and to work, and without losing sight of the final goal of a complete, adequate house, families have a greater chance at economic development. 🏠

*Demostenes Moraes is national director of Habitat for Humanity Brazil. Mary Lechenuk is national director of Habitat for Humanity Paraguay. Andres Maidana Legal is an architect at Habitat for Humanity Argentina. Ana Cutts is national director of Habitat for Humanity Argentina.*