

OFFICE OF HOUSING AND URBAN PROGRAMS



Annual Report □ Fiscal Year 1986

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Washington, D.C. 20523

AGENCY FOR INTERNATIONAL DEVELOPMENT
Bureau for Private Enterprise
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Two themes repeat themselves throughout the pages of this Report for 1986: the extent and diversity of the urban and shelter problems, and the belief that they can be solved.

This year, each of our seven Regional Housing and Urban Development Offices tells its story in words and images. They tell of the richness and uniqueness of each region, its culture, economy, social structure, and shelter and urban needs. The programs developed by the Regional Offices speak to the individuality of the emerging countries in each region.

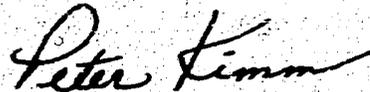
Behind these efforts is the belief that urbanization is an inevitable product of growth and development. The substantial problems associated with urbanization are manageable given an appropriate division of labors between the public and private sector. Government's role is to create the atmosphere that permits the private sector to function properly. Individual initiative and the private sector can and will provide the needed shelter.

With this theme underlying our work, the Regional Offices develop programs that respond to the local needs, and that demonstrate how the problems must be addressed in order to truly make progress. In 1986, we continued our work in 37 countries, authorized eight new housing guaranty programs and amended three, totalling \$145,500,000.

This Report documents our collaboration with the U.S.A.I.D. Missions and the emerging nations in search of solutions to *their* unique shelter and urban development challenges. We hope you find it informative and useful. I encourage you to contact us directly to explore opportunities for working together, or to share your ideas with us.

On a personal note, we lost Rajinder Chanda this past year, who died after a courageous year of battling illness. His dedication to life will long be remembered. Raj most recently served the Office as the Assistant Director for Finance and Technical Services, after a tour of duty in the RHUDO for East and Southern Africa. Please remember his wife, Jasprit, and their children in your thoughts and prayers.

Sincerely yours,



Peter Kimm
Director
Office of Housing and Urban Programs

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AND URBAN PROGRAMS**

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RESPONDING TO THE WORLD'S SHELTER PROBLEMS

Meeting the basic human needs of shelter, employment and community life is a rapidly escalating problem around the world. With high growth rates and migration from rural to urban areas, today's cities in developing countries are exploding with problems:

- overcrowding
- the concentration of poverty
- overloading of basic urban services, such as water, sewage, solid waste management, transportation and electricity
- growing unemployment and under-employment, and
- municipalities ill-financed and ill-prepared to cope with the mounting problems.

In 1930, global population reached two billion people. By 1975 that number doubled. And in the remaining years of this century, world population will surpass six billion. The impact of this population growth on developing countries is staggering.

The need is clear. By the year 2000, developing countries will have to build 150 million new housing units, mainly in the principal and secondary cities.

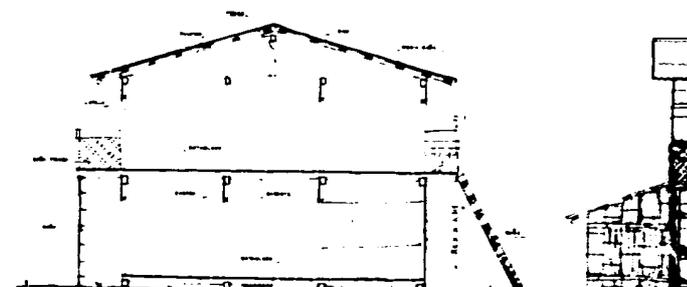
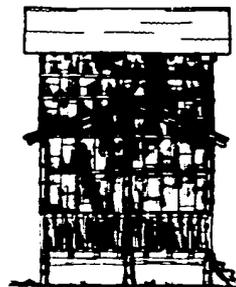
Since the early 1960s, the Agency for International Development has worked to help developing countries respond to their shelter and urban development needs.



Working worldwide, the Office of Housing and Urban Programs uses its resources to foster policy dialogue on issues such as institutional development, the private sector, appropriate standards and affordability. Resolution of these issues is essential for the societies to produce adequate shelter for lower-income families.

The Office responds to diverse needs through seven Regional Housing and Urban Development Offices. The approach and programs of each Regional Office are described in detail in this year's Annual Report.

In fiscal year 1986, A.I.D. programs in 37 countries supported shelter and urban development activities to benefit low-income families. The principal mechanism of the Agency to finance its shelter and related urban programs is the Housing Guaranty Program, through which the U.S. Government guarantees U.S. private sector loans to developing countries for implementation of a broad range of shelter activities, providing improved shelter for the poorer half of the population. (See page 44 for authorizing legislation for the Housing Guaranty Program.)



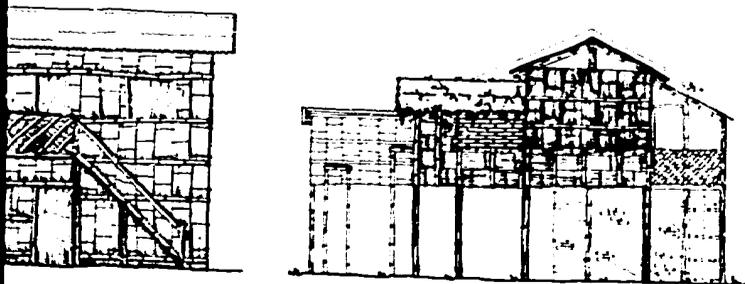
In addition to loan funds, the Office also utilizes Agency grant funds for technical assistance and training to support the formulation of national housing policies; the design and implementation of urban projects; and assistance to public agencies, local governments and the private sector in the delivery of low-cost shelter and urban services.

During 1986, the Agency authorized loan programs totalling \$145,500,000, for: India (\$25M); Central American Bank (\$15M); Ecuador (\$5M); Panama (\$22.4M); Portugal (\$25M); Tunisia (\$15M); Worldwide (\$35M); and miscellaneous amendments (\$3.1M).

The Housing Guaranty Program is largely self-sufficient, funding its own administration through a 1% initial fee, and a 1/2% fee per annum on the unpaid principal balance of the guaranteed loan.

The Housing Guaranty Program provides funds for a variety of initiatives aimed at influencing borrowing countries in their approach to solving their urban problems. Principal among the programs are:

- Slum and spontaneous settlement upgrading



- Sites and services and core housing
- Low-cost housing solutions, emphasizing appropriate technologies, indigenous materials and innovative site designs
- Community facilities
- Urban services, such as access roads, pedestrian paths, safe drinking water.

Through such programs, the Office of Housing and Urban Programs assists developing countries to develop policies and programs that truly respond to the problems in all their dimensions.

The Office has five basic objectives:

- 1) To promote rational housing and urban development policies that are consistent with the dimensions of the need;
- 2) To encourage appropriate private sector participation in the finance, construction and improvement of infrastructure and shelter;
- 3) To develop shelter and service delivery systems that are effective in addressing the severe needs, that place authority and responsibility at the local level, and that can sustain themselves in the crucial decades which are approaching;
- 4) To assist shelter financing programs to become self-sufficient and recover the capital invested; and
- 5) To increase the availability of housing solutions that are affordable for low-income families, without subsidies.

Through its lending, technical assistance and training programs, the Office of Housing and Urban Programs serves as a catalyst in helping developing countries solve their own problems.

Central to A.I.D.'s shelter program is the belief that individual initiative and private sector activities are the key to solving the world shelter problems. Government policies and actions should facilitate these activities in both the formal and informal private sectors. Governments should also provide the resources which people cannot provide for themselves, notably urban infrastructure. A.I.D. works as a partner with developing countries in meeting the challenge of urban development—a challenge with reachable solutions.



A CONVERSATION WITH PETER KIMM

Director,
Office of Housing and Urban Programs



■ **Interviewer:** What is the most important message of the Office of Housing and Urban Programs?

Mr. Kimm: It is possible, with the resources that we know are available, for every family to have some sort of minimally acceptable shelter. For this to happen, both the governments and the private sector must be working properly. The way things are now being done, we're not producing a minimally acceptable shelter for every family. But we really do know how to do it, if we can only get the right changes in policy and the right divisions of labor between the government and private initiative.

■ **Interviewer:** Are there examples of where housing problems are being properly addressed?

Mr. Kimm: There are an increasing number of examples of where it's being done right, where the government institutional framework is adequate to provide infrastructure at the rate that the cities are growing. And what the people do themselves is able to keep up with the demand. The supply and the demand are in balance.

"It is possible, with the resources that we know are available, for every family to have some sort of minimally acceptable shelter."

Most of the countries in the developing world are now adopting policies where the government is concentrating on infrastructure, and on the provision of land as its principal and primary function. If they continue to do that, they will eventually sort out the housing problem. However, there are still more than a few governments which are attempting to build the housing themselves. When the government builds housing, it is generally at standards beyond which the people and government can afford. Such housing is only viable through subsidy, and it results in programs that produce a very small number of houses, inadequate to address the problem. These programs also use up the energy of the government, which should be devoted to putting in more water and more roads.

■ **Interviewer:** What changes have you seen in the programs of the Office of Housing and Urban Programs over the years?

Mr. Kimm: When I first started working with this Office, its program was directed only at Latin America, and it was very project-specific. We have developed a program that is worldwide.

It works one way or another in many developing countries, and its real purpose is to help the developing countries solve their shelter problem. We do this through financial and technical assistance. And although we still finance projects, the projects are by no means the end. They are a means by which we hope to help set in place systems that will solve the housing problem.

The things that we are now recommending are very different from what we started with—things that were in vogue in the early 1960s. Basically, the approach we're talking about now is that the individual initiative and the initiative of the private sector will solve the housing problem, if the governments create a climate and framework that permit it to function properly. By individual initiative, I mean the families themselves; by initiative of the private sector, I mean the builders, developers and lenders.

■ **Interviewer:** What is the role of a donor agency such as the Agency for International Development in shelter development?

Mr. Kimm: The role of a donor is to assist and accelerate the process by which the developing country sorts out the issues and is able to make the right decisions itself. It can't let us make the decisions for them. That won't work. But because of the experience that we've had elsewhere, we can help them to sort it out in a much shorter period of time than might have been the case otherwise. Now once you're operating within those principles, then there are a significant number of problems that follow: land tenure, credit, infrastructure standards, assistance, codes. We are interested in these problems and we have expertise in working on them. But all of our efforts are only an attempt to help another nation sort out a problem and set its own course of action, its own direction.

"We're talking about individual initiative, the initiative of families . . . and the initiative of the private sector. . . ."

■ **Interviewer:** How well is your message being received?

Mr. Kimm: When we first started talking this way, in effect we were saying, "stop subsidizing," "provide less product, fewer amenities for each beneficiary, but provide some amenities to a much larger number of families." Initially this message was not well received. But today there is consensus at the technical level on the principles that I've just espoused. By technical level, I mean the people who have technical responsibilities in the government and in the private sector. Of course there are very difficult compromises to be made because there are people who benefit from the existing system. And the fact that there's consensus on the principles doesn't immediately result in agreement on the courses of action.

At the political level there are still many senior political leaders, presidents and heads of state, who have a vision of better shelter for their people and who attempt to provide more adequate shelter when they come into office. Unfortunately there are many leaders who get themselves snarled up in the same policies that didn't work in the early days. They build to too high standards. The peoples' income is too low and subsidies are needed to make up the difference.

The government doesn't have very much money, and it just doesn't work. Although we learned this twenty years ago, some nations learned it last year, and some nations are this year embarking on courses of action as if that experience weren't there to demonstrate what inevitably was going to happen. The real key to the housing problem is the energy and efficiency of the people themselves, and sound government policy supports this.

■ **Interviewer:** You have said that there really are solutions to the shelter problem. Tell us more about these solutions.

Mr. Kimm: We've analyzed the population and the costs in some detail, and one of our

"But all of our efforts are only an attempt to help another nation sort out a problem and set its own course of action, its own direction."

tools is what we call a housing needs assessment, which is a way of estimating what the shelter needs are in a nation, which is realistic. We developed this realistic approach because the literature, at least until a few years ago, was full of estimates that showed that the housing problems in any given country were unsolvable. For example, they would say that in a certain country the current housing deficit is 3 million units and 400,000 more units are needed every year. 3,400,000, multiplied by the cost of a house, for example \$5,000, is \$17 billion, and you conclude that that much investment is needed in housing. Of course such an investment is not possible, and therefore you conclude that the housing problem is unsolvable. Well, although I'm making a caricature of it, I could show you a dozen market analyses, or housing demand analyses, that are written that way.

But in fact, people provide their own shelter with the minimal amenities, with access to potable water that's on the same block that they live on, and with a one room house to start with. When your income is very low, that's all you can afford. So we have a way of analyzing the problem. You use computers to manage the data, but the computer is not the heart of it. The heart of it is the analysis where you match income and amenities. Using this approach, we can project what investment it would require to provide the minimum, bare bones shelter for everybody in the country, with the thought that they themselves would improve it over time.

■ **Interviewer: What have the housing needs assessments shown?**

Mr. Kimm: In each of the countries in which we have worked, the adjustment in resource allocation is quite feasible. In some cases no additional resources are needed for the sector; rather you need to adjust what is done with the resources that are now being invested. In other cases, the shelter sector needs more money, but relatively small numbers, as a percentage of the gross national product in the country. This happens when economic growth increases national income. And it's quite feasible in each of the countries in which we've done our analysis that, within a generation, everybody in that country could have adequate shelter if the government adopted the right policies. Now that may be said of any human problem, that if

everybody did the right thing the problem would go away. But in the shelter area, the perception is widely held that it's a bottomless pit, that there's no way anybody could solve the problem. You look at huge cities with tremendous problems, and you say, it's just unsolvable. It's not unsolvable. It is solvable. We know how to solve it.

■ **Interviewer: What are burgeoning cities going to do to solve their problems, which go far beyond shelter?**

Mr. Kimm: We have discussed shelter as the area of our greatest expertise but we also manage the urbanization portfolio for A.I.D. At the moment this is generally a technical cooperation activity, rather than one in which the Agency is providing much capital assistance for urban problems. Our analysis of the urban problems has much in common with the analysis of the shelter problem. That is, based on what can be afforded by the government and the individual user, you then adjust and adopt standards that have some relationship to what the people can afford.

■ **Interviewer: How would you sum up the philosophy and approach of the Office of Housing and Urban Programs?**

Mr. Kimm: The most important message is that the urban and shelter problems of the world are upon us. They won't go away. They can't be ignored. Everybody with the responsibility in government and the private sector, and every family, has to focus their energies on it. We don't have to urge the families--they will take the initiative themselves. It's the institutional part of society that has to focus on it. Urban problems have to be dealt with. We do have available to us known and, to some degree, proven methods of analysis and approach. And if the right policies are pursued, the problem is manageable; just barely, but it is manageable.

"The urban and shelter problems of the world are upon us. They won't go away. They can't be ignored."

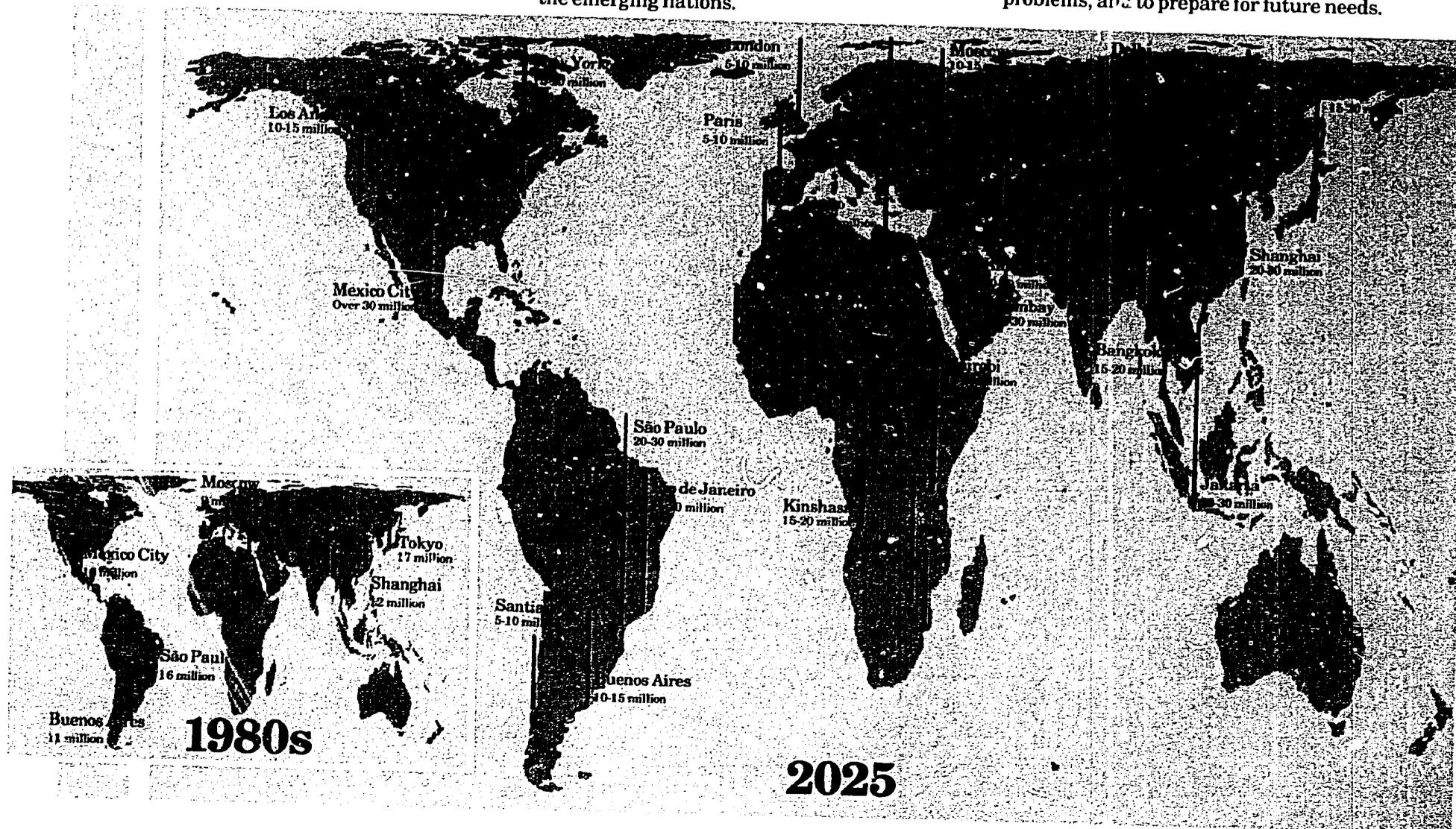
THE WORLD'S URBAN EXPLOSION

The number of urban metropolitan areas with populations increasing to over 5 million people is increasing rapidly. People are drawn to the cities looking for jobs, opportunities, a future. In 1950, only 7 cities had populations exceeding 5 million.

The inset map shows the cities in the 1980s with populations over 5 million—34 metropolitan areas. The larger map shows the cities that are projected to have populations exceeding five million by the year 2025. Most of these 93 metropolitan areas are in the emerging nations.

This growth will have profound implications for the developing world. The efficiency, or lack of efficiency of these urban areas will be a major determinant of the overall quality of life.

The Office of Housing and Urban Programs uses its resources to help governments cope with their current urban growth problems, and to prepare for future needs.



THE STRUCTURE OF THE OFFICE OF HOUSING AND URBAN PROGRAMS

The Office of Housing and Urban Programs forms part of the Private Enterprise Bureau of the Agency for International Development. This Bureau is responsible for assisting developing countries with a wide variety of private sector initiatives in agriculture, industry, trade and finance, as well as housing. In Washington, the Office of Housing and Urban Programs is divided into two divisions, *Operations* and *Policy and Urban Programs*. The Operations Division provides oversight and support to the Agency's seven Regional Housing and Urban Development field offices (RHUDOs), which are responsible for programs in countries within each region.

The Policy and Urban Program staff provides leadership and support to the central office and the seven RHUDOs in several key areas: urban development; housing finance and economics; strategic planning and shelter and urban training.

The four underlying principles which guide A.I.D.'s approach to development and to low-cost shelter are:

- Private sector participation
- Policy dialogue
- Institutional development
- Technology transfer.

The principal vehicle for technical and financial assistance is the Housing Guaranty Program, for which the Office has

developed a number of tools to evaluate and address specific housing and urban problems. These tools include:

- Shelter sector assessments
- Housing needs assessments
- Urban development assessments
- Urban financial management analyses
- Housing policy analyses
- Guidelines for urban land studies.

Central Office initiatives in the areas of urban development and training continue to support the country and regional activities of the Office of Housing and Urban Programs. They also include activities that involve several regions or that have significance for all the regions.

Urban Development

The Office's initiatives in urban development take advantage of the opportunities for economic development that are created by rapid urbanization. They also try to anticipate, and help countries cope with, the urban development and management problems that accompany such rapid urbanization. In recent years, the Office has concentrated on three key issues: municipal management, land and infrastructure. For each issue, the Office identifies new strategies and methods for

resolving urban problems, and supports project development and implementation.

Central program support is also provided to identify innovative project opportunities, particularly when they address geographically cross-cutting issues. Last year, potential infrastructure pilot projects were examined through cooperative efforts between four RHUDOs and the Central Office. These efforts included working with regional development banks on infrastructure policy and financing issues in Central America and Africa, as well as examining possibilities for working on the standards question in Jamaica and water system management in Bangkok.

The Central Office coordinates with other international organizations regarding urban development. It works closely with the United Nations Centre for Human Settlements (Habitat), and serves as the United States representative to the annual Habitat Commission meetings. The Office actively supports the U.N. designated International Year of Shelter for the Homeless. Among its contributions will be a monograph on private sector roles in providing shelter, and another on the policy applications of the housing needs assessment methodology. Habitat and the Office are jointly assisting Jamaica and Kenya with national shelter strategy reviews. The Office also maintains ties with the World Bank and other donor

agencies to encourage the adoption of mutually supportive assistance policies in shelter and urban development. This year it represented the U.S. at the first meeting on urban development ever held by the Development Assistance Committee of the Organization of Economic Cooperation and Development.

Housing Finance and Economics

Finance is a key element in developing successful programs for low income families. In fiscal year 1986, the Office of Housing and Urban Programs continued initiatives to assist in the formulation of national housing finance strategies and to stimulate the private housing finance sector to serve A.I.D.'s target groups.

Since its development in 1984, the Housing Needs Assessment computer method has been applied in thirteen countries throughout the world. This model was refined during 1986 to increase the sophistication of the computations, to upgrade the documentation, and to make the program easier to use.

In Honduras and Sri Lanka, the Office applied the Housing Needs Assessment and Housing Finance Strategy methodologies as well as the Housing Quality Simulation model to help these countries formulate national housing finance plans. These methodologies are now being translated into French and Spanish to expand their usefulness.

Shelter and Urban Training

Training is an integral element of the Office's capital and technical assistance program, and for this reason it has sponsored training both in the United States and overseas throughout its history. Development requires more than capital assistance; it requires development of skills and improvement in the capacity of individuals and institutions to respond to shelter and urban development problems.

To help build the necessary skills, the Office works both with individuals and with implementing and training institutions. The Office uses a decentralized approach to the planning and delivery of training services. Each Regional Office prepares an annual training plan in support of its programs and projects. The Central Training Unit, in Washington, gives overall direction and provides guidance and support to the RHUDOs.

Since 1979, the Office has sponsored participants from developing countries in several U.S. training programs. In 1986, five professionals participated in the *International Program for Housing and Urban Development* at the University of California at Berkeley. This individualized four-month program allows each person to construct a unique course based on experience and specialized training needs. Eight other urban and shelter professionals attended seminars conducted by the Massachusetts Institute of Technology:

- *Beyond the Year of Shelter: From Demonstration Projects to National Programs—The Next Steps*; and
- *Infrastructure Planning for Third World Cities and Regions*.

Training is a development tool that the Office of Housing and Urban Programs uses to help developing countries face resource constraints that limit their capability to address shelter and urban development problems.

The Central Training Unit assists the Regional Offices with coordination, evaluations, training materials and methodologies, and logistical support for U.S. based participant training.

Several international development agencies, including the World Bank, the United Nations Centre for Human Settlements and other bilateral assistance organizations, sponsor training activities in developing countries directed at human settlements related issues. A.I.D. works collaboratively with these organizations to co-sponsor courses, develop training curricula and materials, and build a strong network of national training institutions. In 1986, specific collaborative efforts took place in East Africa, and planning began for joint programs in Latin America and West Africa.

THE OFFICE OF HOUSING AND THE PRIVATE SECTOR

A.I.D.'s shelter activities had their beginnings in the private sector, where initial programs in Latin America in the 1950s and 1960s assisted in establishing savings and loan systems. Other early programs emphasized private sector sponsors and builders for housing projects, and financing through the savings and loan systems.

In the 1970s, much of the focus of the Agency's efforts in housing shifted to public sector institutions and to the need for major reforms in the approach taken by governments to meet the basic shelter needs of the growing urban population.

Now, in the 1980s, the historical trends are merging as it becomes ever more evident that the need for shelter in developing countries can only be met through the combined efforts of the public and private sectors. The Housing Guaranty Program provides a significant opportunity for achieving an appropriate balance of responsibilities between the public and private sectors.

Private Initiatives Program

To this end, in fiscal year 1986, the Agency authorized \$34.9 million for a worldwide Housing Guaranty Program: *Private Initiatives in Housing*.

The proposed project seeks to create housing programs initiated by the private sector, as a complement to A.I.D.'s ongoing housing programs with developing country

governments. Proposals will seek new approaches within the limits of the existing policy and regulatory environment. They will also seek to modify that environment in a manner consistent with A.I.D.'s shelter approach.

Builders, developers and lenders will be encouraged to expand into this large, underserved market for housing among lower-income families. The project will remove a major constraint by providing long-term credit.

This *Private Initiatives Program* aims to facilitate an increased role for the formal private sector. At the same time, through bilateral programs and technical assistance, A.I.D. works to help governments disengage from direct roles in housing production and finance, and to facilitate the participation of the private sector through supportive policies and the timely provision of essential infrastructure.

Under this program, financing will be provided for sub-projects that meet the following key criteria:

- Housing must be affordable to families earning below the median income
- The proposal must come from the private sector
- The activities must represent a new involvement of the private sector in the production or financing of housing for the urban poor



- Local financial institutions must be available to originate and service both the construction and mortgage financing
- Proposals must address the foreign exchange risk involved in repaying the Housing Guaranty loan.

Urban Development and Finance

In the urban development and finance areas, the Office's programs encourage increased private sector roles in such areas as the operation and maintenance of water supply and waste water systems; improvements to the capital markets through development of private savings and loan systems, savings mobilization, and the establishment of secondary mortgage markets; land development; and employment generation.

Mrs. Neal Peden, Assistant Administrator for Private Enterprise, with S. Ramnath and D. Deshpande of HDFC, inspecting construction (above).

REGIONAL REPORTS

The Office of Housing and Urban Programs relies on a decentralized approach in designing and delivering its services to the U.S.A.I.D. Missions and the emerging nations.

In addition to a central Office in Washington, D.C., there are seven Regional Housing and Urban Development Offices, known as Regional Offices, or RHUDOs. They are located in Asia (Bangkok, Thailand), the Caribbean (Kingston, Jamaica), Central America (Tegucigalpa, Honduras), East and

Southern Africa (Nairobi, Kenya), the Near East (Tunis, Tunisia), Panama and South America (Panama City, Panama), and West and Central Africa (Abidjan, Côte d'Ivoire).

An Assistant Director heads each Regional Office and is responsible for program development and operations in that region. The RHUDOs are staffed by foreign service professionals, contract staff and local support personnel. Some of the regions also have housing advisors stationed at a Mission.

Each RHUDO works in partnership with the Missions in its region to achieve the Agency's shelter and urban development goals. These Regional Offices plan and develop Housing Guaranty Programs, and supporting technical assistance and training.

The seven regional reports that follow provide a detailed description of the program of each RHUDO and how it adapts the resources available to meet the special needs within its region.



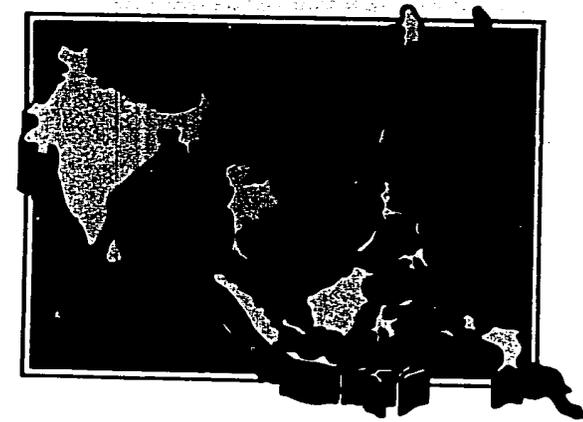
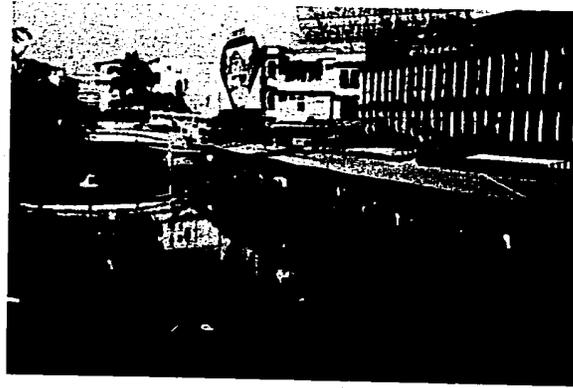


Asia

The Regional Housing and Urban Development Office for Asia manages A.I.D.'s shelter and urban programs in a large and diverse region which extends from Pakistan in the west to Indonesia and the Pacific Island States in the east. This region encompasses over 1.5 billion people with widely varied cultures, religions, languages and histories. The economies of the countries differ in their level of development, export base and growth performance.

What these countries have in common is rapid population migration from rural to urban areas, and increasing concentration of urban dwellers in large metropolitan centers. It is estimated that by the year 2000 more than 40% of the population of Asia, nearly 700 million people, will be living in cities. Unless there is a drastic change in

KSHB rehabilitation housing for low income people affected by natural calamities in the State of Kerala, India (left). Urban population growth stretches the ability of local governments in Thailand, India and Sri Lanka to provide basic services (right).



the pattern of urban concentration, Bombay, Calcutta and Jakarta will each have populations in excess of 16 million. Madras, Manila, Bangkok and Karachi will have well beyond ten million inhabitants each. At the same time, the incidence of poverty is also shifting from rural to urban areas. In 1975 it was estimated that 80% of the Asian households living in absolute poverty were found in rural regions. In contrast, by the year 2000, nearly half of the absolute poor will be city dwellers.

These developments bring an ever increasing need for shelter and services for the urban poor in Asia. The RHUDO's strategy is to encourage the mobilization and investment of private resources for shelter by supporting the development of housing finance systems throughout the region. The Regional Office works with governments and private sector banks to clarify appropriate roles for each—with governments creating a supportive policy environment, and the private sector providing greater access to shelter and urban services for low-income families through credit operations.

Fiscal Year 1986 New Project Assistance

In fiscal year 1986, the major new financing effort of the Regional Office for Asia was a \$25 million Housing Guaranty for the Housing Development Finance Corporation of India, Limited. This program supports lending to low-income borrowers by India's first private sector housing bank (see Program Close-up).

Technical Assistance and Training

To advance both its ongoing and new shelter and urban development programs, the RHUDO for Asia supported a wide variety of technical assistance and training. This assistance included experts to advise on policy issues and program implementation, as well as specific research in shelter and urban development. U.S. training was provided in shelter finance, housing, planning and urban development.

Examples of the RHUDO's technical assistance during the year include the following:

Advisors:

- Long-term resident advisors in India, Nepal, Sri Lanka, Indonesia and Thailand to work with local officials on shelter and urban policy issues

Homeowner caring for new home financed under the Rural Housing program administered by the Thrift and Credit Cooperative Societies in Sri Lanka (above).



- A regional advisor in housing finance, based in Bangkok, serving all countries in the Asian region.

Studies and Evaluations:

- An urban land assessment for the Kathmandu Valley in Nepal
- Collection of data on trends in urban and off-farm employment in Nepal
- Evaluation of computer-aided site planning by the Housing and Urban Development Corporation of India in its design of low income housing projects
- Study of the Indonesian housing market and the demand for market rate housing credit.

Management and Planning Assistance:

- Assistance to a new private Nepalese housing development company in organizing its operations

- Assistance to the National Housing Development Authority of Sri Lanka in improving its management systems and increasing housing loan collections
- Computer modeling of strategies for generating and allocating financial resources for housing in Sri Lanka
- Assistance to the Government of Thailand in a major study of development approaches for the Bangkok metropolitan region.

Program Impact

The program of this Office has positively affected the shelter sector and urban development of several countries.

India. The Indian private sector has begun to set up housing finance companies modeled on the successful Housing Development Finance Corporation of India (HDFC). There are now approximately 19 private firms offering housing finance credit—and the number is increasing. During fiscal year 1986, HDFC expanded its operations with support from the RHUDO. It developed new mortgage and savings instruments, expanded its branch system to cover twelve states servicing 445 towns and cities, and financed 10,000 shelter units for low income families with the proceeds from various Housing Guaranty loans.

Sri Lanka. The National Housing Development Authority has begun turning over its housing credit operations to the

Program Close-up: The Housing Development Finance Corporation

private sector. After a successful pilot effort in one district, the Authority is expanding its program to use credit unions at the village level to implement the ambitious "Million Houses" program. The result has been a marked improvement in loan collections wherever credit unions have been involved. During 1986, the Government of Sri Lanka signed a Housing Guaranty loan which was used to finance over 50,000 small housing loans throughout the country.

Nepal. An *Urban Land Policy Study* was completed for the Kathmandu Valley. Following a meeting of U.S. and Nepalese experts and officials to review the study, the Government of Nepal established a task force to improve land planning legislation, and to discuss the creation of a development authority with power to plan and implement appropriate policies. The Kathmandu Town Planning Office is already preparing essential information such as a cadastral survey update, and a transportation plan. These initiatives are expected to have a major impact on the urban development process in Nepal.

Thailand. In this past year, the RHUDO assisted the Government of Thailand to study urbanization trends and policy options for the Bangkok metropolitan region. The Thai Government is reconsidering policies which explicitly or implicitly subsidize development in the city. The objective is to promote more manageable growth in Bangkok and increased development in the other urban centers of Thailand.

The Housing Development Finance Corporation, Limited (HDFC) is the first private housing finance institution in India. Since its incorporation in the late 1970s, HDFC's performance and growth have been remarkable. However, the importance of HDFC is not merely a consequence of its current loan volumes, but rather its key role in privatizing home purchase finance in India.

The RHUDO's involvement with HDFC dates back to the early days of the corporation. In 1981 a \$30 million Housing Guaranty program was approved for the HDFC. This program was so successful in establishing HDFC as a financially sound and innovative provider of housing finance that, in 1984, a second multi-year Housing Guaranty program of \$60 million was approved by A.I.D.

During fiscal year 1986, the final portion of funds of this second program with HDFC was formally authorized. These funds support



expansion and deepening of the private housing finance sector in India. Expansion requires both the continued elaboration of the HDFC branch network and the creation of additional private lenders. Deepening of the housing finance system requires development of ancillary components of the system, such as new deposit

and credit instruments, insurance facilities, and a secondary mortgage market, required by a market-oriented housing finance system.

Support of the Housing Development Finance Corporation of India has been a key component of the RHUDO for Asia's strategy for development of housing finance systems in the region. In fact, HDFC itself has provided expert advice to other institutions in the region at the RHUDO's request. Thus the Housing Guaranty program with HDFC is having an important impact on the shelter problems not only of India, but, by example and direct advice, on the problems of other Asian countries as well.

Scenes from Delhi, with daily struggle for transportation and shelter, illustrate the urban development challenge for India (above).



Caribbean

The Regional Housing and Urban Development Office for the Caribbean, located in Kingston, Jamaica, serves the shelter and urban development needs of a unique region. It is *diverse* from cultural and economic standpoints; *small*, bordering on the miniscule, when speaking of population and *physical size* of countries; and *homogeneous* when referring to the common African heritage of the majority of the people. The region is also *newly independent*, in that most of the nations have become independent during the past two decades.

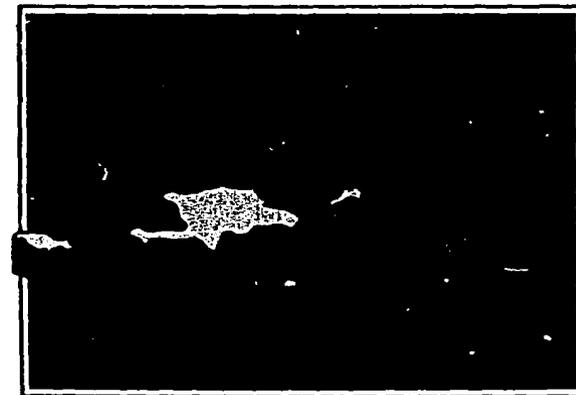
The economic picture is grim. In Jamaica, for example, the current government has had to adopt drastic measures to improve the economy, which was severely affected by sharp declines in the price of bauxite—a major source of employment and foreign exchange. Haiti's economy has suffered years of neglect, which has exacerbated further the economic conditions for people in the poorest country in the Western Hemisphere. Even the most economically stable country in the region, Barbados, has not been exempt from the highly volatile

Improvements being undertaken by residents since the completion of infrastructure upgrading (left).

movements of worldwide economic variables. The changes have placed much pressure on the government of this small country to devise policies for survival in difficult times.

The region presents the RHUDO for the Caribbean with a multi-faceted challenge—to work with such culturally diverse countries. Haiti is primarily African, with French governmental infrastructure. Jamaica, Barbados and such smaller islands as Grenada and St. Lucia have long-standing links with the English Commonwealth. The Dominican Republic is primarily Spanish-speaking and Latin culturally.

Diversity, smallness, and homogeneity within each country's economy also have presented unique opportunities to devise creative responses to meet the development needs. Much of the energy of this Regional Office is spent to better understand how poor people house themselves, so that the RHUDO can work with this system. And economies in some countries, such as Jamaica, present the RHUDO with the massive challenge of designing programs which will result in the financing and production of housing and the provision of basic services for poor families with ever-diminishing incomes.



RHUDO Strategy for the Caribbean

To forge a response to the varied shelter and urban development needs of the Caribbean, the RHUDO's strategy in the region may be summarized as follows:

- Encourage private builders and developers to serve lower income families at the same time that public housing finance institutions are encouraged to limit their activities to areas that cannot be effectively serviced by the private sector
- Encourage increased policy dialogue between the private sector and governments regarding the financing and production of housing
- Work with both private and public institutions to streamline their housing finance and production operations
- Assist government shelter organizations to define shelter needs and plan for identifying and allocating resources to meet those needs, including defining the

most appropriate roles for public and private sector institutions



- Encourage the private sector to take the lead in urban economic development and job creation activities.

The Program Response

In fiscal year 1986, the RHUDO concentrated on the implementation of capital projects that had been authorized previously. Efforts included the following:

- Implement the *Jamaican Private Sector Housing Program* for which \$30 million of Housing Guaranty loan funds were reprogrammed in the previous year
- Support the U.S.A.I.D. Mission in Haiti to establish the *Banque Credit de Immobilier* (Real Estate Finance Bank) which opened its doors in January, 1986
- Support A.I.D.'s Regional Development Office for the Caribbean to help

Barbados implement the *Private Initiatives in Housing Project*, which is a Housing Guaranty loan program

- Assist the U.S.A.I.D. Mission in Jamaica to design, obligate, and implement the \$15 million Inner Kingston Development Project (see Program Close-up).

Training Support

At the center of this RHUDO's 1986 regional training strategy is program support to the College of Arts, Science and Technology based in Kingston, Jamaica. Support helps to improve the quality of the institution's building department and to develop professional outreach programs for the building industry.

Also, the RHUDO financed the participation of numerous Caribbean housing professionals in a variety of short courses on development and housing finance offered by the Massachusetts Institute of Technology, the University of California at Berkeley, and the National Council of Savings Institutions.

Technical Assistance

The Regional Office for the Caribbean concentrated technical support on the design and the implementation of a range of projects. Among the major efforts were:

- Development of the implementation plan for the *Jamaica Private Sector Project*
- Support to develop the Barbados Housing Credit Fund as a main secondary lender and statutory agency as part of the implementation of the *Barbados Private Initiatives in Housing Project*
- Assistance to the Town Planning Department in Jamaica to strengthen its role in contributing to development of a realistic urban development policy and to carry out more effectively its responsibilities to guide and control land development consistent with client affordability
- Design of the *Inner Kingston Development Project*
- Support of the Haiti Real Estate Finance Bank grant project and its pilot housing component.

Reinforcing is placed in the forms prior to casting—Start-a-Homes project, Bushy Park, in May Pen, Clarendon (left). Families accumulate block for expansion of one-room core houses in Seaview Gardens, Kingston (right).

Program Close-up: Inner Kingston Development Project

*(014) (177) (0210) **

Urban Development Corp. Kingston, Jamaica

(b)

The *Inner Kingston Development Project* provided the RHUDO with an opportunity to address an important urban development issue—financing the economic revitalization of the heart of the Jamaican national capital. The Project has provided an opportunity for the RHUDO to work with both public agencies and private organizations implementing the project to confront the problems of rampant unemployment.

The RHUDO has been able to assess new approaches for programming resources to effectively meet the region's shelter and urban economic development needs.

The *Inner Kingston Development Project* was authorized by the Jamaica Mission in 1986 for \$15 million through an A.I.D. development loan and grant to the Urban Development Corporation and a Cooperative Agreement with the Kingston Restoration Company, a private developer.

This 39 month program, to be completed by the end of September 1989, responds to Jamaica's need for increased investment and employment opportunities. The Project will provide additional space in Inner Kingston suitable for the expansion of light manufacturing and mixed commercial activity. It also plans to help restore Inner Kingston as a center for economic activity and job creation.

The Kingston Restoration Company (KRC) is responsible for the following:

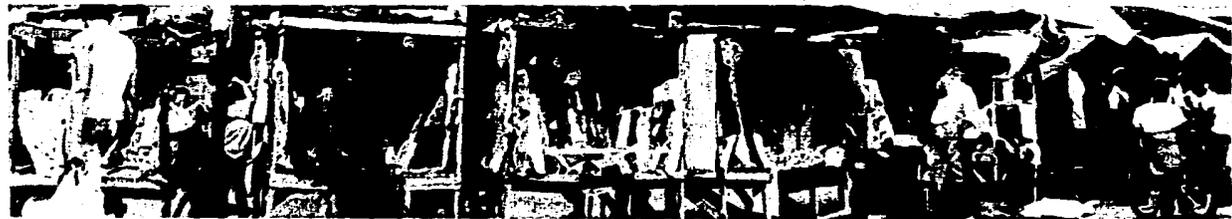
- Rehabilitate or build 324,500 square feet of space for manufacturing use and 71,500 square feet for mixed commercial use
- Implement an outreach program to involve the local community in the development of the area

- Operate a small grant program to stimulate expansion by small entrepreneurs



- Improve the KRC's management and program monitoring.

The Urban Development Corporation, a parastatal developer, has two major responsibilities in this program: (1) development of a new Transportation Terminal and Commercial Center; and (2) provision of infrastructure and related improvements in Inner Kingston to support the Kingston Restoration Company's activities.





Central America



Central America experienced a profound economic downturn in the early 1980s. Per capita economic growth was consistently negative between 1981-1984, with the exception of an apparent improvement in Costa Rica in 1984. While the general decline may have reversed itself in the last year, the prospects for sustained recovery remain uncertain. Agriculture accounts for over 50 percent of the labor force in all countries except Costa Rica, but it represents no more than 20 to 30 percent of the total gross domestic product. Thus, while agriculture remains important, non-farm economic activity dominates national production and income.

The total population of the four main A.I.D. countries of the region (Costa Rica, El Salvador, Guatemala and Honduras) reached 18.6 million in 1984. Total population growth rates are high, and urban growth rates are even higher due to strong rural-urban migration. 42 percent of the population is now urban, and El Salvador and Costa Rica are expected to reach a majority of urban population within the next few years. Urban unemployment and underemployment rates have soared, reaching reported levels of 40

percent in Guatemala and Honduras. The informal sector provides a large portion of urban employment opportunities.

Urban infrastructure and services lag far behind requirements. For example, percentages of urban households served with water, including standpipes are: 66 percent in El Salvador; 46 percent in Honduras; 44 percent in Guatemala City; and a favorable 95 percent in Costa Rica. Sewer connections reach only 44 percent of the urban population in



Central America. The formal sector supplies only a small fraction of the housing needed to meet minimal shelter requirements, and the continuing economic and fiscal crisis has created severe problems in the domestic housing finance systems in all countries.

Efforts to stabilize the economies of the countries and lay the basis for long-term growth will have a significant impact on urban development in the region. The diversification of the economic base away from traditional commodity exports into non-traditional agricultural exports and non-farm exports has urban planning implications in all of the countries. The restoration of national economic productivity will require substantial and ongoing investment in urban centers that



have comparative economic advantage. The continuing scarcity of capital reinvestment and recurrent expenditures will require an emphasis on the efficient allocation and use of shelter and urban development resources. The progressive mobilization of both capital and human resources will require training and technical assistance for host country officials and key decision makers in both the private and public sectors.

Regional Strategy for Central America

Each of the Central American countries has achieved a different level of success in meeting its shelter and urban development needs. Each country faces similar problems, although they differ in scale and



complexity. In response to the National Bipartisan Commission's strategy and mandate, the RHUDO for Central America has been working closely with each U.S.A.I.D. Mission to expand and improve the effectiveness of A.I.D. investments in shelter and basic urban infrastructure, and to assist in the elaboration of coherent national shelter and urban development strategies which reinforce major Agency policy directions. These initiatives take place in the context of the RHUDO's overall approach to shelter and urban development in the region.

Block making for upgrading (far left). Homemaker in rural Honduras (upper left). Worker making roof tiles, and delivery of materials in Housing Guaranty program in El Hato de Enmedio (above).

The RHUDO has established the following objectives for its ongoing regional and bilateral country programs.

Belize. The Mission program in Belize assists the credit union system to continue implementation of the financially sound home improvement loan program.

Costa Rica. Regional Office activities in Costa Rica support the establishment of a private sector-controlled national mortgage bank to provide a permanent domestic source of shelter finance. Also, the program introduces the sites and services concept, as well as private sector construction of public housing. It is also designed to strengthen private sector finance institutions while directing their efforts to low-cost shelter.

El Salvador. A major earthquake destroyed nearly 40% of the low income housing stock in this nation's capital. The RHUDO's program will help with the rebuilding of low-income shelter.

Guatemala. In Guatemala, the goal of the bilateral program is to involve the private sector in the delivery of low-cost shelter. Also, the program plans to develop the financial and institutional basis for recovery of urban investment.

Honduras. This program works to strengthen the capacity of shelter institutions to carry out replicable programs for low-income families. Other goals include: delivery of a large volume of affordable housing; continued policy dialogue on establishment of permanent

mechanisms for the financing of shelter and urban development; development of local level capacity to finance the infrastructure required for economic development and shelter; and the ongoing delivery of new housing projects through private efforts.

The Regional Office for Central America, located in Honduras, also administers two regional efforts, a finance program and a training program.

Construction crew installing a sewage disposal line, urban upgrading project in Tegucigalpa, Honduras, Barrio San Miguel (below).



CABEI. The goal of this regional program is to re-establish the Central American Bank for Economic Integration (CABEI) as a major regional source of finance for private sector shelter finance institutions and support for policy dialogue on shelter finance and cost-recoverable urban development programs.

Regional Training and Technical Assistance Initiatives. This regional office plans and implements training seminars and technical assistance in a manner which enhances local capacity to organize and manage a shelter and urban development training and technical assistance program in the region. Training also responds to immediate needs and simultaneously expands and strengthens the capacity of the Central American Institute for Business Administration (INCAE) to support U.S. program initiatives in the region.

Program Response

In fiscal year 1986, a \$15 million Housing Guaranty loan was authorized for CABEI to increase the availability of shelter and basic services for low-income Central American families, and to strengthen the existing capacity of CABEI and national public and private sector agencies to provide these services. A combination of housing guaranty funds, other A.I.D. loans, grant monies, and CABEI counterpart funds will finance this project.

Training in Support of Programs

To implement training initiatives in Central America through INCAE, the RHUDO for Central America sponsored three seminars, and financially supported 120 participants during 1986:

- *Housing and Urban Development Strategies* (Regional)
- *Housing Finance* (Guatemala)
- *Municipal Development* (Guatemala).

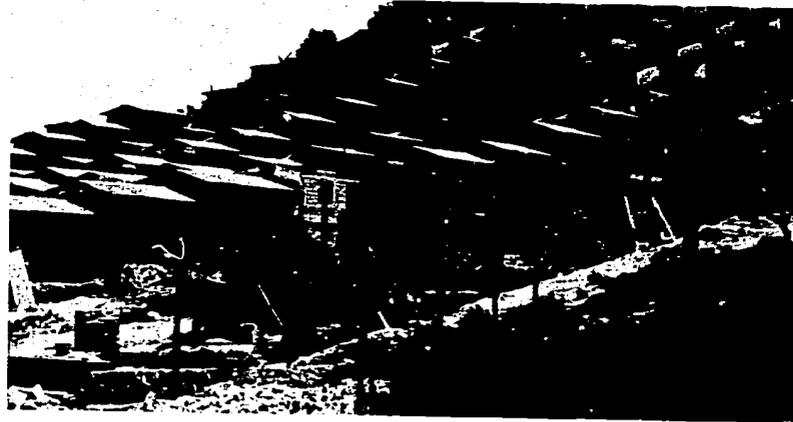
In addition, four officials of the Central Bank of Honduras were trained in housing finance in a program designed by the RHUDO with the help of the U.S. League of Savings and Loan Associations. The *Central America Peace Scholarships Program* financed this training.

Technical Assistance

Major technical assistance efforts completed during the year include the following:

- Completion of a policy development exercise, shelter needs assessment, and housing finance strategy study in Honduras
- Preparation of a housing needs assessment in Costa Rica
- Technical support for the implementation of a new project in Guatemala.

Program Close-up: Progressive Housing in Honduras



This series of photos, taken over a period of four years (1980 to 1984), illustrates the improvements families make over time to basic homes. After a vacant hillside in Tegucigalpa was invaded, the City obtained the land by the right of eminent domain. FEHCOVIL, the Honduran federation of housing cooperatives, convinced the residents to vacate the land and organized them into a housing cooperative. CABEI provided mortgage funding at prevailing rates and 60% of the residents moved back in.

The project is unique. It was the first Honduran co-op for families of very low incomes. No subsidies were involved, leading to full cost recovery.

Designs are radical: 25 m² units on 65 m² lots; construction is a mixture of cement block and wood. Debt service is only slightly higher than local rental units which have no water and sewer systems.

José Azcona, General Manager of FEHCOVIL when this project was developed, is now the President of Honduras.



Panama and South America



The Office of Housing and Urban Programs initiated its efforts in the Panama and South America region in the early 1960s. The RHUDO has worked with both the public and private shelter and urban development institutions of these countries since that time, helping them to improve their administrative and policy capabilities. The region has great climatic, economic and cultural diversity.

Several key phenomena further shape the region's programs:

- Continued rapid demographic shifts. Many of the region's countries are evolving into predominantly urban rather than rural societies, with the means of production now concentrated in the largest urban areas.
- Increasingly rapid urbanization. Areas peripheral to the capital and of secondary and tertiary cities are growing rapidly. Land invasions and spontaneous settlements are testing the adaptability of existing administrative, legal and economic systems.
- Democratic movements. Many countries are looking to local

government and local political institutions to develop and strengthen their capacities to address the needs of urban families.

- Financial problems. Many of the countries in this region have severe economic and debt service problems that require them to seek solutions for development and urban problems with fewer resources.
- Isolation. In spite of the many innovative development efforts in Latin America, few successful experiences are being transferred from one country to another.
- Strong shelter institutions. Most countries in Latin America have energetic private shelter institutions that can play an instrumental role in addressing problems of the urban poor.

Many countries in South America are classified as "advanced" because of their level of economic development. A.I.D. activity includes no capital assistance. Rather, the RHUDO involvement with countries such as Colombia and Brazil strives to influence the policy of their public and private sector institutions through limited participation in seminars and conferences.

The Andean countries—Bolivia, Peru, and Ecuador—and Panama have become the



major focus of the RHUDO's shelter and urban development efforts. Panama, Ecuador and Bolivia have \$140 million in active Housing Guaranty programs underway and another \$100 million in programs are being concluded, primarily in Peru and Panama.

The traditional nature of the Andean societies has provided human and material resources and methods that offer opportunities to respond to their increasingly urban populations' need for shelter, services and jobs. While it is expected that rural to urban migration will continue, cities such as Lima, Guayaquil, La Paz, and Panama City have internal rates of growth that can be attributed to significant natural growth of cities as well as to migration.

Policy themes such as affordability, the role of the private sector, institution-building

and technology transfer form the basis for dialogue with the Andean countries. Programs demonstrate innovative means of achieving policy; they also test the feasibility of specific programmatic responses to the problems in the region.

Regional Strategy

The RHUDO's strategy in responding to the urban issues of these countries is centered around marshalling private sector resources. In countries in which A.I.D. has a Mission (Peru, Bolivia, Ecuador and Panama) or a representative (Colombia,

Indigenous materials used for low income housing construction (far left). Home improvement program, electrical installation (above).

Brazil, Uruguay and Paraguay), activities are developed in the context of the country strategy.

Bolivia. The shelter strategy for Bolivia is to revitalize the private savings and loan system through new capital assistance and vigorous management. Housing Guaranty resources and an intensive technical assistance program are the basis for the system's recovery plan in addition to working closely with the Government of Bolivia to resolve macro-economic issues that directly affect the system.

In support of the strategy and due to the positive efforts of the Government of Bolivia in stabilizing its economy, Housing Guaranty resources are programmed to continue A.I.D. support to Bolivia's model private savings and loan system.

Ecuador. In Ecuador, the Regional Office is supporting U.S.A.I.D.'s strategy to help the Government of Ecuador apply its market orientation to the shelter sector. Housing guaranty resources are available to support low cost housing development through a policy framework—which will ensure the replicability of such programs. The program works toward the rationalization of subsidies in government housing programs, through reduced standards, while providing incentives to the private sector in the production and financing of low income shelter.

In support of this strategy, \$75 million in Housing Guaranty programs are now being implemented. The programs have

demonstrated the feasibility of developing affordable housing without subsidies, and are constructing the financial systems necessary to support continued low cost housing development.

The program has led to the creation of a window in the Central Bank, which will discount mortgages for low cost housing generated by private banks. The program is structured so that the full burden of marketing and other risks rests with the private participants, and not with the government.

Panama. In Panama, the RHUDO's efforts have concentrated on expanding the shelter delivery system by: increasing the participation of private sector institutions in the finance and production of low-cost shelter; adopting policies limiting the public sector's role in production while emphasizing its planning and policy making functions; and creating mechanisms to channel additional local resources into housing.

A new Housing Guaranty program, the *Private Sector Low-Cost Housing Program* for Panama, was authorized this year. The program will increase the delivery of low-cost shelter through private sector institutions by eliminating the constraints that limit private sector involvement. Financial assistance will be channeled through a mortgage trust fund which will make financing for low-cost units available to savings and loans, mortgage banks and cooperatives. This fund will generate additional resources in the future.

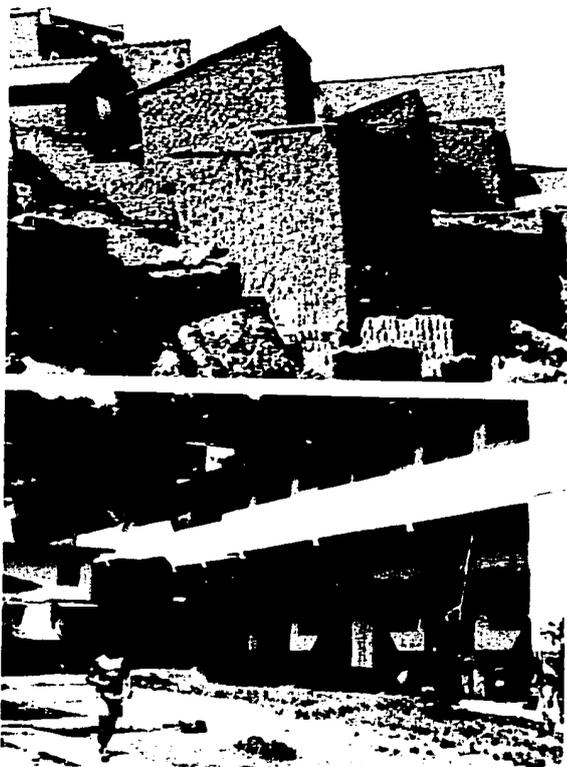
Technical assistance will be provided to support: more flexible urbanization and building codes; a strategy to mobilize savings for shelter investment; and the strengthening of the savings and loan and cooperative systems.

The RHUDO has also worked closely with the U.S.A.I.D. Mission in Panama to implement a program of capital assistance to the public sector to consolidate the gains made in the past six years in innovative low cost shelter solutions and to improve the financial and administrative efficiency of the Ministry of Housing and the National Mortgage Bank. Capital assistance was also designed to support the private sector through an innovative trust fund mechanism that involves the private sector finance institutions in low cost housing development. Technical assistance and training are key complements that support discussion policy issues such as reductions in building standards, establishment of secondary mortgage markets, and strengthening of the savings and loan system as well as the provision of training for municipal managers in Panama in budgeting and planning and improved service delivery and management.

Peru. A.I.D. has worked in Peru with service delivery programs of several public sector institutions to work with the spontaneous settlements, known as *pueblos juvenes*. The approach supports the upgrading of low income settlements. Capital and technical assistance support: 1) disaster reconstruction after massive flooding; 2) the shifting of responsibility

for both production and financing of completed housing units from government to the private sector; 3) emphasis on the informal sector, with government providing serviced land; and 4) a materials bank.

Adobe construction on hillside (upper). Urban renewal units, innovative unit designs (below).



Program Close-up: The Latin American Training Center.

The Latin American Training Center (Center) has been an effective development tool for this Regional Office. It provides opportunities for public and private sector individuals to discuss policy issues and exchange experiences regarding shelter and urban development programs and problems. The Center also supplements the limited training programs available to improve national and local level performance in responding to shelter and urban problems. Of special importance this past year is the *Conference on the Informal Sector*, held in Brazil; it gave many of the participants their first opportunity to consider the potential of the informal sector and the means of supporting its efforts.

Through the Center, the following seminars and training activities have been carried out during this year.

Country (Scope) Theme

Honduras (Nat'l) *The role of social housing funds in national shelter production*

Ecuador (Nat'l) *Methodology for planning and programming urban upgrading and renewal activities in secondary cities*

Brazil (Reg'l) *Role of the informal sector in urban development and shelter projects*

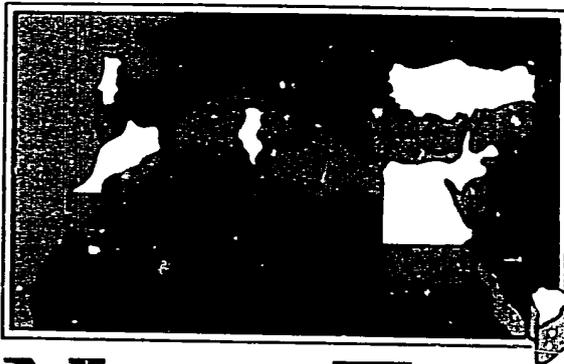
Bolivia (Nat'l) *Organization and management improvement workshop for savings and loans institutions in Bolivia*

Ecuador (Nat'l) *A financial planning strategy for the savings and loan associations and effective utilization of A.I.D. resources to promote financial recovery*

Colombia (Nat'l) *Urban planning for the development of secondary cities and the identification of investment strategy*

The Center also serves a clearinghouse function, with the Spanish-language publication of a bi-annual newsletter. Other Spanish-language publications include: a manual of *Financial Planning for Housing Finance Institutions*; a *Municipal Financial Analysis Handbook*; and the *Annals of the Informal Sector Regional Seminar*.

The Latin American Training Center now has a complete staff. A new Director was named this year. Regional activities will emphasize policy dialogue on the informal sector, secondary mortgage markets and strengthening the role of the private sector in urban development and shelter. Moreover, the Center will increase its delivery of short-term training in: financial management and administration of private and public sector institutions; the preparation of training needs assessments; and municipal management and financial analysis.



Near East and North Africa



The RHUDO for the Near East, operating from its base in Tunis, supports A.I.D. Missions throughout the Near East, North Africa and Europe in developing and implementing shelter and urban programs. The countries served by this RHUDO include Egypt, Jordan, Lebanon, Morocco, Portugal, Tunisia, Turkey and the Yemen Arab Republic.

This diverse set of countries has a combined population of over 150 million people. They face very different economic circumstances, with 1980 gross national products per capita ranging widely from \$430 to \$4,500.

All countries in the region share an increasing challenge from rapid

urbanization. While in 1980 these countries collectively were 60% rural, by the year 2000 they will be 60% urban. The urban population of the region is expected to more than double between 1980 and 2000, with approximately 130 million city dwellers by the end of the century. At the same time, the incidence of poverty is shifting even more rapidly. While 62% of the absolute poor lived in *rural areas* in 1980, fully 85% of the poorest people will be *urban dwellers* in the year 2000.

Regional Strategy

These rapid and dramatic changes are already straining the capacity of cities in the Near East to provide jobs, shelter and services to the urban poor. Government resources are stretched thin. Alone, they will not be adequate to meet the growing

Housing under construction, AFH Sites and Services and Core Housing Project (left). Portugal Housing Cooperative Gopalme, located in Sintra, Massamá (upper right). UPDI Sites and Services Project, Jordan (lower right).

urban challenge. For this reason, it is the strategy of the RHUDO for the Near East to promote public-private partnerships to address the shelter and urban development problems of the region. Given limited government resources, the RHUDO encourages governments to focus their attention on the problems that cannot be solved by the private sector and low-income families themselves. This requires the creation of a policy environment which encourages self-help and private initiative in shelter development.

New Project Assistance

The RHUDO for the Near East obtained formal authorization of \$40 million in Housing Guaranty assistance in fiscal year 1986: \$25 million for Portugal, and \$15 million for Tunisia.

Portugal. New Housing Guaranty assistance was provided to the National Housing Institute. This was the second \$25 million of a multi-year \$75 million Housing Guaranty program for Portugal. The Institute will lend these funds to local private housing developers, cooperatives and municipalities. Financing is primarily for projects built for sale rather than rental, and loan criteria establish maximum sizes and prices for units with the intention of bringing down costs, reducing subsidies, and making affordable shelter more accessible to the urban poor.

Additional policy objectives of this program include:

- reduction of governmental interest rate subsidies

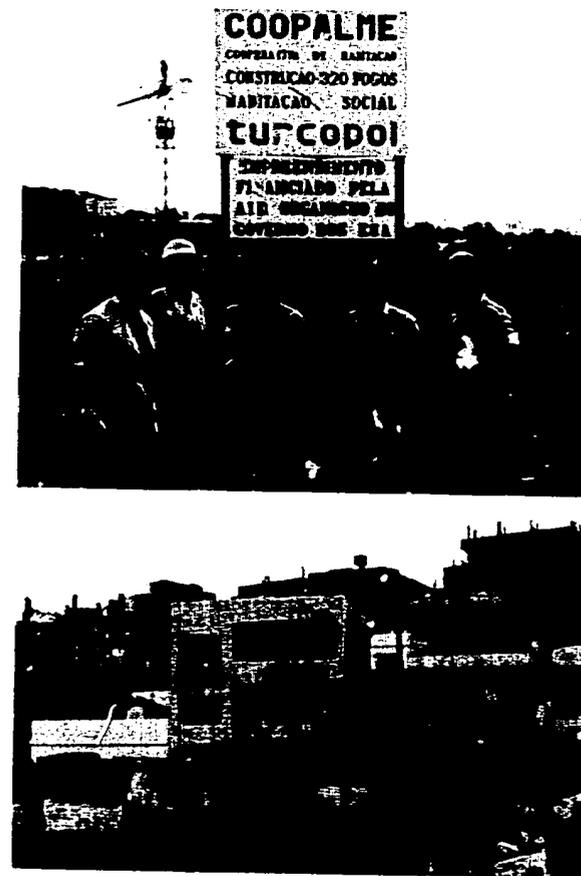
- revision of rent controls
- revision of building codes and standards to permit the introduction of low cost building techniques
- increased participation of private developers
- promotion of the use of lower-cost approaches to shelter production.

Tunisia. In Tunisia, an additional \$15 million Housing Guaranty program was authorized for the National Savings and Loan Bank (CNEL). CNEL will use these funds to finance urban land development and the subsequent purchase of housing sites by low income families. At least \$5 million is being reserved for an experimental program of private sector development of land for low-cost housing. If this approach is successful it will open a new avenue for public-private cooperation in addressing the housing problems of Tunisia.

The RHUDO also prepared a \$650,000 amendment to a Mission grant project to provide technical assistance in support of the ongoing \$63 million Housing Guaranty program. This assistance will promote greater private sector participation in the shelter delivery process and support policy initiatives in shelter finance and the production of serviced land.

Morocco. In Morocco, the RHUDO provided \$200,000 in grant funds to a new project, co-financed by the U.S.A.I.D. Mission in Rabat, and designed to strengthen the institutional and managerial capacities of the Moroccan agencies implementing the

Tetouan Urban Development Project. The assistance funded by this grant will help Morocco to implement new urban policy initiatives intended to: (1) mobilize private sector financing or urban development; (2) increase municipal



revenue generation; (3) decentralize financial management of urban projects from central to local governments; and (4) improve coordination among agencies implementing urban projects.

Technical Assistance and Training

During fiscal year 1986 RHUDO for the Near East undertook a wide variety of technical assistance and training activities. Examples include:

Advisors:

- Long-term resident advisor in Portugal to work with the National Housing Institute in financial planning and management; and a resident engineer to monitor implementation of the housing guaranty program
- Short-term technical assistance in Morocco to assist in developing the *Tetouan Urban Development Project*, including preparation of a training needs assessment for the implementing agencies; and a resident advisor to work with local officials on shelter and urban policy issues.

Studies and Evaluations:

- Initiation of a survey of institutional development needs in Tunisian agencies dealing with shelter and urban development
- Initiation of a major review of low income housing and activities of the Tunisian housing finance system

Management and Planning Assistance:

- Advice to the Jordan Housing Bank in starting a new program of financing low income housing to be built and sold by private developers
- Assistance to the Turkish Housing Fund in defining training needs in connection with a major expansion of housing finance activities.

Program Impact

The activities of the Regional Office for the Near East generated increasing interest in public and private cooperation in the provision of housing services for the urban poor. For example:

Portugal. The Government of Portugal has overhauled its policy and institutional framework for producing low-cost housing, creating an environment specifically oriented to attracting private sector developers. To date, some 85% of the low-cost housing projects financed by the National Housing Institute have been developed by private organizations, including cooperatives. In addition, the government has taken steps to open up the mortgage lending process to a wider group of financial institutions, including private sector banks. The government has also approved a Development Contract law that will foster direct cooperation between private developers and municipalities for the production of low income housing.

Morocco. As part of the Tetouan Urban Development Project, partly financed with

housing guaranty resources, 70 hectares of land in Tetouan will be designated as a *Zone d'Aménagement Concerté* (planned unit development). The development of this zone will follow an established French approach involving joint public and private planning and financing. All landowners in the zone will pay their proportionate share of the infrastructure costs and receive technical and financial assistance to develop high density, low-income housing on their properties.

Tunisia. Fiscal year 1986 saw several major advances in the gradual transfer of responsibility for housing production from the public to the private sector. The Government raised deposit and credit interest rates for housing in an effort to mobilize private savings for use in the shelter sector. The National Savings and Loan Bank (CNEL) initiated a savings and loan program to help low income families purchase fully serviced residential land. And the government approved a plan for CNEL to finance land development projects by both public and private developers (see Program Close-up).

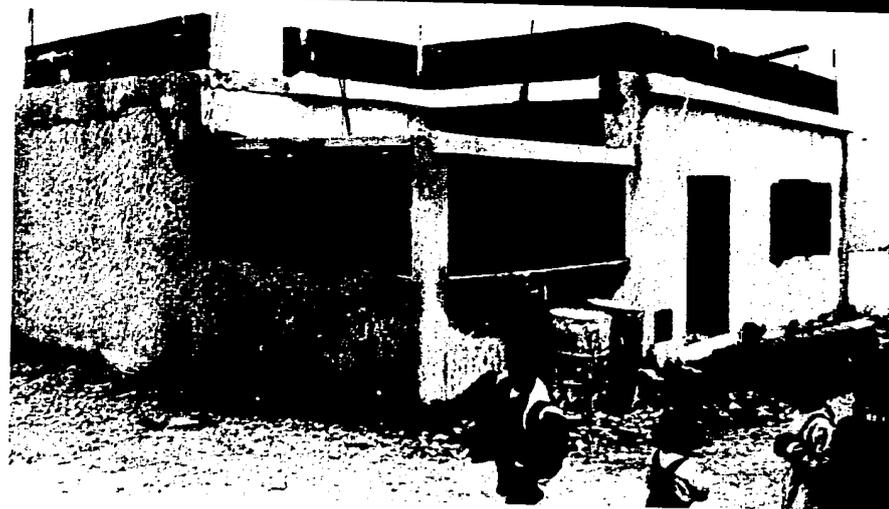
Jordan. During fiscal year 1986, the RHUDO for the Near East helped the Jordan Housing Bank (JHB) prepare a program aimed at financing private low income housing developments. At the JHB's initiative, private housing developers will be invited to seek new markets among the urban poor. While private developers have always served the upper income market, this new initiative will help them enter a market that was previously dominated by the public sector.

Program Close-up: Urban Land Development and Financing in Tunisia

The lack of low-cost serviced land in the cities is a major constraint to housing the urban poor. The rapid growth of informal settlements on unserviced land provides the only housing the urban poor can afford. It is estimated that in the District of Tunis alone, the informal private sector encroaches on 135 hectares of land per year. The major disadvantages to this type of development are:

- (1) subsequent upgrading of built-up neighborhoods is considerably more costly to the government than initial development of vacant land
- (2) the unplanned urbanization process taking place on the periphery of cities has contributed to an enormous extension of all major urban centers, poor utilization of space, transportation problems, and increased demand for services.

The \$15 million Housing Guaranty program authorized for Tunisia in fiscal year 1986 addresses the problem of urban land development through public and private cooperation.



The National Savings and Loan Bank (CNEL), will use the housing guaranty program funds to finance land development investment by both public and private developers. The loans will be collateralized by a mortgage on the property, and will provide developers with up to 75% of the working capital needed to purchase the site and install the infrastructure. This feature of the program is designed to attract private entrepreneurs since it provides front-end resources to initiate development.

As serviced land becomes available, CNEL will help low-income families purchase plots through a new savings and loan program called *Epargne-Terrain*. Until now, CNEL

would finance only house construction, not land. But the urban poor find land acquisition to be a major barrier. By completing a two-year savings program, families can qualify for loans to purchase serviced housing sites. This will help them accelerate the process of building basic shelter through self-help efforts or small builders, rather than relying on public housing.

The inclusion of private sector developers at this stage of the housing development process represents a breakthrough. The development of the Tunisian economy has now reached the point where the government is increasingly inclined to turn over the housing development process to the private sector.



Nevertheless, special stimulus is needed to get developers who have become comfortable building for upper- and upper-middle class households to realize the market potential at lower income levels. CNEL now has the capacity to provide the stimulus. With help from the RHUDO for the Near East, CNEL soon will launch an innovative experiment in public-private cooperation to house the urban poor.

Nouvelle Medina II sites and services project in Tunis: Gourbi. A core housing unit under construction (above left). Mellassine Community Center, part of Upgrading Project in Tunis (above right).



East and Southern Africa

The Regional Housing and Urban Development Office for East and Southern Africa is located

in Nairobi, Kenya. The office manages Housing Guaranty programs of \$113 million in four countries—Kenya, Zimbabwe, Mauritius and Botswana. Technical assistance and training activities are being pursued in six others: Madagascar, Burundi, Rwanda, Uganda, Somalia and Djibuti.

The programs being developed by the RHUDO are driven by the ever increasing urbanization process that has left national and local governments unprepared to deal with issues such as service delivery and user charges, land development and management, and revenue generation. Although Africa is the world's least urbanized region, with only one fourth of its population living in towns and cities, it has the world's highest urbanization rate. It averaged over five per cent per annum in the 1970s, and is projected to exceed five per cent for the remainder of the 1980s. Sub-Saharan Africa's urban population will



increase dramatically from 136 million in 1980 to an estimated 361 million by the year 2000, at which time 42.4 per cent of the population will be living in towns and cities.

The importance of small towns to national development is increasing in the region. They can play the critical role of influencing population trends, supporting rural development programs, strengthening health services, and expanding off-farm employment and education opportunities.

In major population centers, shelter

programs financed through the program's capital assistance have moved into their implementation phase. For example, in Nairobi, the Umoja II Project demonstrates a new high density condominium concept. The RHUDO staff and the Nairobi City Council coordinate on management issues such as: allocation procedures, training of social workers, and orientation of families regarding their responsibilities as condominium owners. In Gaborone, the sites and services policy of the Ministry of Local Government and Lands has centered attention on the vital area of cost recovery.

Regional Strategies

RHUDO strategies follow the Office of Housing's guidance to increase production of low-cost shelter, expand the resource base by involving the private sector, including the informal sector, and train urban managers.

■ **Botswana.** In Botswana, A.I.D. assists local self-help housing agencies to expand the supply of affordable shelter. Cost recovery is important in order to ensure the institution's continuing ability to supply low cost solutions for this market—and increase the supply as well. A \$14M Housing Guaranty program brings additional resources to the low-cost shelter sector through the private sector Botswana Building Society.

■ **Kenya.** The RHUDO continues to work in Kenya with the Ministry of Local Governments to implement the Small Towns Project and its innovative use of housing guaranty resources. In addition to supporting low-cost shelter, this project supports the development of productive facilities, such as small business estates, slaughterhouses, markets and bus parks. The private sector program opens ways for the private housing finance institutions and housing cooperatives to design and finance projects for low-income families and groups of families. The human and financial resources that the private sector represents have provided the vast majority of low cost housing in Kenya. The RHUDO's strategy seeks ways to clarify the roles of the public and private sectors, and support the informal sector initiative.



Women make up over 40% of the private informal sector in Kenya. Many sell produce on streets and in markets. Housing Guaranty loan will provide a centrally located market place, which will also be more sanitary. It will provide the towns with revenue and better control of hawkers (far left).

High density condominium concept for low cost housing in Nairobi (above). Small Towns core attached housing project in Kitui. Cut stone is as cheap as cement block in Kenya (below).

■ **Zimbabwe.** In Zimbabwe, the strategy seeks to strengthen the private building societies and involve them in the delivery of housing for low-income families. One part of the project relies on small-scale contractors in Harare to produce housing on a fully cost-recoverable basis.

■ **Somalia.** During this past year the RHUDO has worked closely with the Mission in Somalia to develop the *Mogadishu Urban Development Program* which provides a comprehensive approach to improving the management and financial capacity of the municipality. The project gives priority to rationalizing the new land development process, limited upgrading of existing low income settlement areas, and training for municipal staff. The RHUDO will collaborate with the Mission and a private voluntary organization to carry out the training, as well as build a resource base for future activities.

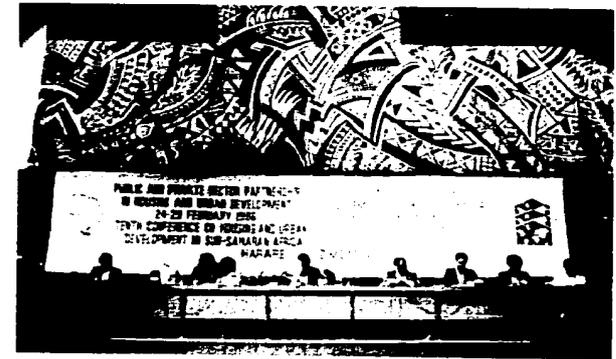
■ **Djibouti.** In Djibouti, RHUDO activities center around the financial control and monitoring of the jointly-funded A.I.D. and World Bank urban development project. Project activities include squatter upgrading, municipal infrastructure and new housing, and institutional development through training and technical assistance.

■ **Rwanda.** The focus of program support in Rwanda has been twofold: first, providing limited technical assistance to the Rwanda Mortgage Bank, the organization responsible for housing production and finance; and second, providing technical

assistance to the Ministry of Public Works in implementing both a secondary cities policy and a national housing policy.

■ **Madagascar.** RHUDO energies in Madagascar are concentrated on the institutionalization of the private sector housing program which is emerging from the recently completed cyclone Kamisy reconstruction program. The Kamisy program left intact an organizational structure for the construction of cyclone resistant housing in the two coastal cities affected by the disaster. Over 125 workers were trained in anti-cyclonic building techniques and over 20 small-scale enterprises for building materials and supply were created. If the small-scale housing production and upgrading program proves successful, the RHUDO will undertake a study to design and broaden the concept into a national program for private sector housing production.

■ **Uganda.** In Uganda, the RHUDO will continue to assist the Ugandans in the development of a national housing policy and to activate the shelter sector after years of neglect. This is especially true in the building materials industry, virtually destroyed by years of civil strife. Technical assistance has begun the long process of identifying short-, medium- and long-term activities to define the public sector's role, develop site and service programs, rebuild the construction materials industry, and generate employment through small businesses—many of which are related to the construction industry.



Tenth Conference on Housing and Urban Development on the theme of Public and Private Sector Partnership (top). Increasing demand for shelter in urban areas as seen in the Methare Valley, Nairobi (bottom).

Program Close-up: Kenya Small Town Project

The Kenya Small Town Shelter and Community Development Project supports the Government's efforts to promote a balance between rural and urban areas. The Project stimulates economic growth in the small towns and secondary cities throughout the country, with special emphasis on fifteen key towns.

In all, this \$16M Housing Guaranty project includes three distinct focuses:

- Capital Investment Projects
- Institutional Support
- Training.

Capital investments are numerous: low-income housing and related infrastructure, such as water and sewer lines, storm drains, walkways, roads, street-lighting and electricity; the provision of community facilities such as schools, health centers, social halls, markets, and bus parks; and the generation of employment opportunities through the provision of serviced sites or loans suitable for small-scale commercial and industrial enterprises.

This support for productive facilities such as markets, bus

parks and small business parks is an innovative use of Housing Guaranty funds. These facilities support Kenya governments priorities of expanding employment opportunities and assist local governments to increase their links between rural and urban areas. And in providing capital for these improvements, the program also provides support for the informal sector.

Along with the capital assistance, the project provides *institutional support* to several important agencies. The Ministry of Works, Housing and Physical Planning, and the National Housing Corporation are responsible for the housing component of the project. The Ministry of Local Governments and the Local Authorities are responsible for the planning and implementation of the non-shelter aspects.

Two long term technical advisors were provided to work with the central agencies, helping to develop policies and procedures for implementation, and providing on-the-job training for agency and Local Authority personnel.

Training support to key project staff and officials is crucial to the success of the project and to the long term delivery capacity of shelter and urban development institutions. A resident trainer, specialized in local government management, and a financial management specialist were recruited to support this and other training efforts in the East and Southern Africa region.

Since the Small Towns Project was started, a major new policy has been adopted by the Kenya Government. Known as the *District Focus for Rural Development* this policy shifts the responsibility for planning and implementing rural development from the head-quarters of ministries to the districts.

This direction in government policy is both an outcome of A.I.D.'s technical assistance

and training efforts under the Small Towns Project, and an indication of future government commitments.

Training efforts under the Small Towns Project address the most important needs of Local Authorities and other implementing institutions, both in skill training and organizational development.

For Local Authority development, a series of manuals detailing the procedures involved in each planning phase is being developed.

An integrated series of municipal financial management manuals and courses is also being developed in close collaboration with the Ministry of Local Governments staff and the teaching staff of the Government Training Institute in Mombasa.





Severely eroded street in Abidjan after improvements financed by the Housing Guaranty program (above). Water distribution system preferred by residents at upgrading site in Abidjan (right).

West and Central Africa

West and Central Africa, a region comprising 24 countries, is perhaps best known for its wealth of ethnic, religious and linguistic groups, and resulting phenomenal cultural diversity.

Political instability has been another prominent feature of the region. Within the last twenty-five years, most countries have experienced *coups*, civil wars or regional uprisings. Rare are the states that have combined political stability with economic development.

The region is characterized by a large rural population and agriculture-based subsistence economies. Economies are dominated by one or two cash crops whose prices fluctuate in response to complex



external factors. In addition, agricultural and other outputs have frequently suffered because of the administrative management of many of the economies which have been centrally controlled. The region also contains the Sahel which has suffered through two devastating droughts in the past ten years.

U.S.A.I.D. Missions' policies and programs have responded to this overall economic situation by emphasizing agricultural and rural development. In the countries themselves, there has been another, perhaps inevitable response as people have flocked to urban areas. As a result, the region is experiencing the highest urban growth rates in the world, both in primary and secondary cities. This urbanization is of tremendous significance given the inability of most governments to supply shelter and basic services to the vast majority of urban dwellers. The result is a new tendency in some states to seek solutions which de-emphasize the role of the central government.

In their search for more practical solutions, several states in the region, notably the Côte d'Ivoire and Senegal, are moving towards political and administrative decentralization. Their goal is to have municipal governments fulfill the needs of their inhabitants without major central government intervention and subsidies.



Regional Strategy

The strategy of the Regional Office for West and Central Africa is a natural outgrowth of these trends. It is designed to nurture the creation and development of private and public sector institutions that can provide shelter and services to the inhabitants of the region. The RHUDO's multi-pronged strategy focuses on those countries willing to modify their traditional reliance on the public sector to solve increasing urban problems. The Regional Office will:

1. Promote innovative methods of integrating private sector participation in the financing and construction of infrastructure, community facilities, sites and services, and core unit components of shelter projects.
2. Focus attention on secondary city development, strengthening local government, and private solutions to municipal and urban problems.
3. Continue to work with the region's U.S.A.I.D. Missions and other organizations to increase awareness of

the importance of the urban dimension (especially as it relates to rural and regional development), and to enlist their commitment to integrating secondary city development into their projects.

Fiscal Year 1986 Program

The bulk of the RHUDO's projects are located in the Côte d'Ivoire and Senegal. These countries are serving as crucibles in which policies and programs are tested and refined for potential use in the wider region.

Côte D'Ivoire. In Côte d'Ivoire, the RHUDO has three active Housing Guaranty projects at various stages of design or implementation. It is also preparing a fourth project. The ongoing projects include an urban upgrading program in



Abidjan, the economic capital, a secondary cities development program in 16 towns ranging in population from 10,000 to 100,000 inhabitants, and a housing finance program which makes use of private sector banks and developers and establishes a refinancing mechanism for primary housing loans.

The total Housing Guaranty loans for these projects is \$51 million. Direct beneficiaries in these three programs total about 750,000 individuals.

In addition to the Housing Guaranty programs, the RHUDO for West and Central Africa has mounted an intensive municipal training program, primarily connected with the improvement of financial management techniques and the provision of technical services.

Training supported a move to full implementation in support of the Ivorian Government's urban policy initiative for decentralization and regional development through the upgrading of urban infrastructure in secondary cities. The project also features investments, training and technical assistance that will develop efficient municipal institutions. Lastly, it is designed to enhance municipal revenues and attract employment generating private sector investments.

Senegal. A RHUDO-financed urban development assessment of the Casamance region in Senegal identified a series of

projects which would encourage regional development. The U.S.A.I.D. Mission in Dakar has agreed to fund simplified cadastral surveys in the municipalities of Ziguinchor and Kolda. This should improve the tax collection rate and provide revenues for local infrastructure projects.

Lastly, in fiscal year 1986, the RHUDO and the U.S.A.I.D. Mission in Dakar financed a municipal training needs assessment. This study served as the basis for the design of a municipal training program which is soon to be implemented with U.S.A.I.D. funding.

Other Projects

In other countries, notably Liberia, Zaire, Niger and Gabon, the RHUDO staff and consultants undertook a number of other projects in pursuit of strategy goals noted above, and in the context of ongoing housing or regional development projects.

The RHUDO for West and Central Africa also forged a number of new relationships with the African Development Bank in 1986. In Sierra Leone, the RHUDO, with the cooperation and funding assistance of the Regional Economic Development Services Organization for West Africa, helped to prepare a low-cost housing project for capital funding by the African Development Bank. In addition, RHUDO began discussions with the Africa Development Bank on potential collaboration in the water and sanitation sector.

Program Close-up: Côte d'Ivoire Training Initiatives

In the course of this past year, the RHUDO for West and Central Africa laid the groundwork for its Côte d'Ivoire training program whose goal is to strengthen the role and capabilities of local governments as agents of development. In addition to adding an essential dimension to current RHUDO projects, the program is a logical response to important socio-economic currents and attendant policy shifts in the Côte d'Ivoire and other countries in the region.

Faced with a rapid rate of urbanization and dwindling national level revenues, the Ivorian Government created a number of new municipalities: 35 in 1980, followed by 98 in 1985. These new entities are run by democratically elected officials who are directly responsible for satisfying the needs of the local inhabitants. Unfortunately, their capacity to fulfill these needs is severely limited by minimal financial resources, shortages of trained personnel and policy constraints.

The RHUDO's training initiative directly addresses the above situation. It is designed to:

- (1) increase the impact and sustainability of traditional infrastructure-based programs, such as the Secondary Cities Project, by concentrating on the human factor, specifically well-trained personnel; and
- (2) supplement public efforts with private sector support.

During this past year, the program was inaugurated through a series of carefully selected pilot projects. The implementation was assisted by short and medium term consultants whose activities included assessments, seminars, workshops, field trips and periodic evaluations.

The training program has three central aspects: municipal management, technical services and community participation. Pilot projects at the local and national level were begun in all three areas.

In *municipal management*, the program seeks to increase municipal revenues and encourage the productive programming of expenditures. In the interior city of Gagnoa, an Ivorian team headed by a RHUDO consultant

identified areas in which revenues could be enhanced, made specific recommendations and listed concrete steps which

could be taken to achieve the desired goals. At the Ministries of Interior and Finance, financial management and capital budgeting seminars were held for key central administrators. Training on micro-computers was also introduced in these ministries to improve data management and analysis capabilities.

For *technical services*, an assessment was made of the technical service capacity of five cities according to a number of key criteria: materials, personnel, programming and budgeting, and training. As with financial management, recommendations were made regarding the best manner of upgrading the services.

The *community participation* aspect of the program featured the creation, within the Ministry of Social Affairs, of a *Cellule*



Technique (CT) charged with the development, implementation and evaluation of community participation programs at the national and local level. CT training during the past year involved a theoretical and technical phase. The field work phase should culminate in the creation of a basic working module replicable in different Ivorian cities.

Although now centered on the Côte d'Ivoire, the program is designed to be a model for other countries in the region. Indeed, work has already begun in Senegal. The training initiative is a dynamic one with the potential to maximize the effectiveness of municipal government in the zone. It has been enthusiastically accepted by the government, and substantially increased efforts are programmed for the coming year.

PROJECT DEVELOPMENT METHODOLOGY

The Housing Guaranty Program involves collaboration with a host-country housing institution acting as borrower. Borrowers may include a government ministry, a national housing bank or housing development corporation, a central savings and loan system, or a similar institution in the private sector such as a national cooperative organization.

Following a request from the country, A.I.D. will request that the Office of Housing and Urban Programs, working with host country officials, prepare a shelter sector assessment. Based on this analysis, A.I.D. and the borrower determine the type of housing program to be financed and the institutional context within which it will be undertaken.

When a mutually agreeable project has been developed and authorized by A.I.D., the Office of Housing and Urban Programs and the borrower enter into a Program Agreement defining the use of the proceeds of the loan. Disbursements under the loan are subject to the fulfillment of certain conditions as set forth in this agreement.

At the same time, the borrower seeks the most favorable terms available in the U.S. capital markets for a U.S. Government-guaranteed loan. A typical housing guaranty loan is a long-term loan for a period of up to 30 years, with a 10-year grace period on the repayment of the principal.

The U.S. lender and the borrower then negotiate the terms of the financing within interest rate ceilings that reflect the prevailing interest rates for long-term mortgages in the U.S. These understandings are formalized in a loan agreement between the borrower and the lender, which is subject to A.I.D. approval. In addition, certain provisions with regard to the paying and transfer agent, terms and amortization, prepayment rights, and lender's fees and other charges must be included in each loan agreement or otherwise agreed upon in a manner satisfactory to the Office of Housing and Urban Programs.

THE A.I.D. GUARANTY

Upon the signing of a loan agreement, A.I.D. will sign a contract indicating that repayment is guaranteed by the full faith and credit of the U.S. Government. The fees that A.I.D. charges for its guaranty are as follows: (1) a fee of one-half of one percent (1/2%) per annum of the unpaid principal balance of the guaranteed loan; and (2) an initial charge of one percent (1%) of the amount of the loan, which is deducted from the loan disbursements.

Additionally, A.I.D. requires that the government of the borrowing country sign a full faith and credit guaranty of repayment of the loan and outstanding interest.

LENDERS

A variety of participants in the U.S. capital markets, including investment bankers, commercial bankers, Federal Home Loan Banks, savings institutions, life insurance companies and pension funds, have loaned funds to host-country borrowers as part of the Housing Guaranty Program. To be eligible to participate, lenders must be: (1) U.S. citizens; (2) domestic U.S. corporations, partnerships or associates substantially beneficially owned by U.S. citizens; (3) foreign corporations whose share capital is at least 95 percent owned by U.S. citizens; or (4) foreign partnerships or associations wholly owned by U.S. citizens.

Lenders are selected by host country borrowers, typically selected through a competitive negotiation process. The Office of Housing and Urban Programs requires that lending opportunities be advertised and that borrowers solicit lending proposals from the largest practicable number of prospective lenders.

A notice of each A.I.D. guaranteed investment opportunity is published in the Federal Register and mailed to interested firms or individuals.

In certain circumstances, and with the written consent of the Office of Housing and Urban Programs, lenders may be selected through a non-competitive negotiated process.

FINANCIAL REPORT

At the close of the fiscal year ending September 30, 1986, the Housing Guaranty program had a net worth of \$95.14 million. Total income from all sources for the year was \$13.49 million which represents an increase of nearly \$2 million dollars over the prior fiscal year.

In fiscal year 1986, the total Congressional Authority remained at \$2.18 billion, but the amount under contract increased to \$1.45 billion in 148 projects. This is an increase of 6 projects and \$65 million over fiscal year 1985. As of the end of the year, monies authorized but not yet under contract increased to \$606 million in 48 projects. The total authority available as of September 30, 1985 was \$313.87 million, down from \$436.50 million of the previous year.

During fiscal year 1986, a total of \$145.5 million in authorizations was made for new projects and amendments. Administrative expenses, including contractual services, amounted to \$6 million before claim losses. This represented 44% of the year's total income, and less than 1/2% of the total Housing Guaranty portfolio under contract.

U.S.A.I.D. OFFICE OF HOUSING AND URBAN PROGRAMS STATEMENT OF CONTRACT ISSUING AUTHORITY AS OF SEPTEMBER 30, 1986

I. CONGRESSIONAL AUTHORITY

Worldwide Housing Guaranties	
1. FAA 1969 (Sections 221 & 222)	\$2,158,000,000
2. Prior Authority (Section 223d)	\$ 25,100,000

TOTAL CONGRESSIONAL AUTHORITY	\$2,183,100,000
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II. REPAYMENTS

1. Sections 221, 222 and 223 d	\$215,773,936
2. Less: Section 223 d (Not Available for new guaranties)	19,517,824

NET REPAYMENTS	\$ 196,256,112
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III. PROGRAM STATUS

	No. of <u>Loans</u>	Dollar <u>Amount</u>
A. TOTAL LOANS AUTHORIZED		
1. Total Projects Authorized and Under Contract:		
Africa	18	178,467,064
Asia	15	199,753,566
Latin America	97	755,879,532
Near East	18	325,192,798
TOTAL	148	\$1,459,292,960
2. Total Loans Authorized and Not Yet Under Contract:		
Africa	7	75,000,000
Asia	4	105,000,000
Latin America	17	203,398,234
Near East	10	161,800,000
Inter-Regional	10	60,994,000
TOTAL	48	\$ 606,192,234
B. Total Loans Authorized:	196	\$2,065,485,194
C. Total Authority Available:		\$ 313,870,918

**OFFICE OF HOUSING AND URBAN PROGRAM
STATEMENT OF FINANCIAL CONDITION
As of September 30, 1986**

ASSETS

Funds with U.S. Treasury	\$ 13,345,178
U.S. Obligations less Unamortized Discount	2,995,628
Fees, Interest & Late Charges Receivable	11,702,908
Advances	33,367
Accounts Receivable	49,881
Subrogated Claims Receivable	39,027,809
Rescheduled Claims Receivable	30,247,550
Furniture and Equipment, less Depreciation	505,139
 Sub-total: Assets	 \$ 97,907,460

LIABILITIES

Accounts Payable	\$ 1,230,556
Accrued Expenses Payable	987,549
Deferred Rescheduled Claims Payable	437,759
Unapplied Repayments or Pending Rescheduled Loans	103,577
Accrued Annual Leave	287,975
Total Liabilities	\$ 3,047,416

NET WORTH

Capital	\$ 87,042,916
Cumulative Gain-Begin'g of FY 86	1,983,379
Net Income-FY '86	3,066,179
Section 222-A Guaranty Reserve	3,055,545
Total Net Worth as of 09/30/86	\$ 95,148,019
Unfunded Accrued Annual Leave	(287,975)
Total Liabilities and Net Worth	\$ 97,907,460

**STATEMENT OF INCOME AND EXPENSE
October 1, 1985 through September 30, 1986**

FEE INCOME

Fees	\$ 6,860,567
Late Charges	3,360,426
Interest on Rescheduled Claims	3,275,926
Gross Income	\$ 13,496,919

ADMINISTRATIVE EXPENSES

Personnel: Direct Hire	\$ 2,741,947
Contract Personnel	256,586
Housing	465,339
Operational Travel	343,525
Other Office Operations	752,542
Agency Support Costs	1,108,400

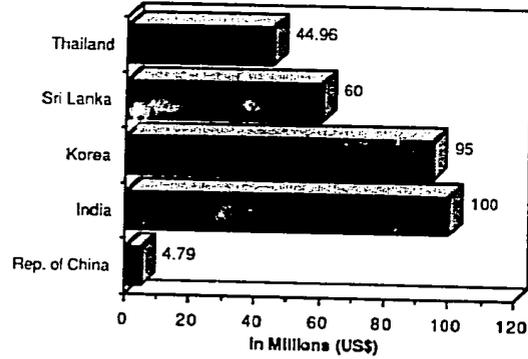
Total Administrative Expenses	\$ 5,668,339
Contractual Services	367,260
Net Expenses Before Claim Losses	\$ 6,035,598

Net Income before Claim Losses	\$ 7,461,321
Provision for Uncollectable Accounts	2,000,000
Total Net Claim & Fee Losses	2,452,641

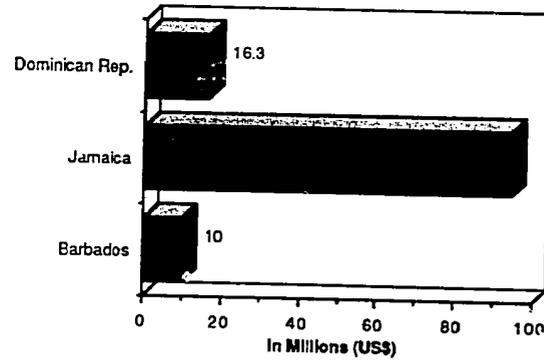
Net Operating Gain (Loss) for FY 86	\$ 3,008,680
Prior Fiscal Year Adjustments	57,499

Net Income or (Loss)	\$ 3,066,179
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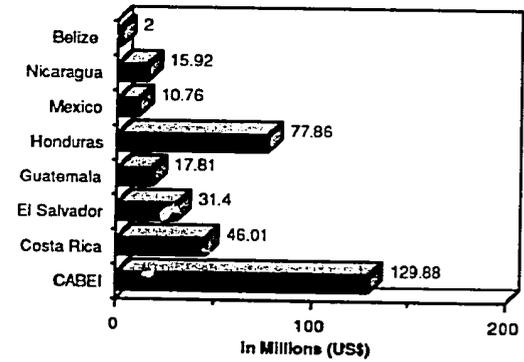
Asia



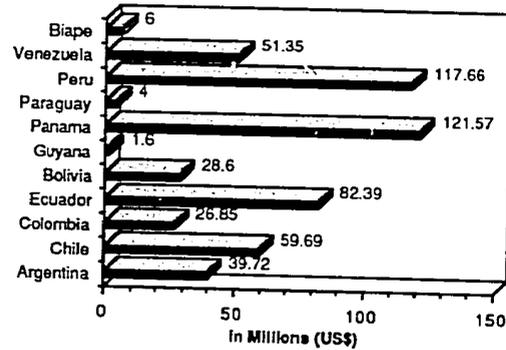
Caribbean



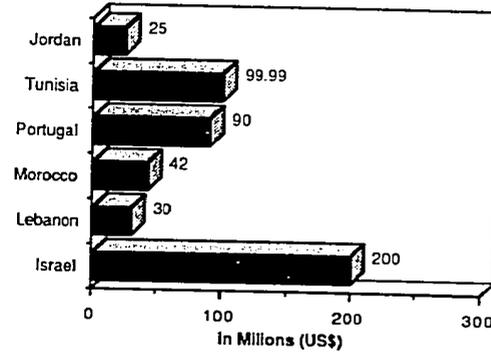
Central America



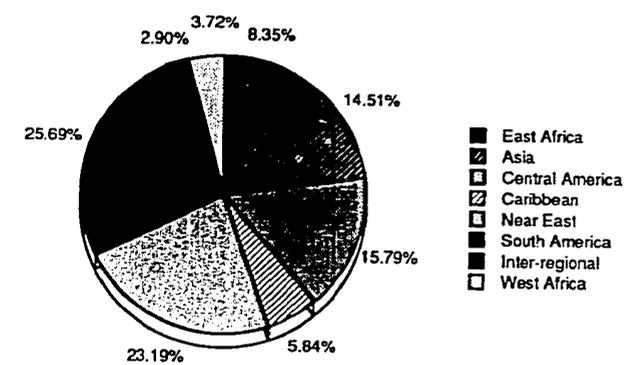
Panama and South America



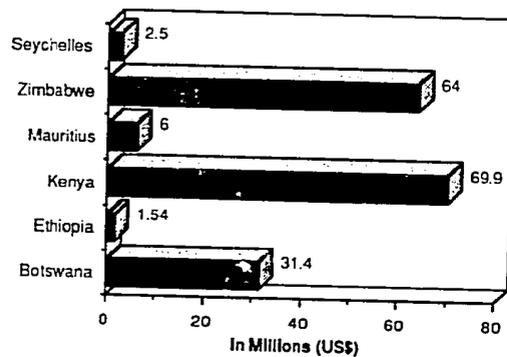
Near East and North Africa



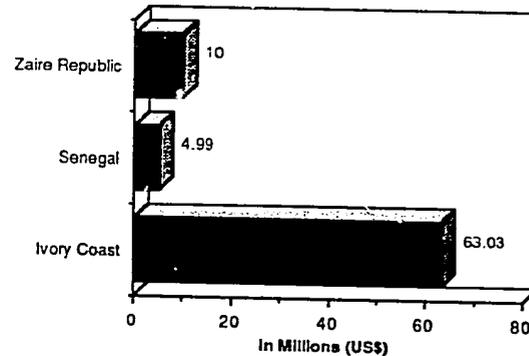
Regional Distribution



East and Southern Africa



West and Central Africa



REGIONAL DISTRIBUTION OF HOUSING GUARANTY LOANS 1963-1986

These charts illustrate the distribution of Housing Guaranty loans by region and by country within each region. The loan amounts shown are cumulative totals from the inception of the Housing Guaranty program.

FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

TITLE III—Housing and Other Credit Guaranty Programs

Sec. 221. HOUSING GUARANTIES. The Congress recognizes that shelter, including essential urban development services, is among the most fundamental of human needs. Shelter for most people in the development countries consists largely of domestic materials assembled by local labor. While recognizing that most financing for such housing must come from domestic resources, the Congress finds that carefully designed programs involving United States capital and expertise can increase the availability of domestic financing for improved shelter and related services for low-income people by demonstrating to local entrepreneurs and institutions that providing low-cost shelter can be financially viable. The Congress reaffirms, therefore, that the United States should continue to assist developing countries in marshalling resources for low-cost shelter. Particular attention should be given to programs which will support pilot projects for low-cost shelter or which will have a maximum demonstration impact on local institutions and national policy. The Congress declares that the long run goal of all such programs should be to develop domestic construction capabilities and to stimulate local credit institutions to make available domestic capital and other management and technological resources

required for effective low-cost shelter programs and policies.

Sec. 222. AUTHORIZATION—(a) To carry out the policy of section 221, the President is authorized to issue guaranties to eligible investors (as defined in section 238 (c)) assuring against losses incurred in connection with loans made for projects meeting the criteria set forth in section 221. The total principal amount of guaranties issued under this title or heretofore issued under prior housing guaranty authorities, which are outstanding at any one time, shall not exceed \$ 2,158,000,000. The authority of this section shall continue through September 30, 1988. The President may issue regulations from time to time with regard to the terms and conditions upon which such guaranties shall be issued and the eligibility of lenders.

(b) Activities carried out under this section shall emphasize—

- (1) projects which provide improved home sites to poor families on which the build shelter, and related services;
- (2) projects comprised of expandable core shelter units on serviced sites;
- (3) slum upgrading projects designed to conserve and improve existing shelter;
- (4) shelter projects for low-income people

designed for demonstration or institution building purposes; and

(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor.

(c) In issuing guaranties under this section with respect to projects in a country which require the use or conservation of energy, the President shall give consideration to the use of solar energy technologies, where such technologies are economically and technically feasible. Technologies which may be used include solar hot water systems, solar heating, biomass conversion, photovoltaic and wind applications, and community-scale solar thermal applications.

(k) The total principal amount of guaranties issued under this section for each of the fiscal years 1986 and 1987 shall be comparable to the total principal amount of such guaranties issued for fiscal year 1984, subject to the dollar limitations on the issuance of guaranties under this section which are contained in subsection (a) and in appropriation Acts.

Sec. 223. GENERAL PROVISIONS.—(a) A fee shall be charged for each guaranty issued under section 222 or 222A in an amount to be determined by the President. In the event the fee to be charged for such

type guaranty is reduced, fees to be paid under existing contracts for the same type of guaranty may be similarly reduced.

(b) The amount of \$50,000,000 of fees accumulated under prior investment guaranty provisions repealed by the Foreign Assistance Act of 1969, together with all fees collected in connection with guaranties issued under section 222 or under prior housing guaranty authorities, shall be available for meeting necessary administrative and operating expenses of carrying out the provisions of section 222 and administering housing guaranties heretofore authorized under this title and under prior housing guaranty provisions repealed by the Foreign Assistance Act of 1969 (including, but not limited to, expenses pertaining to personnel, supplies, and printing), subject to such limitations as may be imposed in annual appropriation Acts; for meeting management and custodial costs incurred with respect to currencies or other assets acquired under guaranties made pursuant to section 222 or heretofore pursuant to this title or prior Latin American and other housing guaranty authorities repealed by the Foreign Assistance Act of 1969; and to pay the cost of investigating and adjusting (including costs of arbitration) claims under such guaranties; and shall be available for expenditure in discharge of liabilities under such guaranties until such time as all such property has been disposed of and all such liabilities have been discharged or have expired, or until all such fees have been expended in accordance with the provisions of this subsection. Fees

collected in connection with guaranties issued under section 222A shall likewise be available to meet similar expenses, costs, or liabilities incurred in connection with the programs authorized by that section.

(c) Any payments made to discharge liabilities under guaranties issued under this title or section 222 or heretofore under prior Latin American or other housing guaranty authorities repealed by the Foreign Assistance Act of 1969, shall be paid first out of fees referred to in subsection (b) (excluding amounts required for purposes other than the discharge of liabilities under guaranties) as long as such fees are available, and thereafter shall be paid out of funds, if any, realized from the sale of currencies or other assets acquired in connection with any payment made to discharge liabilities under such guaranties as long as funds are available, and finally out of funds hereafter made available pursuant to subsection (e).

(d) All guaranties issued under section 222 or 222A or previously under section 240 of this Act or heretofore under this title or under prior Latin American or other housing guaranty authority repealed by the Foreign Assistance Act of 1969 shall constitute obligations, in accordance with the terms of such guaranties, of the United States of America and the full faith and credit of the United States of America is hereby pledged for the full payment and performance of such obligations.

(e) There is hereby authorized to be appropriated to the President such amounts,

to remain available until expended, as may be necessary from time to time to carry out the purposes of this title.

(2) (A) In order to meet obligations incurred for the payment of claims pursuant to loan guaranties described in subsection (d), the Administrator of the agency primarily responsible for administering part I may, to the extent that reserves are not sufficient, borrow from time to time from the Treasury except that—

(i) the Administrator may exercise the authority to borrow under this paragraph only to such extent or in such amounts as are provided in advance in appropriation Acts; and

(ii) the amount borrowed under this paragraph which is outstanding at any one time may not exceed \$40,000,000.

(B) Any such borrowing shall bear interest at a rate determined by the Secretary of the Treasury, taking into account the current average market yield on outstanding marketable obligations of the United States of comparable maturities. The Secretary of the Treasury shall make loans under this paragraph and for such purpose may borrow on the credit of the United States in accordance with subchapter I of chapter 31 of title 31 of the United States Code.

(f) In the case of any loan investment guaranteed under section 222, the agency primarily responsible for administering part I shall prescribe the maximum rate of interest allowable to the eligible investor,

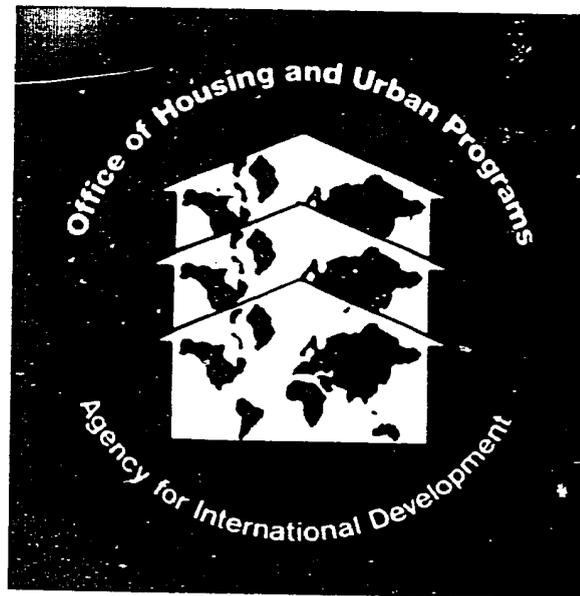
which maximum rate shall not exceed by more than 1 per centum the then current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development. The maximum allowable rate of interest under this subsection shall be prescribed by the agency as of the date the project covered by the investment is officially authorized and, prior to the execution of the contract, the agency may amend such rate at its discretion, consistent with the provisions of subsection (f).

(g) Housing guaranties committed, authorized, or outstanding heretofore under this title or under prior housing guaranty authorities repealed by the Foreign Assistance Act of 1969 shall continue subject to provisions of law originally applicable thereto and fees collected hereafter with respect to such guaranties shall be available for the purposes specified in subsection (b).

(h) No payment may be made under any guaranty issued pursuant to this title for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible.

(i) *** (Repealed - 1978).

(j) Guaranties shall be issued under section 222 only for housing projects which are coordinated with the complementary to any development assistance being furnished under chapter I of this part and which are specifically designed to demonstrate the feasibility and suitability of particular



kinds of housing or of financial or other institutional arrangements. Of the aggregate face value of housing guaranties hereafter issued under this title, not less than 90 per centum shall be issued for housing suitable for families with income below the median income (below the median urban income for housing in urban areas) in the country in which the housing is located. The face value of guaranties issued with respect to housing in any country shall not exceed \$25,000,000 in any fiscal year, and the average face value of guaranties issued in any fiscal year shall not exceed \$15,000,000. Of the total amount of housing guaranties authorized to be issued under section 222 through September 30, 1982, not less than a face amount of \$25,000,000 shall be issued for projects in Israel and not less than a face amount of \$25,000,000 shall be issued for projects in Egypt.

Section 238. DEFINITIONS.— As used in this title —

(c) The term "eligible investor" means: (1) United States citizens; (2) corporations, partnerships, or other associations under the laws of the United States or any State or territory thereof, or the District of Columbia, and substantially beneficially owned by the United States citizens; and (3) foreign corporations, partnerships, or other associations wholly owned by one or more such United States citizens, corporations, partnership, or other associations: *Provided however*, That the eligibility of such foreign corporation shall be determined without regard to any shares, in aggregate less than 5 per centum of the total issued and subscribed share capital, held by other than the United States owners: *Provided further*, That in the case of any loan investment a final determination of eligibility may be made at the time the insurance or guaranty is issued; in all other cases, the investor must be eligible at the time a claim arises as well as the time the insurance or guaranty is issued.

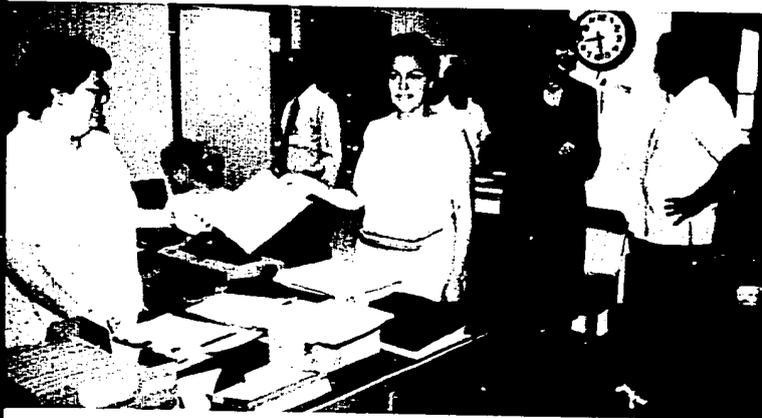
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to review the Kenya HG program comes up
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