

APPRAISAL REPORT
ON THE
ROLE OF THE HOUSING INVESTMENT GUARANTY PROGRAM
IN AID

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PREFACE

On December 28, 1977, the Administrator and Deputy Administrator received the AG/OAS draft review of the Housing Investment Guarantee Program (HIG), including recommendations on its location within AID. The draft was circulated widely within the Agency, including the Assistant Administrators for PPC, IIA, SER, DSB, LEG, and all of the regional bureaus, as well as the Office of Housing, the Office of Urban Affairs, and various field posts. OAS received comments on the report from most of the Bureaus as well as numerous cables from the field, and a lengthy, detailed, page-by-page commentary from the Office of Housing. This final report attempts to reflect the most important of these comments, and in certain places the draft report has been modified accordingly.

Almost all comments agreed with the findings, recommendations and analysis in the OAS report with two main exceptions discussed below. There was general agreement that HIG could be a useful development tool, provided that it was closely integrated with regional bureau and mission planning, and provided that it focused on "sites and services," "slum upgrading" and other shelter programs which reached the poor majority.

With the exception of the Asia Bureau, there was also general agreement that the Agency does face a serious problem of dealing with the urban poor, that the provision of minimal shelter and services does not increase urban migration, and that AID should consider committing some resources to providing shelter assistance on concessionary terms to certain low-income countries unable to afford HIG financing provided such assistance is justified by the economic development priorities in the particular country.

Finally, there was general agreement that AID (in coordination with other donors) should make every effort to encourage recipient countries to develop a shelter policy which is subsidized to the minimum extent possible.

As stated above, most comments agreed with the OAS recommendations. However, there was substantial disagreement with Recommendation No. 7 in our draft report which suggested that "RHUDOs" (Regional Housing Development Offices) be abolished, and that housing officers report to the Mission Director or other head of an AID unit in the country in which they were located. It also recommended that the PERs for housing officers be prepared in the field rather than in AID/W. In particular, the Office of Housing vigorously opposed this recommendation, and most

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THE ROLE OF THE HOUSING INVESTMENT GUARANTEE PROGRAM IN AID

I. Introduction

This study was prepared for the Administrator and the Deputy Administrator to recommend how the Housing Investment Guarantee Program (HIG) could become a more effective development tool and where HIG belongs in the newly reorganized AID.* During the course of the study, OAS decided that discussion of the HIG program required some examination also of (1) the importance of shelter (broadly conceived) and its relationship to economic development, (2) the relationship of the HIG program to other activities in the field of shelter; and (3) organizational linkages between AID's Office of Housing and DSB's Office of Urban Development.

II. Background

The Housing Investment Guarantee Program was enacted in 1961. Its original purpose was to encourage American financial institutions to invest in housing overseas and to permit the housing construction industry to expand activities in less-developed countries. Like OPIC, the HIG program is an effort to involve private enterprise in solving development problems. Under the program, American lenders finance self-liquidating housing projects overseas and receive a full faith and credit guaranty by the U.S. government against any loss they may suffer by reason of their investment. Thus, in order to encourage American financial institutions to invest in housing overseas, Congress authorized AID to insure these institutions against financial loss.

*In carrying out this study, OAS held discussions with the staff of AID's Office of Housing, which is responsible for the HIG program, DSB's Office of Urban Development, representatives of all of AID's regional bureaus, and USAID Directors in several countries where HIG maintains regional housing offices. OAS also met with members of the General Accounting Office who are conducting a long-term appraisal of the HIG program; officials at the World Bank who are concerned with shelter and urban problems; private consulting firms specializing in the design and construction of low-cost housing in developing countries; representatives of U.S. lenders; and urbanologists, economists and sociologists at Harvard, Boston University and MIT. An examination was made of selected literature on urban and shelter problems in developing countries, internal AID documents relating to the HIG program and the Office of Urban Development, and the legislative history concerning HIG and urban problems.

Also like OPIC, the HIG program is a self-sustaining program requiring no appropriated funds. This is because it taps the U.S. private capital market for initial financing, and charges a fee for each guarantee it issues. It uses its fee income to pay for all of HIG's administrative and operating expenses, including the salaries and travel of staff, office space, and contracts with private organizations to provide economic and technical analyses, feasibility studies, evaluations, and monitoring services. In addition, fee income is available to pay claims in those cases in which the borrowers in the developing countries have failed to repay the loan to the U.S. lender.

However, the Office of Housing also has had an allocation of program funds for a DPG for the Foundation for Cooperative Housing and for a project called Improvement Program for Urban Poor (IPUP).

The original guarantee authority in 1961 was for \$10 million and was limited to demonstration projects in Latin America. That authority has been increased through the years to more than \$1 billion and at the present time approximately \$900 million of loans for housing projects have been authorized by HIG.

There have also been a number of changes in the orientation of the program since 1961. In 1965, the Congress expanded the purpose of HIG to include the development of financial institutions in developing countries, and guarantees were issued in developing countries in addition to Latin America. In 1973, the orientation of the program changed radically as AID adopted a shelter-sector strategy which emphasized the importance of providing housing for the poor majority in the LDCs. Previously, HIG guarantees had primarily covered loans for middle and upper-middle-income housing projects.

In addition, in 1975 the Congress emphasized the importance of dealing with the poor majority by enacting a new section of the law which prohibited new HIG programs in countries which had not received development assistance within the past two years. Congress also required that at least 90% of future guarantees be issued only for housing suitable for families who had income below the median urban income in the country in which the housing project was located.

In the same legislation the Congress also demonstrated its concern that the HIG program be development-oriented* by requiring that HIG projects be coordinated with and complementary to developmental

*although special exceptions were made for HIG programs in supporting assistance countries such as Portugal, Israel and Lebanon.

assistance and further requiring that the guarantees insure projects which demonstrate the "feasibility and suitability of particular kinds of housing or financial or other institutional arrangements." Legislative history indicates that the purpose of the latter provision was to insure that HIG funds were not used primarily to transfer capital resources but, rather, to finance shelter projects or other institutional projects which could be replicated in the recipient country after external assistance ended.

As a result of these policy and legislative changes, HIG has almost ceased to guarantee the financing of conventional housing for people above the median income and is financing different sorts of projects which can be afforded by the poor. In particular, the new projects include: (1) slum up-grading, such as providing facilities for water, sewerage, electricity, roads and building materials for self-help and some improvement; (2) "sites and services", which provides electricity, water and sewerage lines, in some cases as common-use facilities; and (3) core housing, which is basically a rudimentary shelter on a "sites and services" plot.

Because of the program's early emphasis on Latin America, more than \$395 million of the projects which have been guaranteed are in that region. In addition, because of the valuable balance of payments effect of a transfer of resources under HIG, more than \$184 million in guarantees have been issued in the Near East, often as an adjunct to our supporting assistance programs in Israel and Portugal. Next to Israel, Korea has received the largest number of guarantees. Altogether, projects have been authorized in 36 countries in all parts of the world.

III. Summary of Conclusions and Recommendations

A. Conclusions

1. Shelter or housing (as broadly conceived, including location and access to employment, to health services, to potable water and sewerage) is important to economic development. It contributes to the productivity of workers and their families. It also creates considerable employment since shelter construction in low-income countries tends to be a relatively labor intensive industry.

2. The urban problem in the developing world is growing steadily more serious. Rapid natural increase in urban population and migration from the countryside to the cities will continue even when cities do not keep pace in providing adequate shelter and services. Furthermore, continued rural development requires continued urban development, e.g., for the processing of raw agricultural commodities produced in the rural sector and to supply goods and services to rural areas. Finally, the

Congressional Mandate calls for AID to assist the poor majority. While primary emphasis is now being placed on assisting the rural poor, we do not believe this absolves the Agency of a responsibility to assist the urban poor as well. The poor majority includes both urban and rural people. The Asia Bureau disagrees with this interpretation of the mandate. However, we believe that sections 221, 222 and 223 of the FAA support our interpretation, particularly the reference in 223(j) to families below the "urban" median income level as a target group for receiving guaranties.

3. The mobilization of domestic savings and the development of specialized financial institutions to finance shelter improvement are important to a country's economic development.

4. It is too early to determine whether the "sites and services" and slum upgrading approach used by both the Office of Housing and the World Bank can provide replicable non-subsidized shelter for the poor majority, but it is clear that conventional housing is beyond their reach.

5. Many people in AID have not viewed HIG as a New Directions developmental tool, perhaps because its earlier projects were within the financial reach of only middle and upper income families and did not reach the poor majority. Furthermore, although HIG's new projects are aimed at the urban poor, few have been completed while the earlier projects are highly visible. However, we believe the newly oriented HIG can be an effective tool for assisting the urban poor, and possibly the rural poor, in obtaining rudimentary shelter and related services. It can also contribute to the development and growth of sound financial institutions, tapping the savings of many, including the poor, provided it is integrated with the country's total economic planning.

6. One of the significant advantages of the HIG program is that it uses non-appropriated funds, thus adding to the total development resources available to AID. However, it may not always be the most appropriate tool to meet shelter needs. For AID's assistance to be truly developmental and integrated with its other programs AID should use technical assistance funds and/or development loan funds in conjunction with HIG money in some cases. Similarly, to the extent AID wishes to address urban problems and the need for shelter in the poorest developing countries, it must be prepared to provide concessional assistance for some shelter programs, particularly to countries which cannot afford to borrow and repay on HIG terms (e.g., countries which cannot afford the World Bank rate which the HIG rate approximates).

7. A shelter program (including HIG) can operate more effectively if it is an integral part of the AID field mission's overall development

planning, including programs to assist market towns and small cities, and if it is effectively coordinated with the host country's total development strategy.

8. HIG leverage with host countries to achieve changes in shelter policy may be less than that of the IBRD; however, AID leverage could be increased if HIG programs were negotiated as part of a larger AID package. This finding was objected to by several commentators, on the grounds that AID programs in general are smaller and can achieve less leverage than larger IBRD programs. However, the Bank has frequently adopted an attitude of waiting until the host country adopts appropriate policy changes before committing funds, in contrast to HIG programs which are linked to incremental changes in host country policies.

9. Housing in LDCs should be subsidized to the least extent possible. The principle of non-subsidization should apply to a country's total housing policy and not just to HIG-financed projects. Rather than subsidizing conventional housing units for the poor, developing countries should concentrate on "sites and services," slum upgrading or other minimal shelter provisions within the reach of the poor majority.

10. Shelter projects financed by AID should be carefully designed in order to be replicable by the host country. An increasing commitment by the host country to sound housing policies, including simple low-cost shelter with minimal subsidies, should normally be a condition for any housing capital assistance by AID. However, in certain countries, such as Egypt, where the entire economy is heavily subsidized, the process away from subsidies in all sectors must of necessity be gradual.

11. The present Office of Urban Development and the Office of Housing are attempting to achieve many of the same objectives and address many of the same problems although the Office of Urban Development concentrates on research and pilot activities, while the Office of Housing manages large capital projects. Regretably, there has been insufficient coordination and cooperation between the two offices which should complement each other. Each has a small professional staff, some members of which could actually interchange jobs. Furthermore, while there are no serious inconsistencies between the Agency's policy determination on shelter and its policy determination on urban development, they are not sufficiently integrated and mutually reinforcing.

12. The present six Regional Housing Offices operate to some extent outside the AID missions or other AID units in the countries in which they are located. In particular (except for ROCAP), they do not report to the mission or REDSO director in the country where they are based, and the PERs for the Regional Housing Officers are prepared by the Office of Housing in AID/W. This is not consistent with the handling

of similar AID field staff, including lawyers, engineers and most other technical specialists who have regional responsibilities. In contrast, the Agency also has two housing officers who do work within missions, report to the USAID Director, and have their PERs prepared by the appropriate mission officers, and a third is expected to join the Egypt Mission on the same terms. Also, a fourth USAID, Panama, is considering a similar arrangement in order to ensure maximum integration of housing with other urban development activities.

B. Recommendations

1. The HIG program should be continued as a part of AID's total development program but should be integrated more closely into regional bureau and mission planning, with an emphasis on new and experimental shelter projects which are more likely to reach the poor majority.
2. An evaluation should be made within the next two years to determine whether the relatively new emphasis on sites and services and slum upgrading is effective and likely to be continued by host governments.
3. As proposed for FY 1979 and FY 1980, the Agency should commit some resources to providing shelter assistance on concessionary terms to those countries unable to afford HIG financing provided such assistance is justified by the economic development priorities in the particular country situation. The Asia Bureau objected to this recommendation on the ground that AID's limited resources should be made available only to the rural poor.
4. The Agency should assist countries in establishing and implementing programs to determine the most inexpensive kind of shelter and services which can be provided to the poor, including research on indigenous building materials and factors which influence acceptance or rejection of low-cost shelter.
5. Since a bilateral program may provide less bargaining power with an LDC in changing the country's basic shelter policy (e.g., on issues of subsidy and minimal non-conventional shelter) than international institution like the IBRD, every effort should be made to continue to try to coordinate the planning of HIG programs with those of the World Bank and other donors.
6. The Office of Housing in AID/W should remain centralized. Although the trend of the reorganization has been to decentralize as much authority as possible to the regional bureaus, the Office of Housing is small, consisting of only 14 professionals with highly specialized skills essential to the successful functioning of the program worldwide. However, the six officers in the Housing Office who backstop the regional programs should coordinate more closely with regional bureaus.

Regular attendance at Bureau and, where appropriate, Office staff meetings, is an example of how closer coordination could be achieved. If shelter projects in a Bureau become a significant part of its program, a Bureau may also wish to add housing officers to its own staff.

7. The Office of Housing should be located in the Development Support Bureau under the same Deputy Assistant Administrator as the Office of Urban Development. This should promote closer collaboration and cooperation between these two offices, including review of each other's planned activities in order to avoid duplication and dilution of the limited personnel experienced in shelter and urban development. Whenever possible, the two offices should work on joint projects, sharing direct-hire personnel, consultants, and contractors. OAS is pleased that in commenting on the draft report, the Assistant Administrator for DSB stated that his bureau was taking steps to bring "these offices together in a single cluster" working under a single Deputy Assistant Administrator.

8. In early 1979, DSB should consider whether Regional Housing Offices ("RHUDOs") in the field are the most appropriate way of administering the Agency's shelter policy and under what conditions Housing Officers should be made a regular part of the AID Mission or other AID unit in the country. Housing officers could be assigned to countries where the most significant housing activity is taking place. Housing Officers who report to the principal AID Officer or REDSO Director (where there is no Mission) may be more effectively integrated into that post. By making the Housing Officer a full member of the field staff, AID may well be more likely to achieve the integration of the shelter sector into the rest of the field's economic development program. The preparation of PERs by the appropriate office in the field post with inputs from other field Directors in the region where the Housing Officer has worked, would also be consistent with the evaluation of other AID specialists or experts.

9. Since there are no Housing Officers employed by regional bureaus, and since there is some Agency-wide indifference towards the HIG program based on earlier projects supporting middle-income housing, we believe Agency-wide understanding of HIG's current emphasis on low-income shelter could be facilitated both in Washington and the field by the attendance of senior HIG officials at Mission Directors' conferences and participation in the Administrator's Development Seminar.

IV. Importance of Shelter to Development

Shelter is important to economic development in many ways. It provides a center for family life and a place to prepare and consume food,

sleep, read, and carry out social exchanges. These benefits have value in themselves and also contribute to the economic worth of labor on the market. Shelter provides security and protection against adverse weather. Shelter services, such as potable water and sewerage, protect against the spread of disease. While the importance of these protections may vary with climate and location, taken together they support other activities aimed at better health and education and thus add to the value of human capital. In short, those who have adequate shelter become more dependable, productive, and valuable workers, which, in turn, tends to raise family incomes and living standards.

For many people shelter provides a place to produce and sell goods and services. Owners of shelter may construct additions, make improvements, or rent all or part of their dwelling. These rentals provide a consumer service for the rentee and an income for the rentor. Together, these activities add to total production and hence to economic development.

The shelter industry in LDCs is relatively labor intensive, and its growth tends to increase employment and income of less-skilled workers. Employment and income are generated by the development of new shelter sites, the provision of water and sewer systems, and the construction of shelter.

Production and income expand, too, from demands on the building materials industry. It is estimated that domestic production may contribute about 60-75% of the cost of higher-priced housing, but this can go as high as 85-95% for middle-priced housing. The imported component declines as the total construction costs decline and approaches zero at the lower end. Accordingly, growth at all levels contributes significantly to employment of lower income earners, and construction of lower-cost housing and shelter services promotes indigenous production.

It is sometimes argued that better urban housing will encourage increased rural to urban migration, but this assertion is not borne out by the evidence. Migration to urban areas continues despite relatively poor urban living conditions and declining urban per capita shelter space at the lower-income level. While there are obviously many factors which encourage rural to urban migration, evidence suggests that a powerful incentive is the hope for better employment, combined with the desire for access to better medical and educational facilities. There is also evidence that the rate of rural to urban migration is increasing due to: (1) rapid population growth accompanied by (2) decline in agricultural land, (3) high transportation and communication costs to visit or get information about urban conditions, and (4) declining possibilities for emigration to new worlds.

Rural to urban migration in most developing countries today is far greater than it was for the now high-income countries when they faced similar problems over a century ago, and is expected to become an increasingly serious problem for the developing world. It is estimated that from 1975 to 2000, 61 percent of the population growth in developing countries will take place in urban areas. This compares with a growth of 44 percent from 1950 to 1975. Moreover, by the year 2000, the urban population in developing countries will rise to 42 percent of the total population, compared with 28 percent in 1975 and only 16 percent in 1950.

RURAL AND URBAN POPULATIONS IN LESS-DEVELOPED COUNTRIES^{1/}

(Millions)

	<u>1950</u>		<u>1975</u>		<u>2000</u>
Urban	273	+ 546	819	+ 1234	2153
Rural	<u>1382</u>	+ 693	<u>2075</u>	+ 864	<u>2939</u>
Total	1655		2894		5092

In mounting policies and programs to cope with these projected trends in population growth, the developing countries will have to face the twin facts that, in absolute terms, population will increase in both urban and rural areas, and that the historic interdependence of rural and urban areas will increase with technological progress. Economic development must thus take place in both the cities and the countryside.

The present serious lack of adequate shelter can be expected to deteriorate further in both urban and rural areas. Given the population trends above, the situation is likely to deteriorate even more in the cities unless shelter receives increased attention from public authorities. Developing countries thus face important policy decisions regarding both the mobilization of their own domestic resources and the utilization of resources from the donor community for shelter improvement.

V. Activities for AID Program Concentration

Given the importance of shelter to economic development, AID should stand ready to use its assistance tools to strengthen the growth of shelter activities both on the demand and supply side. The shelter problem in developing countries is too massive for AID or the donor community at large to make a major direct impact, but AID can play a valuable catalytic role in spurring experimentation, more intensive

^{1/}U.N. Population Projects - Utilizes U.N. definition of urban as concentrations of 20,000 or more people.

analysis of shelter options, and changes in policies and programs related to the shelter industry, especially as it affects low-income people

The shelter problem must be considered in terms of its relative importance in economic development and the priority it should thus have in a country's development planning strategy. AID programming for shelter should not be perceived as a U.S. private sector commercial activity unrelated to other programs. In accordance with the HIG legislation, it should be coordinated with other development activities in the country, including those supported by AID. However, regional bureaus and field missions perhaps need to be made more aware of the fact that HIG financing may have to be supported or supplemented by concessionary loans or grants, especially when projects are not eligible under HIG legislation.

If a country seeks AID assistance for the shelter sector, missions should examine the problem and decide if action is needed and what kind of funding best meets the need. In short, AID-supported shelter projects should continue to serve primarily as catalysts to spur domestic in-country activity by the private and public sectors, and mission directors should make decisions on the relative priority of the request and the most appropriate assistance tools to support it.

A. Possible Projects and Financing

Pending results of the study recommended above on the effectiveness of HIG's current emphasis on supporting "sites and services" projects targeted to low-income families and slum upgrading, we believe that this program emphasis should remain the prime tool in AID's assistance strategy for the shelter sector. However, we also believe that a broader look is needed at both particular problems affecting shelter growth and ways that AID might assist in their resolution, whether through HIG or concessional loans or grants. In the discussion that follows, some of these problem areas and possibilities for AID assistance are explored.

1. Establishment of In-Country Research Facilities

Research carried out in developed countries on shelter frequently is not applicable to the needs of low-income countries. Poorer countries must often rely upon different and less expensive building materials. Moreover, because of a relatively large supply of labor, they utilize different technologies in processing materials, in developing sites and services, and in constructing shelters.

Hence, one possibility for AID assistance would be to assist countries, or possibly regions, in the development of shelter research facilities. This research would, of course, build on the large body of research already undertaken in the field of low-cost housing and would be aimed at (1) expanding production, (2) making fullest possible use of labor, and (3) reducing the need to import construction components. The purpose would not be to force upon a country a particular technology, but rather to encourage technologies which reduce costs, improve quality, and are most appropriate to country needs. Such research would probably center in the following areas: (1) building materials, (2) methods or techniques of construction, and (3) acceptability of non-traditional materials and construction techniques, (4) financing methods, (5) savings mobilization, (6) community leadership, (7) effect of external funds on rent structure. While support for research might be eligible for HIG financing if it were related to a larger HIG project, it would not be eligible if it involved establishment of a new country or regional research institution. In this event it may be suitable for development grant financing, utilizing either central or mission funds.

2. Revision of Building Regulations

In every country, there are numerous regulations affecting the building and construction industry. These vary from economic policies which affect import and domestic prices of building materials, to zoning and coding regulations which guide construction. Building codes are necessary for reasons of safety, but frequently include unnecessary regulations which make it impossible to construct shelter affordable by the poor majority. In LDCs the codes are often direct copies of building codes in developed countries.

Zoning regulations also must aim at appropriate locations for residential areas from the standpoint of transportation, employment and other essential services. However, building codes and zoning regulations frequently prohibit construction of low-cost housing in municipal areas, and thus force low-income families to live in distant areas where employment for all family members is made more difficult. Price controls on building materials, though designed to guard against increased costs of shelter, have the effect of discouraging production and thus putting further pressure on prices.

As authorities review these regulations and adjust them to encourage shelter construction for all income earners, and especially for low-income families, AID could assist by providing short-term expert advisory assistance. Again, eligibility of HIG funding should depend upon the degree to which it is related to the development of general coherent shelter programs for the country. Development grant funds could also be considered for the purpose of providing planning assistance.

3. Establishment and Strengthening of Financial Institutions

In order to increase savings to finance shelter construction a country must have strong financial institutions which will not have to rely upon continuing public sector support. This involves a series of steps involving interest rate structures, lending regulations, and terms for deposits and loans, which must rely upon expert technical advice which is often not available inside the country. A special challenge to these institutions is to encourage investment of savings of low-income families. Although one of the major successes of the HIG program has been the development of financial institutions in LDCs (particularly in Latin America), it should continue to concentrate on this problem, particularly in regard to mobilizing the savings of the very poor.

The development of these institutions is vital if HIG programs are to be replicated. On the other hand, should a country need and want outside expert advice without relation to HIG programs, it might be appropriate for AID to utilize development grant assistance. Another possibility would be a development loan to provide seed capital for shelter construction, in which case needed technical assistance could be funded under the loan.

4. Analysis of Shelter Sector Problems

Technical assistance is already being provided to help a country outline the major problems and priorities in the shelter sector in order to determine program needs and formulate policy changes as a prerequisite to HIG financing. This assistance could well be expanded to countries where follow-on AID shelter activities are not planned. Again, the source of AID financing would depend upon the purpose of the analysis and its relation to HIG programming.

5. Pilot Projects

While HIG programs can be perceived as pilot projects to introduce new concepts in financing, constructing, or packaging shelter activities, there might be a need to start first with an even smaller project using development grant funds. This could be especially important for sites and services projects which may be low in cost and may require developing one small project prior to the packaging of a series of small projects, urban or rural, to be of sufficient size to justify a HIG-financed project. If it is not possible to justify HIG financing for pre-pilot activity, development grant financing could be utilized.

6. Rural Projects

While the location of HIG projects has been largely in urban areas, there are possibilities for carrying out HIG programs in rural areas

as well. One such example would be to encourage the purchase and resale of land to small farm operators. This is already being done by the private sector in at least one country, and it could be encouraged elsewhere through AID assistance. This would probably require a combination of development loan and HIG assistance -- the former to finance the purchase of agricultural land, and the latter to finance the shelter and services. Assuming success is demonstrated, the private sector could be encouraged to continue these activities without public sector or official foreign financing.

A second example would be focused on rural villages which consist largely of farm workers and farm owners who live off the farm. Here HIG funds could be used for sites and services or core shelter just as they are in urban areas. Also, when appropriate institutions exist, such as mortgage banks or agriculture development banks, HIG funds could be provided through these banks to finance individual small farm shelters even where sites are separated. Such a project has been undertaken by at least one other donor.

B. Considerations for AID-Assisted Shelter Programs

In carrying out the types of programs suggested above, we think it most important to apply certain criteria in order to ensure that our programs yield maximum benefits. Below we have listed some major considerations and suggested approaches which may be worth pursuing:

1. The need for replicability

Since AID activities in the shelter industry are basically that of a catalyst, we must spur host country actions. Direct assistance in financing shelter projects, for example, should result in country efforts to replicate those or similar programs without continuing AID assistance.

Successful implementation of these programs will depend on several factors -- in particular, debt repayments by borrowers and the willingness of authorities to support projects which are not "show-case" activities. Authorities in some countries have been reluctant to encourage programs to improve low-income shelter through core housing, sites and services, or slum upgrading. This attitude reflects their fear that little short-term political benefits can be realized by such programs, because the results are not obvious to the casual visitor. On the other hand, the urban poor who benefit from such programs often represent a large and politically volatile element of the population. Therefore, there should be an agreement with the authorities that comparative surveys be made relating to occupants' opinions regarding the improvements. This could provide a political as well as an economic motive for continuance.

Another problem for decision makers is the sheer magnitude of the problem -- which precludes large scale public sector subsidized shelter in the light of competing demands for public investment. Thus, it is essential that programs be financially viable and, to the extent possible, self-financed. There must be a satisfactory rate of mortgage debt repayment. Problems related to default reflect in part the attitude of many low-income earners in developing countries that repayment really isn't expected in government-sponsored projects. HIG projects have taken this into consideration by developing repayment schemes through user fees and property tax increases to cover capital cost of services. The problem of debt repayment may be exacerbated in programs which finance only additions to existing shelter in which foreclosure is usually precluded.

Another technique to encourage repayment is through a cooperative or a group loan which involves a number of debtors under one agreement. By this technique, the group involved not only joins together in negotiating the loan to reduce loan costs, but it accepts the responsibility of loan repayment and of making collections. This procedure, which relies heavily on peer and community pressure, is reported to have resulted in far better loan repayment performance than have individual loans.

Still another possible technique to promote replicability would be to establish an FHA-type insurance program which protects domestic lending institutions against default. This would have to be self-financing and cover only a part of the loss in order to encourage lenders to seek relatively low-risk borrowers and make every effort to collect. Insurance rates for group loans could be lower and thus support and encourage this kind of organization.

2. Interaction of Shelter with Other Assistance Programs

There is a continuing need to coordinate projects and programs with other development activities. Shelter, including sites and services, must be located where there is adequate transportation and employment activities. Health, education, family planning, and other necessary services must also be made available to maximize per capita family income. When appropriate, the inclusion of these support elements should become conditions for AID assistance projects. Security of tenure is also important so that families will not be up-rooted and deprived of their income earning activities or lose investments made to improve living quarters.

3. Balance of Payments Considerations

In the past, interest in HIG projects often stemmed from the balance of payments support derived from it. Unfortunately, the HIG program did

not offer sufficient leverage to bring about changes in economic policies which would assure solutions to these balance of payments problems. Conditions, if any, were related only to shelter.

While we do not believe HIG funds should be used primarily for balance of payments purposes, the simultaneous need for both shelter assistance and balance of payments support does offer possibilities to promote policy changes. If coordinated with other development donors, including the IMF, the balance of payments effect of HIG helps provide leverage which could be used to encourage appropriate corrective financial measures. Care should be taken to avoid large scale dependence upon annual flows through HIG which distort trade and production patterns because of the higher import levels they permit.

4. Subsidization of Shelter

Getting to the lowest income earner on a commercial basis may prove impossible. Therefore many governments interested in greater equity will be tempted to turn to the use of subsidies. It should be pointed out, however, that subsidizing housing brings problems which make it a questionable policy. A transfer of resources to lower income earners through the budget system is not at all uncommon and is often a good way to accomplish certain objectives. However, since shelter ownership (unlike the benefits derived from education and health services) can be transferred, there is a possibility that purchasers will buy at the subsidized price in order to make a return by selling (or renting) at the market price. While this sale would have the desirable effect of transferring assets in accordance with market conditions, the original objective of subsidizing shelter for the most needy would not be realized. Transfers could be diminished by policing but this would be expensive and probably could not be controlled to any satisfactory degree.

The sheer magnitude of investment required for shelter makes it virtually impossible for most LDCs to sustain substantial subsidies, particularly given competing priorities for public investment. It would seem advisable, therefore, to reduce shelter costs as noted earlier through concentration on reducing costs to the minimum -- generally through sites and services and/or core housing provided at the market price.

An argument might be made for concessionary assistance in order to reduce the country's annual principal and interest payments for balance of payments reasons, or to permit lower cost lending to the individual poor borrowers. However, it seems unlikely that the repayment burden of a HIG program will cause any significant balance of payments problems, especially since the loans are for relatively long terms -- 30 years. Furthermore, lowering the interest rate for individual borrowers amounts to a subsidy, and subsidies are inadvisable for reasons discussed above.

5. U.S. Private Sector Interest

There appears to be no major obstacle to U.S. private sector participation in continued financing of HIG projects as recommended here. Private savings and loan institutions now have the authority to obligate in HIG projects up to 1% of their total assets. At the present time obligations represent only one quarter of this limit, thus leaving ample room for further lending. Furthermore, commercial banks and insurance companies participate in the program.

Neither is the size or nature of projects likely to affect willingness to participate, since these loans are given a 100% guarantee. While smaller projects, say \$2 million and under, are relatively more costly to administer, they have been done in the past. Moreover, several projects in the same country and even several countries can be packaged where the institutional arrangements exist, such as with the Central America Bank for Economic Integration.

VI. Organization of AID Urban and Shelter Programs

A. Integration of Housing and Urban Development Activities

The Office of Housing, which is primarily responsible for implementing and administering the housing investment guaranty program, has two basic components -- a central core office in Washington presently located in the Bureau for Program and Management Services, and six regional field units, each composed of two housing officers. The present ceiling for Washington is fourteen professionals. In addition, two members of the General Counsel's Office and two AID Controllers are assigned full-time to housing guaranty matters and are paid from guaranty fee income.

The authorized AID/W ceiling for each regional unit is 3 officers, but MODE clearance may present an obstacle to placing the third person in at least two of the six regional posts. The Office of Housing therefore plans to locate the third person in another city in the region but to retain that officer as a part of the regional field unit. In addition, one housing officer serves on the staff of the AID Mission in Peru and another on the Nicaragua Mission staff. A member of the present Office of Housing staff is scheduled to join the staff of the Egypt Mission, and USAID Panama is considering adding a full-time housing officer. All these officers report to the Mission Director, are evaluated in the field (not by AID/W), and are not paid by fee income.

Presently, regional Assistant Administrators have the authority to approve HIG projects at the PID and PP stage, following the same procedures that would be used for any development loan. However, after

this approval, implementation authority rests with the Office of Housing which makes some individual delegations to the RHUDOs and the Mission Directors in the field. Regardless of where the Office of Housing is ultimately located, we believe the continued involvement of the regional bureau at the PID and PP stage and during implementation is key.

The Office of Urban Development within the Development Support Bureau has five professionals. This office carries on research and development activities designed to understand and assist in solving the problems of the urban poor. The Office is not concerned with housing per se, but its research and demonstration projects are attempting to tackle many of the problems which, as our earlier analysis points out, must be part of a truly integrated shelter program, e.g., urban employment and productivity, land use planning and land allocation, and development of indigenous urban planning capabilities. There is some overlap between research carried out by the Office of Housing and the Office of Urban Development, and the two offices frequently make use of the same consultants in the urban development field.

The Policy Determination (PD-55) on shelter objectives, dated October 24, 1974, and the Policy Determination (PD-67) on Urbanization and the Urban Poor, May 27, 1976, are complementary but not fully integrated. PD-55 emphasizes the impending urban crisis and the necessity of providing adequate shelter for the urban poor; it stresses the way HIG can help solve the shelter problem. PD-67 is primarily a discussion of the guidelines under which AID resources can be used to address the problems of the urban poor under the New Directions. It does not emphasize the shelter problem, but it does devote a paragraph to the use of HIG funds for slum upgrading and sites and services projects. We would hope that at some time these PDs could be revised and consolidated perhaps under a joint PD on Shelter and Development which would include both urban and rural areas. In the draft OAS report, Recommendation No. 6 proposed a revision and consolidation of these PDs, a suggestion which was specifically endorsed by the Assistant Administrator for the Near East. However, the Assistant Administrator for DSB (where both Offices will be located), argued that a current rethinking and rewriting of these PDs is not a matter of immediate urgency. Accordingly, we have dropped this as a major recommendation, although we believe it should be readdressed early in 1979.

B. Centralization vs. Decentralization

OAS examined the option of decentralizing the Office of Housing among the regional bureaus. Notwithstanding the general trend towards decentralization, we concluded after discussions with the regional

bureaus and the Office of Housing that the Office of Housing in AID/W should not be split up among the regional bureaus. The central staff of professionals is too small, and a high degree of specialized expertise is needed to negotiate the loan, the guarantee, and related documents with the U.S. investor.

Although we believe that the Office of Housing should remain centralized, we also believe there should be closer coordination between the central office and the regions. Presently, one HIG officer in AID/W serves as a backstop for each of the regional housing offices. It would be desirable for these backstop officers to have regular contact with elements of the regional bureau in which the regional housing office is located, e.g., the backstop officer for activities in Tunisia might attend staff meetings for the Office of North African Affairs in the Near East Bureau. There should continue to be desk office consideration and clearance on all cable communications from the Office of Housing. If a housing guaranty project is part of the integrated country development plan as we have posited throughout this paper, the involvement of the desk in such a project is as vital as it would be to any other development project in the country.

C. Location of the Office of Housing in a Newly-Reorganized AID

In considering where HIG should be located organizationally, OAS examined the option of removing it from AID. However, this option was rejected almost at the outset because we were convinced that, given AID's limited resources, the additional non-appropriated funds made available by the HIG program are a useful developmental tool in the context of AID's other assistance activities. Among commentators on the draft report, only REDSO/West Africa supported separating the HIG program from AID.

OAS weighed two principal options for locating a centralized Office of Housing within the newly reorganized AID structure. The Office of Housing indicated a strong desire to become part of the new Developmental Support Bureau. An argument can be made that, because of the private market character of the HIG program, and because of its important relationships with the U.S. private investment community it should be located with offices such as Food for Peace and Private Voluntary Cooperation in the new Private and Development Cooperation Bureau.

However, after carefully examining the Office's functions, particularly its activities in providing technical assistance to the regional bureaus, OAS concluded that the Office of Housing would be most appropriately located within the Development Support Bureau. Since a basic conclusion of this appraisal is that shelter is an important element of economic development, and since we believe that shelter planning should be

integrated with agriculture, education, health, urban planning and other field support functions, it follows that AID/W specialists in shelter should be in the same bureau with expert technicians supporting the field in dealing with other fundamental problems of the poor majority.

Within the Development Support Bureau, we believe that there should be an alignment which will achieve closer coordination between the Office of Urban Development and the Office of Housing. At some future date, as the operations of the two offices become increasingly inter-related, it might be appropriate to merge them into a single office. For the present, we would recommend that every step be taken to avoid duplication in dealing with the problems of the urban poor. The Office of Urban Development should be available to sponsor research to meet the needs of the Office of Housing; the Office of Housing should avail itself of the expertise and material gathered by the Office of Urban Development. Each office should have the opportunity to review any proposed project of the other office from its inception. In keeping with the Agency's growing emphasis on applied rather than pure research, the resources of the Office of Urban Development should be used to discover information which is related to the development of a coherent shelter policy in those countries in which AID is giving emphasis to this problem. Similarly, in planning future housing guarantees and developing a shelter policy for a country, the Office of Urban Development should be fully involved.

There may be certain projects in the Office of Urban Development involving, for example, rural-urban relations, which have minimal relevance to Office of Housing activities, just as the technicalities of executing the formal legal documents with the U.S. investor is outside the purview of the staff of the Office of Urban Development. Nevertheless, a New Directions oriented Office of Housing must deal with the very same problems of land use, urban services and urban planning that must concern a New Directions oriented Office of Urban Development. To have two separate offices pursuing independent paths in attempting to understand and solve urban problems inevitably results in fragmentation, duplication, and dilution of AID's limited personnel and financial resources. Finally, the Office of Housing should also be concerned with rural housing, which lies outside the purview of the Office of Urban Development.

Overseas, the question of the RHUDOs and their relationship to the USAID Mission* in which they operate is thorny, but as discussed

*For purposes of this discussion, we are using the term Mission Director interchangeably with AID Affairs Officer, AID Representative, Regional Development Officer, Country Development Officer, or Director of a regional organization (such as REDSO/W where there is no bilateral AID mission) as meaning the senior AID person in the country where the housing activities are carried out.

above, we believe the decision on this issue flows logically from the assumption that shelter policy must be an integrated part of a country's development plan, and therefore must be fully integrated with the rest of AID's development assistance strategy toward that country. A housing office should not be an appendage "attached" to a mission; it must be an integral part of it. A housing officer should not be an agent of AID/W reporting to a central office in Washington; he or she should be a part of the Mission staff working with and reporting to the senior officers of the Mission. This is particularly true when Mission housing programs become sizeable. For example, the Missions in Peru, Nicaragua, Egypt, and perhaps Panama, will have full-time housing officers who are regular members of the USAID.

An argument can be made that HIG programs require highly specialized technicians to develop and implement their programs; but the same argument could be made regarding experts in agricultural or family planning activities. While each field technician may do his or her "own thing" most of the time, all technicians must be members of the Mission team so that all AID projects in a country are part of an overall development assistance strategy for the country.

Projects in health, family planning, and education carried out in an urban area where a housing guaranty underwrites a program of slum upgrading are far more likely to succeed when mission technicians in all of these areas are working within a cooperative framework. Even if AID itself is not financing the education or health program in the particular urban area where the HIG project is carried out, mission housing specialists will have liaison with the appropriate host government ministries and with the other donors, so that, the project can achieve wider benefits than simply improving the dwellings of the affected population. Furthermore, in those missions which have social scientists, the housing officers can benefit greatly at the initial planning stage from consultation with them on economics and local cultural mores and customs.

The Office of Housing has argued that it is essential that RHUDOs in the field report to the Office of Housing in Washington rather than to the Mission Director in the country in which they are located. They have made at least three arguments for their position: (1) A Housing Officer, they state, is a technician with peculiar technical skills and therefore his performance should be evaluated by a technician in the same area rather than by a Mission officer who may not understand the complex nature of his work. We believe the same argument could be made about agriculturalists, engineers, lawyers, population experts, and other technicians. Yet, these technicians are evaluated by appropriate Mission officers in the post in which they serve because

their technical contribution is guided and integrated by the Mission Director; (2) the Office of Housing argues that there is a great training advantage in having two or three officers in the same regional office because the more junior housing officer can learn from the senior RHUDO. This principle, however, has not been considered sufficient justification for placing more than one agriculturalist, population expert, education officer, etc., in a Mission unless the workload requires two persons; and (3) the Office of Housing argues that it is impossible for one Mission Director to evaluate a RHUDO who serves several missions. However, the Agency has regional lawyers, engineers and other specialists who service more than one mission and in most cases either formal or informal input into their PER comes from the other missions they serve. ROCAP (where the RHUDOs' PER is prepared by the Deputy Director of ROCAP), illustrates that inputs from several countries can be successfully fed into a PER of a person who serves more than one country.

Recognizing some merit to arguments advanced by the Office of Housing, we would propose the following steps: (1) An arrangement should be institutionalized to make sure that every Housing Officer receives commentary on his performance from every post which he has served so that he does not feel that he is being judged exclusively by his work in a single country; and (2) to the extent that a technical assessment of a person's qualifications is necessary, the evaluator in the field should also receive some input from the Office of Housing in AID/W. An alternative suggested by some would be to have the rating officer located in the field, with the Director of Housing Office serving as reviewing officer.

In conclusion, we believe that since shelter is a part of a country's development package, field employees of the Office of Housing should serve as regular employees of the Mission where they are located, with recognition that they have regional responsibilities as well.

Nevertheless, since many comments on the OAS draft report indicated current satisfaction with the RHUDO arrangement, we have modified recommendation No. 7 of the draft (new recommendation #8) accordingly. We also support the proposal of the AA/DSB that the RHUDO arrangement be reassessed in a year.