

## How AID works in developing countries

**T**HE Office of Housing and Urban Programs of the United States Agency for International Development (AID) is one of the leading aid agencies in the housing field. The Office's annual report for its year ending 30 September 1987 describes its current programme.

### *The Housing Guaranty loan process*

AID's work in housing is based around the Housing Guaranty Program, which involves collaboration with a host country housing institution acting as borrower. Following a request from that country, AID, working with host country officials, will prepare a housing sector assessment. Based on this analysis the type of housing programme to be financed will be determined.

When a mutually agreed project has been developed, AID and the borrower enter into an Implementation Agreement defining the use of proceeds of the loan. The borrower will seek the most favourable term in the US capital market, and the typical loan instrument is a 30 year loan with a 10 year grace period on the repayment of principal.

AID guarantees the loan, for which it charges a fee. AID also requires the government of the borrowing country to guarantee the loan.

During 1987 the agency authorised loan programmes totalling \$145 million for the Central American Bank for Economic Integration (\$25 million), the Ivory Coast (\$19 million), India (\$25 million), Jordan (\$25 million), Panama (\$3 million), Portugal (\$25 million), and Sri Lanka (\$25 million). Programmes financed have included:

- (a) Sites and services and core housing.
- (b) Urban neighbourhood infrastructure.
- (c) Municipal facilities.
- (d) Financial and technical management skills.

### *The work of the office*

The Office operates through seven Regional Housing and Urban Development Offices (RHUDOs) which act as shelter and urban advisors to all interested missions of the AID. The Office also manages \$5 million in centrally grant funded technical assistance, research and train-

### *'Encouraging a secondary mortgage market'*

ing activities, and co-ordinates significant amounts of mission resources. Considerable emphasis is placed on training.

AID measures success by the degree to which policies are adopted that improve the ability of the countries to manage urbanisation, and produce affordable shelter for low income families over the long run and with available resources.

Four underlying principles govern AID's approach to development and to low cost shelter:

- (a) Private sector participation.
- (b) Policy dialogue.
- (c) Institutional development.
- (d) Technology transfer.

The Housing Guaranty Programme works to facilitate an increased role for both the formal and the informal

sector, including land developers, credit institutions, co-operative and other self-help institutions. Such groups are held to play key roles providing home improvement credit, low income shelter financing for land acquisition, construction, material supply, and marketing. A major AID objective is to assist governments to disengage from direct roles in housing production and finance, and to facilitate the participation of the private sector through supportive policies, and the timely provision of essential infrastructure. The Office's programme encourage among other things, improvements to the capital markets through development of private savings and loans systems, savings mobilisation, and the establishment of secondary mortgage markets.

### *Regional activity*

The report includes details from each of the seven Regional Housing and Urban Development Offices. The report for East and Southern Africa notes the inauguration of a project in Botswana through which 600 housing units will be built with private building societies providing the long-term financing to low income buyers. In Kenya, \$30 million in Guaranty funds are being used to support the development of low cost shelter by private developers and housing co-operatives, with private building societies providing long-term financing.

The Nairobi RHUDO provides technical and financial support to the African Union of Building Societies and Housing Finance Institutions, and the report notes that in working with this organisation, RHUDO staff

## Privatisation in Jamaica

SINCE the adoption of the National Housing Policy in 1982, the RHUDO has concentrated on three areas in Jamaica: development of public and private sector roles in shelter and urban development, establishment of a stable housing finance system, and accelerated housing production and marketing.

As a result, the public sector has divested itself of housing stock and there has been a shift toward greater private sector participation in several areas: production and finance of low and moderate income housing; expansion of urban development by the private sector to include redevelopment of urban areas; and capitalisation of the private sector resources through turnkey projects.

The RHUDO has promoted these initiatives and trends in Jamaica through a sustained policy dialogue with both the private and public sectors. It is also involved in two major programmes: The Jamaica Private Sector and Basic Shelter Programmes; and the Inner Kingston Development Project.

The Jamaica Private Sector and Basic Shelter Programmes loan \$30 million in Housing Guaranty funds to the Government of Jamaica, acting through the Caribbean Housing Finance Corporation.

The purposes of the loans are: (1) to encourage the Government to convert its role from direct production and financing of housing to that of facilitating private investment in low income housing through appropriate policy and programmatic approaches; (2) to increase private sector participation in the design, construction, marketing and sales of shelter and related services through

programmes for settlement upgrading, sites-and-services, home improvements, core houses and other low cost housing solutions; and (3) to expand low income housing finance operations of the Caribbean Housing Finance Corporation (CHFC), relying on private sector lending institutions to originate and service loans to low and moderate income households.

The CHFC, a parastatal organisation with corporate status, is the borrower and central fiduciary institution for the project. It is responsible for lending programme funds to private institutions involved in shelter development, including credit unions, commercial banks and building societies.

Numerous approaches to the use of programme funds have been developed. The Jamaica Co-operative Credit Union League, for example, is making home improvement loans that will be discounted by the CHFC. The Teachers' Co-operative Credit Union, one of the larger credit unions in Kingston, has requested \$2 million in home improvement funds for its members. Private building societies have also developed proposals for construction of dwelling units affordable by low income groups throughout Jamaica.

One of the programmes' innovations is a reliance on community-based organisations to provide greater collective creditworthiness for lower income individuals seeking loans for home improvements or new construction. The Government, the RHUDO and CHFC are initiating pilot programmes of this type with local religious organisations and the credit union system, which has an extensive outreach. The first pilot project has been implemented in Mizpah, in

central Jamaica. Credit unions in Montego Bay and Westmoreland have also begun to identify appropriate community based organisations, following established selection criteria. This same Montego Bay credit union plans to also serve as a developer under the Private Sector programme. It will develop low cost housing units for its members.

Additionally, the programme has facilitated the revision of Central Bank liquidity and reserve requirements, as well as credit interest rate caps and withholding tax requirements, for banks which will be participating in the programme. This should result in a maximum use of programme funds and reflows to provide a steadily increasing number of shelter solutions.

The Inner Kingston Development Project consists of a \$15 million AID grant and loan to the Kingston Restoration Company, a private developer, and to the Urban Development Corporation, a public developer of infrastructure. Project funds will be used to create jobs and stimulate private investment in downtown Kingston.

The Kingston Restoration Company is providing financing for the rehabilitation of light manufacturing and commercial space, the operation of a grant programme for small business expansion, and the involvement of local community residents in the development area. The Urban Development Corporation, with USAID financing is providing infrastructure and related improvements, including a transportation centre, in Inner Kingston.

The Programme provides infrastructure and related improvements in Inner Kingston which encourage business rehabilitation efforts.

have gained insight into the opportunities for private investment in the low cost shelter sector, while Union members have acquired an understanding of the needs of the low income housing market.

In the Near East and North Africa, the following activity has taken place:

A sites and services programme is being funded in Tunisia, with beneficiaries obtaining mortgages and building their homes.

In Jordan the RHUDO is working with the Jordan Housing Bank to help serve the housing needs of lower income groups. In 1986 the

Jordan Housing Bank created a low cost housing department to promote its lending to lower income groups and private developers building housing affordable for the poor.

In Asia, RHUDO maintains a

→ 47

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that go well beyond the specific project context.

The case studies in this publication also show that international NGOs often provide the crucial financial input that makes a local effort a reality. Panca Bakti, in Indonesia, the Pagtambayayong Foundation in the Philippines and Valod in India are just a few cases where financial support, either from a philanthropist or an international NGO, has made the project possible. In most instances this crucial input is not a simple present, but provided with clear guidelines in terms of recovery and recipient contributions. Most grants provided by international NGOs in such contexts go to revolving funds that allow the community or the local NGO to continue to develop.

Another area in which NGOs have achieved success is cost recovery. In many larger government pro-

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grammes there is no personal relationship between the project executors and the beneficiaries, resulting in cost recovery difficulties. This is especially so if the project does not contain community development components that emphasize the importance of cost recovery and place some responsibility for this on the community organizational system. In some cases reluctance to repay loans or pay rates has been so marked that authorities have found it cheaper just to forget the issue, rather than invest larger numbers of working hours in recovering relatively small sums. Many NGOs, however, given their limited financial resources, have had to put far more emphasis on the recovery process. The most successful NGO projects in

this regard have made cost recovery a part of their community development activities and have placed the responsibility for recovery on the shoulders of the community. If the purpose of cost recovery is clearly explained, communities realise that recovery will allow them to reinvest resources and the whole effort is managed by the community. Then repayment levels are likely to improve. It should however be pointed out that cost recovery has not always been plain sailing for the NGOs. A number of cases in this publication show how NGOs have had very real difficulty in weaning communities away from the charity approaches to which they were accustomed in which vested interests within a community can soon destroy new and fragile community structures, with a resulting drop in repayment levels.

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## How Aid Works

*(continued from page 45)*

regional advisor in housing finance based in Bangkok, and it has been involved in a study of the Indonesian housing market, and the demand for market rate housing credit. In India the RHUDO has supported the Housing Development Finance Corporation which had developed new mortgage and savings instruments, expanded its branch system, and financed shelter units for low income families with the proceeds of various Housing Guaranty loans.

In Sri Lanka, AID and the government have started a major effort to capitalise and expand the thrift and credit co-operative societies network nationwide.

In the Caribbean activities include:

- (a) Implementation of a Jamaican private sector housing programme, financed by a \$30 million Housing Guaranty loan. (See report on page 45.)

- (b) Assistance to support the new private Banque du Credit Immobilier in Haiti.
- (c) Supporting Barbados in implementing the Private Initiatives in Housing Project, financed by a \$10 million Housing Guaranty loan.
- (d) Development of the Barbados Housing Credit Fund as a secondary mortgage lender.

AID is particularly active in the Central American region:

- (a) In Belize AID is financing home improvement loans.
- (b) In Honduras a Housing Guaranty loan of \$42.5 million has been approved which, among other things, will emphasise the predominant role of the private sector in producing and financing all shelter, including low cost shelter.
- (c) In Costa Rica AID has helped the National Mortgage Bank to operate more effectively. This Bank was created in 1986.
- (d) AID and the Central American

Bank for Economic Integration have signed an Implementation Agreement for a regional programme to finance low cost housing solutions and basic infrastructure for the urban poor.

In Panama and South America, AID is supporting a private sector low cost housing programme in Panama, and the Ecuador Low Income Housing Program. In Colombia, RHUDO works with the Central Mortgage Bank through a reciprocal relationship. The Bank's experience serves as a learning tool for other institutions, as it is regarded as one of the most successful public sector shelter and urban development institutions in the region. ■

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*The Annual Report for the Fiscal Year 1987 of the Office of Housing and Urban Programmes of the United States Agency for International Development* is published by the Office of Housing and Urban Programs, Room 6212 NS, US AID, Washington DC 20523, USA.