US agency aims to meet challenge of urban growth

Under the dual pressures of rapid population growth and unprecedented rates of urbanisation, developing countries are experiencing profound changes in their social and economic structures. By early in the next century, urban population will exceed rural population, and more than half the poor in developing countries will reside in cities. By the year 2000, more than six cities in less developed countries will have populations greater than 15 million. Equally important is the growth occurring in secondary cities and smaller towns (see charts).

Although the rapid pace of urbanisation creates problems, it can also present opportunities for social and economic development. Cities are the locus of off-farm employment and the centres in which innovation and the restructuring of the economy must occur. Cities in developing countries already generate more than 50% of their country's Gross Domestic Product (GDP), a percentage predicted to rise over the next decade. Just as agricultural productivity has increased in the last decades, the productivity of urban economic activities must now grow to absorb the surplus and under-utilised labour force streaming into the LDC cities. The efficiency of urban management and financial markets are some of the key factors affecting economic development in the 1990s.

Since its creation in 1961, the Agency for International Development (AID) has addressed the shelter problem in developing countries, and, for the last 25 years, the Office of Housing and Urban Programs has been the Agency's principal vehicle for shelter and urban development assistance.

In the 1980s, the Office has expanded its agenda to address a wider range of problems which have been exacerbated by increased urbanisation. The Office has concluded that urbanisation can be managed and that adequate minimal shelter can be made available for all in a reasonable period of time if the right policies are pursued.

Conversely, however, the problem is not solvable and will grow worse if the wrong policies are followed. The right policies rely on individual initiative, market forces and the private sector to produce housing, with the government playing a vital role providing the policy framework conducive to development and access to the basic infrastructure such as water, sewerage and roads.

Availability of resources in a fair market, appropriate and affordable development standards, and decentralisation of authority are essential for the creation of a self-sustaining system of shelter provision capable of meeting the demand of the grow-
ing urban populations. Governments must also provide the “safety net” of municipal services for the truly needy.

Under the Housing Guaranty (HG) programme, private US lenders make loans available to developing countries for shelter-related activities approved by AID. The US Government guarantees repayment of these loans. Through fiscal year 1988, the total authority remained at $2.18 billion; of this, the amount under contract (funds actually allocated to specific project implementation) amounted to $1.65 billion in 164 projects in more than 40 countries. During the past year, a total of $125 million was authorised for new projects and amendments.

The Office of Housing approaches its responsibility for AID’s urban development activities by “assessing broadly but investing narrowly.” In the past the Office has concentrated its resources on a limited number of areas which have been defined over time as land, infrastructure, credit and municipal management; each is a major constraint to the shelter and urban development.

The Office uses its resources to develop innovative and capable institutions in the developing countries. In the area of housing finance, the Office in 1981 began an HG programme with the Housing Development Finance Corporation (HDFC) of India. The HDFC has since earned the support of other members of the donor community. The initial HG loan was for $30 million, for a programme with the following objectives: construction of 6,000 units for below median income households at a cost of $20 million; increased institutional capacity in HDFC to raise the level of lending and to attract and absorb higher level of borrowing and deposits; expansion of HDFC operations in terms of geographic area, income levels served, type of shelter financed, and the variety and source of debt obligations obtained, as well as its contribution to a functioning country-wide housing finance system.

Since AID’s initial intervention, HDFC’s original range of services has expanded to include home improvement loans, infrastructure financing in low income communities, and encouragement of private investment in urban services. The institutional strengthening of HDFC resulted in the expansion of its branch network and a replication of the HDFC model country-wide through the establishment of a multi-lender housing finance system. Currently the Housing Guaranty Program in India is providing $50 million over the next few years to support the continued expansion of the market-oriented housing finance system.

An example of AID’s municipal finance programme is a five-year $100 million Housing Guaranty in Indonesia. This programme is based on the belief that urban infrastructure will increasingly need to be financed principally by domestic investment capital and that municipal governments need assistance to mobilise these resources through the development of linkages between the municipal finance system and private sec-

![Rural/Urban Population Growth Developing Countries 1950-2025](image-url)

Source: UN Centre for Human Settlements, Global Report on Human Settlements, 1986
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