

Stimulating housing development in developing countries

With the resources now available, the goal of an adequate house for every family can be achieved, says Peter Kimm

RAPID urbanisation is creating unprecedented pressure for shelter and related community services everywhere in the developing world. Governments are confronting enormous needs across all sectors of the economy with limited financial resources and shortages of technical and managerial skills to cope with the growing housing problem. Cities in developing countries, which were already starting to meet basic service needs, grew in the aggregate by 350 million people over the past decade. The future holds more of the same. The urban population of developing countries is expected to double over the next 20 years, by which time more than half the poor will be living in cities. Squatter communities, which accounted for 40% of their populations in 1981, will constitute nearly two-thirds by the year 2000.

One dramatic indicator of this urbanisation is the increase in the number of large cities. In 1950, fewer than half of the world's 76 cities with more than one million people were in developing countries; by the year 2000, they are expected to contain 284 such cities. This growth will have profound implications for the developing world. The efficiency of these urban areas, or lack thereof, will be a major determinant of the overall quality of life and economic strength of developing countries.

Over the past 25 years, the United States Agency for International



Development has been providing assistance to developing countries for housing and related urban services. AID has accumulated a wealth of experience about the nature of the shelter problem and its solutions. This experience has led it to the conclusion that individual and private initiatives are the real solution to the world's urban problems.

In AID's view, which I discuss in this article, governments have an indispensable role in providing infrastructure and secure land tenure and in creating the climate and policies that will facilitate the production of hous-

ing by individual initiative and private action. Very rarely is government an efficient producer or owner of housing.

The strategies for tackling urban shelter problems have moved dramatically since the 1960s, when the view was widely held that the key to the solution was the construction of housing at relatively high standards by the government. That approach was costly to the country and failed to produce housing units in sufficient quantity to meet the need.

In the 1970s, that strategy gave way to one of addressing basic needs by providing minimal services to a vastly larger proportion of the urban poor through sites and services, core housing projects and slum upgrading. Such projects demonstrated that poor families could be served with improved shelter and that they could become homeowners and function well within a normal credit system.

The basic needs strategy helped to re-orient the policies of developing countries to appropriate and affordable housing solutions. Many governments, however, continued to provide unrealistic and unsustainable subsidies by making land available at below market prices, providing financing at interest rates that did not reflect the true cost of money, or constructing infrastructure without making provision for cost recovery. Thus, the projects required a continuous replenishment of resources for subsidies, precluding replicability

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at the scale needed due to limited government and donor resources. This became dramatically more evident during the financial crunch of the 1980s.

For most countries, the solution to overcoming the limitations of government resources needed to improve shelter conditions lies within their indigenous private sectors where financial and human resources vastly exceed those available to the public sector. The private sector includes both the formal sector organisations owned by individual and institutional investors, and the informal sector, which consists of individuals and small scale enterprises that are not formally registered, do not keep proper accounts, and employ labour on a mostly casual basis.

In industrialised countries, the informal sector plays a very small role in housing. In virtually every developing country, however, the informal sector has been responsible for producing most new housing, particularly for low income people. In aggregate, informal private sector activities represent a significant investment in housing that confirms the strong desire and willingness of people, regardless of their income, to

provide themselves with a decent place to live. Experience with sites and services projects, home improvement and community upgrading programmes has demonstrated that assistance to the informal sector can be an effective means of improving shelter conditions.

The potential for generating investment capital for shelter from individual and institutional savings far exceeds that available from public funds. The formal private sector also generally commands superior technical and managerial expertise to that found in government due to its focus on individual performance. As a result, they usually can perform a particular task more efficiently and at lower cost than a public agency.

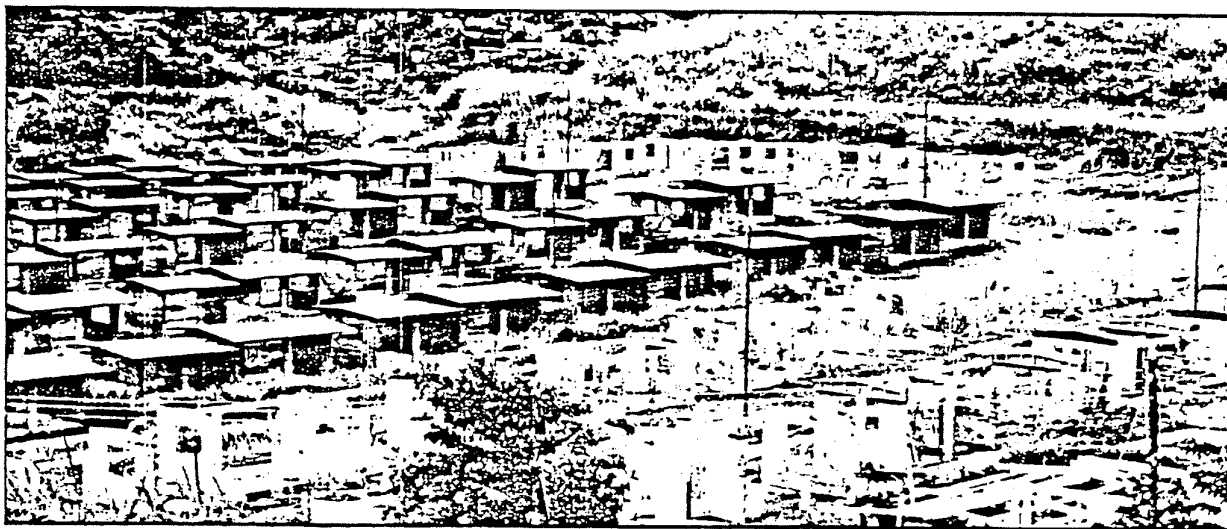
To a large extent, however, the formal private sector has been providing generally high quality and relatively expensive shelter for a limited segment of the housing market, ignoring a broad range of unmet need among low-income households. Unlike governments, the private sector is not obligated to respond to public expectations or

social need. This suggests that appropriate government action will also be required to create the climate needed to encourage additional private sector participation in the provision of shelter and to solve those problems that individuals and private sector institutions cannot solve alone. Generally, public sector efforts are required to facilitate access to land and secure tenure, to provide adequate infrastructure and to generate sufficient long term credit for housing.

AID's shelter strategy views individuals and formal and informal private sector institutions as the proven producers of housing and the government as the facilitator of increased private participation, which also undertakes those tasks that the private sector cannot accomplish. AID concentrates on working with officials from less developed countries to formulate national shelter policies and implementation strategies. It engages in a dialogue on policies and appropriate reforms that will set in motion the forces to increase the supply of housing to meet existing and future demand.

Developing countries that have most effectively met their shelter

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A housing project in Panama City financed under the AID housing guaranty programme.

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needs have adopted, at least to some degree, a number of common policies that help explain their success. The substance of the dialogue between AID and developing country governments centres on six basic policy elements or objectives.

The first element is an investment policy that recognises the significance of shelter production to the national economy. Developing country governments of all political philosophies are faced with difficult decisions regarding the allocation of limited fiscal resources among different sectors of the economy. The financing of housing and urban services must compete with the investment needs of industry, agriculture, education and other sectors. In making these choices, a common misperception is that investing in shelter uses scarce capital resources without producing as many economic benefits in terms of employment and capital formation as, for example, manufacturing and agriculture.

Shelter does, however, make a significant impact on national and local economic development. Because it is labour intensive, construction creates a high level of employment per unit of investment. Housing construction supplies about 10% of all jobs in developing countries. It also generates demand for construction materials, furnishings and related goods and services which translates into jobs in the manufacturing and services sectors. On average, each construction job generates one additional housing related job.

Thus the shelter industry can play a powerful role in economic development as a creator of employment and a stimulant to investment, while also directly benefiting society through improved living conditions. This increased production does not, of course, assure equity in the distribution of shelter, and the need for some social investments will remain.

A second policy objective is a high degree of reliance on market systems and the private development of housing. Although some regulation is

needed, both to protect public health and safety and to improve the efficiency of the development process, in many countries the competitiveness of the housing market is severely restricted. Governments may regulate the flow of finance, restrict the development of residential land, control rents, or subsidise housing for selected groups. These and similar market interventions are often counterproductive and hinder private sector shelter activity.

For example, credit and interest rate controls designed to modulate the money supply or to target credit resources for specific purposes often crowd low income borrowers out of the credit market. As a result credit is made available only to those who already have resources and whom financial institutions consider the most creditworthy.

A third key policy thrust is cost recovery in the provision and maintenance of housing and urban services. The objective of full cost recovery is to provide revenues that cover the cost of the investment and generate resources that can be invested in additional housing. Cost recovery first and foremost requires that the bills due are collected in a timely fashion. It also argues for eliminating

interest rate subsidies, charging market prices for government owned or controlled land, and establishing appropriate user charges for basic infrastructure and services.

Although the private sector must fully recover costs and make a profit in order to stay in business, government is often less concerned with recovering costs than with producing social benefits. Cost of recovery, however, is an important management tool to increase the impact of scarce government resources and produce shelter solutions at a scale adequate to meet the growing needs.

If government elects to absorb some costs, it should do so consciously, considering the budgetary impacts of the decision, and ensuring that the subsidies have been carefully targeted to the disadvantaged. Unfortunately, the housing sector is loaded with subsidies that distort decision-making, are usually inequitable, and are fiercely defended by the current beneficiaries.

A fourth key policy objective is the adoption of affordable, appropriate standards for housing, infrastructure and other urban services. Governments protect the health and safety of the public by establishing standards for land use and development densities; for the level of infrastructure and services to be provided; and for the

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Core housing project in Honduras, financed under the housing guaranty programme.

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design and structural qualities of the building to be constructed. Standards are a legitimate means of protecting public health and safety, but they cannot be used to improve people's living conditions above a level they can afford. While the objective may be admirable in terms of social benefit, the approach is counter-productive if people cannot afford shelter and services when they are built to official standards.

In many instances, the growth of illegal (unauthorised) settlements can be directly attributed to the exist-

ence of excessively restrictive standards. The establishment of realistic standards that conform to affordability criteria is one of the most effective actions government can take to encourage the private sector to produce serviced land and shelter for low income households.

A fifth strategic policy objective is to adopt rational administrative procedures that encourage private investment in housing and land

development. The cost of housing is significantly affected by the time required to obtain approvals to proceed with construction, secure financing, close a loan, or clear some other administrative step in the long process of shelter production.

Administrative delays can deter private entrepreneurs from investing in low income shelter construction because the small margin of profit associated with such projects can quickly be absorbed by unexpected time delays. Streamlining administrative procedures can be effective in

The Office of Housing and Urban Programs of the US Agency for International Development

THE OFFICE of Housing and Urban Programs of the Agency for International Development has been providing capital and technical assistance for shelter and urban programmes for 25 years. The principal source of capital assistance has been its Housing Guaranty (HG) Program, under which AID guarantees the loans of private US banks, insurance companies, pension funds and savings and loan associations, in the long term financing of basic shelter and infrastructure for lower income families in less developed countries (LDCs). The cost to the borrowing countries is comparable to that of World Bank loans.

The central office is supported by seven Regional Housing and Urban Development Offices (RHUDOs) that are responsible for identifying, designing and managing shelter projects in their respective regions. They are located in Tegucigalpa, Kingston, Panama, Tunis, Nairobi, Abidjan and Bangkok. A relatively small Washington office provides oversight and support through its Operations Division and leadership in policy and programme development through its Policy and Urban Program Division.

The HG Program was enacted in the US Foreign Assistance Act of 1961. To date, 41 countries have

received assistance under the HG Program in developing their own housing finance institutions and in mobilising savings to help meet the housing needs of their populations. At the end of fiscal year 1986, \$1.5 billion was under contract in 148 projects. During fiscal year 1986, £145 million was authorised for new projects around the world.

The fundamental goal of the programme is to help achieve comprehensive, rational strategies for meeting the shelter needs of the poorer half of LDC populations. AID is convinced that the world shelter problem can be resolved in a finite time frame with existing resources if the right policies are pursued. The HG Program works with LDC leaders in designing and implementing policies that create the climate that will permit individual initiative and the private sector to produce the needed housing. Government has an essential role to play in the provision of infrastructure and in facilitating the availability of land and financing, but has not been an efficient producer of housing.

In the 1960s AID provided technical assistance and loan resources to help create private savings and loan systems throughout Latin America. These institutions have undergone

significant changes in the intervening years, but most continue to flourish, mobilising resources from savers and investing them in housing. Now the HG program is worldwide and AID supports private financial institutions in countries as diverse as Barbados, Bolivia, India, and Kenya.

In Bolivia, for example, \$15 million in HG funds and \$1.65 million in technical assistance are programmed to strengthen the Central Savings and Loan Bank (CACEN), the privately owned regulatory and representative body for the S & Ls, as well as improve the management and financial base of its members. In Haiti, AID actively encouraged the founding of the privately held Banque de Credit Immobiliere (BCI), the first financial institution in the country to specialise in financing housing. Despite difficult economic and political circumstances, BCI has generated over \$2.3 million in savings and made more than 80 loans valued at \$2.4 million in less than one year of operation. In addition to technical assistance, AID is lending \$10 million to the Barbadian Government, which it is on-lending to commercial banks and credit unions. As a result of this project, commercial banks now lend to low-income households using their own resources. ■

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lowering the cost of housing generally and in stimulating greater private sector involvement in the production of low income shelter.

The final key policy objective is to develop and support efficient institutions, both public and private, that are capable of participating in the production and finance of shelter and urban development. The full benefits of private initiative can be realised only in a supportive environment in which the basic public responsibilities are executed efficiently and private sector institutions have the capacity to participate.

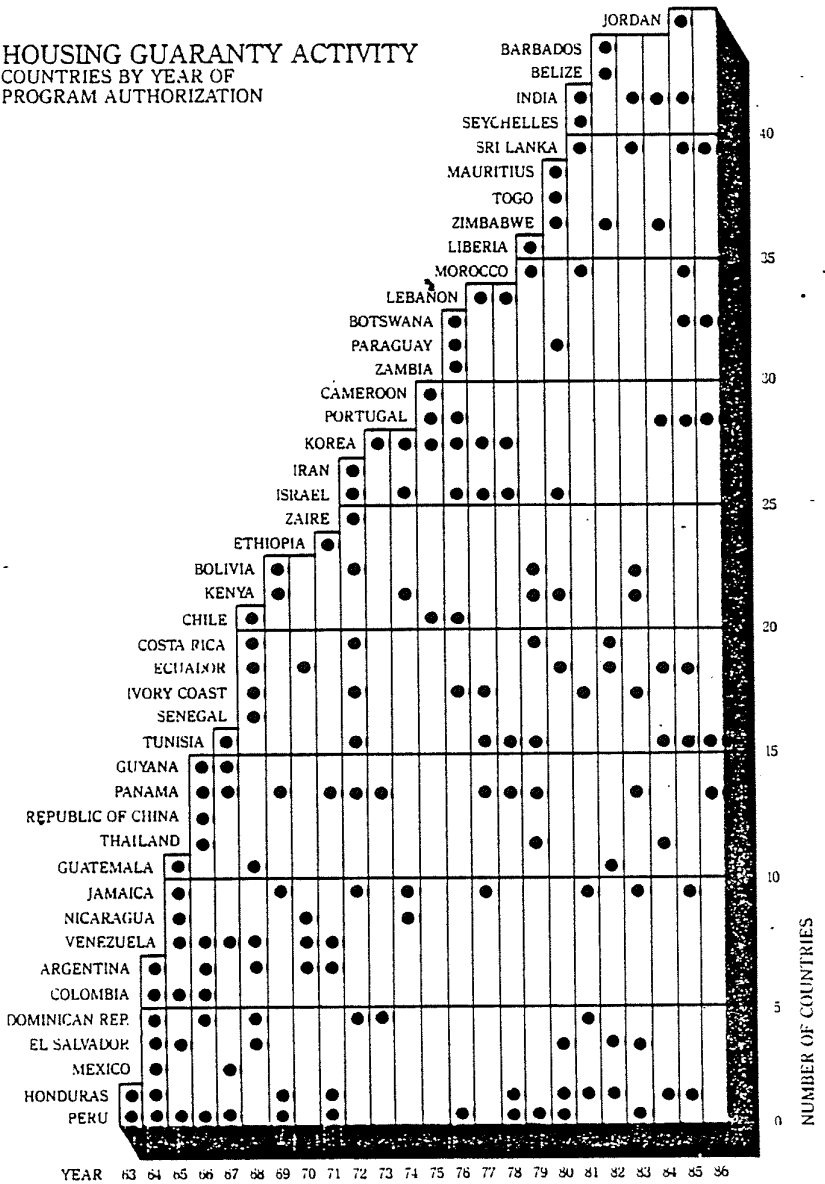
It is particularly important to support institutions that serve people at a local level, such as neighbourhood associations, and to strengthen local governments, which have the greatest ability to assess local needs and elicit individual and private sector support.

Through its Housing Guaranty Program and related assistance resources, AID works with developing countries to formulate national policies and implement projects which embody these concepts to support the resolution of the world shelter problem. AID believes that the shelter problem can be solved and that — perhaps within a single generation — with the resources now available, the goal of an adequate, basic house for every family is achievable. This will happen only if the human and financial resources of individuals and private sector enterprises can be mobilised for the task.

It is the role of government to facilitate and encourage this participation, and intervene only where the private sector cannot solve the problems. A consensus is emerging among the major donor agencies involved in shelter, including the World Bank and the United Nations Centre for Human Settlements (Habitat), that this approach has great potential for achieving the goal of providing decent, basic shelter for all.

The UN has designated 1987 as the International Year of Shelter for the Homeless. This is an appropriate opportunity for developing countries

HOUSING GUARANTY ACTIVITY
COUNTRIES BY YEAR OF PROGRAM AUTHORIZATION



to examine their shelter policies and make renewed commitments to expand housing opportunities for the poor. ■

PETER KIMM has directed the shelter and urban programmes of the United States Agency for International

Development for the past 20 years. He has been directly involved in shelter and urban strategies in more than 50 countries in Latin America, the Caribbean, Africa and Asia, and has written and spoken widely on these matters. He likes to say that he has made every mistake that it is possible to make in this sector.