

Shelter, Settlement and Development

A major new work which deals comprehensively
with housing issues in developing countries

Much valuable research has been conducted into housing issues in developing countries in recent years, but a great deal of it has not been easily accessible. Much unpublished work lays relatively hidden within international aid agencies and national governments, and a high proportion of academic work remains unread other than by academics. There has been a critical need for a major volume which deals comprehensively with all aspects of housing problems in developing countries.

Shelter, Settlement & Development represents such a volume, and should become the bible for all of those concerned with housing issues in developing countries. The book results directly from the declaration by the General Assembly of the United Nations of 1987 as the International Year of Shelter for the Homeless. The year provides an opportunity to assess policy and to decide on new directions and approaches for national policies and strategies. Towards this end the United Nations Centre for Human Settlements commissioned a group of eminent academics and practitioners to put together an analysis of the past efforts and to identify the critical areas requiring urgent action.

The resultant publication comprises 15 papers and two appendices by those experts. The papers were subject to detailed review by all the authors at a seminar held in New York, and, although differences of emphasis have inevitably remained,

the authors adopt a fairly consistent approach. The volume is edited by Professor Lloyd Rodwin, director of the Special Programme for Urban and Regional Studies of Developing Areas (SPURS) at the Massachusetts Institute of Technology, who directed the study.

Overview

An overview chapter by Lloyd Rodwin and Bishwapriya Sanyal usefully sets out the overall conclusions of the study. They draw a number of lessons from the past:

(a) Third world countries have tried to re-direct urbanisation through planning policy, but such strategies proved difficult to implement. Big

*'Mistakes have been
made in
shelter programmes'*

cities have continued to grow and have continued to provide significant economic, social, infrastructure and other opportunities for their population.

(b) Mistakes have been made in previous thinking and programmes relating to shelter. It used to be argued that housing is consumption rather than a productive investment. But, today, a new point of view is that housing investment makes particular sense in third world countries because it demands less of scarce resources such as highly skilled

labour, capital and foreign exchange. Government has responded to housing shortages by building public housing, but the number of units provided has been constrained by high standards and rents have had to be subsidised. However well intended, public housing has been tiny in volume, exorbitant in cost, and inefficient in administration. The previous belief that housing standards should be high has now turned into a consensus that high standards are one of the major barriers blocking the provision of shelter for low income families. Shanty towns were previously decried and often destroyed, but now it is recognised that they provide shelter for owners and contribute significantly to the rental stock. (c) Third world countries have suffered administrative over-centralisation, combined with weak local government.

Rodwin and Sanyal conclude that the present crunch position can be seen both as a crisis and as an opportunity. Third world countries are constrained by several trends including the debt financing problem and low incomes, as well as continuing rapid rates of population growth. The largest pressure for shelter will be from low and moderate income households, with limited ability to pay for shelter and related services. Access to peripheral land is increasingly restricted.

However, austerity measures could put pressure on governments to improve the efficiency of their operations through more selective use of

their resources. There could be a fresh look at subsidies, which may be regressive and drain governmental resources, and capital intensive projects for spacious planning will be discouraged. The cuts will curtail expensive large-scale public housing projects and probably curb initiation of new projects. Local government will have to become more efficient in collecting charges and taxes, and will put a premium on shelter policies which facilitate access of the maximum number of households to jobs and service facilities.

Policy guidelines

Rodwin and Sanyal suggest that third world countries might explore the following policy guidelines:

(a) *Settlement policy.* Government should not create programmes that might unjustifiably increase the attractiveness of large cities, for

'Local government will have to be more efficient'

example, by subsidised urban infrastructure. The promotion of secondary cities has had virtually no impact on countering the primacy of the large urban units, but the strategy might be more viable if the aims and scope were more limited and the methods more realistic. Broadly based rural development programmes could yield substantial savings in shelter and service costs by retaining population outside of the major urban centres.

(b) *Shelter policy.* The only way the bulk of the poor are now sheltered in third world countries is through incremental house building by the urban poor themselves. Incremental building must be seen as an efficient component of the shelter delivery system. It is no longer possible to deny or ignore extra-legal building processes and one of the tasks of shelter policy is to prepare a process well in advance of the future growth of population that can utilise the

tremendous energies embodied in incremental building and incorporate them more effectively and equitably in the productive structure of the urban system.

(c) *Land and tenure.* To encourage investment in shelter by the urban poor, rules for establishing provisional as well as long-term property rights must be firmly established. Self-builders invest substantially only in an asset they perceive to be secure. The cities of the developing world now have one advantage, which is the high incidence of *de facto* home ownership among people with relatively low incomes. Policy makers must try to hold on to the existence and the advantage of ownership as much as possible. This involves land policies which will have to deal with a particular version of the "standards" issue. However, there is evidence that legalising the tenure of land formerly held by irregular arrangements outside the legal system raises the price. Each group of policy makers must experiment with different ways of managing these conflicts.

(d) *Finance.* Low income households rely on informal financing methods, but these services are limited, and the problem is how to create better alternatives. Housing finance institutions have played only a modest role in financing housing and construction in third world countries, but in the longer term they must play a more important role which requires them to mobilise the savings of the people who will eventually receive loans. There is agreement on a number of basic matters: that housing finance policies are severely handicapped without macro-economic policies favouring price stability, that if financial institutions wish to mobilise funds they must keep their interest rates close to the market cost of funds, and that on the lending side it might be better to experiment with more flexible lending arrangements, adjusted to different market segments and household needs. Finally,

there is increasing evidence that even low income households shrewdly change their financial strategies to improve their shelter when they can count on affordable standards, minimal infrastructure and public services and some reasonable security of tenure.

(e) *The construction industry and building materials.* Most governments have tended to support large firms on the grounds that they provide economies of scale. However, small-scale firms offer benefits that are particularly significant for

'Governments can encourage small firms'

developing countries, for example, lower overhead costs, and they are more likely to reflect relative factor prices. Governments can encourage small firms and the use of indigenous building materials but the re-formulation of standards for materials, zoning and building design. They can also augment sources of finance for small-scale builders and producers, allocate low rent plots for informal enterprises and be sensitive to the needs of small builders when distributing raw materials.

Housing finance

Two of the papers deal particularly with housing finance matters. Mark Boleat, secretary-general of IUBBSA, provides the chapter on housing finance institutions. The main points he makes are;

a) In developing countries, even when there are projects to provide affordable housing units, progress may be frustrated because of inadequate housing finance mechanisms. b) Housing finance is largely provided without the intermediation of financial institutions, and where there is such intermediation it is generally by institutions working on the mortgage bank principle.

c) Home ownership is a powerful

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incentive to save, and people will make sacrifices to purchase their homes.

d) Informal systems of housing finance work because they are suited to conditions in which they operate. However, informal systems are not efficient and cannot provide long-term loans.

e) Governments should not try to prevent the informal system working but rather should encourage formal institutions to provide competition to it. Formal institutions are more likely to be efficient where they are allowed to lend as well as raise deposits, where there is political and economic stability, where there are no artificial constraints on interest rates, and where institutions which raise retail deposits are not subject to credit controls on how they lend those funds.

f) Formal institutions can increase their housing finance activity and

'Cost recovery the mirror image of subsidies'

mobilisation of savings by various measures, including promoting savings schemes linked to house purchase, establishing branches, establishing links with informal institutions, and using innovative methods of assessing income and recovering repayments.

g) In the past expectations in respect of housing finance have been too high. If institutions are forced to lend to lower income people who cannot afford owner-occupation then their own viability is threatened.

h) The provision of informal rented housing is an important source of supply of affordable housing and can help finance improvements and house purchase by owner-occupiers.

i) The learning system in housing finance is deficient, in particular there is an inadequate dissemination of information.

Bertrand Renaud of the World Bank

contributes a paper on financing shelter. He analyses the lessons from experience of housing delivery systems in third world countries and notes the typical three-tier structure of housing markets with a legal private sector, coping with the top end of the income scale, a narrowly subsidised market of middle class salaried workers, and finally, the large and private incremental housing market.

Renaud lists a number of non-financial constraints affecting housing supply, including poor land administration and institutions, excessively high standards and building costs, lack of major infrastructure and rent control legislation.

On the more specific question of finance, he suggests that experience has shown the limits of public budgets which could not accommodate large, but rapidly growing, urban populations and of the implementing capacity of public institutions. Developing countries have found that conventional subsidised public housing is not the answer to providing shelter for large, low-income populations and that public agencies should focus their activities on the provision of infrastructure, move away from the direct production of housing units, and strive to facilitate private housing construction at all income levels.

From a financial viewpoint two issues are of vital importance: subsidies and cost recovery. If governments want to have housing programmes that are sustainable over time, then they should clarify their use of subsidies and contain them. In housing programmes which include an element of subsidy it should be confined to the lowest income groups and should focus most heavily on infrastructure.

Cost recovery is the mirror image of subsidies. There has been a failure in cost recovery in the past, caused by inadequate legislation, poorly organised and supervised collection procedures, difficulties with land

tenure and the transfer of titles, weak administration or unwillingness to adjust tariffs and user charges for inflation and the true cost of providing services, and sometimes the plain unwillingness to pay on the part of the beneficiaries. The failure to recover costs provides a windfall to those who have been served and

'Mortgage rate should be close to market rate'

threatens the viability of public programmes.

Renaud concludes that the primary requirement for successful housing finance policy consists of macro-economic policies conducive to price stability and increased domestic savings. Generally, the volume of direct government subsidies and the scope for their misallocation is in direct proportion to the level of inflation. Heavy subsidies provided through housing finance, insolvent public sector agencies and continuing attempts at financing public activities through inflation have been a major cause of financial instability in a number of countries.

The strategic variable for the expansion of housing finance systems is the mortgage interest rate level, and financial institutions should keep this rate close to the market cost of funds in order to pay appropriate rates on deposits and mobilise funds.

Legislative frameworks limiting the flexibility of housing finance institutions should be reviewed to permit them to experiment with more varied mortgage instruments. Financial institutions should develop their project appraisal capacities with respect to their financial, technical and commercial characteristics of the projects submitted to them for financing. ■

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