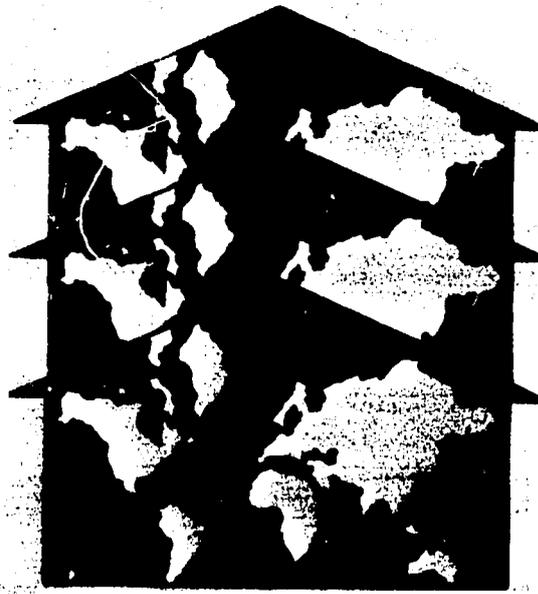


Housing in the Developing World: Summary and Bibliography

October 1978

AGENCY
FOR
INTERNATIONAL
DEVELOPMENT



OFFICE OF HOUSING

HOUSING IN THE DEVELOPING WORLD:

SUMMARY

AND

BIBLIOGRAPHY

Office of Housing
Agency for International Development
Washington, DC

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

October, 1978

FOREWORD

This paper evolved from a graduate course taught at Georgetown University in Washington, D. C. on housing in the developing world. The Office of Housing, in cooperation with some of its consultants, presented lectures on this subject.

The purpose was to introduce students to some of the underlying issues and hypotheses governing the economics of housing today in the developing world. Dimensions of the shelter delivery system, such as land, construction, and housing finance were explored. In addition, lectures on formulating a national housing policy were presented and the experience of international agencies in developing and implementing shelter programs, especially shelter for low-income households, was presented.

This paper is not a compilation of lectures. Rather, it is a summary of the substance of them and offers interested individuals a selected bibliography on the topic of housing in the developing world.

It was prepared by James W. Christian, Ph.D., Senior Vice President and Joseph M. Perta, Housing Finance Economist, of the National Savings and Loan League, Washington, D. C. for the Office of Housing.



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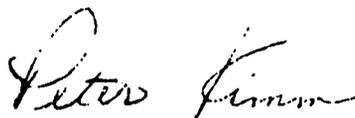
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HOUSING IN THE DEVELOPING WORLD:

SUMMARY AND BIBLIOGRAPHY

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DIMENSIONS OF THE SHELTER PROBLEM

In recent years, shelter has become an increasingly important priority for many developing country governments as unprecedented urban growth has fostered the spread of slums and squatter settlements. The convening of the HABITAT Conference in 1976 under the auspices of the United Nations, and the increasing recognition of shelter as a basic human need, have focused international attention on the shelter sector in developing economies. Population growth, rapid rural-to-urban migration, the inadequacy and deterioration of much of the existing housing stock, poorly distributed infrastructure services, and poor environmental and health conditions have created vast and complex problems, especially among the urban poor throughout the developing world.

A. Population Growth and Migration

In the final quarter of this century, the urban populations of all developing nations taken together are expected to triple and to represent a far greater proportion of the total populations of the developing world than they have in the recent past. Half of the nearly 5 percent average annual growth rate of these urban populations is attributable to natural increase. The remainder is the result of worldwide rural-to-urban migration on a scale without parallel in history. This has increased the concentration of human settlements in cities that are ill-equipped to provide employment and minimally decent

living conditions for the hundreds of millions of new entrants into the urban economies of the developing world. Left to fend for themselves, recent migrants have spread the growth of slums and squatter settlements, often based on patterns brought from rural areas, with little or no provision for clean water and sanitary waste disposal, conditions which result in high incidences of infectious and parasitic diseases.

B. Housing Stock

In almost all developing countries the supply of housing units in urban areas is substantially below the number of units needed. While such supply constraints typically affect families across a broad range of local income distributions, their impact is most pronounced among the urban poor, who are forced to provide their own shelter services through the informal sector. In many developing countries as much as half of the urban housing stock may be classified as "temporary" dwellings, built of scrap materials and located on peripheral or marginal land to which residents do not have tenure. Units in squatter areas such as these are often overcrowded, with the number of persons per room exceeding standards considered adequate for basic safety, health, and privacy. Continued urban population growth contributes to further deterioration of the housing stock and to the expansion of squatter areas, with consequent worsening of shelter conditions among the lowest income groups.

While dwelling units in these settlements may not be considered by municipal authorities as part of the housing stock, they usually do represent a significant investment of human and physical capital which few if any governments can afford to replace. Such spontaneous and informal shelter construction activity in many cases produces more units than formal sector construction. In addition, experience indicates that the urban poor can and do upgrade informally built dwelling units, gradually replacing temporary materials with permanent ones as resources become available. Thus measuring the extent of the existing deficit requires clear definition of such factors as room occupancy rates, implicit or explicit construction standards, and access to basic urban infrastructure services.

C. Infrastructure

It is generally accepted that low-income families cannot adequately provide for themselves such services as potable water and waste disposal at the minimal sanitary standards required in concentrated urban settlements. Squatter communities are often totally lacking in such basic infrastructure, and their rapid and dispersed growth into peripheral areas, or on land which is ill-suited for residential use, tends to increase both the cost and the technological difficulty of providing these services. Without access to public utilities and services the urban poor typically obtain water of poor quality from open wells, or purchase water from vendors where ground water supplies are inadequate; and they use pit latrines in areas that are often too densely populated, or on land with insufficient drainage, to permit adequate waste disposal.

D. Environmental and Health Conditions

The results of such practices are the poor sanitary conditions common among low-income urban families in many developing countries. The general lack of potable water, sanitary waste collection and disposal systems, adequate surface water drainage, trash collection, and open space for recreation and pedestrian and vehicular access contributes to severe environmental and health problems. These in turn result in high morbidity and infant and child mortality rates and lower productivity among the urban poor.

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ECONOMIC CONSIDERATIONS

In most developing countries, such barriers in the existing shelter delivery system as weak institutional infrastructure, inadequate and irregular supplies of building materials, limited contractor capability, land acquisition and tenure problems, a shortage of long-term finance, inadequate government housing policies, and deficiencies in urban infrastructure facilities and services impose severe constraints on efforts to address the shelter problem. But shelter development activities must first be viewed in the context of development economics, which provides the basis for evaluating the economic effects of shelter investment.

A. Economic Framework

Understanding the economic framework of housing investment requires a brief analysis of traditional approaches to development economics and of the flaws in these approaches which have become apparent as a result of the development experience during the past several decades. Developing countries were initially characterized by trade-oriented Western development economists as having a shortage of capital and surplus labor. External assistance, therefore, was believed necessary to expand export promotion and import substitution activities, as a means of allowing developing economies to generate foreign exchange to purchase the capital equipment needed for development of local

industries. It was assumed that both financial development and housing investment would be induced by this general economic growth, and therefore that they did not need to be addressed directly.

The weaknesses in this initial approach which have become apparent in recent years indicate that the foreign trade sector of most developing economies is usually capital intensive rather than labor intensive because competition for international markets requires developing countries to employ the most advanced technology and production processes. In addition, the financial sectors in most developing countries have grown around the foreign trade sectors to which they are oriented, and as a result they have had little impact on domestic economies. Consequently the linkages between foreign trade sectors and domestic economies are generally very weak. This has led to continued dependence on external assistance and unfavorable terms of trade for developing countries, with limited opportunities for import substitution.

Some development economists and developing country governments have concluded from this experience that the development of the domestic economy should be addressed directly and should not be ignored in the hope that the "trickle down" effect from the trade sector would have widespread impact on income levels and employment opportunities. A. O. Hirschman and Gunnar Myrdal, among others, have identified the critical importance of economic linkages in the development process and contend that development projects ought to be evaluated in terms of their multiplier effects on the rest of the domestic

economy and not exclusively in terms of an individual project's earnings. From such a perspective, labor-intensive technology is clearly preferable to capital-intensive technology as a means of absorbing surplus labor and generating increases in domestic incomes.

In the view of trade-oriented development economists, financial development was expected to occur in response to the increased demand for financial services which accompanied general economic growth and development. This expectation did not take account of the fact that not all of the resources available for savings (and investment) were being mobilized, largely because the financial institutions and mechanisms to attract domestic resources were not in place. More careful examination has subsequently identified the significance of illiquid savings in the form of nonproductive or marginally productive assets held by many people in the developing world. This domestic capital available for savings must be systematically mobilized to provide consumer credit and long-term financing.

In addition, an economy which relies on external sources for most of its capital creates an increased need for foreign exchange earnings with which to repay foreign lenders, thereby further skewing the development of the economy toward the trade sector. Investments made possible by domestic savings, in contrast, have a greater multiplier effect on the domestic economy, thus making domestic finance preferable to external finance.

B. Economic Effects of Housing Investment

Within the context of balanced development programs, domestically oriented strategies which include housing investment can be shown to have pronounced, positive effects on national economies. These effects are particularly strong in terms of housing for three principal reasons. First, housing investment typically has a low import component, which permits the stimulative expenditure effects to be retained within the domestic economy. Second, given appropriate financial arrangements, housing investment promotes domestic saving and thereby restrains the inflationary tendencies inherent in most developing economies. Third, housing construction and the domestic industries (such as building materials) to which it is linked tend to be labor-intensive activities which stimulate employment, particularly in the unskilled and semiskilled segments of the labor force.

In most developing countries, a given expenditure on housing investment will include a very small import component, about 10 to 15 percent on the average. By contrast, investment in plant and equipment can easily include an import component in excess of 50 percent. Under such circumstances, conventional macroeconomic analysis yields a multiplier for housing investment which is greater than that for plant and equipment and only slightly less than that for exports. More sophisticated econometric analysis based on Peruvian, Colombian, and Korean data has established the strength of housing investment as a potent force in development strategy.

It is readily accepted that a broad-based housing investment program requires long-term financing. Most countries in Latin America and many countries elsewhere in the developing world have established housing finance systems which grant long-term mortgage financing to individual families, thereby expanding homeownership. In virtually all cases, these systems rely on savings deposits and loan repayment flows to provide the financial resources for long-term lending. Since the largest untapped pool of saving in developing countries is that of individual families and since the latent demand for housing by individual families is also very great, these housing finance systems have been successful in mobilizing savings which had previously been held nonproductively in currency hoards, jewelry, or other commodities. In combination with the strong multiplier effect of housing investment on the growth of the domestic economy, these financial elements serve not only to promote a more efficient use of resources but also to promote an aggregate increase in domestic saving and a reduction of inflationary pressures. These conclusions have been substantiated and isolated by econometric simulation analysis based on Peruvian data. It is worth noting, however, that this analysis also demonstrated that these beneficial effects are weakened by subsidization. Indeed, the case for subsidization of housing investment can only be made on social grounds, not on economic considerations.

Studies of the employment effects of housing investment based on data drawn from Mexico, Peru, Colombia, Venezuela, Brazil, Korea, Pakistan, and India have demonstrated that each \$10,000 of housing investment produces between 7 and 14 additional jobs. Moreover, some studies suggest that the direct and indirect employment effects derived from investment in low-cost housing is slightly greater than that derived from higher-cost, or luxury, housing.

Further evidence indicates, largely because of the crucial role which long-term finance plays in expanding the effective demand for housing, that direct efforts to create an efficient shelter delivery system are necessary to address the housing problems of developing countries; the "trickle down" effects of general economic growth by themselves are insufficient to create the institutional infrastructure necessary to deliver decent shelter effectively to a broad range of the population.

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~~III~~
THE SHELTER DELIVERY SYSTEM:
LAND AND CONSTRUCTION

For programs to be designed to meet housing needs within the resource constraints common to most developing countries and to low-income urban families, an expansion of the delivery system offers the most effective means of increasing housing supply. However formally or informally organized, the factors that constitute housing delivery systems in developing countries encompass the same basic elements. On the supply side, these include land, infrastructure, construction technology and building materials, construction labor and management, and housing finance; on the demand side such factors as housing needs, income levels, and the availability of long-term finance must be taken into account (Chapter IV). Finally, the effective organization of these elements into a total delivery system requires coordinated national housing policies to assure efficient and equitable distribution of shelter resources (Chapter V).

A. Land and Infrastructure

Land, the most fundamental supply element, is often held in nonproductive uses for investment, in part because many developing countries' tax structures exclude taxation on land. An equally common problem arises when ownership of land is in question, inviting organized "invasions" by squatters. Efforts to upgrade squatter

settlements are frequently hampered by the difficulties inherent in clearing titles and transferring ownership of specific sites to the individual families occupying them. The provision of such infrastructure services as potable water, sewage and waste disposal, surface drainage, and roads, which may themselves significantly improve shelter conditions for many low-income families, is often constrained by unsecured or extralegal ownership or occupancy of land, as well as by codes and regulations designed to meet prohibitively costly standards.

There are several characteristics of urban land that suggest a dichotomy between the use of land as a consumption good and as an asset. While land is a key factor of production in housing as a total package, it is often held as an investment good, or store of wealth, serving both high- and low-income owners as a hedge against inflation. Land may also be considered a durable good that cannot depreciate physically, although it may depreciate economically as neighborhoods, and thus land values, deteriorate. The price of land as a durable good is determined by the expected value of the future revenues (or benefits) from the land, less the expected costs of ownership.

Land rents (or prices) are more often based on several additional factors, including the distance from the urban center, the workplace potential (or distance from employment opportunities), and the wealth potential of the land and its site attributes. It is often possible to increase workplace potential not only via the outward sprawl of a

growing city but by land infill, or "densification," raising the density of land closer to the urban center. Site attributes that affect land prices and the market for land include the land's natural endowment; the availability of infrastructure services, especially water, and community facilities; regulatory statutes regarding conditions of tenancy; and the quality of the neighborhood environment.

Government policy objectives with respect to land not only require that an adequate supply for low-income housing projects is available but should also aim to capture the increment in land prices which results from government-provided improvements in infrastructure services and facilities. Returning to government some of the costs of this "betterment" requires the creation of a system of land taxes.

Several additional aspects of land acquisition are often constraints to increasing the supply of low-income housing units in developing countries. In many cases, land along the urban periphery is not held in fee simple but in tribal holdings, making the alienation of this land complex if not impossible. When government housing authorities do not acquire a sufficiently large quantity of land as part of their housing programs, the value of land adjacent to that which they have purchased may increase dramatically and substantially raise the cost of units that housing authorities may want to build in the future. Finally, some developing countries have no system for exercising the right of condemnation or "eminent domain" to assemble large parcels of land for housing projects. While

in most of these cases government authorities can acquire land for such public uses as roads, they are legally precluded from forcing the acquisition of land for housing projects, which are for private use. Therefore, considerations of land for low-income housing programs must take account of the various legal and cultural problems of acquisition.

B. Construction Technology and Building Materials

Despite the numerous constraints in housing delivery systems, the growing urban populations of developing countries do find or build shelter. The most significant percentage of building materials used to house these groups are scrap materials rather than those supplied by formal building materials industries. Often these population groups use the construction technology brought with them when migrating from rural areas. Small changes in these existing and basically sound technologies offer the best approaches to improving housing conditions for low-income families, and have great potential for major breakthroughs in the expansion of supply.

A variety of issues with respect to construction approaches should be considered in attempting to address the shelter needs of low-income groups. Design factors, for example, must take account of local climatic and geographic conditions, as well as the traditional building technology which low-income residents bring to urban centers from their rural backgrounds. In designing core housing (or serviced sites), the cost of which can be amortized by low-income recipients if long-term financing is available, consideration must also be given

to the expandability of the basic unit at the time when the occupant's ability to pay for housing increases.

While the technology applied to home construction has changed relatively little in the past, there are several approaches that have significant implications in terms of cost and the employment and multiplier effects of housing investment. Although construction of custom-built housing (particularly for upper-income occupants) tends to favor highly skilled workers, and in most cases requires expensive imported materials, the employment generated by mass-produced "tract" housing projects for middle-income families is often greater than for other standards of housing units. In addition, tract housing projects can be expected to have strong linkages to local building material industries, both in the production of building components and in related mining and lumbering industries. Sites and services projects designed to meet some of the needs of low-income groups may have less direct impact on employment levels due to the large component of self-help labor used in the construction, but these projects have the potential of reducing the employment burden on the rest of the economy enough to offset the loss of direct employment opportunities. As with mass-produced housing projects, sites and services projects tend to use large amounts of locally produced building materials and to have a beneficial multiplier effect on these industries. When large-scale project efforts are undertaken, a certain standardization of building materials is essential for lowering costs and increasing efficiency. Past experiences indicate that efforts to use on-site prefabrication technology

or mass-produced building systems have generally failed to provide sufficient housing units for low-income groups because of the high capital costs of such technologies, and therefore have only limited impact on employment levels.

Finally, in the development of housing projects, consideration should also be given to the human and physical environmental impacts of the technology used, in terms of the appropriateness of materials for individual climatic conditions, the overall effects of water and waste disposal systems, and the cultural implications of the spatial design of units and urban neighborhoods.

C. Construction Labor and Management

The design of programs to improve the shelter conditions of low-income urban families in developing countries requires an assessment of construction management and manpower levels. In many cases, formal sector contractor capability may be limited, with skilled workers in short supply and a surplus of unskilled labor, which keeps wages low. In those developing countries where large construction firms exist, their operations tend to be in the areas of road building and such major infrastructure projects as dams and ports rather than in residential construction; where large-scale residential construction has taken place, it is unlikely to have been focused on low-cost housing.

Investigation reveals, however, that in many developing countries, small-scale tradesmen and contractors participate in the informal sector and assist in the organization and construction of squatter settlements. In many instances little informal sector

shelter is totally self-built, and the vast majority of squatter units are built and upgraded by an incremental process in which the occupants participate with local contractors and/or tradesmen on a kind of owner-contracted basis. The process usually extends over a period of several years. Materials are purchased when financial resources permit and stored until an adequate supply is accumulated to complete one step, such as the construction of the walls. A tradesman is then hired to do the work, usually with the assistance of the owner and members of the family. This process, however, has numerous inherent problems. Individual owners will almost always be inexperienced in managing construction and therefore will be susceptible to overcharges and poor performance. Numerous cases are found of individuals who have lost their family savings when a mason or other tradesman failed to complete work for which he had been paid. Small contractors who may well have the necessary skills are hard pressed to operate effectively on the sporadic time schedule that is so closely related to available finances. Nevertheless, in the development of self-help and upgrading projects, which require oversight and supervision, small-scale contractors and independent tradesmen may well have suitable skills and could be equipped with basic management training to effectively augment the supply of low-cost shelter.

D. Associated Issues

Problems in appropriate land use and construction standards in the design of low-cost shelter programs are often found to present additional constraints to the expansion of supply. The relative

weakness of many municipal governments in relation to the central governments of most developing countries frequently precludes their obtaining the urban planning capability and authority necessary for effective low-cost shelter development. In addition, coordination is often found lacking among those agencies responsible for such public services as physical infrastructure (roads, water, sewage disposal) as well as community facilities and social services.

Finally, efforts to provide low-cost shelter services that are affordable by low-income groups are often constrained by legal and regulatory standards for construction and infrastructure designed at too high, and consequently too costly, a level for those whose shelter needs are greatest. Thus in many developing countries, expanding the supply of low-cost shelter requires a redefinition of such standards, which, while assuring basic health and safety, can allow costs to be minimized.

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THE SHELTER DELIVERY SYSTEM:
HOUSING FINANCE

Estimates of housing need are usually based on certain explicit or implicit standards, which generally include the durability of existing units, the number of occupants per room, and such infrastructure as clean water and effective waste disposal, as well as population size and growth rates. When even these latter statistics are only gross estimates and the standards for "clean and decent" shelter are subject to wide variation, estimates of housing needs reflect only crude orders of magnitude. A more useful consideration is "effective demand," defined as the ability and willingness of consumers to pay for housing services. While consumers in both developed and developing countries are rarely, if ever, able to pay the full cost of their housing units in a lump-sum payment, they may be able to amortize the cost over the long term, allocating a percentage of monthly expenditures to housing. Thus, income levels and the availability of long-term mortgage financing are critical elements allowing potential demand to be expressed in the market as effective demand.

A. Role and Function of Housing Finance

Housing delivery systems that function both efficiently and equitably require financing mechanisms to provide for the mobilization of resources and the extension of long-term credit. Such mechanisms

are made necessary because housing units typically account for the largest single expenditure of most families. In general families are able to purchase or construct completed units if they have access to long-term credit, which allows them to extend the time-rate of payment for housing services at a level that they can afford to pay out of current income. To make long-term loans, financial institutions must first attract a pool of resources. In housing finance, the potential of having access to long-term credit provides an important incentive for savings, as of course do the soundness and rate of return that savings depositors expect of financial institutions. In many developing countries, however, the absence of financial intermediaries tends to result in "stores of value" or wealth being held in the form of commodities. In the past, economists have tended to take such stores of wealth to be part of consumption rather than nonintermediated savings, and consequently have focused on the need for external investment capital as an engine of growth without giving sufficient consideration to the development of financial institutions.

The experience in Latin America has shown that the incentive of having access to long-term mortgage financing, and the development of appropriate financial instruments, have encouraged millions of predominantly small savers to deposit nearly \$15 billion in the housing finance systems that have been established in the region during the past two decades. To a considerable extent, this remarkable mobilization of resources represents new liquidity, as the

new savings and loan associations converted formerly idle or non-productive resources (which had largely been held outside the formal financial sector) to productive uses in the form of huge housing investments. One measure of this kind of financial development is the ratio of currency in circulation to total liquid financial assets (M²). The decline in the combined currency ratio of all Latin American countries with housing finance systems from 0.32 to 0.23 between 1965 and 1975, suggests that the savings mobilized by these systems represent a net increase to the pool of intermediated domestic resources available for investment in the region.

The basic resource mobilization and credit extension functions of housing finance systems have several important effects. By encouraging greater intermediation in the formal financial sector housing finance institutions promote aggregate increases in domestic savings, which reduce the inflationary pressures inherent in most developing economies. Equally important, especially for low-income groups, are the availability of long-term finance and the extension of the time-rate of payment for housing services that allow for significant improvements in the shelter conditions of those who have access to such credit.

B. Effects of Subsidization

Although conventional housing finance mechanisms have proven successful in addressing the shelter needs of middle-income groups in both developed and developing countries, they are usually applicable

for low-income groups only with government subsidization. Subsidization, however, fails to mobilize the savings of low-income groups that are held outside the formal financial sector and thus does not provide for the intermediation of these domestic resources for allocation among productive investments. In addition, subsidization usually can provide for improvement in the shelter conditions of a very limited segment of those whose need for improved shelter is most acute because few, if any, governments have sufficient resources to address these needs on a mass basis. Subsidization for shelter also represents a drain on government revenues that could be applied to other productive uses, or at least conserved for replicable investments in the sector through the recovery of government capital allocations for shelter.

In contrast, housing finance systems provide for continuous repayment flows, which allow for further investments to be made in shelter development. Yet while subsidization can be shown to have negative effects, many of the urban poor in developing countries are unable to participate in conventional housing finance programs, and the need to provide improved shelter conditions for such groups remains.

C. Innovation in Housing Finance

The long-term, level-payment mortgages typically offered by housing finance institutions have brought improved housing within the means of middle- and lower-middle-income families because extending the term to maturity to 15 or 20 years

lowers monthly payments to affordable levels. But it is well known that beyond a 25-year mortgage term, further reductions in monthly payments are diminished to insignificant amounts. There are, however, alternatives to the level-payment mortgage that offer effective opportunities to extend the lending frontier to low-income families while still providing sufficient safety to lending institutions and their depositors. Chief among these alternatives are escalating-payment mortgages, which in general lower the initial monthly payments to levels affordable by low-income borrowers and provide for increases in the monthly payments as the incomes of borrowers rise. Escalating-payment mortgages have been designed with regular and predetermined increases in the payment amount based on estimates of the growth of borrowers' incomes. Provision is also made for adding the difference between the required level payment and the one actually being made under the escalating-payment mortgage to the outstanding principal of the loan. Used in some cases, this initially erodes the net equity of the loan. In some cases, this initially erodes the net equity of the homeowner, as represented by the downpayment, but serves to compensate the lender for foregoing relending opportunities occasioned several adjustment periods, the monthly payment escalates to a level equal to, and subsequently above, the level-payment amount, and homeowner equity is restored.

In the effort to provide improved shelter services for low-income groups, substantial progress has been achieved with the adoption of such innovative physical design standards as sites and services, core housing, and neighborhood upgrading. With the

exception of escalating-payment mortgages, however, little parallel innovation has occurred in housing finance for low-income groups. Shelter delivery systems that meet the needs of such groups require financial mechanisms appropriate to their savings capacity and income levels, as well as to their particular economic and cultural circumstances. In many developing countries, low-income groups have devised nonconventional financing techniques in an informal response to lack of access to the credit and savings facilities of the formal financial sector. To date, little is known of the potential that these existing techniques offer for encouraging a further broadening of housing finance markets and the basic financial development to support it. Therefore, investigation of informal sector financing should provide an opportunity for developing new financial techniques to serve the needs of low-income urban families throughout the developing world.

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V

NATIONAL POLICIES
AND
INTERNATIONAL ASSISTANCE

The preceding sections of this discussion identify three major conceptual elements that are essential for an understanding of housing in the developing world. These are (1) that shelter problems of enormous severity presently affect much of the developing world's urban population; (2) that shelter investment has important implications in economic development; and (3) that shelter delivery systems, composed of a variety of interrelated factors, are characterized by numerous constraints that preclude them from serving the shelter needs of low-income groups. It should be evident, then, that improving the shelter conditions of the urban poor, and securing for national economies the full benefit of shelter investment, requires an integrated effort on the part of developing country governments to relieve existing constraints in their shelter delivery systems. Such an undertaking, in turn, necessitates the development of comprehensive national housing policies. International agencies can provide important assistance in these policy development activities and can encourage the introduction of innovative approaches for extending the range of shelter services to those income groups whose needs are greatest.

A. National Housing Policy

National housing policies should bring together all of the elements of the delivery system and address them as a total system. Developing country governments must then begin articulating comprehensive national housing policies based on thorough analysis of each of the elements of their delivery systems. National housing policies can then become integrating documents that coordinate public and private housing institutions and delineate the functions each is to have in the housing effort. In addition, a housing policy can establish the place of housing in overall national economic planning. While housing typically has been viewed as a residual item without any economically productive role, its significant multiplier effects allow it to play a large role in the growth and development of an economy. The United Nations, for example, suggests that approximately 4 percent of the GNP of most developing countries should be devoted to new capital investment in housing. In the framework of a national housing policy, such a target can be established and justified. A good national housing policy should be national in scope, including both the urban and rural sectors, should address the needs of all income groups, and should be internally consistent. Yet for many developing countries, the technical preparation of a national housing policy may not reflect the actual effort that a government will undertake in the housing sector.

In this regard, it is important to note that national housing policies, when devised by developing country governments,

can often become static documents, which are not (but should be) periodically revised to reflect the changes that occur in a country's housing situation. It is also common to find that such policies may seek to provide housing solutions at a standard that exceeds the country's resources. In preparing a national housing policy, a mechanism should be devised to equate the aspirations of a country's politicians with the resources available in order to provide a realistic and practicable policy that affords the greatest benefit to all of the population.

B. Foreign Assistance in Housing

Given the existing shelter needs of most developing countries, it is unrealistic to expect that foreign assistance programs can provide the levels of capital resources required to significantly improve the shelter conditions of the majority of the urban poor. Nevertheless, the levels of capital assistance that are available from multilateral and bilateral development organizations allow them to participate with developing country governments in the design and implementation of pilot and demonstration projects. Foreign expertise should then be applied to the development of innovative approaches that relieve constraints in existing housing delivery systems and broaden the market for shelter services. This includes innovation in construction technologies and standards, in housing finance systems and mechanisms, and in the development of indigenous institutions with the capability to design and implement replicable strategies and projects that can be funded with domestically mobilized resources.

With 20 years of experience in more than 40 developing countries, the U.S. Agency for International Development has gained an unusually broad perspective on housing problems and solutions. This experience has demonstrated that while housing is of critical importance to all human families and is often a major goal of family savings, few developing countries have in the past regarded housing as a separate sector and often have had no housing policy. In addition, while housing must be considered in the context of a total human (or urban) settlement, there are few unified and integrated urban development projects in developing countries that take account of all of the components of urbanization. AID's projects initially focused on the development of institutions with the capacity to meet the shelter needs of lower- and lower-middle-income groups on a cost recovery basis. More recently, it has focused on the development of national housing policies that are both comprehensive and realistic. While it is now generally accepted that no program can provide standard housing for all the inhabitants of a country, many developing countries' governments are, at least implicitly, attempting to do this by building 50-square-meter units on urban lots for an average cost of approximately \$7,500. Such shelter solutions are almost never affordable by those low-income groups whose need for improved shelter conditions is most critical. Clearly, the use of subsidies in such cases has only limited potential for providing significant improvements for the great majority of the most needy.

AID and, since the early 1970s, the World Bank have encouraged the development and implementation of projects that provide some improvement in living conditions by utilizing minimum design standards and recognizing the value in many existing informally built housing units. Recent programs include sites and services with basic infrastructure, core housing units with sanitary facilities and potable water, and the upgrading of slum and squatter settlements. In addition, these institutions are developing pilot projects that address a full range of service needs of residents of low-income communities, including job-training, basic health education, community organization, and the provision of credit to small-scale entrepreneurs and cottage industries. Efforts like these offer developing countries opportunities to adopt strategies to provide shelter solutions that are appropriate to the social, economic, and cultural characteristics of their populations in on-going, and eventually self-sustaining, programs.

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