

**More than Shelter:**  
**Housing as an Instrument of Economic and Social Development**  
**The Bellagio Housing Conference**  
*organized by the Joint Center for Housing Studies of Harvard University*  
*supported by the Rockefeller Foundation*  
**May 2005**

## BELLAGIO HOUSING DECLARATION

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**We, the participants in the Bellagio Housing Conference, having come from five countries — Kenya, Mexico, South Africa, Thailand and the USA—together affirm that sound, sanitary and affordable housing for all is central to the wellbeing of nations. Housing is indeed more than shelter: it is a powerful engine that creates opportunity and economic growth.**

**We affirm the following principles:**

- **Housing as a sustained national priority:** Housing is a long term process that requires a stable policy framework and demands national priority attention.
- **Housing as an engine of social and economic development:** Housing brings significant benefits in terms of employment creation, domestic capital mobilization and social wellbeing in the face of the major challenges posed by population growth and urbanization.
- **Housing as an element of wealth:** Equity in housing is a basic source of personal and family wealth and can reduce asset poverty. Owning a home is a powerful incentive to save, work harder and commit to strengthening the community.
- **Housing as connected markets:** Well functioning primary and secondary housing markets should provide diverse housing opportunities and secure tenure forms for all. Reducing the gap between low income affordability and the cost of housing requires access to financial instruments that make demand effective. It also requires efforts on the supply-side to reduce the cost of land, basic infrastructure and housing construction.
- **Housing and government:** Government must play an active and appropriate role in enabling, regulating, facilitating and supporting healthy housing markets and housing finance systems. Enforceable property rights and the rule of law are prerequisites for well functioning markets.
- **Housing and partnerships:** Strengthened and new partnerships between government, private sector and civil society are necessary to address housing challenges. Key ingredients of successful partnerships are role clarity, establishment of standards, sharing of risk and careful attention to appropriate governance.

**Implementing these principles requires:**

**Setting goals and measuring success:** Goals provide focus for partnership efforts and allow the measurement of success. Other than the number of homes built or home loans made, success should also be measured in terms of increased private participation in financing housing and strengthened communities.

**Risk sharing to expand the frontiers of housing finance:** Broadening finance to the low income and informal markets requires that all parties involved—the borrower, originator, financier and, where necessary, government—bear appropriate risk.

**Appropriate funding and delivery systems and instruments:** Broadening finance to these markets also requires appropriate delivery systems and approaches. Microfinance is one such approach; it can be an end in itself to help low income people improve their housing situation, and it can also be a step towards accessing larger, longer term credit at lower cost.

**Upgrading informal settlements and slums:** The magnitude of slum formation in cities in the developing world warrants upgrading efforts through public-private partnership to foster security of tenure, affordable housing and basic services.

**Following from and as a result of the conference, we recommend:**

- At the *global level*: (a) establishing an ongoing forum for exchange of knowledge on access to housing and housing finance; (b) forming a global housing network to support pilot schemes, innovations, peer exchanges and standards in housing financial systems. The global network concept is described in Attachment A; (c) involving foundations and other international investors in discussions on housing with multilateral institutions.
- At a *country level*: (a) developing a common vision around housing and establishing forums of diverse public, private and civil society sector participants; (b) creating local capacity for knowledge leadership and research; (c) pursuing memoranda of understanding as appropriate. A list of memoranda in progress may be found in Attachment B; (d) self-assessing progress by each country to organize housing efforts around the Bellagio Principles and implementing measures.
- Deepening the application of the Principles agreed upon here within our countries.
- Broadening the process initiated here as a pilot of four countries to include additional countries which subscribe to these Bellagio Principles.
- Dedicating further attention to and following up on the innovative products and risk sharing innovations discussed at Bellagio. These innovations are described in Attachment C.
- Refining and further considering the partnership model and principles developed. The partnership model is described in Attachment D.
- Assessing our progress in two years, and again sharing updates and case studies of innovation in each of our countries.

We are grateful to the Rockefeller Foundation for conceiving and convening this event, and to the Joint Center for Housing Studies at Harvard University and its team for facilitating the meeting.

The names of the participants are appended.

**More than Shelter:  
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**BELLAGIO HOUSING DECLARATION: ATTACHMENT A**

**A GLOBAL HOUSING NETWORK**

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A working group met several times during the conference to discuss and develop the idea of creating a "global housing network." It is important to underscore that the ideas discussed were not endorsed by either the members of the working group or the broader convening. These are notes intended to help others understand the various ideas advanced about how such a network might be structured and governed, as well as what purposes, goals, and roles it might serve.

**Goals and Purposes**

The Bellagio Declaration states that the purpose of the network is to "support pilot schemes, innovations, peer exchanges, and standards in housing financial systems." The overarching goal is to create a network that is recognized as providing the best information, access to resources and experience, formation of world-class task teams, and access to peer-peer exchange networks for public, social, and private sectors working in partnership to enhance domestic housing markets.

Participants also stated the network should have the following goals for promoting social and economic development: 1) to catalyze housing markets by mobilizing capital through discrete incremental steps; 2) to help countries subscribing to the principles laid out on the Bellagio Housing Declaration mobilize private capital to increase demand and improve supply; 3) to build on the partnership model (described in Attachment D).

Secondary to the benefits to the countries that use it and to expanding housing options were others related to learning and knowledge. These secondary goals included: 1) to learn from successes and failures of partnerships in participating countries; 2) to generate new knowledge about the conditions required for innovation to succeed and for innovations in one country to be replicated in others; and 3) to catalog and disseminate housing finance innovations and products.

**Governance and Resources**

The network would be governed by a "secretariat" composed of one or more organizations that have powerful brand recognition globally for: 1) doing work of the highest quality, 2) having access to contacts at the highest levels of business and government, 3) having a research and dissemination capability, and 4) having access to resources. Eventually, the network itself might develop such a brand, but initially its success would depend on its organizing and sponsoring participants.

Additionally, the secretariat would be committed to the Bellagio principles and advocate for them. Members would be country partnerships and would pay a fee for services. In addition to these resources, the Secretariat would have access to pro-bono services of investment bankers, global financial services providers, and members of the network. Lastly, it is envisioned that the secretariat would receive foundation funding both as seed money to begin operations and capital to put at risk in fostering partnership activities. The risk capital would be aimed specifically at

leveraging very large sums of domestic capital on a market, or business, basis (which was referred to at the meeting as “deep capital”), plus possibly also some multi-lateral funding.

## **Membership**

Countries utilizing the network would be considered members and have advisory input, as well as specific relationships around projects conducted with the network.

A country partnership is a group of major stakeholders that have come together to work together jointly on solving prevailing problems in the housing finance system and in housing markets in their countries. The partnership also has the following characteristics: 1) all stakeholder groups essential to its solution are involved (this is a Bellagio Housing Declaration principle); 2) the stakeholder groups need additional help to make major progress on the solution; and 3) the stakeholder groups are committed to working together, and are indeed working together already, on a joint vision of both problem and solution.

The secretariat would be responsive to its members. The importance of acknowledging the value of the Bellagio principles as a precondition to country participation was also stressed. The discussion of these topics led to the following spec on the appropriate characteristics of members. They should have a: 1) firm and documented commitment to the principle of making housing an instrument of economic and social development and using public-private partnerships to achieve it; 2) a clear capital gap or problem; 3) commitment to rule of law and enforceable property rights or have governments in the process of taking steps to do so as an underpinning of functioning housing finance systems; 4) comprehensive view of housing not just as finance and a focus on expanding housing opportunities for low-income households especially, but for all households; 5) political will and consensus for housing as a national priority (demonstrated by buy in from key stakeholders); and 7) partnership activity taking place at some scale and with potential for scaling up further.

## **Role and Function**

The secretariat’s role would be well defined and limited to: 1) convening meetings, 2) connecting members with each other and with foundations, technical assistance providers, and other resources, 3) fielding teams to work on tasks once engaged by country partnerships, 4) extracting knowledge and learning, and 5) publicizing itself, its criteria for selecting members, its successes, and its research.

Once engaged by a country partnership, the secretariat would perform four tasks: 1) provide insights into the problem and strategy for solution based on the experience of its staff and governing board; 2) mobilize flexible task teams; 3) help craft a customized solution; and 4) evaluate outcomes and extract lessons once the task has been completed.

Other desirable features of the secretariat that were mentioned by the working group included that it would be: 1) small but able to lever very large task teams; 2) networked to a large stable of resources, global experts, and consultants, with many of these contributed by the member countries themselves through memorandums of understanding; 3) capable of fielding experts with a wide range of different disciplinary skills; 4) not “over-engineered”; 5) highly flexible and able to adapt to the specific needs of its members as the members themselves and their needs change; 5) member driven; 6) capable of monitoring progress in-country through its members and task teams fielded to develop partnerships; 7) capable of tapping capital.

## **Member Engagements and Costs**

As envisioned, the global network would be approached by country partnerships to initiate an engagement. The first step would be to settle on a clear definition of the task. The Secretariat would then make a decision about whether to facilitate the further development of the partnership. The task would then be performed and outcomes cataloged and evaluated. Once a task is completed and evaluated the secretariat withdraws, though membership may continue so members can benefit from ongoing learning, and the Secretariat can benefit from its advice and access to its human capital. When a country partnership engages the secretariat, it would pay part of the cost on a shared basis (0% to 100%). It was repeated several times that people demonstrate the value of the network by being willing to pay for it.

## **Tasks and Task Teams**

The secretariat would organize task teams after developing a strategy for responding to a member's needs. On a customized basis, the task teams would analyze needs, generate ideas for addressing needs, provide technical assistance, and, in instances when risk sharing was involved, design the appropriate risk management and abatement strategy.

## **Dimensions of Assistance**

It was agreed that the network, through its secretariat, members, and task teams, should be capable of providing assistance aimed at improving both housing supply and demand.<sup>1</sup> On the housing supply side, the focus would be on devising methods to reduce costs and increase building capacity. Various methods of reducing costs were mentioned, such as more efficient building technologies applied at larger scales, as well as reducing the costs of land development and increasing the availability of land. On the demand side, the emphasis was on finance methods capable of unlocking capital to increase purchase capacity, resulting in construction of new homes, improvements to existing homes, and sales of existing and new homes (unlock capital → purchase capacity → new construction, home improvement, and home sales.)

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<sup>1</sup> There was a discussion of three types of players in promoting successful partnerships: 1) innovators, 2) abaters, and 3) scalers. These terms were used as shorthand and therefore require definition here. Roughly speaking, innovators include private sector, NGO, or government agencies working together to create innovations in housing finance and housing markets. The term abater was used to refer to groups sharing in risk and thereby helping to measure, abate, and manage risk. These include governments, banks, foundations, and multi-laterals. Scalers are organizations capable of taking innovation to a larger scale within a country or to transfer it to other countries. In this sense, the partnerships, NGOs, foundations, development banks, and the network itself are all potentially able of helping to take innovations to scale (see Appendix D for more detail).

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**BELLAGIO HOUSING DECLARATION: ATTACHMENT B**

**LIST OF INTENDED POST-CONFERENCE ACTIONS**

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- A. Country self-assessments by the participating countries.
- B. MOU on technical cooperation between the Government Housing Bank of Thailand and SHF of Mexico.
- C. MOU on technical cooperation between the National Housing Authority of Thailand and the appropriate entity in Kenya.
- D. MOU on technical cooperation between the Housing Finance Association of Thailand and the Banking Association of South Africa.

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**BELLAGIO HOUSING DECLARATION: ATTACHMENT C**

**SUMMARY OF PRODUCTS AND RISK SHARING INNOVATIONS DISCUSSED AT CONFERENCE**

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### **Principles**

Many approaches to attracting private capital for low income housing were discussed at the Bellagio Conference. While many may be applicable in one or more countries, the following guiding principles are important:

- The concept of risk sharing is paramount. The delegates recognize that the low income housing investment and lending risks may initially be too great for private entities. The way forward to attract private capital is proper identification and allocation of risks among the public, private and non-profit sectors and that in most cases it is not appropriate for government to bear all the risk or the first loss.
- The applicability of various models depends on the context in which they are developed and used. There is a need for better understanding of the development of various programs and models (e.g., the US experience) and their applicability to emerging markets.
- There is a need for further research on the performance and transferability of the products and approaches discussed at the conference.
- There is an important need for the deepening of knowledge about and capacity to implement projects at the country level.
- The accumulation and dissemination of lending and housing performance data is critical in attracting new capital, developing new markets and convincing policy makers of the safety and profitability of housing lending and investment.
- Although not discussed in detail at the conference, the delegates believe that the development of secondary housing markets is critical in the provision of housing for low income households. Particular emphasis needs to be placed on the reduction of transactions costs, taxes and fees and time to register title and liens. Data on property prices and characteristics needs to be gathered and made centrally available.
- The concept of the basic housing unit funded by equity is an important pre-requisite for sustainable housing finance (particularly in areas where progressive housing is feasible). Subsidy recipients should put some savings into the house as an incentive to keep and maintain their investment. Local governments have a responsibility for provision of adequate infrastructure.

### **Examples**

The products and risk sharing approaches discussed at the conference can be grouped into 3 areas:

#### *Products*

- Lease to purchase (hire purchase – Thailand): Purchasers lease for first 3-5 years to prove their repayment capacity and then obtain title and a mortgage
- Adjustable term mortgages (Thailand) – fixed payments with term varying with the market interest rate
- Savings linked products (e.g., requiring pre-savings to obtain subsidy and/or loan or to receive better loan terms)

- Life and health insurance linked products: Reduce the risk of loss for lenders, provide more affordable group policies to borrowers

#### *Risk Sharing Mechanisms*

- Lease Default Guarantee (Thailand): Developer qualifies borrower and guarantees to take back the house in the event of default in the first 5 years Lease to Purchase
- Wholesale Finance (Liquidity Facilities for housing, microfinance): Enhancing the access and reducing the cost of capital market finance
- Mortgage Insurance (private and government; Mexico example where public and private sector share the loss. Initially the Sociedad Hipotecaria Federal (SHF) will provide first loss coverage with reinsurance from private mortgage insurers. Ultimately private insurers will take the first loss and government will provide catastrophic coverage)
- Credit Enhancement and Financial Guarantees: Mexico example of SHF providing liquidity support (commitment to purchase at market) securities issued by private sector lenders (the senior tranche of a rated security where the issuer holds a subordinate tranche)
- South Africa developer finance (“NURCHA”): Government provides land, capital from foundation (Soros), credit enhancement from developer (NGO) and OPIC (Overseas Private Investment Corp. – a U.S. agency)

#### *Fiscal Incentives*

- Inclusionary zoning (require developers to set aside a certain % of units for affordable housing, either within project or elsewhere)
- Tax credits for developers of affordable housing
- Leasing government land (reducing up-front cost of land purchase)
- Tax exemptions for affordable housing finance (e.g., from withholding tax on bonds)

#### **Role for Foundations and Multi-Lateral Institutions**

- Fund and disseminate research (products, models, best practices) and build local capacity (e.g., exchange programs, local research centers)
- Fund pilot projects for introducing new products, risk sharing mechanisms
- Coordination – use relationships to bring in other donors, development banks
- Credit enhancement – mezzanine risk on transactions
- Seed capital for new institutions (also contributing to governance through Board representation)

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**BELLAGIO HOUSING DECLARATION: ATTACHMENT D**

**THE BELLAGIO PARTNERSHIP MODEL FOR HOUSING**

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A working group met to develop a model of public-private partnerships. The following is a summary of the discussions. Although not formally endorsed by the participants at the meeting in Bellagio, these ideas were presented to the broader group. Additional comments from this broader group as incorporated in this summary. It is important to recognize that public-private partnerships often include the social sector as well as key partners, as well as quasi-governmental agencies, multi-lateral agencies, and foundations.

**General concept**

The Partnership Model is a structured expression of the most efficient way in which public and private sectors can work together to embrace reforms and actions to enhance housing sectors. It provides guidance for appropriate roles and responsibilities among the essential actors, and recommendations for what works and what doesn't in designing successful, scalable housing public-private partnerships.

**Stakeholder Partnerships**

Given the financial complexity of housing development and finance, intervention is often beyond the capacity of any group acting on its own. Even more damaging is when stakeholder groups are at odds with one another rather than working together, or when a key stakeholder group takes no action because it is waiting for another to act. Instead, the partnership model is predicated on three groups coming together on a series of initiatives each of which benefits from the other two. A stakeholder partnership is a defined, structured, and organized relationship among three actors. The terms used were created for the purposes of discussion. Hence, they were defined as followed:

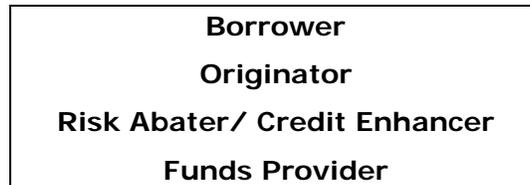
- 1) *"Innovators,"* who create products, services, homes, and financial instruments. Innovators create and prove concepts at small scale. Innovators are private companies, social sector organizations, foundations, or groups of customers.
- 2) *"Abaters,"* who define, shape, and manage risk. Abaters enable innovators to access capital and in so doing create large capital demand. Abaters are large stakeholder groups who pool resources or who benefit from the potential for scaling innovation, public-private partnerships, parastatals – entities that have capital they are willing to risk on a structured basis if the innovators are taking their appropriate risk.
- 3) *Scalers,* who intervene in the transition between when an innovator *can* successfully scale and when the innovator is self-sustaining at the larger new scale. Scalers temporarily support and enhance capacity. They are non-profits, foundations, NGOs, development banks, and others whose mission is predicated in seeing housing financial ecosystems thrive.

Importantly, the partnership model approach can apply to many specific initiatives in one country as well as to countries in different stages of development. It is not necessary that all of the pieces in any partnership model be perfect; improvement can occur over time. Each round of success in each partnership adds to social stability and adds to economic growth. In this

case, the housing finance system is itself an economic and social driver even beyond the drivers of individual purchases and construction.

### **Risk Sharing in Public-Private Partnerships**

The working group that developed the partnership concept spent considerable time developing a conceptual framework for thinking about them. They turned first to discussing risk sharing because this is often a central issue in structuring relationships intended to facilitate the flow of capital to housing. In any given partnership with the goal of attracting capital, the following were seen as parties in the risk sharing relationship.



The participants felt that *all parties to the issue should gain or lose as the issue succeeds or fails.*

- *Borrower* should have some equity at stake.
- *Originator* should take 100% of the first loss (up to some amount).
- *Risk abater* should take interim loss and potentially catastrophic loss.
- *Funds provider* should take interim loss.

The “risk abater” can also be thought of as a party that credit enhances the transaction by taking some piece of the risk. Many entities can perform this function. These include private companies, quasi-governmental agencies, multi-lateral donors, foundations or government agencies that provide mortgage insurance, guarantees, lines of credit, or some other credit enhancement. In addition, if loans are pooled, the pool itself can serve this function by being over-collateralized.

Risk sharing was seen as promoting system-wide benefits. These include

- 1) *Mobilizing capital.* All parties participate both in the risks and the returns.
- 2) *Fostering effective markets that create social and political benefits.* Macro, social stability, security are some of these benefits, which in turn create political will to support housing.
- 3) *Managing agency risk and moral hazard because all parties have capital at risk.* Specialization of function leads to functions migrating to those best suited to do each task. However, this creates the risk that some players will act against the interest of others unless they have something at stake. Having capital at stake reduces these risks.

In the context of public-private partnerships involving the capital markets, risk sharing relationships takes on specific forms. These were sketched out conceptual models were developed by the participants. These are outlined in Exhibits 1 and 2 attached.

## What Works and What Doesn't

For any given partnership model, the proof of its success is that it is non-partisan. Everybody sees it as valuable. This creates political will and permanency.

Among the **factors that contribute to successful partnerships** noted at the meeting are the following:

- 1) The housing finance system starts with the basics: rule of law, titling and property rights, practical creditor enforcement rights.
- 2) If subsidies are provided, they are given to the buyer where possible, but also sometimes to a lender if this is needed to set up a specialized lender, and to builders if this is needed to spark production. However, in general, subsidies to consumers distort markets less and result in consumer choice driving the model. This elevates the role of the consumer to that of an essential stakeholder.
- 3) Often land is provided in-kind as a means of buying down cost.
- 4) Peer exchanges are conducted at the intra-sector and inter-sector levels within a country and across countries. This is immensely valuable in a way that conferences and multinational gatherings are not because they are customized and focused on a nation's particular housing problem or set of problems.
- 5) Problem solving is situated in an analysis of the evolution of each market.
- 6) Resources deployed are calibrated to meet the different needs of different income bands.
- 7) Standardization is achieved that helps take markets to scale.

Among **factors that do not work well** in partnerships, the following were mentioned by the participants:

- 1) Pushing affordability below the minimum sustainable threshold does not work without a subsidy. Trying to serve groups that do not have the purchasing power to cover mortgage costs or rents compels the introduction of a subsidy. This is true of new construction, sales or rentals of existing homes, and improvements to existing substandard homes. If these subsidies are not forthcoming, partnerships that are operating below the threshold will likely fail.
- 2) Programs that buy down interest-rates or cap them create risk of failure. These programs may work but are vulnerable to rates spiking above a ceiling. In nations with macroeconomic stability the risk of spikes destabilizing borrowers and the financial viability of the partnership are reduced.
- 3) Starting a program and not continuing it.
- 4) Adopting a one-size-fits-all approach.
- 5) Unthinking importation of external models that are customized to external circumstances absent in this market.
- 6) Adopting only one part of a multi-part interdependent system.

## Other Topics

The group also discussed the role of savings and micro-finance as well as the concept of a basic housing unit. **Savings** as defined in a membership context are in some respects not equal to deposits, as shown in the chart below.

### Savings and deposits

Savings		Deposits
Taken only from members		Taken from anyone, the public
All in local community		Money from outside community
Performance return (and risk!)		Redemption at par (not at risk of bank)

Banking originally evolved from mutual associations of savers: credit unions, building societies, and mutual banks. Gradually these institutions, all of which started small and informally accumulated capital and expertise. They thus expanded their geographic range. Model was savings → banking → deposit-taking. This is a significant part of American financial history often overlooked by current-day policymakers.

With respect to **savings and micro-finance**, the group posited the following:

- 1) It is a myth that domestic funding does not exist; even the very poor have capital, need microfinance savings institutions to tap it.
- 2) People's behavior changes when they can see their actions accumulating wealth. Becoming a homeowner is a life-changing and behavior-driving experience. Establishing a pattern of savings and seeing them accumulate is likely effective in sparking savings. Prior credit history is a very limited guide—people treat housing payments differently from other payments.
- 3) Microfinance demonstrates that through a sequence of save-lend, save-lend, the poor can step up their capacity to save.
- 4) Poor customers must 'pay their way in' to a system by demonstrating some level of savings ability for some period of time before they should be able to access grant or cheap capital. The save-lend cycle begins with savings.
- 5) There are forms short of pure homeownership that give the 'homeownership spirit': hire-purchase (e.g. Thailand), rent-to-buy, installment-land-sale-contract.
- 6) Microfinance is a 2x2 grid: a group or individual on one axis and savings or lending on the other. Rural areas often rely on group-savings while lending in urban areas is typically based on and individual-lending models. But other combinations are possible: all four types can work or fail depending on context.

A discussion of the **housing-supply side** focused on the concept of a Basic Housing Units (BHU). The participants noted that the cost of housing cannot be lowered below the sum of four fundamental components:

Land  
+ Basic services  
+ Titling and recordation  
+ Minimum structure (call it the BHU).  
= Minimum housing cost

The group felt it is critically important to drill down each element of the cost. Sometimes this can be done by tapping intra-government resources (e.g. land in inventory, public works

infrastructure not charged to the scheme). Below some level of income, people are too poor for any financing. This leads to the “minimum-equity” principle: define a BHU, which is the minimum of land, title, and minimum living space for a couple. Get the cost of BHU as low as possible. Then have the customer pay for the BHU by equity. Certain households cannot reliably pay any income, but can occupy successfully BHU's based on the equity-minimum rule. Housing above the BHU level may be paid with debt.

**Exhibit 1**  
**The 'Capital Markets Model' Disaggregated**

<b>Originators</b>		<b>Risk abaters</b>		<b>Funds providers</b>
<i>Product providers who use funds retail</i>		<i>Deploy balance sheet and credit</i>		<i>Deploy funds wholesale at scale</i>
Specialists				Savings
Consumer finance				Deposits
Microfinance		Issue of new instrument		Government
Commercial banks				Mutual credit unions
Cooperatives				Debt markets
				Equity markets
				Multilaterals

In a capital markets model:

- 1) Originators are capable of originating some large number of individual loans, which they wish to bundle into packages and sell into the capital markets, so as to recoup their capital, reap their profit, and return to the origination phase. Originators work retail, making loans one by one.
- 2) Issues of new instruments by these originators are by themselves potentially insufficient to attract capital, so the party that will credit enhance and abate the risk intervenes, for mission or profit, to create a security of higher rating (ergo lower cost and larger scale).
- 3) Funds providers can acquire securities or bundled instruments, with standardized features and a predictable range of financial outcomes. This enables them to work wholesale.

**Exhibit 2**  
**The Partnership Model: Allocation of roles**

Private sector, both originators and customers	Government-public sector-private sector (depends)	Philanthropy-NGO-development banks
<b>Originators</b>	<b>Risk Abatement</b>	<b>Scalers</b>
Initiate Innovate	This creates potential	
	Define risk sharing rules Establish proprietary features, standardized features	This creates capital
This creates sustainability		Demonstrate Take to scale Patient capital Underwrite convocations and learning advances

The partnership model involves three conceptual steps, in sequence:

**Step 1: Concept innovated and proven.** Before anything else can happen, the innovators must create a concept and prove it at small scale. This identifies new customer, financial configuration, housing configuration, and product opportunities.

**Step 2: Risk abatement structured for scale.** Abaters, typically by negotiated or structured agreement among public-private entities (possibly created for individual purposes), structure the manner of risk abatement at the level of a new issue. Properly done (see memorandum for suggestions), this creates capital at scale very rapidly. Further, risk management instruments tend to harvest and standardize information (an intended consequence), and to stimulate standardization of instruments and terms (which facilitates further scaling and efficiency).

**Step 3: Capacity augmentation.** Scalers recognize the risk and opportunity inherent in Step 2. The opportunity is to grow scale rapidly. The risk is that scaling will overwhelm innovator capacity or destroy the business model. Accordingly, scalers see a mission opportunity to transition the innovators and capital markets to sustainability and maturity at scale. They do this by continuing to push markets to disaggregate risks and functions and specialize. Who does what best? Who is best placed to take and manage each risk.