PN-AAV-887

ANNOTATED BIBLIOGRAPHY OF SELECTED PRE/H PUBLICATIONS IN HOUSING FINANCE AND ECONOMICS

1984 - 1986

September 1986

Prepared for
U.S. Agency for International Development
Office of Housing and Urban Programs
Bureau for Private Enterprise

by
National Council of Savings Institutions
Washington, D.C.

TABLE OF CONTENTS

PAGE

INTRODUCTION

Shelter is not only a basic human need, but an essential component for sustained economic development. Directly, adequate housing and infrastructure provide healthier and more stable living conditions. In addition, shelter construction provides a stimulus for the development of skills, employment and capital investment and creates linkages to other sectors such as agriculture and industry.

Shelter also represents a large share of urban investment in both the formal and informal sectors. In fact, over 80 percent of the existing housing stock in developing countries has been constructed by private initiative without the aid of governments or formal lines of credit. This is a powerful indicator that people throughout the world are willing to invest time, energy and resources into building and upgrading their own homes.

The Agency for International Development's (AID) overall shelter policy goal is to assist developing countries to develop the institutional, technological and financial capacity to provide shelter under reasonable conditions for all levels of society. Institutional development, policy reform, technology transfer and the development of private enterprise are AID's four priorities in the shelter sector. In order to achieve its policy goal, AID provides capital and technical assistance, as well as training activities to improve skills in developing countries in order to implement shelter programs. Further assistance is provided through the conduct of research and the dissemination of information on shelter sector issues. The purpose of this annotated bibliography is to familiarize professionals and others interested in the shelter sector with AID-sponsored publications through which one can obtain an insight into the needs, problems and opportunities in particular countries as well as more general information on shelter sector issues and innovative approaches to housing in developing countries.

Order # PN-AAV-091 (English)

An Overview of Financial and Economic Analysis of Housing Projects

Robert R. Nathan Associates, Inc.
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

April 1986, 150 p.

****

This manual provides an overview of the financial and economic analysis methodology used for project development in the housing sector. This methodology defines projects which not only finance and build shelter for the low-income population in developing countries but, more broadly, achieve improvements in policy and institutional capacity of the indigenous housing sector in order to foster autonomous development.

Chapter II briefly describes the economic, financial, institutional and major policy dimensions of the housing sector. Chapter III outlines the steps to appraise the current role of the housing sector in a particular country as well as its potential to affect economic growth, trade, employment, the financial market, resource mobilization and the fulfillment of basic human needs. The procedure for moving from a sector assessment to project design is the focus of Chapter IV. Elements which may prove particularly useful in this procedure include the definition of minimally acceptable housing standards, a quantification of housing needs in relation to those standards, and an analysis of constraints to satisfying these needs through the market. In addition, surveys of available technical, physical, financial, human, and institutional resources are necessary in order to identify opportunities for utilizing available resources to overcome constraints.

Chapter V discusses the evaluation of the project design to determine the financial feasibility and economic value of a project. Relying on variables which involve cash outlays by beneficiaries, such as net present value, internal rate of return and benefit/cost ratio, the analysis is restricted to housing construction and finance activities. The major steps are:

- Identify and estimate project costs and sources of funding.
- Disaggregate estimated project costs and sources of funding.
- Estimate expected sales price by type of unit.
- Estimate target households' affordable investment, and compare this with the expected sales price of alternative units.

- Analyze the financial cash flow and feasibility of a project from the viewpoint of a private developer.
- Analyze the financial cash flow and feasibility of a project from the viewpoint of private banks.
- Analyze the financial cash flow and feasibility of a project from the viewpoint of the national housing authority.
- Analyze the financial cash flow and feasibility of a project from the viewpoint of a national or local government.

This paper concludes with a brief commentary on the use of economic and financial analysis as a tool in housing project development to improve project design and implementation and to support policy dialogue.

Order # PN-AAW-550 (English)

The Housing Finance System in Kenya

USL International and The Urban Institute
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

May 1986, 254 p.

****

This study evaluates the housing finance sector in Kenya and its environment in order to determine its capacity to fulfill the mortgage credit needs of this rapidly growing and urbanizing country. There has been a rapid expansion in the number of institutions in the financial sector in the past several years, including institutions specializing in housing finance, primarily building societies. Supervision and regulation has not kept pace with the proliferation of institutions, however, particularly with building societies, and a new banking act was recently passed which will deal with this need. In addition, macro-economic factors and current policies limit the mobilization of resources within the finance sector, inhibiting its ability to address Kenya's enormous housing needs.

A more market-oriented approach relative to meeting the government's financial needs will generate important benefits to the Kenyan economy through increased savings, a more stable supply of long-term credit, a better developed equity market and, most importantly, improved housing conditions for Kenyans of all income levels. Volume I consists of the bulk of the study while Volume II contains 13 annexes, including the study's scope of work, a summary of procedures used to update Kenya's Housing Needs Assessment, current figures and legislation, and examples of Building Society operations and housing development projects.

The Introduction briefly reviews current housing sector trends in Kenya and the purpose of this study.

Chapter Two describes how the macroeconomic situation in the last 15 years has resulted in a decrease in the share of gross domestic product going to the housing sector and an increase in government control of the economy. At the same time, because of rapid population growth and urbanization, housing needs have increased drastically. It is suggested that the Government of Kenya's (GOK) borrowing system has been a major factor in inhibiting the fulfillment of housing needs and that a more market-oriented approach would result in a larger share of resources allocated to this sector.

An overview of the governmental framework for housing and housing finance policies is outlined in Chapter Three. The Ministry of Works, Housing and Physical Planning develops housing policy and the National Housing Corporation and local authorities implement these policies and programs. The agencies and institutions which make up for the financial sector are described in more detail in Chapter Four with an emphasis on the specialized housing finance institutions. This chapter also describes some of the current problems these institutions have. In addition, some of the reforms instituted by the GOK to stabilize the economy which have affected the finance system, such as the new banking act, are mentioned.

Chapter Five discusses how the interaction of housing needs, financial policies and the housing finance sector affects resource mobilization and reviews some of the macroeconomic costs which need to be considered when making changes to improve the finance system.

Recommendations for improving the finance system, especially those relating to mobilizing resources for housing, are set forth in Chapter Six:

- Create a strengthened regulatory/supervisory framework to address the proliferating number of new specialized housing finance institutions (SHFIs);

- Create a liquidity facility for SHFIs from which they can borrow during short-term emergencies;

- Create a trade association for SHFIs to foster information exchange, training, research and promotion of activities such as a secondary mortgage market;

- Initiate a secondary financing facility for housing in order to show support for SHFIs and assure their long-term stability;

- Reexamine the appropriate role of the GOK in housing finance and the potential of the private sector to carry out housing finance programs which should be implemented.

Order # PN-AAV-219 (English)

Housing Finance in Zimbabwe

Randolph S. Lintz and Daniel S. Coleman
National Council of Savings Institutions
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

April 1985, 68 p. & 1 Appendix

****

This Housing Finance Study is one component of a feasibility study for the establishment of a National Housing Corporation in Zimbabwe. While Zimbabwe has a sophisticated and well-developed banking system, current government and economic policies restrict the ability of the finance sector to mobilize the resources necessary for the sustained growth of the formal housing sector.

Section I of this study looks at the financial sector in general, describing the structure and trends of the financial institutions. Since Independence in 1980, these institutions have had to respond to the opening of their economy into the world market, increased demand for public sector financing of social services and state-owned enterprises, and other demands to extend economic opportunity to all Zimbabweans. The result has been increasing expenditures and revenue shortfalls. Borrowing in order to increase the money supply has added to the debt burden and aggravated inflation.

Section II describes the housing finance system in particular. In the public sector, two funds, the National Housing Fund and the Housing and Guarantee Fund, are available through the Ministry of Construction and National Housing. The National Housing Fund, which provides monies to Local Authorities for low-income housing schemes, has suffered deficit problems and a lack of resource-generating capacity. The Housing and Guarantee Fund, which guarantees mortgage loans on housing and operates a housing ownership and management scheme from revenues on foreclosures, represents a sustainable part of the finance sector which is able to provide loans to a large number of Zimbabweans. In the private sector, three Building Societies represent the most significant source of finance in the formal sector. However, strong controls by the government and competition for resources with the Post Office Savings Bank has inhibited the Societies' ability to fulfill private housing finance sector needs.

In Section III, the means for increasing the flow of financial resources to the housing sector is explored. Domestic resources for housing credit may be increased by allowing Building Societies to compete fairly with the Post Office Savings Bank for savings deposits, increasing the down payments for guaranteed loans, encouraging the creation of savings clubs for individuals and raising the interest rate on government loans. Additional resources may be available from other national institutions such as insurance companies and pension funds. However, some economic and government policies constrain the finance sector's ability to mobilize resources for housing:

- The increased tax burden on individuals has lowered savings for a majority of the population. Those in higher-income brackets who can save channel their money into investments other than those offered by Building Societies;

- The budget deficit has restrained overall savings. The revenue from increased taxation has not kept up with increasing expenditures;

- Rent controls have reduced the incentive to invest in housing construction;

- In their attempts to reduce demand, government policies such as increased interest rates, statutory reserve requirements for banks and finance houses, increased statutory liquid asset ratios for commercial banks and emigration laws regarding the liquidation of assets have further reduced the amount of resources available for the housing finance sector.

Recommendations to improve the housing finance system in general and redirect new and supplementary resources to the housing sector are offered in Section IV:

- Increase the Building Societies' viability by making them more competitive with the Post Office Savings Bank with respect to their ability to attract savings;

- Building Societies can utilize liquid assets from other institutions such as insurance companies and pension funds by selling participation in a pool of government guaranteed mortgages;

- Increase loans to urban councils in addition to Bulawayo and Harare;

- Redirect loan money for low-income families to district and rural councils instead of municipalities. Some money should also be used for infrastructure in low-income areas.

Order # PN-AAU-425 (English)

An Economic Analysis of AID's Housing Guaranty Program

Robert M. Buckley and Raymond J. Struyk
The Urban Institute
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

February 1985, 82 p., Bibliography and 3 Appendices

****

This paper was commissioned to develop an economic analysis of AID's Housing Guaranty program which was created as part of the U.S. foreign assistance program in the early 1960s to improve the quantity and quality of housing in developing countries. The program is structured to provide a U.S. Government guaranty against default on loans made by private American investors to developing countries for investment in their housing sectors. Since 1970, a host country guaranty of loan repayment has been required.

This analysis focuses on the program's operation in four separate contexts. First, it examines the program from the perspective of U.S. credit markets, and in particular whether it meets the standards set forth in the Office of Management and Budget's circular A-70 regarding federal credit policy. Second, it analyzes the program from the viewpoint of its effects on the borrowing country, focusing on the relationship between program supported activity and the broader economy. Third, the Housing Guaranty program's function is assessed in light of problems faced by developing countries' housing sectors. Finally, the Housing Guaranty mechanism is examined as a tool of foreign assistance among those available to AID.

Based on these analyses, the monograph reaches several conclusions regarding the Housing Guaranty program:

- The current Housing Guaranty program is clearly actuarially sound and the program's fees, if used only as reserves, should be sufficient even if expected default costs were to increase by a factor of fifty. Furthermore, operational costs seem to be well within the revenues that can be expected to be generated by the program.

- The fees for the Housing Guaranty program are higher than those in other federal credit programs and the default costs are considerably lower, thus reinforcing the actuarial soundness of the program.

- The authors' assessment is that from a cost perspective, the Housing Guaranty program is a superior policy instrument for supporting housing assistance to developing countries compared to direct loan programs which are dramatically more costly to the U.S. Treasury.

- In a period of budget austerity, there is a need to develop country assistance instruments such as the financially self- sufficient Housing Guaranty program.

- Since the Housing Guaranty program helps promote and mobilize capital markets in developing countries in addition to providing direct project assistance, this aspect of the program is consistent with broad improvement in a country's overall economic performance. Hence, Housing Guaranty loans work to strengthen achievement of this objective by USAID, the World Bank, and the International Monetary Fund.

- Among the many negative consequences of program termination is the fact that fewer housing-related development projects would be undertaken in developing countries at precisely the time when such projects, due to urbanization pressures, are likely to be yielding very high economic returns.

Order # PN-AAU-426 (English)

Economic Effects of Housing Investment

Harold M. Katsura
The Urban Institute
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

December 1984, 49 p., 1 Annex, Notes and Bibliography

****

This monograph discusses the theoretical arguments and empirical evidence concerning the economic effects of housing investment in developing countries. Focusing on low-income housing, it reviews the works of nearly all the authorities in the field to assess the macroeconomic effects of housing investment and addresses the question of whether housing investment is a productive activity in terms of direct and indirect contributions to output.

The author stresses the point that although the housing literature establishes that housing investment can be well justified on grounds other than those which are purely economic, there remains a need to develop a clear economic rationale for housing investment. This is due to the fact that the allocation of scarce resources between housing and other investments remains a controversial issue in many developing countries.

The author draws numerous conclusions from his review of the germane literature. Among the key conclusions discussed are the following:

- The broader economic gains of housing investment can be expected to vary by type of housing investment.

- The employment and income generating capability of housing investment is comparable to other sectors and, in some instances, is relatively favorable compared to other sectors.

- Housing investment can lead to a higher utilization of the labor force and may contribute to the skill development of workers.

- Increased demand for residential inputs can, in the short run, cause inflation in the price of inputs; however, it is not likely that these higher prices can be sustained in the long run.

- The net import content of housing is likely to vary across locations depending on the resource endowment, technological capabilities, legal environment (relative to building codes) and consumer preferences of the countries; while a minimal balance of payment effect is quite possible, it cannot be taken for granted.

- The extent to which appropriate financing arrangements can increase effective demand for housing and stimulate ex-ante saving is not known.

In response to the question of whether housing investment is productive compared to other types of investment when all direct and indirect benefits and costs are taken into account, the available evidence suggests that housing investment could be more productive than other types of investment depending on the country.

The annex discusses the incremental capital output ratio and concludes that measurement and interpretation problems make the ratio an inappropriate tool for allocating capital between housing and other types of investment.

Order # PN-AAN-788 (English)

Preparing a National Housing Needs Assessment

Robert R. Nathan Associates, Inc. and The Urban Institute
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

Occasional Paper Series, March 1984, 85 p.

****

Because shelter is a basic human need (third after food and clothing) and a major stimulus to savings in the developing world, the creation of new housing and the upgrading of existing dwellings is a fundamental concern of USAID. In an effort to create a consistent planning and analytical tool for the housing sector, the Agency's Office of Housing and Urban Programs has developed a Housing Needs Assessment (HNA) methodology for estimating shelter needs in developing countries. This methodology projects the number of housing units required to meet needs over a period of time up to 20 years and the level of investment required to provide these units. While the HNA can prove useful information to USAID staff and consultants, its primary purpose is to aid developing country planners and policymakers in projecting their own countries' budgetary and financial needs in the housing section, as well as in policy formulation.

Chapter II outlines an overview of the methodology in reference to a BASIC computer model created specifically for the HNA. Chapter III specifies the variables crucial to estimating the demand for housing and the capital necessary to meet this demand:

- Population growth, rate of household formation and urbanization trends, including distribution of households among metropolitan, urban and rural areas;

- Condition of existing housing stock, including replacement and upgrading needs and overcrowding;

- Household incomes and income distribution;

- Housing affordability, including an analysis of available financing mechanisms, and cost of capital;

- Housing standards, which require defining the minimum standard; and costs, which are disaggregated by land, infrastructure and construction.

It may be possible with the above variables to also project future levels of private investment and conduct a sensitivity analysis to determine the impact of key variables on the assessment.

Chapter IV organizes the variables into eight modules each of which represent a block of calculations to be performed. An accompanying user's manual (forthcoming) explains the computer model in more detail.

Order # PN-AAU-616 (English)
PN-AAU-617 (Spanish)

An Assessment of National Housing Needs and Affordability In Ecuador 1984-2004

Richard Blankfeld and Alfredo Vergara
Robert R. Nathan Associates, Inc.
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

August 1984, 150 p.

****

In urban areas alone, 39,000 new units a year are required, but both public and private formal sector housing have been averaging only 18,000 units per year. While low-cost housing programs have been targeted toward middle- and lower-income groups, the lowest-income families are often displaced by middle-income families and must find unauthorized and substandard housing in the informal sector. A set of alternative solutions should focus on the reduction of minimum housing standards, increased participation by the private sector in construction, marketing and financing, and incentives by the government to encourage more self-help upgrading efforts by low-income households. In addition, administrative procedures in the public sector should be streamlined and abbreviated in order to more effectively fulfill housing needs of lower-income households.

Order # PN-AAU-986 (English)

An Assessment of National Housing Needs and Affordability in Kenya 1983-2003

Phillip W. Rourk and Andrew D. Roscoe
Robert R. Nathan Associates, Inc.
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

March 1984, 109 p.

****

The formal housing construction sector is projected to be able to produce only one-fifth of the 250,000 new housing units needed in the next five years for Kenya's urban areas alone. If the needs are to be met, informal sector housing production and upgrading will have to be encouraged. The formal sector's minimum housing standards will need to be significantly reduced, providing basic "starter" units with infrastructure which can be gradually upgraded as the household can afford to do so. In addition, program implementation must focus on streamlining financial mechanisms in order to increase the flow of resources available for housing finance and on establishing incentives for the private sector to participate in the low-cost housing construction effort.

Order # PN-AAU-621 (English)

Botswana: An Assessment of National Housing Needs, Affordability, and Potential Barriers to Successful Implementation

C. Wade Clifton and Andrew D. Roscoe
The U.S. League of Savings Institutions and
Robert R. Nathan Associates, Inc.
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

September 1984, 120 p.

****

Population growth rates and rural-urban migration will increase the annual need for new dwellings to over 16,000 by the year 2000, requiring up to 5 percent of Botswana's GDP. In the urban areas, in addition to the need for new units, there are a significant number of existing units which do not meet minimum sanitation standards. In rural areas, practically all of the existing units are without any form of sanitation.

Many of Botswana's housing problems stem from its administrative incapacity to meet the projected demand for low-income housing. Improvements in staffing, staff training, inter-agency coordination and the implementation of efficient financing and cost-recovery programs are essential. In addition, more funds in both the public and private sectors need to be devoted to land acquisition, surveying and infrastructural development in order to facilitate future housing needs.

Order # PN-AAV-025 (English)

Colombia Shelter Sector Assessment

PADCO, Inc.
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

October 1984, 123 p.

****

The annual requirement for new housing is expected to reach 257,000 units by 1990, while upgrading is expected to involve 100,000 units per year. The types of housing currently available in the formal sector are not affordable to the poorest 40 percent of the population. Graduated payment systems have been effective for middle-income households, but alternative financing must be found for the lower-income population. In both urban and rural areas, efforts must be made to drastically reduce standards for housing construction and infrastructure in order to increase housing affordability. A stronger emphasis on upgrading, sites and services and sanitary cores will improve affordability as well as provide an attractive alternative to illegal informal sector housing solutions. In addition, urgent attention must be given to dealing with the financial and institutional problems affecting the infrastructure sector in order to increase efficiency and decrease costs.

Order # PN-AAU-981 (English)

El Salvador Shelter Sector Assessment

PADCO, Inc.
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

November 1984, 163 p., Tables

****

As a result of the armed conflict, it is estimated that approximately one million people have been displaced from rural areas. While some are living in official "settlements of displaced people", many have migrated to urban areas, exacerbating the already overwhelming need for new housing and infrastructure. Close to half of the population in the San Salvador Metropolitan Area live in extra-legal housing solutions such as squatter settlements and subdivisions which violate housing standards. Infrastructure such as sanitation and potable water take years to be installed. In rural areas and in settlements for the displaced population, housing is of poor quality and infrastructure practically non-existent. El Salvador must provide a variety of low-cost housing and upgrading packages which are affordable to most urban households, while reforming housing policies to improve institutional capacity, resource mobilization and legalization of extra-legal settlements. In the rural areas, however, the current economic and political instability continues to limit the affordability of any housing solution by the poorest 20 percent of the population.

Order # PN-AAU-980 (English)

Housing Needs Assessment Study: Zimbabwe

Donald M. Manson and Harold M. Katsura
The Urban Institute
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

June 1985, 55 p., Annexes

****

Providing every family with at least a four-room core dwelling requires resources that are not currently available in Zimbabwe. By 1999 a total of approximately 177,000 units will be needed per year in both urban and rural areas. To accomplish this would require an investment of more than 9 percent of the country's gross domestic product. Furthermore, more than half of the urban and virtually all of the rural households cannot afford the four-room core dwelling without some kind of financial assistance. In view of this situation, the implementation of Zimbabwe's housing program should proceed incrementally, focusing on reducing housing standards and increasing the availability of capital in urban areas and upgrading and providing infrastructure in the country's rural areas. Increased involvement by the private sector in the production of low-cost housing which is affordable to low- and moderate-income households will greatly reduce the current financial and management burden of housing production on the government by lowering the number of target group households which cannot afford housing through the formal sector.

Order # PN-AAU-982 (English)

Housing Needs and Investment in Barbados: 1980-2000

Robert Dubinsky and Raymond J. Struyk
The Urban Institute
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

November 1984, 64 p., Annex

****

To provide minimum shelter to all households in Barbados over the next 20 years would require approximately 3,400 new or upgraded units each year and a three-fold increase in government investment in the housing sector. Middle- and upper-income households are relatively well served by the private sector, but low-income households cannot afford to upgrade their homes, buy new houses or repay housing loans through the private sector. The government must target its efforts to help these low-income households with low-cost housing such as core units, self-help construction or leasing with an option to purchase. In addition, lower minimum standards, tax incentives or low-interest loans to upgrade existing housing stock will increase low-income households' ability to achieve a minimum standard.

Order # PN-AAU-620 (English)

Housing Needs and Probable Investment in Sri Lanka 1983-2003: Main Estimates and Sensitivity Analysis

Donald M. Manson and Raymond J. Struyk
The Urban Institute
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

June 1984, 72 p., Tables, 2 Appendices

****

Approximately 245,000 new or upgraded units will be needed each year in Sri Lanka. In order to fulfill these needs the government must concentrate on serving households that are unable to obtain minimum standard housing at their own expense, constructing units to the minimum design standards and strictly enforcing the collection of loan repayments in order to replenish loan funds. At the end of 1982, the Government of Sri Lanka initiated a major shift in its housing policy. The Million Houses Program focuses more on upgrading existing housing stock and providing loan amounts at interest rates affordable by recipient households. New construction is limited primarily to sites and services projects. Still unresolved are the concerns that private financial institutions are not playing as large a role as they could in the mobilization of resources and that the government cannot afford to continue charging such low interest rates on loans for housing.

Order # PN-AAU-706 (English)

Peru Shelter Sector Assessment, Volume II: Technical Report

PADCO, Inc.
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

July 1985, 144 p.

****

Peru's balance of payments deficit, increasing inflation and lack of income-generating capacity have greatly limited the country's ability to meet its housing and infrastructure needs. In 1990 an annual total of 165,000 dwellings will be required. Because only one sixth of those needs are being produced through the formal housing sector and financing terms restrict the number of households which can afford this solution, an overwhelming number of households must obtain housing through the informal sector. Measures that reduce market interest rates and inflation are a significant factor in increasing affordability of new housing and upgrading through the formal sector. Shelter cost can be further reduced with lower minimum housing standards. In addition, legalization of informal settlements and improvements in the capacity of the basic infrastructure sectors such as sanitation, sewerage, electricity and community services must be included in any massive shelter program.

Order # PD-AAR-088 (English)

Urban Development Assessment: Panama

Robert R. Nathan Associates, Inc.
and The Urban Institute
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

January 1985, 2 Volumes

****

Substandard housing, overcrowding and increasing rural-to-urban migration characterize the greatest problems of Panama's housing sector. Public sector resources should be devoted to realistic production targets and a minimum standard should be established which is affordable to low- and middle- income households. Increased interest rates on small savings should encourage households to save more for housing. Attempts must also be made to attract private capital and encourage private sector participation through guaranteed financing to build housing affordable by the lower-income population.

Order # PN-AAU-429 (English)

Housing Finance Strategies for LDCs: Developing a Systematic Approach

Raymond J. Struyk, Robert M. Buckley and Margery A. Turner
The Urban Institute
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

August 1985, 101 p. & Bibliography

****

The housing sector in developing countries typically accounts for approximately five percent of Gross Domestic Product and 20 percent of total investment. Without proper planning in the housing sector, inefficiencies in housing production or in the housing finance sector can strongly affect the overall efficiency of financial markets and the return yielded on a country's aggregate investment. Proper planning is also essential because of the long-lived nature of housing.

In an effort to enable policy analysts to carry out reasonable forward planning and to provide a basis for in-depth dialogue regarding potential policy initiatives, this paper presents a progress report on the development of a methodology for constructing a housing finance strategy that can support a comprehensive program designed to deal with a country's housing needs. This Housing Finance Strategy (HFS) methodology enables policymakers and analysts to assess alternative mechanisms for mobilizing and developing resources for achieving improvements in housing quality. The specific objectives of the HFS methodology are to identify: 1) the most economically efficient means for mobilizing financial resources for the housing sector that will allow all households, and especially those in lower income groups, to obtain minimally adequate housing; and 2) the most cost-effective way of deploying these resources within the housing sector so as to achieve the goal of minimally adequate housing for all.

The Housing Finance Strategy methodology builds on and extends the estimates generated by the Housing Needs Assessment (HNA) methodology which was developed by USAID's Office of Housing and Urban Programs during 1983-84. It builds on the needs estimates in two ways. First, since the HNA produces estimates of total resources that must be invested in a country's housing sector over a period of up to twenty years to realize the goal of minimally adequate housing for all households by the end of the period, the HFS methodology focuses on how these resources can best be mobilized and deployed. Second, the HNA provides critical assumptions regarding future demographic and economic development including increases in the number of households, the extent and pace of urbanization, and the amount of money households will likely be able to spend on housing.

The Housing Finance Strategy methodology extends the HNA in several ways. First, it makes explicit the sources from which funds for investment in the housing sector are drawn. Second, it indicates how different funding sources as well as the aggregate level of resources going to housing affect housing activity and the overall economy. Third, the methodology provides estimates of the differential impacts of alternative mechanisms for deploying housing resources. Finally, in contrast to the Housing Needs Assessment, the HFS methodology is more explicit regarding the rate at which households actually realize improvement in their housing.

Successful implementation of the HFS methodology is predicated on two key preconditions, however. The first is a completed housing needs assessment or the availability of comparable information as well as the availability of data on housing quality by income class beyond that necessary for the Housing Needs Assessment methodology. The second key condition is the willingness on the part of the host country to work closely with an outside team in designing and analyzing alternative policies. At this point in the methodology's development, it is not yet in a form to be employed independent of its designers.

The report demonstrates the HFS methodology using a rough-and-ready data set for Sri Lanka. The lack of field work done as part of this development work means that this demonstration falls short of a full application of the methodology to the country. Nevertheless, the report does suggest the general direction that financial reform in Sri Lanka might take in order to generate greater resources for the housing sector and to improve the overall efficiency of the financial sector and the economy. It also simulates the impacts of achieving minimally adequate housing in Sri Lanka through the implementation of several programs.

Order # PN-AAU-428 (English)

The Housing Quality Simulation Model: Basic Description

Margery A. Turner and Raymond J. Struyk
The Urban Institute
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

August 1985, 111 p., Bibliography and 5 Appendices

****

This report, prepared for the Office of Housing and Urban Programs, describes the Housing Quality Model, a small-scale computer simulation developed to analyze the impact of government interventions in the housing sector on the quality of housing occupied by households in different economic, tenure, and initial housing quality circumstances. The effects of government actions in the housing sector such as those to improve the efficiency of financial markets and to expand the volume of mortgage credit can also be analyzed by the model.

This model will ultimately be used in conjunction with the Housing Finance Strategy methodology. Once the latter estimates the level of resources required to bring all households to a designated quality standard over the long term, policymakers may be uncertain about how rapidly improvements in housing quality can be achieved. The Housing Quality Model will allow policymakers to simulate the changes in housing quality that would result from alternative intervention strategies.

It should be noted that this paper was completed prior to "Developing a Housing Finance Strategy for Sri Lanka" (PN-AAU-427) which presents the results of the actual field implementation of the Housing Quality Model in Sri Lanka.

Four specific features of the model make it particularly useful for housing policy analysis in developing countries. First, it categorizes households by income, tenure, and dwelling quality, and analyzes transitions by households between tenure and dwelling quality classes under various government programs. Second, the model operates on an annual basis, so that alternative policies can be considered vis-a-vis the rate at which housing improvements are achieved. Third, the model focuses on the transition of households from unacceptable dwelling and infrastructure conditions to acceptable conditions, rather than on more abstract, continuous measures of housing quality. Finally, in order to simulate specific government programs, the model requires analysts to formulate detailed specifications, encompassing eligibility requirements, funding levels, costs of participation, and assumptions regarding the distribution of assistance among households.

The report presents an illustrative application of the model for the urban housing sector in Sri Lanka for the 1983-1993 period.

Order # PN-AAW-551 (English)

Developing a Housing Finance Strategy for Honduras

Phillip Rourk (Robert R. Nathan Associates, Inc.), Raymond J. Struyk et al.
The Urban Institute
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

August 1986, 101 p. & Annex

****

Although the need for shelter meeting minimum standards in Honduras has greatly increased in recent years, the availability of financing, particularly for lower-income households, has been greatly reduced, leading to a sharp decrease in overall shelter production. This study explores the factors which contribute to this problem and proposes a strategy which will lead to the creation of a permanent base of domestic financial resources to support the country's efforts to better provide its population with adequate shelter.

The proposed strategy focuses on three major initiatives:

1) An increase in the volume of savings mobilized by formal, private sector institutions. Several programs are suggested which will not only increase the volume of savings, but also reduce the costs of serving depositors and facilitate the process of qualification by participants for housing-related credits. One is the establishment of contractual savings plans for organized groups such as employees of firms, union members and members of large producer cooperatives. For lower-income urban households that are not regularly employed or households in rural areas, deposit collection agents could enable small savers to participate in group savings plans;

2) An increase in the security and liquidity of investments in the housing sector, especially of mortgages on low- and middle-income housing units by creating a mortgage default co-insurance program and encouraging institutions with large capital resources such as insurance companies, pension funds and the social security institutions to invest in domestic mortgage-backed bonds;

3) Broaden the participation of formal, private sector institutions in lending for the housing sector while at the same time increasing the

competitiveness of the sector vis-a-vis other users of credit. Up until now, the activities of Savings and Loan (S&L) institutions have been restricted to mortgage loans and commercial banks have played a limited role in financing low-income housing. Allowing S&Ls to diversify and provide services such as short-term loans and checking services would attract a larger clientele and reduce costs. In addition, regulatory reforms which would enable commercial banks to expand their mortgage and other housing-loan activities would not only enlarge the resource base, but also provide a more competitive, and ultimately healthier and more durable housing finance system.

These initiatives are interrelated and mutually-reinforcing components of a single strategy which should be implemented as an integrated package. Combined with restraining the growth of domestic credit to levels that can be supported by the resources mobilized by the financial system, this strategy should help to create the institutional foundations for a self-sufficient, viable private sector housing finance system.

Order # PN-AAU-427 (English)

Developing a Housing Finance Strategy for Sri Lanka

Raymond J. Struyk, Robert Van Order and Kirkman O'Neal
The Urban Institute
U.S. Agency for International Development
Bureau for Private Enterprise
Office of Housing and Urban Programs

February 1986, 103 p. & 9 Appendices

****

This monograph builds on and extends the estimates of probable housing needs in Sri Lanka over the 1983-2003 period generated by the Housing Needs Assessment (HNA) and updated in this analysis. While the HNA estimated the total resources that must be invested in the country's housing sector over the 20 year period, the application of the Housing Finance Strategy (HFS) methodology in this exercise focused on how the resources needed in the first five years can best be mobilized and deployed.

The updated HNA estimated that annual investment on the order of 7.8 billion rupees (Rs.) would be required to produce the required new construction and upgrading to satisfy the country's housing needs. Actual housing investment in 1985 was estimated at Rs. 5.3 billion leaving an investment gap of Rs. 2.5 million. The authors estimated that a reasonable target for increased formal financing to be approximately Rs. 1 billion with the remainder of the resource gap being closed by savings, informal financing and an expansion of the government's Million Houses Program. This program is designed to assist households in the lower half of the income distribution.

Although the mobilization of funds for housing is a key factor in meeting Sri Lanka's housing needs, it is crucial that the methods employed to mobilize resources for housing do not add new distortions to those already present the country's financial markets or eliminate existing mechanisms of resource mobilization. The monograph describes both short-run and long-run changes in the current financial market operations which would enhance the mobilization of additional resources for the housing sector while at the same time not distort the market or eliminate existing mobilization mechanisms.

The authors employed the Housing Quality Simulation Model to analyze the impact on the rate of improvement in Sri Lanka's housing quality of three distinct policy reform scenarios which would affect not only the level of resources mobilized but also their ultimate use. Besides the changes suggested in each of these scenarios, there are other policy modifications discussed which are applicable to the problem of resource mobilization for the housing sector in general. In judging which of the three policy reform packages will have the most impact on improving housing quality, two important considerations were taken into effect: 1) the effectiveness of the policies in shifting households in various income groups into housing meeting minimum quality standards; and 2) the efficiency with which these shifts were made, in terms of the total cost and the cost to the government of effecting such changes.

The analysis of the three policy packages clearly indicates that the most appropriate direction for Sri Lanka's housing policy is a complementary mix of private market-rate mortgage financing and the expanded use of the Million Houses Program (Policy Package 3). However, for such a housing program to be implemented would require several reforms in the financial sector, reforms which Government is unlikely to undertake if its budget deficits remain very large thereby making continued tight control of financial markets essential. In the event that additional resources for housing do become available, the report makes recommendations as to their most judicious use within the housing sector.

The documents included in this bibliography are available in paper copy or microfiche from the AID Document and Information Handling Facility. The facility is operated by the Center for Development Information and Evaluation (PPC/CDIE). Additional documents from AID-funded projects are also available on request from the Document Facility.

AID and contract staff are entitled to receive free single copies of any publications included in this list. Contract staff should include the project or contract number for the document which is needed.

Non-AID users may purchase documents through the Document Facility. Most documents are kept in microfiche form and are available on-request at a charge of $.13 a page. Microfiche duplicates are produced at a cost of $1.08 per fiche. When paper copy originals are available, they are billed at $2.00 per document. These charges are levied only in an attempt to recover the costs associated with producing them. Please send no money with orders. An invoice will be sent.

Universities, research centers and government offices in developing countries may receive free microfiche of documents included in this list.

Please send completed order forms to:

AID Document and Information Handling Facility
PPC/CDIE
SA-18, Room 209
Washington, D.C. 20523
Telephone: (301) 951-7191

ORDER FORM

Date of order ____________

Name ____________

Title/office ____________

Institution ____________

Room number ____________

Building ____________

Street ____________

City ____________

Country ____________

Postal code ____________

Document number:	Paper Copy (PC) Microfiche (MF)	Quantity
1 ☐☐ - ☐☐☐ - ☐☐☐ Title ____	PC MF	____ ____
2 ☐☐ - ☐☐☐ - ☐☐☐ Title ____	PC MF	____ ____
3 ☐☐ - ☐☐☐ - ☐☐☐ Title ____	PC MF	____ ____
4 ☐☐ - ☐☐☐ - ☐☐☐ Title ____	PC MF	____ ____
5 ☐☐ - ☐☐☐ - ☐☐☐ Title ____	PC MF	____ ____
6 ☐☐ - ☐☐☐ - ☐☐☐ Title ____	PC MF	____ ____
7 ☐☐ - ☐☐☐ - ☐☐☐ Title ____	PC MF	____ ____
8 ☐☐ - ☐☐☐ - ☐☐☐ Title ____	PC MF	____ ____

Send Orders to:
AID Document and Information Handling Facility
U.S. Agency for International Development
PPC/CDIE
Room 209, SA-18
Washington, D.C. 20523