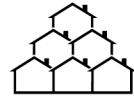


# Affordable Housing Institute

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## "Fusion" countries: the best target for affordable housing initiatives?

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1. Concept  
Programmatic or policy initiatives to improve the quality of affordable housing work only if they are customized to the target environment. It helps, therefore, to identify countries whose environments are enough similar to make lessons learned in one such relevant to another.  
  
Today the world can be divided not into two distinctions (developed/developing) but three: developed, developing, and fusion.  
  
For affordable housing and community development, fusion countries are arguably the place where the *most benefit* can be delivered, because the challenges are huge, but there is indigenous commitment and capacity, if it can be levered.
2. What makes a fusion country?  
A fusion country mixes:
  - *First-world financial capacity*, at least in small enclaves and applied to certain sectors.
  - *Third-world housing challenges*, often attendant with rapid job or population growth.  
In fusion countries, these two worlds exist side by side, incredibly close in space, incredibly distant in economic and social prospects. Yet the nation's well-being and its advance depend on bringing up the third-world areas with education, jobs, housing, safety, and community.  
  
For many a fusion country, "our next frontier is our own low income population."
3. First-world financial capacity  
*First-world financial capacity* means at least a cadre of institutions, structures, and people that can compete on a world-class basis and that can form the kernel for expansion into the affordable housing and community development sectors. It includes these elements:
  - a. *Some world-class institutions, industries, and capacities.* This economic and political engine creates an elite that wants to see the country lifted and has some world-class talent that can potentially be brought to bear.
  - b. *Indigenous capital at scale seeking inward investment.* The country is generating its own capital expansion and has capital flows that seek inward investment (rather than expatriation of capital).
  - c. *Sophisticated means of raising and securitizing capital* so that, if properties and financial products are successfully originated, the results can be bundled and securitized so that development/ seed capital can recirculate.
  - d. *Electronic banking and electronic information infrastructure* that enables internet-based or electronic contact and involvement with motivated stakeholders and institutions throughout the country and beyond its borders.

- e. *Access to international NGO's and funders.* Although not an intrinsic condition of the first-world financial capacity, in our experience fusion countries both (a) benefit from access to international NGO's and funders, whose resources can help address the third-world challenges, and (b) can motivate these NGO's and funders to provide inward investment on favorable or risk-mitigated terms.
- f. *Socioeconomic elites committed to the country.* A corollary to the first and second elements listed above, these stakeholders must be prepared, whether through patriotism or enlightened self-interest, to apply some of their world-class talent to the public-policy issues arising from the third-world housing challenges.
- g. *Government willingness to facilitate and participate.* If intended to make broad-based change, affordable housing and community development cannot and should not be pursued solely by the private sector;<sup>1</sup> they require a genuine public-private partnership. A severe mismatch between public and private sector in either capability or motivation can perpetuate itself into unbalanced programmatic interventions that fall short of their objectives and may indeed further enable a sector's weakness. Government, in short, must be an active partner, and must build up its capacity.

4. Third-world housing challenges

*Third-world challenges* mean that the first-world elite is a minority amidst a large indigenous third-world population. Third-world challenges tend to include these elements:

- a. *A huge underdeveloped sector.* Under-development includes people, jobs, and communities.
- b. *Very high population growth.* Not mandatory but very common, in part because delivery of first-world medical care and drugs (even if intermittent) has the effect of substantially reducing child mortality and triggering a spike in population growth, often linked to ...
- c. *Fast-rising job growth.* A small first-world cadre amid a large indigenous third-world population (meaning labor that is initially cheap) tends to yield very fast job growth as activity shifts away from subsistence agriculture and into formal or informal cash-economy employment.
- d. *Shift from rural to urban.* In most societies, people move where the jobs are. Cities and conurbations are the engines of job growth, indeed self-reinforcing as the people concentration leads to new retail, service, transportation and gray-market opportunities.
- e. *Cities under infrastructure stress* as the population swells out of proportion to the city's capacity to absorb it. Roads, utilities, public transportation, local government administration, all come under enormous stress as they cope with the vast population movements occasioned by jobs and the rural-urban shift.

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<sup>1</sup> When offered the chance to choose between two interventions, investments, or courses of action, the private sector will always (and understandably) select the one with the higher reward-risk ratio. This leads eventually to an enclave approach to development, elevating a few first-mover advantaged communities and leaving the rest starved of capital. Government's involvement is necessary as a scale-balancing contributor that provides equity, risk mitigation, subsidy, or grants as appropriate, and correspondingly forces the private sector not to rest on its laurels but instead continuously to raise its standards and move from the formerly-risky-now-safe arenas into the formerly-unmanageable-now-merely-risky endeavors.

- f. *Extended or dispersed families.* Job growth most directly impacts young adults who may be (often are) part of extended families from rural bases. Family separation or dispersal tends to follow the intra-national migration of people to seasonal, temporary, informal or cyclical job environments. (This combination of both dispersed families and extended-family households creates very substantial challenges in designing suitable affordable housing accommodations, as both tenure and household makeup differ quite a bit from the nuclear family found in developed countries or even in fusion-country affluent suburbs.)
- g. *Existing stock may include self-build and no-zoning alternatives.* Cities under stress and rural environments are often largely constructed on self-build housing. These 'spontaneous communities' - both 'informal settlements' or 'squatter shacks' are misnomers - are the inescapable consequence of job growth, urban stress, and family dispersal. Though unregulated, unsightly, unhealthy and potentially dangerous communities that invite economies of crime, they cannot be eradicated because they respond to the essential human need for better shelter than the alternative. Governments must, therefore, focus on *improving* rather than quarantining or bulldozing these spontaneous communities, and develop economic ecosystems that encourage them to become safer, healthier, wealthier, and more formalized.
- h. *Huge mismatch between education levels and educational needs.* Growing economies need educated workers; in many fusion countries, a major constraint on growth is the rise of a skilled and semi-skilled workforce. Education is thus often tied to generational change and to social empowerment as those who are undereducated often come from the formerly or even currently disadvantaged classes. Racial or ethnic divisions may also play a part.
- i. *Health risks.* Over-concentrated populations amid inadequate urban infrastructure and in self-built housing invite and sustain malnourishment and disease, of which HIV/AIDS is the most dangerous both because of its penetration into target populations and because its long incubation period facilitates its spread.
- j. *An aspirant middle class.* Almost by definition, within the larger third-world population will be some who, by accident of birth, family, national history or otherwise, are better positioned to ride the growth curves. Often these are the nation's fastest-growing segment in wealth, social and political achievement, and visibility.

5. The challenge faced by fusion countries

- A healthy affordable housing and community development ecosystem is a complex interdependency interlinking:
- a. *Rule of law*, especially as it relates to property, tenures, contracts, and mortgage/ loan instruments.
  - b. *Access to capital* and capital-source motivation to invest.
  - c. *Macroeconomic policy* to provide reliable interest rates and yield curves.
  - d. *Electronic banking/ information flow*, to keep origination, loan servicing, asset management and enforcement costs low.
  - e. *Legal and financial forms, products, and precedents* to provide a full toolkit of interventions adaptable to many circumstances.

- f. *Capable sponsors* at all points in the value chain/ delivery sequence, and enough of them to handle changing demand.
- g. *Motivated aspirant households* who want to consume more or better housing and who have the financial motivation/ capacity to do so.
- h. *Government incentives and support* to mitigate risk and close the cost-value gap.

Each of these both supports and depends on all the others, and for any given actor it may be difficult to see where and how to intervene or innovate.

The challenge, therefore, is designing *robust sets of interventions*, among multiple stakeholder groups, that *collectively are likely to succeed*.

#### 6. Opportunities in fusion countries

The principal opportunities in a fusion country are of course the public-policy benefits:

- Affordable housing incubates good families and good families incubate good citizens.
- Community development incubates successful job growth and successful job growth incubates national wealth.

For program participants and private stakeholders, the benefits are not simply policy but economic:

- Done right, affordable housing and community developments are not just good policy, they are also good financial investments. Indeed, maintaining appropriate financial returns is not a luxury, it is an essential component of a well-designed and effectively functioning system.
- As the aspirant population rises, it becomes both better educated (stronger work force) and more affluent (increases customer/ consumer base).
- Rising-capability populations in low-cost labor markets (fusion countries) invite the developed world to outsource skill and skill-support jobs.<sup>2</sup> Thus community development contributes to economic growth and benefits leading corporations who can expand beyond their own borders.

#### 7. Likely fusion countries

- *Brazil*. Both the largest land area and the largest economy in South America.
- *Egypt*. The strongest northern-African economy with proximity to the EU's Mediterranean countries.
- *India*. A bigger middle class (in population) than the United States, and already a huge nexus for computer/ Web/ financial outsourcing.
- *Mexico*. Proximity to the US and its economy, huge population growth around Mexico City and in the *maquiladora* border areas.
- *South Africa*. The financial engine of Sub-Saharan Africa (if not the whole continent), yet with high unemployment, a vastly under-educated workforce, and substantial challenges of illegal immigration and HIV/AIDS.
- *South Korea*. Although rapidly becoming a developed country in many ways.
- *Turkey*. Simultaneously facing west and east, with greater Istanbul at one end and Kurdish Iraq at the other.

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<sup>2</sup> This is probably strongest in Anglosphere countries where English is either the native language or one of those commonly in local use, because English-speaking fusion countries can more readily capture outsourcing opportunities from northern Europe and the US.

8. Possible fusion countries      Other countries mentioned as showing fusion characteristics include Chile, China, Morocco, Pakistan, Thailand, and Vietnam.
9. AHI in fusion countries      AHI is active in South Africa and has established preliminary contacts in Mexico and Turkey.