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 underutilised 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.

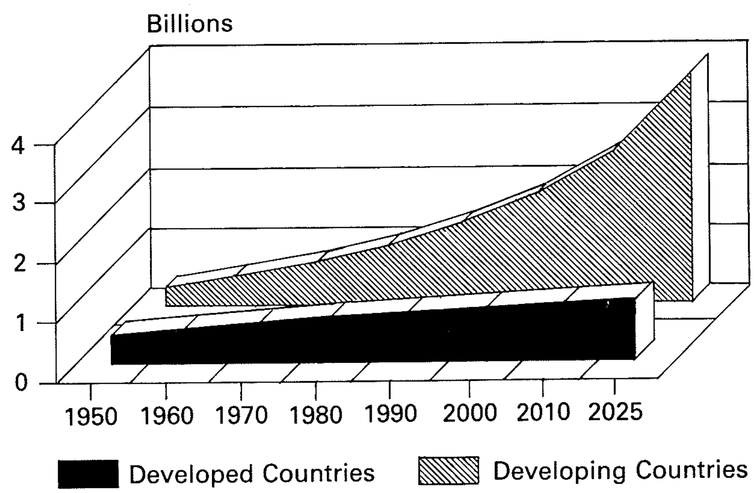
Since its creation in 1961, the Agency for International Development (AID) has addressed the shelter problem in developing countries, and, for the last 25 years, the Office of Housing and Urban Programs has been the Agency's principal vehicle for shelter and urban development assistance.

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-

Projected Urban Population Increase Developed and Developing Countries 1950-2025



Source: UN Centre for Human Settlements, Global Report on Human Settlements, 1986 ing urban populations. Governments must also provide the "safety net" of municipal services for the truly needy.

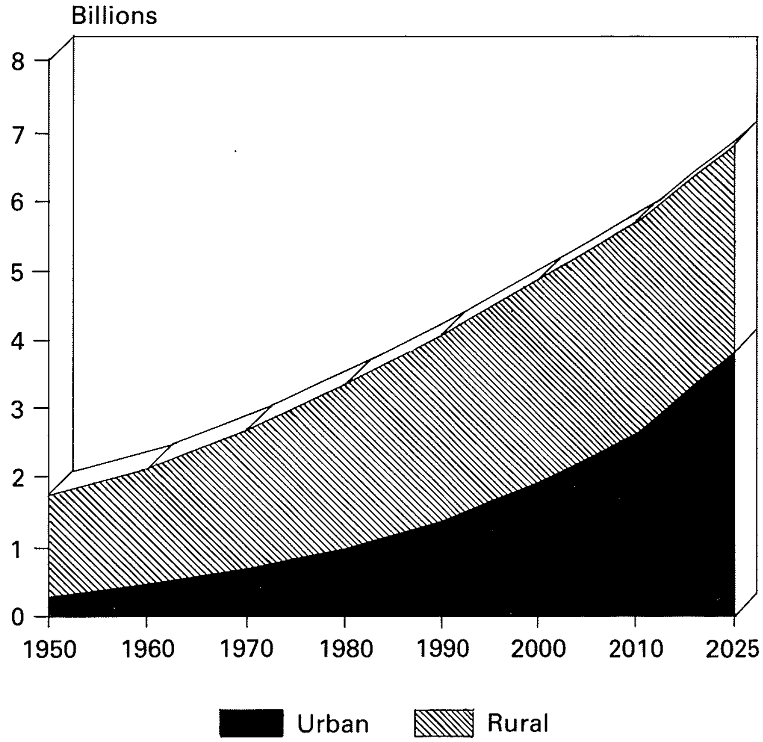
Under the Housing Guaranty (HG) programme, private US lenders make loans available to developing countries for shelter-related activities approved by AID. The US Government guarantees repayment of these loans. Through fiscal year 1988, the total authority remained at $2.18 billion; of this, the amount 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.

Rural/Urban Population Growth Developing Countries 1950-2025



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

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-

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tor capital markets. The programme has three objectives:

establishing increased private sector participation in providing and financing urban infrastructure and services;

improving the role of central government in funding urban infrastructure and services affordable to low income households via a system of grants and loans that encourage local resource mobilisation;

strengthening the institutional capacity of the local governmental finance system and local government's capacity to manage resources.

Governments must capitalise on the energies of the informal sector, and can help support the informal processes to be more efficient and productive. Governments can adopt development standards at levels that are appropriate to the capacity of the economy and the resources of the people. By providing infrastructure in strategic locations, governments can assure that minimal service levels are maintained and help guide the growth of cities. They can also pursue economic policies assuring the availability of credit at reasonable terms. The provision of clear land title or less formal rights of occupancy will give low-income families security of tenure, collateral for home improvement loans, and encouragement to invest in their housing. This will foster their sense of community and promote greater social and political stability.

In addition to relying on the private sector and individual initiative, appropriate policies in the land, infrastructure and credit sub-sectors are likely to be the most effective if the government places the responsibility and authority for developing and implementing urbanisation and shelter programmes as close as possible to the people who are most affected by them.

To meet its responsibility of assisting developing countries to manage urban growth, AID's Office of Housing operates through seven Regional Housing and Urban Development Offices (RHUDOs). Located around the world, the RHUDOs act as advisers to all interested AID Missions. The principal capital resource available is the Housing Guaranty (HG), under which about $125 million is made available annually. The Office also manages $5 million in centrally funded grant and technical assistance, research and training.

Through these programmes, the Office engages in policy dialogue with LDC governments on key issues and works to strengthen institutions in the relevant sectors. Major emphasis is placed on training counterparts in these public and private sector organisations. The Office's programmes are developing a cadre of policy makers and programme implementers who are able to improve a country's capacity to address its shelter and urban development needs.

The Office recognises that development issues created by rapid urbanisation demand a more fundamental response from donors than can be achieved through individual capital projects. Thus, for the past five years the Office has been moving toward policy-oriented lending. A major emphasis is now placed on supporting the Office's redirection toward sectorial programming, the goal being to use technical and capital assistance programmes to achieve systemic policy and institutional changes.

The intent is to work with countries to identify the systematic impediments to enhanced housing production and to assist in alleviating them. The Office believes that this sectorial orientation will help its client countries to develop strategies that are more appropriate to their needs.

The programme pursues a mutually determined policy agenda which removes institutional, technical and policy-related constraints to the above objectives. This agenda will form a basis for programme-related actions undertaken by the Government of Indonesia over the life of the project.

In Jamaica, part of the ongoing Housing Guaranty Program has been a $10 million initiative to encourage private sector financial institutions and developers to build and finance shelter solutions for low-income households. Under this programme, the Caribbean Housing Finance Corporation provided loans to private banks, building societies and credit unions for affordable onlending to low-income borrowers. The lower cost of funds has made it more attractive for private sector developers to produce affordable housing.

In Tunisia, the sectorial approach is helping to transform the National Housing Finance Fund from financing public sector production and mortgaging housing units into a housing finance bank helping prospective homeowners and private sector developers acquire land and build housing. Such institutional reform is being supported by a $15 million Housing Guaranty Program.

The Office of Housing's activities in Jordan include a $35 million Housing Guaranty Program that provides financing to the National Housing Bank to stimulate the production of low-cost housing by private developers and to support mortgage financing for low-income households.

As the Office looks toward the next decade, it sees its role growing to meet the challenge of urban growth. To realise its goal of helping to steer the process of urbanisation in the direction of economic growth and equitable development, both guaranty and other development resources must be deployed strategically and with the maximum impact. AID and the Office of Housing and Urban Programs, in co-operation with the US Congress, is currently engaged in a thorough review of its strategies and programmes which, combined with its 25 years of experience, will help provide the foundation for the Agency's activities into the next century. ■