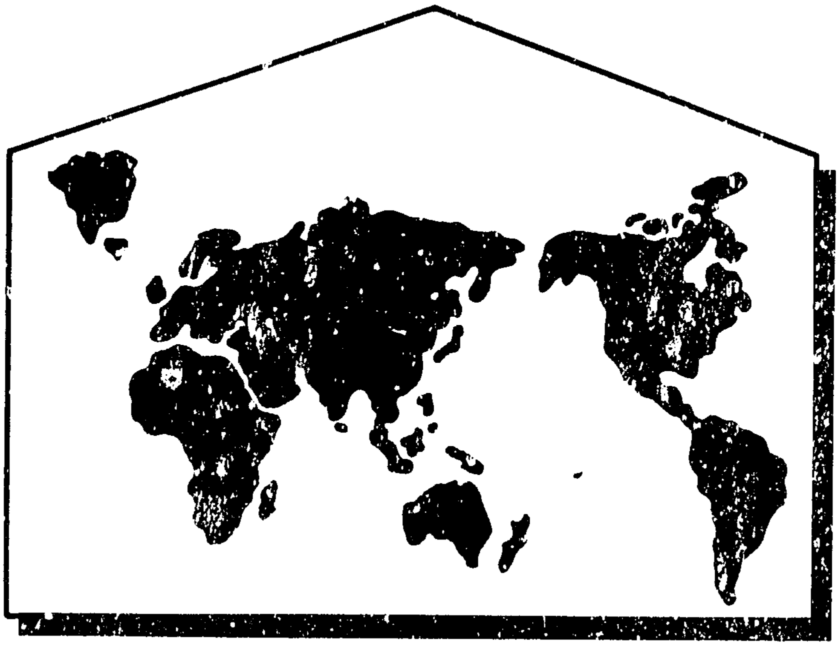

PROCEEDINGS OF THE

SECOND INTERNATIONAL SHELTER CONFERENCE & VIENNA RECOMMENDATIONS

ON SHELTER & URBAN DEVELOPMENT

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A Private Sector Contribution in Support of the International Year of Shelter for the Homeless, 1987.

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INTRODUCTION

The National Association of REALTORS® is pleased to publish the Proceedings of the Second International Shelter Conference held in Vienna, Austria, September 10-12, 1986. This Conference was a private-sector effort in support of the International Year of Shelter for the Homeless proclaimed by the General Assembly of the United Nations. The objective of the conference was to produce an authoritative private-sector statement which would define the principles, policies and action steps necessary to address the problem of shelter and urban development in any given national situation.

The National Association of REALTORS® was but one of many important Conference sponsors who together form the core of an emerging International Shelter Coalition. We would like to offer our gratitude to each of the following groups for the support and participation they have given:

Cosponsors:

International Union of Building Societies and Savings Associations (IUBSSA)
International Real Estate Federation (FIABCI)

Supporting Sponsors:

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United States League of Savings Institutions

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Interamerican Housing Union
Mortgage Bankers Association (USA)
National Association of Homebuilders (USA)
National Council of Savings Institutions (USA)

The Conference brought together a coalition of senior, predominantly private sector, housing professionals from 32 countries. The ten national and five international private sector associations sponsoring the conference have members in more than half the countries of the world and on every continent. Participating public organizations included: the United States Agency for International Development; the U.S. Department of Housing and Urban Development; the United Nations Centre for Human Settlements; the World Bank; the Development Assistance Council of the Organization of Economic Cooperation and Development; the Canada Mortgage and Housing Corporation; and Ministers and high officers of several housing ministries and agencies in developing countries.

The Conference produced the *Vienna Recommendations on Shelter and Urban Development* which are set forth in this document. These recommendations were subject to intense analysis and debate prior to their presentation in the Conference Plenary by a group of housing experts drawn primarily from the private sector in the developing world. The recommendations were subsequently discussed, amended and adopted by the conference attendees acting in their individual capacities. The National Association of REALTORS® Board of Directors, on behalf of its 750,000 members, formally approved the recommendations in November 1986. The Canadian Real Estate Association and the International Real Estate Federation have also adopted the *Vienna Recommendations* and they are in the process of being acted upon by the other sponsoring organizations as well. They are also being widely circulated for formal adoption by other public- and private-sector shelter organizations throughout the world. The *Vienna Recommendations* are offered as a contribution by the sponsoring organizations and conference participants to the global policy dialogue on housing. It is hoped that they will serve as a sound general basis for an effective partnership between the public and private sectors in specific national situations where housing is a serious problem and where a sensible framework for action is desired.

It is fitting that the *Vienna Recommendations* should be offered on the tenth anniversary of the *Vancouver Declaration on Human Settlements*. The experience of a decade is now behind us and its lessons have been distilled. New directions based on today's changed reality are now in order.

The Conference papers presented during the conference and the debate which occurred, are recorded in these proceedings. Their content is rooted in long and successful experience, and in common sense. As such they give credit to the International Shelter Coalition, whose purpose is to issue authoritative policy statements to national and international bodies whose financial and program policies affect housing and related industries. This result is achieved here.

Dr. A. Ramachandran, Executive Director of the United Nations Centre for Human Settlements (HABITAT), points out that the International Year of Shelter is designed to mobilize all participants in the shelter process. In short, it seeks to forge effective public/private partnerships in which governments would "enable" and support the activities of those actually providing shelter and infrastructure: the people themselves and a wide variety of formal and informal private-sector operators.

The National Association of REALTORS® and the cosponsors believe that homeownership and security of tenure are vital to economic and social progress. Housing investment is crucial for economic growth. Housing securely held promotes greater savings. People with a stake in their environment will improve it. If governments will help remove the institutional constraints affecting the availability of housing — mainly land, public service and finance — individual initiative and private-sector responses will be called forth.

The staff of the International Division of the National Association of REALTORS® and of FIABCI-USA — John Howley, Miriam Meyer, and Erina Wessels — worked hard to organize the Shelter Conference, to frame its agenda tightly, and to attract to it as expert and thoughtful a group of experienced housing people as one might organize. NAR was also ably represented by its then immediate past president, David Roberts. He opened the Conference with an important statement about NAR and its commitment to meeting the shelter challenge. Another NAR past president, Ralph Pritchard, participated in the preparatory group and contributed significantly to the lively debate which occurred there. The Massachusetts Institute of Technology was called upon for help on two major papers: an analytical piece examining the thesis that housing contributes greatly to economic development and a paper establishing the need for a New Action Agenda in the international arena affecting shelter. These papers were ably prepared under the direction of Albert P. Van Huyck, Visiting Senior Lecturer at M.I.T. with the help and commentary of high-calibre graduate students, distinguished practitioners and other faculty members. Dr. John A. Tuccillo, now Senior Vice President for Real Estate Finance at the National Association of REALTORS®, provided invaluable assistance as these papers were being prepared. They have made a singular contribution to the literature of the field. The quality of the remaining papers speaks to the extraordinary level of the other participants in the Shelter Conference to whom we owe our deepest thanks.

The views and interpretations presented here, however, are those of the authors and should not be attributed to their respective organizations. We have taken the liberty of summarizing and editing many of the presentations. We have tried to convey the essential points and apologize for any errors we may have made.

We now have the *Vienna Recommendations on Shelter and Urban Development* which we believe to be one of the most succinct and comprehensive documents in the housing field with respect to policy formulation. We believe the *Vienna Recommendations* will test well when applied in the crucible of experience.

William M. Moore
President
National Association of REALTORS®

SECTION I

INTERNATIONAL SHELTER: TOWARD A NEW AGENDA FOR ACTION

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Patricia McCarney

Dr. A. Ramachandran, Executive Director of the United Nations Centre for Human Settlements (HABITAT), recently called for the initiation of a new discussion on the human settlements agenda for the next decade. Other international donor agencies and leading practitioners in the field also have recognized that there is a need to reconsider the priorities and objectives of shelter and urban development in light of the ten years of experience since the United Nations Conference on Human Settlements (HABITAT) held in Vancouver in 1976 and the different conditions which affect the global development effort in the mid-1980s.

This paper takes the position that a new agenda is required to respond to the shelter and urban challenges of the 1990s. Such a new agenda should be based on the recognition of changed global economic conditions, including the international debt structure and the more limited availability of internationally generated financial resources. Experience since 1976 demonstrates the limits of public-sector capacity to respond to the shelter and urban development needs of rapidly increasing urban populations in the developing countries. The new agenda should seek effective ways to expand the resources available for shelter through increased efforts to involve the private sector and individual initiative. It should focus on establishing shelter production systems which respond to market forces.

The Vancouver Declaration on Human Settlements

The United Nations Conference on Human Settlements convened in Vancouver, Canada, from May 31 to June 11, 1976. A total of 134 official governmental delegations were signatories to the final documents. In addition, many hundreds of other organizations and professionals in the field participated in a parallel informal conference, known as the HABITAT forum.

This gathering was the first worldwide event of its kind in the field of shelter and human settlements. It is useful to analyze the results of this conference and its impact on the developing countries and the international donor community.

The International Development Setting in 1976

In order to place the conclusions and the recommendations of the Vancouver Conference in perspective, it is helpful to understand the international development setting of that period. The institutional climate, the concern with alleviating poverty, the comparatively favorable economic situation and state of the art all influenced the conference recommendations entitled *"The Vancouver Action Plan."*

1. The Institutional Climate

The early 1970s marked a period of critical questioning of the previous development growth concepts of the 1960s. While many countries were achieving solid rates of economic growth measured in GNP, poverty was growing among substantial parts of their rural and urban populations. This was the period when the so-called "trickle down theory" of development was brought into question. In the development community, professional and political leaders called for alleviating poverty and achieving "growth with equity." The "Basic Needs Theory" began to emerge.

As one response, the United States Congress passed the 1973 U.S. Foreign Assistance Act, often referred to as the "New Directions" legislation. This action marked a shift from development assistance that focused on basic infrastructure, capital-intensive agriculture, and industrial growth strategies to a concentration on direct poverty assistance ("the poor majority") through nutrition and health programs, population and human resource development.

At the World Bank, a similar shift in focus toward a "basic needs" approach was occurring. In his 1973 address to the World Bank/IMF meetings in Nairobi, Kenya, then bank President Robert McNamara advocated a direct attack on poverty issues and suggested that World Bank development projects satisfy a poverty alleviation test.

Other international conferences and meetings began to emphasize these new themes, and these international events preceding the Vancouver Conference greatly influenced the tone and content of the debate and the discussion of the participants.

2. The Economic Setting

Despite the 1973 oil price increases, the economic setting at the time of HABITAT was generally favorable. Current account balances for developing countries showed improvement over the previous year. Commodity prices in the mid-1970s — key to most developing country economies — remained solid; GNP growth rates were positive except in certain sub-Saharan African countries. The debt burden had not begun to make an impact on economic performance. The London Inter-Bank Offered Rate (LIBOR) was only 6.5 percent in 1977. As a result, there was widespread optimism among developing country officials that there would be significantly higher international capital transfers of official aid. There was still hope that the United Nations' target of one percent of GNP in official aid from developed to developing countries could be achieved. In addition, the flows of private bank loans were increasing as the international banking community recycled petrodollars.

The overall economic situation, combined with the relaxed access to the world's credit markets, and hope for increased concessional assistance from developed countries and international donors, contributed to a widespread confidence on the part of developing country officials. They believed that the public sector could play an ever-expanding role in national development efforts.

This confidence was clearly evident in Vancouver, where the focus was on the public sector contribution to shelter and human settlements.

3. The State of the Art

The early 1970s was also a period when the state of the art and policy issues concerning shelter and human settlements were in rapid transition, at least among the international donor community whose thinking dominated international discussion. A consensus was emerging among the donors. It was widely recognized that public sector housing programs (with their stress on "walk-up flats" and public rental housing) were failing to meet the needs of the rapidly growing urban populations. Donors generally agreed on a list of development priorities:

- Shelter assistance should be directed exclusively to the poor.
- Self-help construction was to be tapped through the use of "sites and services projects" and "settlement upgrading projects."
- Conditions such as unrealistically high building and service standards were recognized as impediments to the completion of projects and they needed to be reformed.
- Cost recovery from publicly-provided shelter and infrastructure needed to be increased.
- Projects should be replicable, which meant they should be affordable to the target groups for whom they were intended.

The Vancouver recommendations substantially reinforced these concepts. Nonetheless, as important as these improvements in policy and strategy potentially were, as compared to previous efforts, they still assumed that the public sector must lead the shelter effort and that a project-by-project approach was the vehicle for implementation.

The Vancouver Declaration on Human Settlements

The Conference met in this setting of general optimism, yet participants were deeply concerned about the increasing evidence of rapid urbanization, serious deficits in housing supply, and particularly the deterioration of housing conditions, infrastructure, and services for the masses of the urban and rural poor.

The Conference sought to create an international awareness of the problems and needs of human settlements, particularly in the developing countries, and for the disadvantaged poor. Views of shelter conditions of the poor were vividly presented via films, photographs, brochures, and in the speeches. The HABITAT Forum was propelled with a deep sense of the plight of the poor and the urgency to address their needs. It sought to increase the flows of international assistance and to improve the priority of shelter and human settlements in the global development effort.

The rhetoric of the *Vancouver Declaration* reflected the tone of the development debate of that period. There were references to "the establishment of a just and equitable world order" and to the fact that "adequate shelter and services are a basic human right." The document saw "the improvement of the quality of human beings as the first and most important objective." In short, the *Declaration* was a call for governmental action and the financial support of international donors to improve conditions for the poorest citizens.

The participants and policymakers who set forth these objectives and recommendations for action were unaware of the institutional constraints, financial shortfalls, and worsening economic conditions which soon would force a more modest projection of goals.

The Vancouver Action Plan

The *Vancouver Action Plan* followed the *Vancouver Declaration* and was intended to provide specific recommendations for its implementation. Forum participants voted on 64 specific recommendations grouped into six broad areas of concern:

1. **Settlement Policies and Strategies**
   This set of recommendations stressed the role of government in determining spatial and resource allocations. It assumed a public-sector capacity to direct national activities and it stressed the need for achieving "more equitable distribution of benefits of development" among people and regions.

2. **Settlement Planning**
   This group of recommendations underscored the value that the participants placed on settlement planning as a guide for public action and as a control of private action in the development process. It recognized the failures of past "master planning" efforts and recommended more flexible and realistic approaches. It outlined planning approaches tailored to settlement sizes and called for "improving existing settlements" rather than relying on the clearance of low-income neighborhoods.

   Economic development was given only passing and vague attention. The issue of financial costs was not considered at all. It was assumed that every aspect of human settlements down to the urban neighborhood and small rural village could and should be planned. Yet there was no reference to the institutional capacity required to conduct such a massive planning system.

3. **Shelter, Infrastructure and Services**
   This set of recommendations recognized that, "The needs . . . are nearly always greater than the capacity of public authorities to provide them," and that, "People have traditionally provided housing and rudimentary services for themselves." This section of recommendations supported the view that the role of the informal sector and the involvement of the people should be recognized and supported. This was an important break with previous concepts of "clearing slums" and restricting people's efforts to

house themselves. While progress over the last ten years has been uneven, most countries now recognize this fact. The issue today is whether this role for the informal sector is a positive contribution to development or merely something to be tolerated by governments.

The many recommendations reflected indirectly the shortage of available capital and stressed appropriate technologies, labor-intensive technologies, traditional materials and approaches, as well as concern with maintenance and operating costs.

In housing, it recommended an "increased public role in renting"; "low-interest loans, loan guarantees and subsidies"; and "provision of infrastructure, on a partially or totally subsidized basis. . .".

The recommendations covering infrastructure components such as water, sanitation, transportation, communication, and social services (health, education, and recreation) all were written from the perspective of serving the residential settlement with specific emphasis on equity of access by the poor and by disadvantaged urban locations. There was no connection made between the role of infrastructure and economic development requirements of either agriculture or industry (other than concerns about pollution).

The recommendations, while reflecting the need for reduced standards and more innovative approaches, still continued the underlying themes of public-sector control and expanded implementation roles. No mention is given to the institutional capacity or the sources of the increased finance needed to cover the level of subsidies called for in almost all aspects of infrastructure provision.

4. Land

The recommendations on land are among the most controversial of the *Vancouver Action Plan.* The tone is set in the preamble which starts:

> Land, because of its unique nature and the crucial role it plays in human settlements, cannot be treated as an ordinary asset controlled by individuals and subject to the pressures and inefficiencies of the market. Private land ownership is also a principal instrument of accumulation and concentration of wealth and, therefore, contributes to social injustice; if unchecked, it may become a major obstacle in the planning and implementation of development schemes.

The specific subsets of recommendations echoed the theme by calling for public "surveillance or control" over land management, recapture of "unearned" land value increases by the public, public landownership when justified in securing "socially acceptable patterns of development," and land reform.

What apparently was foremost in the minds of the participants at HABITAT was to ensure the supply of land to low-income urban and rural households at affordable prices and to ensure that land would not be a constraint on public-sector development activities.

5. Public Participation

This section of the recommendations identified public participation as the essential right of citizen involvement in the development decisionmaking process. It outlined in the broadest possible terms all of the ways in which citizens should be informed of and be enabled to give their views on all decisions being made by the public sector which affect the people. What is inherent in these recommendations is that they are concerned solely with the right of the people to discuss the planning and execution of the public sector development process. They are not recommendations to the public sector on how the individual citizen and the private sector can be encouraged to play a direct role in the development process itself.

6. Institutions and Management

The recommendations concerning institutions and management focused entirely on the public sector. As might be expected, they stressed the importance of good and efficient management practices and the need to develop a mutually supporting network of institutions covering the various levels of government and functions, albeit with appropriate references to the desirability for coordination.

Vancouver Recommendations Reexamined

From the vantage point of ten years' experience since the *Vancouver Action Plan* was promulgated, it is possible to reexamine the underlying premises of the Plan and their effectiveness in influencing national action. The issues of shelter and human settlements illuminated at Vancouver have not received increased attention by either countries or donors in allocating funds or mobilizing political support.

The HABITAT Conference did influence subsequent practice in some areas of shelter and human settlements development. It was a milestone of sorts in codifying a number of trends which have become widely accepted:

- It gave recognition to the importance of the informal sector and its legitimacy in the development process.

- It recognized the need for moderating standards, using appropriate technologies, and endorsing the concept of affordability.

- It was innovative in outlining more appropriate approaches to settlement planning.

- It endorsed the need for national policies even if the content of such policies might be quite different in the current context.

- Many of the specific subsets of recommendations highlighted well-reasoned approaches to improving public sector performance and responsiveness to development issues.

In general, the Conference reflected the setting of the 1970s and responded to many of the subthemes of that time such as the environment, the energy crisis, and the role of women. There are, however, some criticisms of the *Vancouver Action Plan* that are basic. Among the most serious issues which will need to be addressed in any future agenda for action are:

1. **Reliance on the Public Sector**
   The recommendations are all addressed to the public sector and are designed to suggest that the private sector either did not exist or needed to be controlled lest it "derail" the *Action Plan*. Such a view was wrong in 1976 and experience has shown that the failure to develop the private sector as an active and positive partner in development has been extremely costly.

2. **The Limited Capacity of the Public Sector**
   It is recognized that there is an essential, important, and large role for the public sector to play in national development efforts, but this role needs to be redefined from what was contemplated in 1976. The totality of the recommendations added up to a vast increase in the role of the public sector. Even in 1976, it should have been evident that the public sector would not have the capacity required for that role.

3. **The Disregard for Finance Mobilization**
   In spite of the enormous agenda for public-sector action listed in Vancouver, there was little or no mention of how the finances were to be mobilized to fund the investments or to operate the required services.

   There were no specific recommendations on increasing revenue achieving cost recovery or establishing viable pricing policies except for vague references to "self-financing."

   The recommendations stated that subsidies were necessary and appropriate for a wide range of publicly provided facilities and services. But the *Action Plan* reflected no awareness of the magnitudes of subsidy that were implied nor of the potential impact on national finance.

   The key role of interest rates in the financial sector was ignored entirely. There was little evidence that the financial marketplace was understood or appreciated as a means of mobilizing and allocating scarce resources.

4. **The Emphasis on Equity Rather Than Economic Growth**
   It is not possible in principle to argue with the passionate support given at HABITAT to the achievement of social equity and justice. Indeed, any agenda for action must respond to these impera-

tives. However, equity objectives decoupled from sound economic growth cannot be achieved in the long term. National case studies abound with evidence of this reality.

5. **The Assumption of Project Approaches**
   The underlying assumption was that development would be achieved through discrete project-by-project activities generated by the public sector. There was at best only passing reference to the role of government as a facilitator of development processes within which a broad spectrum of private entities and individual households can play a useful role.

   The experience of the last decade has shown that the project-by-project approach is too slow, is not replicable at scale, and is too expensive in terms of both capital and management. Approaches must be made at the national, regional, and local system levels to be effective.

6. **Understanding of Markets**
   The recommendations on land and shelter showed no understanding of how markets function and their interaction with public activities. Because of this failure to understand the market, many of the recommendations, if implemented, could well have had the perverse effect of making shelter and land less available and less affordable to low-income target groups.

The Changed Development Context

The issue of how best to address the increasing levels of poverty in the developing countries continues to be a concern of government and international donor agencies. What is different in the new debate is the assessment of the best means to reduce poverty, and the selection of appropriate instruments and institutions to undertake the development tasks. Underlying the debate is a strong consensus, drawn from the experience of the last ten years, that there must be positive economic growth if nations are to have any hope of redressing the issues of poverty and social equity.

The Changing Institutional Climate for Development

In the early 1980s, signs of a reassessment in approaches to development became apparent. In the 1981 *World Bank Development Report*, the focus shifted to the world economy, stressing the need for national and international adjustment to economic "shocks." Since then, the stress has continued to emphasize the need to improve macroeconomic performance, structural adjustment, external debt issues, institutional management, and trade and protectionism. Collectively, these new concerns represent a realignment of emphasis among the instruments which are believed to affect economic growth and poverty reduction.

The agenda of the major international meetings of the early 1980s reflected similar movements away from direct "basic needs" approaches. The Cancun Summit centered on a discussion of trade, commodity prices, industrialization, energy, and monetary and fiscal matters. The Third Lomé Convention, the New Delhi Commonwealth Heads of Government meeting, the Cartegena Group meetings and many others all concentrated on the debt crisis and world economic trends and issues.

A new sense of pragmatism entered the discussions among governments and international donors. There was a move away from the rhetoric of the 1970s with its emphasis on the "New International Economic Order" and hopes for massive transfers of wealth from the developed to the developing countries. The view that the developing countries could raise the standard of living of their poor masses quickly and without national sacrifice vanished from the debate of the 1980s.

The Changed Economic Conditions

By the early 1980s, developing countries were experiencing the impact of the world recession. Many of the developing countries had failed to adjust domestic prices in response to the first oil price shock in 1973, electing to subsidize domestic consumption instead. Therefore, the second round of oil price increases in 1979 was devastating. Coupled with the energy crisis was a sharp decline in commodity prices and the export earnings of many of the developing countries. Poor agricultural performance in many countries led to rapid increases in food imports, the price of which was rising and adding to negative international trade positions.

The abundance of international private credit during the period appeared to be an easy way out of the economic problems, which many thought would be only temporary. Lending by the international banking community to the developing countries rose dramatically, but interest rates doubled between 1977 and 1981. In 1981, the LIBOR rate was 16.6 percent compared to 6.5 percent in 1977. The debt burden associated with the servicing and future costs of borrowing reached unprecedented proportions.

In 1981, growth in per capita GNP for all developing countries was only two-tenths of one percent and, when the still-substantial growth of the East Asia and Pacific nations was subtracted, it was clear that many developing countries were experiencing negative economic growth. Particularly hard hit were the countries of sub-Saharan Africa and Latin America where negative growth persisted for over a decade in many countries.

In response to these extraordinary economic conditions, the International Monetary Fund, the World Bank, USAID and other donors have been negotiating structural adjustment agreements with the developing countries in the deepest difficulties. One of the prices of this economic recession is a sharp decline in the ability of these countries to address poverty issues.

In spite of falling interest rates, the emergence of the developed countries from the recession and some improvement in developing country export positions, the final chapter of this economic crisis has not yet been written. Even with flexibility on debt rescheduling and firm resistance to the new wave of protectionism sweeping the United States and Europe, it will take time to find ways in which many of the poorest and most disadvantaged developing countries can regain acceptable levels of economic growth.

Another key lesson from the 1970s has been that those countries which used their available domestic savings and international capital transfers for predominantly public-sector activities and enterprises did substantially worse than those in which the private sector had access to the majority of the investment resources.

In setting the new agenda for shelter and human settlements, the economic conditions of the 1980s and the lessons of the 1970s must be taken into account.

The Shelter and Human Settlements Debate

International donor support for shelter and human setlements remains limited and generally has a low priority. The discussion, nevertheless, has passed through a significant transition from a discussion about projects to much broader issues.

In the 1970s, the issues centered on how to make shelter affordable to low-income groups and service unplanned settlements through upgrading, on methods for allocating land plots fairly in sites and services projects, and on cost recovery. In essence, the issues were at the project scale. The goal was to find means to make projects "replicable" in that developing countries could undertake more and more projects of similar types as they gained experience. The main clients of the donor agencies were public-sector institutions in the developing countries.

The international debate has shifted its focus to the city as a productive entity: the means for improving urban management skills, issues of urban efficiency, and how to mobilize financial resources on the scale required. The debate has changed from how to make shelter projects work to how to make the entire city work productively as an engine for national development.

A new area of inquiry is developing regarding the interdependence of urban development and macroeconomic policies. Efforts are being made to define the role of market towns and cities in promoting sustained agricultural and industrial growth. Analysis is focused on determining the spatial impacts of macroeconomic policies.

Underlying this transition in the scale and focus of the debate on shelter and human settlements is the assumption that the issues of poverty might be better addressed through the indirect instruments of enhanced employment opportunities and increased income. This approach to job creation and economic growth would lead countries to abandon their "welfare mentality" of the past. The new view would suggest that as incomes expand, the poverty-level population would have a broadened range of choice on their consumption of shelter and other goods without "forced overconsumption" through public-sector action and subsidies.

As advanced as this debate is among scholars, practitioners, and the international donor community, it is only starting in many of the developing country governments. *In fact, many governments have never fully responded to the recommendations for modification and change of the* Vancouver Action Plan. *Very few, for example, ever adopted sites and services and upgrading as full substitutes for continued efforts at standard heavily subsidized public housing of the old kinds.* In part, this reluctance reflects the political commitment often established at the time of independence to have the government be seen as the provider of housing and services for the poor. It also reflects the widespread view of governments that the poor are incapable of providing for themselves or paying for shelter and services. When shelter and service provision are couched in this political framework, economic considerations and the obvious lack of available resources are not taken into consideration. Any new agenda for shelter and human settlements must address this issue of the government's political perception of its role and obligations to its people.

The main thrust of this section has been to summarize the changing environment within which the shelter and human settlements debate has been developing since 1976. It has briefly evaluated the strengths and weaknesses of the *Vancouver Action Plan* against the experience of the last ten years and the broader international economic framework. In so doing, it has established the case for the need for a new agenda.

SECTION II

THE ECONOMICS OF SHELTER IN DEVELOPMENT

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The debate on how productive housing investment is in national development strategies will likely never be resolved to everyone's satisfaction. The definitional questions are too large, the measures of productivity too imprecise, and the experience is very different from country to country. The first part of this section briefly examines this "classic" debate and concludes that none of the arguments are particularly fruitful in housing policy formation or as guides for the allocation of resources in a given country situation.

There is no "optimum" level of resources which should be invested in the housing sector independent of many other macroeconomic, institutional, social, and political variables. What emerges is a recognition that there is an approximate correlation between the per capita Gross Domestic Product of a country and the share of housing investment. The higher GDP, the higher is likely to be the share of housing investment. Differences between countries at similar levels of per capita GDP can be explained by "financial repression" of the housing sector. It is in this area where government policies constrain the amount of investment in the housing sector that specific case-by-case analysis of the effects of policy can prove useful.

The second part discusses what is generally known and accepted about the impact of housing investment on national economic development:

- Housing construction, as a share of total construction, has a positive effect on economic development with a multiplier effect of around two.

- The inflation effects of housing depend on overall inflationary pressures in the economy, and the amount of financing for housing generated from foreign transfers. During slack periods, housing investment can be counter-cyclical and be used to stimulate the overall economy.

- Housing investment requires varying amounts of imported inputs and since housing is not exported it has a negative effect on the balance of payments; however, luxury housing requires more import content than low-cost housing and therefore the balance-of-payment effect can be mitigated by policy determination.

- Housing has strong backward linkages to construction and to building materials and particularly supports small-scale contractors and building material suppliers.

- Housing has forward linkages, regardless of theoretical arguments to the contrary, because of the high propensity of homeowners to seek furniture, fixtures, and equipment for their houses.

- Housing has a positive effect on both direct and indirect employment. It provides entry-level jobs for unskilled workers. The type of housing built affects the amount of employment generated. Lower-cost housing generates more direct employment than higher-cost, multiple-family housing, but the more expensive housing generates more indirect employment. The method of construction selected has a significant effect on total employment, and labor-intensive technologies are to be preferred over capital-intensive techniques in countries where job generation is important.

- Housing is frequently used as an income-generating asset for households, particularly lower-income families, through the use of rental rooms, but also as a location for microenterprise.

Overall, it can be concluded that housing has elements of being both a "consumptive" and a "productive" good. The key issue for housing policymakers, therefore, is how to emphasize the productive use of housing investment as a contribution to national economic development at whatever aggregate level housing investment is to GDP.

The third part discusses the overall issues of housing finance. It stresses that housing finance should be directly linked to national capital markets and allowed to compete equally for investment with other productive sectors.

Since total savings in developing countries are finite at any given period of time, the competition between the use of savings by the public and private sectors is a significant factor influencing overall national economic development. A World Bank study of 38 countries showed that there was a positive correlation between the level of savings used by the private sector and the overall economic growth of the country.

Housing finance institutions should be encouraged to mobilize savings from the household savings sector competitively. Where governments impose caps on interest rates on savings and lending in the housing sector, housing finance institutions tend to be "marginalized."

Most directed credit programs operated by governments in housing are used to subsidize housing, which distorts the use of capital and penalizes the overall economy.

Renaud's definition of the three-tiered housing market stresses the limited penetration of formal housing finance and the fact that the vast majority of housing units are built by the informal sector without formal financial support.

The mobilization of household savings through formal financial institutions should be encouraged. There are significant savings held in unproductive assets such as gold and jewelry in the developing countries which, if mobilized, would add to the total national savings levels and contribute to the economy. Even lower-income groups have potential for savings mobilization if their specific requirements are met.

It is particularly important to clarify the level and role of subsidies in the housing sector. Public-sector housing subsidies are commonplace even in programs supported by the international donor community. The failure to achieve cost recovery (even at subsidized levels) also adds to the total subsidy level in public housing programs. Subsidies in housing are generally an inefficient way of obtaining income transfers to the poor. They often force consumption of housing services greater than that which the poor would elect for themselves.

The fourth segment summarizes some of the housing issues which need to be addressed by the public and private sector in order to increase the productivity of housing investment in a country context.

The development of a viable housing finance system is prerequisite to sustained growth of housing investment related to the overall deepening of financial markets. The development of housing finance institutions requires a supportive policy and regulatory environment, the ability to mobilize resources and provide security for deposits, and efficient overall management. As the housing finance system deepens, supplementary facilities can be provided such as deposit insurance, mortgage insurance, and ultimately secondary mortgage markets.

Of critical importance to the housing finance system is the utilization of market interest rates on both deposits and loans. Innovative financial instruments are useful in matching lending terms to the specific needs of low-income borrowers. Insofar as housing finance institutions can serve lower-income groups, they can broaden their market for mobilizing savings.

The informal finance markets which exist in most developing countries offer an opportunity of linkage for formal-sector housing finance institutions if innovative policies and approaches are developed.

The development of a viable housing finance system is only one key component in increasing the productivity of housing investment. Other areas which need to be made efficient and supportive to housing investment include:

- improvement in the efficiency and equity of land markets, reduction of inappropriately high land use standards, and increased efficiency in the rules and regulations controlling land transfer, titling and registration.

- the provision of secure land tenure for all income groups.
- the provision of infrastructure.
- the adoption of appropriate housing and building standards which are affordable to low-income groups.
- increased productivity in the production of building materials.
- increased productivity in the construction industry.

Finally, this section concludes that opportunities exist for the productive use of public- and private sector partnerships in housing finance and construction.

The Debate Over Shelter Economics

Many economists have argued that housing investment demonstrates low productivity and, therefore, should be given a low priority in national development strategies. Others have attempted to refute this argument in a variety of ways by arguing that housing is a basic need and, therefore, must be supported *a priori*, or that housing is justified on social productivity criteria. Still others present information and data to justify shelter as being at least as productive as investment in other sectors (by broadening the definition of benefits from the limited lists drawn by economists).

It is useful to review these arguments briefly. Clearly, none of the arguments — pro or con — can be considered definitive for all countries at all points in time. It is unlikely that useful answers to real shelter policy questions can be found at the theoretical level of discussion.

The Capital-Output Ratio Debate

The argument against housing as a productive investment at the national level is based on the perception that housing has a high capital-output ratio. This approach stresses the long period of "recapture" of the investment in housing. Therefore, shelter is seen as less attractive for investment than those things which have lower Incremental Capital-Output Ratios (ICORs).

In a recent analysis of this argument,[1] the Urban Institute has noted that the ICOR for the construction industry is lower than the ICOR for the "housing services" industry, a difference created by a lower imputed level of employment related to final output in housing than in other construction. Moreover, for construction, the measurement of final output is in value added, while for the housing services industry, it is usually measured by the rent or imputed rent of a dwelling.

The ICOR argument is not conclusive about the relationship of housing with other forms of investment. The ICOR concept in relation to more general issues of national development planning is under question because of imprecise and inaccurate data in developing countries, and flaws in the measurements of "outputs." There are also questions about the large variations recorded in ICORs by country and over time, which lower the confidence in their usefulness as a general measure between sectors at a global level.

The housing ICOR concept has been particularly attacked because rent alone is an insufficient proxy for all of the flow of benefits from the investment. Intangibles — such as better health, increased worker productivity, community pride, and indirect employment in forward and backward linkages, for example — are cited as not being fully reflected in the ICOR approach. Furthermore, government subsidies and rent control issues will distort the imputed rent levels unless corrected (a difficult methodological task).

[1] Harold M. Katsura, *Economic Effects of Housing Investment*. Urban Institute, October 1984, p.14.

But all this aside, the widely held view of economists that housing is merely "consumption" is likely to persist in spite of the evidence to the contrary.

Housing as a Basic Need

Advocates of housing programs over the years have often resorted to the simple statement that housing, along with food and clothing, are the basic needs of mankind. As such, housing is a worthy recipient of investment support for essentially "welfare" reasons.

The "basic need" view had political support in many newly independent countries in the late fifties and early sixties, witnessed by various policy statements to the effect that "safe, decent, and sanitary" housing is the right of all citizens.

It is, of course, correct that shelter is an essential element in human existence. The basic need advocates, however, take this fact and convert it into a government obligation to its people to supply "minimum standard" housing. It is this implicit commitment of government responsibility for housing which is debatable.

The *Vancouver Declaration on Human Settlements* stated the basic need approach as follows:

> Adequate shelter and services are a basic human right which places an obligation on Governments to ensure their attainment by all people beginning with direct assistance to the least advantaged through guided programmes of self-help and community action.[2]

The 64 specific recommendations made in the *Vancouver Action Plan,* in support of the *Declaration,* relate to this premise of government action in support of housing.

The basic needs approach requires the quantification of what the "need" for shelter is in the particular country. In country after country, this has been done by forecasting population well into the future, usually the year 2000, and dividing by a presumed average household size. This yields an estimate of the number of new shelter units "required" so that each new household will have one unit. Next, this estimate is adjusted for losses in the existing housing stock and some calculation is made for the existing "deficit" in the housing stock which, depending on the definition adopted, can cover reduction in overcrowding and in the "planned" elimination of housing units considered substandard.

The total housing needs generated by this simple mathematical approach can be quite staggering, particularly when compared to "official housing production" estimates:

> In Egypt in 1975, the government estimated the then present housing deficit at 1.4 million units. In Algeria, the government calculated that 100,000 units per year were required versus a production estimate below 25,000 units per year. Even the United Nations participated in the "needs" game by coming up with a global estimate that the "housing deficit" was increasing by four to five million units per year in the urban areas of 90 developing countries.[3]

In reality, the gloomy projections of a massive housing shortage worldwide is simply a result of the formula used to generate the estimates. For example, the 1976 Egyptian Census indicated that new additions to the housing stock had kept pace fully with new household formation and that there had been a slight improvement in the persons-per-room ratio between the census periods. These data are in direct contrast with the government's estimate of a massive 1.4 million-unit deficit. The reason for the enormous gap was that the government's deficit estimate had failed to include informal-sector housing stock on the production side and had included only public housing and private housing which had obtained building permits. Similar results were found in a wide selection of countries.[4]

The census evidence indicates that concerns about an absolute housing deficit problem may be misplaced. More important is concern about the quality of the housing stock. What creates the "deficit" in the minds of governments is that a substantial proportion of the existing and newly constructed housing stock falls below a "minimum standards test."

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[2] HABITAT: United Nations Conference on Human Settlements, Vancouver, Canada, May 31-June 11, 1976, p.7.

[3] Philippe E. Annez, *Housing Investment: A Cross Country Comparison*, Ph.D. Thesis, Massachusetts Institute of Technology, January 1981.

[4] *Ibid.*

The concensus among technicians who have dealt with the minimum housing standards issues is that the concept of national minimum standards is not relevant unless it is consistent with housing affordable to the population. The only housing suppliers constrained by the minimum standards are the formal private sector (which has traditionally built for the middle- and upper-income groups) and the public sector itself. In the latter case, it is the minimum standards requirements of public-sector shelter investments which have resulted in the need for large subsidies and the lack of replicability of their projects at the scale required to impact the presumed "needs."

The basic needs approach to housing cannot serve as a useful basis for relating shelter to national economic development. The cost of a shelter unit which meets the minimum standard as set by government, when multiplied by the total estimate of units required, results in an enormous investment requirement. This will always be an investment target many times more than a government could provide, and many times higher than the vast majority of the population could pay for (even if the capital investment could be mobilized).

Housing Productivity Theories

Several researchers have been intrigued with the concepts of social cost-benefit analysis for housing, and the "productivity" gains of improved housing on the occupants.[5]

Essentially, the argument is advanced that improved housing leads to increased worker productivity, improved health conditions, increased educational performance, and decreases in crime and juvenile delinquency.

The statistical evidence developed in these studies in the United States and in some developing countries neither supported nor refuted this hypothesis. Significant improvement in work productivity as a result of better housing was observed in two out of four cases. Improvement in health was observed in two out of seven cases. Improvement in education effectiveness and the reduction in the crime rate were significant in one of four cases.[6]

A more recent variation on the productivity theory of housing has been advanced by research sponsored by the National Association of REALTORS®.[7]

This research takes the position that, "Greater security of tenure freely arrived at provides for greater economic and social progress." It compares homeownership to rental housing in the United States, and concludes that homeownership provides significant economic and social incentives to the occupants compared to rental status.

The study found that homeowners work longer hours and achieve more production for each hour worked. Moreover, homeowners:

- saved 163 percent more than renters of similar income categories;
- saved 50 percent more than renters for other forms of commercial or industrial investment;
- were 28 percent more likely to make repairs on their houses;
- spent 35 percent more doing so than either renters or their landlords, therefore maintaining the value of the housing stock.

Finally, homeowners were more likely to participate in community affairs than renters, had less vandalism and crimes against people, and enjoyed improved "family stability."

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[5](Grebler, Burns, Weglin, 1977-78).

[6]Moustafa A. Mourad; Alfred F. Van Huyck; Patricia McCarney, *The Contribution to National Development Strategies*. Massachusetts Institute of Technology, Department of Urban Studies and Planning, May 1986.

[7]Jack Carlson, *Economic and Social Progress: The Role of Home Ownership and Other Forms of Secure Tenure*, paper presented at The International Shelter Conference, National Association of REALTORS®, Washington, D.C., November 2, 1984.

William Doebele expressed the same concepts in the developing country context when he wrote:[8]

It is through the acquisition of a small parcel of land that people can establish themselves in an urban economy. It is on this parcel that they engage in "brick-by-brick" capitalization, gradually accumulating the materials for a house or, in later stages, the addition of a rental unit that not only brings them income, but adds to the housing stock of the city without the use of public funds. (p.2)

Moreover, persons who are not able to obtain land and create their own shelter are much more vulnerable to economic vicissitudes. House ownership is, for the poor, one of the best insurance policies against the hazards of intermittent employment, ill health, unexpected expenses and the other threatening contingencies of life at the bottom of the economic scale. (p.10)

The productivity line of argument for increased priority for housing investment, while not conclusive, has a logical underpinning of common sense. The real problem is not whether it is correct but rather, does it justify increasing the level of investment flowing into the shelter sector?

Philippe Annez summarized this issue in his thesis as follows:

An efficiently generated outcome will make the best use of available resources and in so doing will weigh the benefits of increasing minimum levels of housing consumption against the opportunity costs of doing so. No large reallocation of resources towards housing for the poor can be made without worsening conditions elsewhere, if the outcome has been reached by a fully efficient allocation mechanism.

For example, a proponent of the absolute minimum standard view might argue that the poor should consume much more housing than they do in an efficiently generated outcome. In support of this view, he would contend that worker productivity would rise considerably as their housing conditions improve. That assertion could well be correct and still the reallocation could not be justified on efficiency grounds. This is because the resources used to improve housing must be taken away from some other use, for example, food or health expenditure, which also improves worker productivity. If the reallocation away from the efficiently generated equilibrium is large, then the loss in productivity due to the reduced expenditure on food or health care outweighs the improvement in worker productivity derived from the amelioration of housing conditions.[9]

This argument is valid if the only choice available is between alternative forms of consumption: however, others have argued that if households can be induced to convert savings from unproductive assets (such as gold or jewelry) into housing investment, real gains can be obtained.[10] This would be a way of increasing the efficiency of the allocation process as well.

Housing and the Urban Economy

Another line of argument has been developing in recent years which relates shelter investment to urbanization to national development.

Rapid urbanization is occurring in the developing countries. Almost half the populations in developing countries will live in urban places by the year 2000, requiring the accommodation of approximately 1 billion new urban citizens. In spite of these alarming projections, international donors and many of the developing countries have not yet begun to perceive the importance of the urbanization process to their national economies.

Despite the high correlation between urbanization and rising GDP, governments of developing countries have persisted in attempting to suppress urban growth rates. Part of the reason for this is the conventional way of thinking about economic growth, with its traditional reliance on sectoral performance.

Yet, the World Bank has concluded that at least half the total GDP of the developing countries is produced in cities and towns.[11] In India, with only 24 percent of its population in urban centers, over 60 percent of

[8] William A. Doebele, *Land Policy and Shelter*, paper to be published in a forthcoming book by Rodwin, et al, 1985.

[9] Philippe E. Annez, *Housing Investment: A Cross-Country Comparison*, MIT Ph.D. dissertation, January 1981.

[10] James W. Christian, *Housing Finance for Developing Countries*, International Union of Building Societies and Savings Associations, Chicago, Illinois, 1980. Bertrand Renaud, *Housing and Financial Institutions in Developing Countries*. International Union of Building Societies and Savings Associations, Chicago, Illinois, 1984.

[11] Michael A. Cohen, "Address to the Plenary of the Ninth Session of the United Nations Commission on Human Settlements," May 1986.

the GDP originates outside of agriculture.[12] Dakar, with 22 percent of the population of Senegal, produces 50 percent of GDP.[13]

The sources of these extraordinary contributions are well documented:

- Cities have a higher return on investment achieved by the external economies that occur with agglomeration.

- Cities can achieve economies in infrastructure service provision, communications, transportation.

- Cities can provide a wider range of job opportunities, including the informal sector.

Clearly, economists and policymakers cannot treat the economic contribution of urban places in isolation from the residential sector. This was stated quite directly and colorfully by Harvey Knox, who was the Mayor of San Diego, California, in 1951 during the Korean War. He wrote the following in his letter to the U.S. Senate committee concerned with housing:

> This city builds airplanes, airplanes require manpower, manpower requires housing, no house, no manpower, no airplanes. (Quoted by Annez, 1981)

Rapid urbanization generates a need for new housing stock. However, it does not necessarily follow that the housing sector should receive a larger allocation of resources than an efficient market would generate given effective demand. This is particularly true in the allocation of public-sector resources. In the literature on housing economics, researchers usually do not separate public sector investment from private-sector investment in housing. In macroeconomic terms, it probably makes little theoretical difference, but the opportunity costs of capital are quite different between the two sectors. When the public sector elects to invest scarce public resources in housing construction, it means that other publicly provided goods and services will receive less investment.

Since the private sector cannot efficiently provide certain types of goods and services such as infrastructure, it can be argued that the public sector should not invest in housing construction *per se*, but only in those things which the private sector cannot provide.

Conversely, the investment of housholds in their housing will add to the capital stock of the country and insofar as these savings are not mobilized in the formal financial sector, they may have very low opportunity costs to the nation.

* * *

This part has reviewed the macro-theories about housing investment. It has shown that the traditional economist's view that housing should be a low priority because of its suppesedly poor ICOR performance can be seriously questioned. However, the advocates of the "basic needs" approach to housing add little to the debate because the capital costs of shelter are too large to be met on a "welfare" basis at some presumed minimum standard. The research on housing productivity and social benefit analysis is probably valid in principle in spite of the methodological problems encountered, but is essentially irrelevant in terms of housing economics.

The more recent justification of shelter as an essential component of urbanization, which in turn is critical to national development, appears to make the best case for why a concern with shelter is essential.

In the segment which follows, the economics of housing will be assessed in order to better understand exactly how shelter contributes to national economic development.

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[12] Bertrand Renaud, *op.cit.*

[13] Alfred P. Van Huyck, *New Directions for National Shelter and Settlement Policies,*" paper for IYSH Advisory Group Meeting on Shelter, Settlement and Economic Development, United Nations Headquarters, April 24-26, 1985.

THE NATIONAL ECONOMIC IMPACT OF HOUSING

Many scholars have attempted to determine the "optimum" level of housing investment. This literature is summarized by Annez in his thesis[1] and includes the works of Kuznets (1960), Eckaus (1973), Strassmann (1970), and Burns and Brebler (1977).

Annez reports that, "All authors found income, measured as Gross Domestic Product (GDP) per capita, the most important variable in explaining variation in the share of housing investment in total production."[2] In addition, most concluded that demographic variables are important.

While there are significant limitations to each of these studies, there is a clear pattern that the share represented by residential construction rises with per capita GDP. Strassmann, however, suggests that this difference may not be so extreme as low-income countries may not capture housing investment outside the monetized sector in their data base.

Similar findings have been established from analysis of the entire construction industry. Moavenzadeh finds that the contribution of construction to GDP in the developing countries ranges from 3 percent at the lower end to 8 percent at the higher GDP per capita levels. He goes on to cite research by the University College Environmental Research Group in 1972 which concluded that, "Time-series data show that construction activity increases faster than per capita income, with each change of one percent in per capital GDP accompanied by a 1.2 percent change in the per capita value added by the construction sector."[3]

Moavenzadeh also pointed out a higher income bias toward residential construction, with residential construction rising from around 28 percent of all construction at a per capita GDP of US$200 to nearly 40 percent at US$2,000. Construction accounts for about one-half of gross fixed capital formation in the developing countries. It is unlikely that all squatter housing is included in these estimates.

Income Effects

There is evidence that construction has a significant income multiplier effect. Simulations of the United States economy have shown construction multipliers of about 2.35.[4] Studies in developing countries have shown multiplier effects only slightly lower.

Inflation Effects

Housing investment has been criticized as being inflationary. Economists have debated this issue at length without any clear-cut conclusions of general applicability. The general theoretical argument has been summarized by the Urban Institute as follows:[5]

> The impact of increased demand for housing is reflected in the price of housing itself, the price of housing inputs, and the price of other goods and services. The extent to which increased investment will influence the price level will depend on the supply elasticities of the inputs and on whether the increased demand is domestically financed or externally financed. The importance of this latter point is that if housing is domestically financed, and the prices in other sectors are flexible, price increases resulting from increased demand for housing will probably be offset to some degree by falling prices in those sectors where demand shrinks. On the other hand, if the housing is externally financed, this price offset need not occur. (p.32)

Increased housing investment can create shortages in building materials and construction labor, but the upward effect on prices will be related to the current capacity utilization of the construction sector in the

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[1] Philippe E. Annez, *Housing Investment: A Cross Country Comparison*, Ph.D Thesis, Massachusetts Institute of Technology, January 1981, p.53.

[2] *Ibid.*, p.53.

[3] Fred Moavenzadeh, *The Construction Industry and the Supply of Low-Cost Shelter*. April 1985, p.11.

[4] *Ibid.* Note: Multiplier effects, indeed, would tend to be higher in developing countries except that leakages caused by underutilized construction capacity and labor typically are greater than in the United States.

[5] Harold M. Katsura, *Economic Effects of Housing Investment*. Urban Institute, October 1984, p.32.

economy and the flexibility of attracting new suppliers. During slack periods, housing investment can be counter-cyclical and can be used to stimulate the overall economy.

It is very difficult to separate the inflationary effects of housing investment *per se* from the broader domestic and international inflationary effects working on the economy. This causality issue has been seen by some[6] from a different perspective. Since housing is considered a hedge against inflation, increases in housing demand might be viewed as a reaction to inflationary pressures within a country.

Balance of Payment Effects

Another concern of economists with housing investment is its effect on the balance of payments. Most housing investment includes some foreign exchange components, either directly or indirectly. Since the housing unit represents a non-exportable good that absorbs domestic resources, it would appear that housing contributes to the balance of payment problems experienced by most developing countries.

It is clear that the import component for housing will vary enormously country to country depending on a wide variety of factors. The country-specific estimates for the import content of housing investment can range from 10 percent to as high as 40 percent.

The level of imports for housing should be a matter of careful study and review in each country situation. Where sufficient markets are available, housing production can create opportunities for the development of import substitution industries. It also should be a concern of local policy whether or not to limit the import of materials, fixtures, and equipment for luxury housing, significant factors since luxury housing will have much higher import components than low-cost housing. Appropriate policies can be established to conserve foreign exchange by limiting luxury housing imports while still importing the essential materials required for meeting low- and moderate-priced housing requirements.

Christian has developed a simple model (see Appendix A) which demonstrates that investments with a low-import component (such as housing) have a more powerful effect on economic growth than investments with high-import components.[7]

Employment Effects

World Bank data shows that construction labor accounted for 7.4 percent of total labor in 16 developing countries, but only 3.2 percent of the total labor of 12 low-income developing countries. The same sample showed that in the 16 higher-income countries labor productivity in construction, estimated as the contribution to GDP, averaged about US$22,500 per capita down to an average of $2,600 per capita in the lower-income countries.[8]

Labor is second only to building materials as an input to construction, accounting for between 19 and 27 percent of the total value of construction.[9] It is particularly important as a source of employment for unskilled workers. A study in the Ivory Coast in 1970 found that the informal sector accounted for 60 percent of the 104,230 workers in the construction sector as a whole.[10]

The National Building Organization in India estimated that an investment of Rs10 million (Rs9.8 = US$1.00) in building construction in 1980 generated 1,623 person-years of employment. This was divided into on-site employment of 420 person-years of unskilled labor; 204 person-years of skilled labor; and 999 person-years of indirect employment, off site in the building materials and other support sectors.[11]

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[6] O.F. Grimes, *Housing for Low-Income Families*. Baltimore: Johns Hopkins University Press, 1976.

[7] James W. Christian, *The Contribution of Shelter to National Economic Development*, address to the Second International Shelter Conference, Vienna, Austria, September 11, 1986.

[8] Ernesto F. Henroid, *The Construction Industry*. World Bank, 1984, pp.17-18.

[9] Fred Moavenzadeh, *op. cit.*

[10] *Ibid.*

[11] *Ibid.*

Other studies confirm the generally favorable employment effects of construction. Data assembled by the Urban Institute[12] for Mexico showed that the direct and indirect employment effects of construction per million pesos invested ranked the sector sixth among 15 industrial sectors. A Colombian study from 1972 found that more employment was generated in construction than in manufacturing for an equal investment.

The type of housing constructed has a significant effect on the kind and scale of labor required. The Urban Institute assembled studies from Mexico, Colombia and Peru which showed that less expensive, single-family housing generates more employment than more expensive, multi-family, multi-story housing. However, the more expensive housing generates more indirect employment.[13]

Even among low-income urban workers, employment effects of construction are strong; self-built housing is not typical. World Bank data from 26 sites and services projects showed that the majority of household hired small contractors to perform major building tasks.[14] This would suggest that even low-income households seem to have higher than expected opportunity costs for their labor.

The key point is that capital and labor are interchangeable in construction. It is thus important for low-income countries to select policies and technologies which emphasize use of labor over scarce capital resources (particularly foreign exchange). Capital is often substituted for labor in construction because managers wish to avoid perceived problems with large labor forces such as unions, strikes, and other work stoppages; also, initial designs are frequently oriented to capital-intensive construction rather than labor. Moreover, capital is sometimes undervalued through subsidized interest rates, and accounting systems fail to record the true costs of capital such as depreciation, breakdown losses, and maintenance costs.

Housing and Linkages

Housing has very strong backward linkages to the building materials industries for such products as stone, soil, clay, cement, iron and steel, processed wood, glass, etc. Moavenzadeh cites a 1980 study of 11 developing countries which calculated that intermediate inputs to construction equaled 55 percent of the value of the sector's output. It is important to consider the structure of the building materials industry in order to ensure the greatest productivity of housing investment and contribution to national development.

The forward linkages of housing investment are more difficult to calculate. Essentially, forward linkages are the patterns of consumption created by the production of intermediate goods. Some consider housing a "finished good" and therefore a "consumption" good without forward linkages. However, regardless of theory, common sense dictates that households are strongly motivated to purchase furniture, equipment and fixtures for their homes, and this process can have a strong positive effect on many industries.

Homeownership among low-income households usually means the continued upgrading of the home through expansion and improvement in quality over time. This process contributes to demand in the economy in general and particularly supports microenterprises which tend to be the suppliers of the materials in this upgrading process.

Housing, Rentals, and Home Enterprises

Low-income housing is often used to generate income for its owner-occupiers. This can be in the form of rental income from renting rooms or from locating small enterprises at the house site. These activities can significantly augment the income of the owners.

It is extremely common to find extensive provision of room rental accommodations within low-income settlements in the developing countries. This process is not well documented by case studies nor does there appear to be a comprehensive data base. However, insofar as households are able to provide room rentals

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[12] Harold M. Katsura, *op. cit.*

[13] *Ibid.*

[14] *Ibid.*

profitably with minimum increases in their capital investment, the process can be a major source of income to the owners and an effective way of providing low-cost accommodation to other low-income families with little or no drain on domestic resources.

A good example of this is the Helwan upgrading project in Egypt, financed by USAID, and providing credit for house upgrading. Most of the loans made under this program have been used to expand dwelling units in order to provide additional rooms for rent. The repayment rates have been very high and homeowners report that the rental income is in excess of the loan payments.[15]

The experience in a Malawi sites and services project has been similar in that households have built their own structure and rental accommodations for one or two tenants. The rental income has been sufficient to repay the capital cost of both their own unit and the rental units in just over five years.[16]

Besides rental income streams, there is widespread use of the residence as the location of home-based enterprises. This is a phenomenon in the developing countries in all regions of the world, and is exemplified by a recent study in Peru.[17] The Strassmann study, based on data collected in 1980 and 1983, documented the significance of home-based enterprises in the economy of Lima, Peru; 10.8 percent of all dwellings in the city had home-based enterprises which accounted for 40 percent of the total income of the owner-occupiers. The lower-income areas had 1.5 times more enterprises than conventional neighborhoods, but the aggregate income per enterprise was lower (i.e., less profitable).

Insofar as the Strassmann findings are typical of other developing countries, and such is likely to be the case, housing takes on some of the characteristics of construction of factories, offices, and stores which economists view much more favorably as contributors to national development.

* * *

The Urban Institute found several factors which repeatedly are found to influence the size of the economic effects of housing investment.[18] They include:

- the type of housing investment
- the scale of housing investment
- the import content of housing investment
- the opportunity cost of housing inputs
- the source of housing finance, and
- the timeframe of housing investment.

In order to evaluate the impact of housing investment, policymakers need to determine how these factors are likely to influence each effect they are concerned with.

The old argument about housing investment as "consumption" rather than productive investment seems to be largely an irrelevant issue. In economic terms, housing falls within the definitions of both "consumption" and "production."

Housing must be viewed as being a productive investment in economic terms since it produces housing services even if only measured by "rent," as economists are inclined to do. The more important question

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[15] Interviews by Alfred P. Van Huyck, Egypt, 1985.

[16] Harold M. Katsura, *op. cit.*

[17] W. Paul Strassman, *Types of Neighborhoods and Home-Based Enterprises: Evidence From Lima, Peru*, unpublished manuscript, 1986.

[18] Harold M. Katsura, *op. cit.*

is how productive is housing investment compared to other alternative investments? For it is here that the traditional economist view assigns housing a low priority. The evidence from all sources is fragmentary and inconclusive. While many very specific citations can be drawn from the literature which support the concepts that housing investment is at least as productive as many other investments in areas such as construction multiplier effects, employment generation, and its backward and forward linkages, the case is unlikely ever to be proved to everyone's satisfaction.

At the macro-level, it can be concluded that regardless of planners' strategies and whether or not housing is, or is not, a "productive" investment, there is a broad correlation between the level of housing investment and the level of per capita GDP of the country. The more interesting question, therefore, is how to ensure that the aggregate level of investment flowing into the housing sector is most efficiently utilized and provides for the most equitable distribution of benefits to the population. It is at this more micro-level that the selection of policies can make significant differences in the overall performance of the housing sector.

What is certain is that housing investment must be made in support of the urbanization process; therefore, the most important issue is to ensure that the investment is made as efficiently as possible.

Housing Finance

Virtually all experts in housing finance and economics view the mobilization of resources through the financial system as being critical to the development of a strong housing sector.

Renaud cites recent studies of housing markets in Cameroon and Zaire to illustrate the point: ". . . methods of financial savings determine methods of construction and not the reverse . . . they determine the dominant type of urbanization in African cities . . . changing the financial system would change these cities."[1]

Wheaton points that while households will eventually achieve the level of housing services that they can afford, access to housing credit will accelerate the rate of consumption of these housing services.[2]

Christian stresses that "without the institutional infrastructure to mobilize domestic saving most developing countries have continued to have low aggregate propensities to save."[3]

These experts believe that it is essential to link housing finance to the national capital markets. (Christian, 1980; Renaud, 1984; and Boleat, 1985.) If housing finance is kept separate through public policies which attempt to keep savings and housing lending rates below capital market rates, the financial sector is less efficient because capital cannot cannot be shifted to where the highest return is possible, and housing finance institutions are kept on the margin of capital markets.

As Boleat observed, in most of the developed countries there is no financial constraint to housing provision, so households can obtain mortgage finance when they purchase the house.[4]

This is not the case in most developing countries where the total pool of national savings is small and inflexible at any given period of time. National planners and ministries of finance, recognizing this, will allocate credit to national development objectives, which rarely include housing.

Hence, the housing sector is frequently deliberately placed at a disadvantage in mobilizing resources. This is part of the explanation for the wide variance in the level of housing investment among countries with

[1]Bertrand Renaud, *Resource Mobilization, Household Savings and Housing: The Emerging Agenda,* address to the Second International Shelter Conference, Vienna, Austria, September 11, 1986.

[2]William Wheaton in an interview with Alfred P. Van Huyck, September 1986.

[3]James W. Christian, *The Contribution of Shelter to National Economic Development*, address to the Second International Shelter Conference, Vienna, Austria, September 11, 1986.

[4]Mark Boleat, *Housing Finance Institutions*, paper prepared for the IYSH Advisory Group Meeting, UNCHS, April 24-25, 1985, p.1.

similar GDPs. This phenomena is called "financial repression" and means that financial services, including housing, do not grow as rapidly as expected because of public policies and regulations, such as specifying the use of nominal interest rates below inflation rates or the real cost of capital.[5]

Financial repression of the housing sector is both unwise and unnecessary. Homeownership is a high priority to households of all income levels and they will save in order to obtain a dwelling unit. Channeling this savings effort through housing finance institutions (as opposed to savings maintained in unproductive assets such as gold or jewelry), will deepen the entire capital market and increase the total pool of national savings. Of course, one danger to the housing sector is that such pools of savings will be taken by government for other forms of public-sector investment which may be less productive.

The competition for savings and the allocation of credit between the public and private sector is a critical issue affecting overall national development. A World Bank study of 38 developing countries has shown that there is a high correlation between the share of credit available to the private sector and overall economic growth. A one percent increase in the real rate of growth of private-sector credit was associated with GNP growth of .34 percent per capita.[6]

Since the household sector is a major source of surplus savings for the economy, there is implicit competition in the demand for credit between the household borrower and the government. Many countries operate government savings banks, post office savings schemes, and other programs to direct household savings into various forms of government paper, and away from private sector lenders.

This means generally that housing finance institutions (particularly those in the public sector) are forced to be small, specialized institutions dependent on the raising of their funds on a "wholesale" basis often through government "directed-credit" schemes that provide for some present level of investment to be directed into the housing sector. Directed-credit schemes include the use of retirement funds, commercial bank loans, forced savings plans, or a special tax on wages. In most cases, the funds generated by directed-credit schemes are used to subsidize housing, distorting the use of capital and penalizing the overall economy.

Efforts by government to separate out the issue of housing the poor from the entire housing sector are misguided, as the growth of the housing finance system cannot be separated from the overall financial sector.

The Three-Tiered Housing Market

Bertrand Renaud identified a three-tiered housing market.[7] The first tier is the high-quality, private market which usually has access to a formalized housing credit system to augment its own resources. For example, private developers typically resort to pre-sale and pre-financing by the buyers and equity sharing arrangement with those who contribute the land. This limits projects to upper-income buyers.[8] The second tier consists of the relatively few households which have access to public-sector housing provision. This group is generally middle-income civil servants, or salaried workers from public and private enterprises. The third, and by far the largest, tier represents the lower-income group which provide their own housing, often through the informal sector.

Renaud illustrated the three-tier market concept through data collected in Tunisia for the period 1975-1980. He concludes:[9]

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[5] Bertrand Renaud, *Housing and Financial Institutions in Developing Countries*. International Union of Building Societies and Savings Associations, Chicago, Illinois, 1984, p.26.

[6] Keith Marsden, *Private Enterprise Boosts Growth*. World Bank Working Paper, 1985, p.2.

[7] Bertrand Renaud, *op. cit.*, p.15.

[8] Bertrand Renaud, *Financing Shelter*. World Bank Report No. UDD-92, November 1985, p.5.

[9] Bertrand Renaud, *op. cit.*

What is most striking is the undeveloped state of financial institutions mobilizing resources for housing: Institutional financing represents only 7.7% of the "legal" private sector investment. This ratio rises only to 34.4% of public sector investment and 16.7% of total housing. If public sector subsidies are excluded, the share of financing by financial institutions drops to 11.4%.

A similar pattern emerges from data from other countries. Financial institutions provided less than 33 percent of housing finance in Thailand (1981); 25.5 percent in the Philippines (1977); and 20 percent in Portugal (1976-1978).[10]

Housing Finance and Savings Mobilization

Christian has developed a crude measure of financial development for more than 100 countries. He measures the ratio of total currency in circulation to the total of currency and deposits in financial institutions. The higher the ratio, the more likely it is that household savings are held in unproductive forms which contribute little to the economy. Conversely, the lower the ratio, the more likely it is that household saving has been mobilized and converted into investment that supports the growth of the economy. He concludes that most developed countries have ratios of less than 10 percent, while developing countries have ratios that range upward from lows of around 15 percent to as high as 80 percent.[11]

The household sector is responsible for 40 to 60 percent of domestic savings. It is therefore very important to increase the household level of savings and ensure its efficient allocation to investment. If national savings rates are low, the prospects for housing finance systems will be poor.[12] The mobilization of voluntary savings requires institutions to undertake active promotion among savers. To attract savings, a financial intermediary must provide the holder of idle funds with three key elements:

- **Security**
  Funds must be at least as safe and accessible in the institution as in the hands of the owners.

- **Reward**
  The institution must offer adequate compensation for the use of the funds either in the form of interest or in provision of financial services. The rate of interest must promise some real return above inflation and should be set by competition for funds in savings markets.

- **Access to Credit**
  Savers will often be households who need access to credit; therefore, the broader the institution's lending market, the larger is likely to be its deposit base.[13]

One proven technique that meets all these criteria is the contractual savings plan with individuals. This would commit the individual to a given level of savings over time in return for a promise of a specific housing loan at the completion of the savings program.

If the housing finance institution has the authority and the credit rating, it can also raise funds by issuing long-term bonds. This has the advantage of matching its debt maturities with its lending program and making the interest spreads predictable. Not many housing finance institutions in the developing countries can presently take advantage of this approach because the capital markets are narrow.

What is critical, of course, is that housing finance institutions be able to obtain a return on their assets in excess of that paid on their deposits. This is most possible in an environment of maximum freedom, where the overall market sets the rates on both deposits and loans in response to demand.

Too often, even relatively sophisticated financial sectors in the developing world ignore the savings that can be mobilized among lower-income groups. A 1982 study by Mulkh Raj of HUDCO in India showed

[10]Bertrand Renaud, *op. cit.*

[11]James W. Christian, *op. cit.*

[12]Bertrand Renaud, *op. cit.*, 1984.

[13]James W. Christian, *Housing Finance for Developing Countries.* International Union of Building Societies and Savings Associations, Chicago, Illinois, 1980, p.11.

that households with average incomes of US$38 per month were able to provide nearly half (43 percent) of their housing from their own savings, with the remainder provided by loans from friends and relatives (40 percent) and other sources (17 percent). The study concluded that the opportunity to obtain housing was a strong factor in the mobilization of low-income household resources.[14]

The Indian study then calculated this low-income group who obtained housing increased their savings from zero to 6.3 percent of their monthly income despite the fact that their monthly payment for housing increased from 5.8 percent of income before the purchase to 17.9 percent after. Renaud cited similar findings from cases in El Salvador and Morocco.

Interest Rates

All analysts recognize the central importance of interest rates on the development of housing finance institutions, and the necessity of using market interest rates in the housing finance sector.

Poorly designed interest rate policies, below market levels, limit savings mobilization and have four undesirable consequences:[15]

- They have a negative impact on income distribution.
- They distort resource allocation.
- They affect the viability of the financial institutions.
- They blunt incentives.

A policy of low-interest loans typically leads to a concentration of a small number of relatively large loans to better-off households. It leads to excess demand for credit and therefore rationing, and prohibits the institutions from competing in capital markets.[16]

The most efficient housing finance institutions are the most flexible, a characteristic missing from administered markets. The conventional, fixed-rate, level payment mortgage is well suited to borrowers with stable incomes large enough to buy or build complete housing units. As such, it is the mortgage instrument that finds its widest application among salaried, middle-income families. But the instrument is not well adapted to low-income families or those with volatile incomes. Housing finance institutions limit their market when they offer only one type of mortgage instrument. This, in turn, reduces the opportunity for savings mobilization because of the link between depositors and access to credit.

There are many other forms of mortgage instruments that offer a wider market appeal, including the variable payment mortgage, the roll-over mortgage, the graduated payment mortgage, the blocked-compensating balance mortgage, and the sequentially-escalating mortgage.[17]

Unfortunately, while these innovative instruments can deal with a variety of economic conditions and provide a more appropriate response to both the lenders' and borrowers' needs, they tend to be complex to understand and administer.

Housing Subsidies

The use of housing subsidies in public housing programs has been the subject of intense study. Most public housing programs include an element of subsidy to make the housing unit, which the government feels is the minimum acceptable unit, affordable to a targeted beneficiary.

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[14]Bertrand Renaud, *op. cit.*, 1984.

[15]Bertrand Renaud, *op. cit.*, pp.77-79.

[16]*Ibid.*

[17]James W. Christian, *op. cit.*, pp.27-41.

Subsidies can enter into the housing delivery process in many forms. Some of the most common are under-pricing of land, provision of on-site or off-site infrastructure, provision of the dwelling unit (construction and/or building materials), or use of below-market interest rates on construction finance and/or long-term mortgage finance.

Less obvious forms of subsidy are through such things as failure to include the overhead costs of the public entity undertaking the project, waiver of the fees for building permits, etc., which private developers would have to pay, and sometimes waivers of taxation on the completed units.

Perhaps the largest subsidy is the failure of the public entity to obtain the full cost recovery to which it is entitled under the terms of the sale or lease. This form of subsidy is particularly inequitable as it benefits those households who have already benefited from the provision of the unit and the initial subsidies. It also undermines the viability of the public institution holding the financial instrument, and its ability to promote housing production.

The international donor agencies involved in housing programs have consistently sought to reduce the level of subsidies involved in the housing projects which they sponsor in the developing countries. However, recent studies[18] have shown that, despite this policy objective, World Bank projects show a high level of subsidy.

Government subsidies are, of course, not limited to housing, but can be found in many publicly provided goods and services. Subsidies are simply transfers between groups. Government-provided subsidies are, therefore, transfers of value between those groups who contribute to government savings and those who receive the subsidy. Insofar as the subsidy is targeted and responsive to a clear government policy objective (such as income redistribution to the poor) and is affordable to the nation, there is nothing inherently wrong with subsidies.

What makes housing subsidies a matter of particular concern is that housing is a high-cost item (as opposed to food and clothing, which are consumed in much smaller increments). Housing subsidies tend to be large in absolute terms and, therefore, limited in the number of beneficiaries which can be served, especially in light of limited resources and the generally low priority of governments toward the housing sector.

Most governments have a minimum-standard for the dwelling unit to be provided, and the difference between the cost of that minimum standard dwelling unit and the perceived level of payment that the target group can afford to pay becomes *de facto* the level of subsidy provided. Since the minimum standard is higher than that which the beneficiaries would provide for themselves independently, this gap is often very large. Compounding this, the level of payment is set below what a "market clearing" price offered to all otherwise qualified members of the target group would be willing to pay.

This process generates overconsumption of housing services by the targeted beneficiary group and, therefore, distorts the allocation of housing resources and lowers the efficiency of housing sector. This can be illustrated in a hypothetical example as follows:

If a household with a monthly income of 100 units is willing to pay 10 units for housing services in the private market, it is then paying 10 percent of its income for housing. If the government provides a housing unit to this household which has the equivalent of a monthly subsidy of 30 units, then it is providing an in kind income supplement of 30 units which makes the household's total monthly income 130 units of which the household is paying 10 units for housing services and consuming the other 30 units for housing in the form of the subsidy. This means that the household is consuming 31 percent of its income plus the in-kind subsidy in housing services. Another household with an actual monthly income of 130 units is paying between 13-15 units for housing services in the private market. Therefore, the benefited household is actually "overconsuming" between 25-27 units of income in housing services that it would not choose to do if it had the actual income.[19]

This forced overconsumption of housing services brought about by the housing subsidy system leads the typical beneficiary to "capitalize" the subsidy by subletting or reselling the housing unit to a higher-income household. To the extent that the target group receives a cash subsidy through this system, it can be

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[18]Stephen Mayo and David Gross, *Sites and Services — and Subsidies: The Economics of Low Cost Housing in Developing Countries*. World Bank, 1985.

[19]Alfred P. Van Huyck, presentation at the AID Shelter Sector Workshop, 1982.

argued that the government's objectives are realized; however, the transaction costs of this system are extremely high and the efficiency is very low. It is a poor way to provide subsidies to the target group. Since only a few households can receive these benefits, substantial inequities are built into the system. Most otherwise eligible households will not receive any benefits and yet all low-income households bear a portion of the income transfer to the extent they contribute to government savings.

Nonetheless, the provision of subsidized housing is a politically popular initiative of many governments and, in spite of reasoned economic arguments to the contrary, is likely to continue in some form. Therefore, the more realistic issues to be addressed are:

- Subsidies should be built into the construction process (through writing down part of the capital cost) rather than the financing process (so that interest rate structures are not distorted and can respond to market rate changes).

- The physical standards of provision should be reduced to the point that they are essentially affordable to the target group.

- The prices charged and the terms and conditions of repayment should be set at a market clearing price for all otherwise eligible members of the target group. For example, savings will differ among households with the same level of current income and, therefore, the ability to make down payments will be different.

- Cost recovery should be given a high priority so that no unintended subsidies are included.

- The level of aggregate subsidy to be provided should be carefully calculated so that it is measurable and specifically targeted to achieve the government's objectives by providing housing services to the widest possible number of eligible beneficiaries.

Development of Housing Finance Institutions

If substantial progress is to be made on providing housing for all population groups, it will be essential to build a viable system of housing finance institutions in the developing countries.

Renaud lists the factors critical to the development of housing finance systems as follows:[20]

- **A supportive policy environment and regulatory role of government**
  This is most important and should have three objectives: improve competition, increase efficiency, and stimulate long-term finance.

- **Level of income and development opportunities**
  As per capita income rises, the role of financial services increases and new development opportunities are created. In very low-income countries, it is difficult to assign a high priority to housing or to the development of housing finance institutions.

- **Encouraging appropriate institutions**
  The selection and development of appropriate institutions in response to the level of development and requirements of a given national situation is important. Early decisions regarding housing finance institutions are likely to frame the options for growth of the system.

- **Specificity of low-income housing needs**
  There is frequently confusion between "public policy" toward housing for the poor and the housing finance sector. Housing finance institutions need to be encouraged to deepen financial services and, therefore, it is desirable to separate the construction function from the financial function as the types of services are very different. "Nowhere has the confusion of public policy objectives between the expansion of a viable housing finance system and the distinct and specific needs of public programs

[20]Bertrand Renaud, *op. cit.*, 1984, pp.77-79.

for the lowest-income groups been as harmful as in the setting of inadequate interest rates for the entire housing sector."[21]

Renaud also identifies a series of specific problems associated with the development of housing finance institutions. Housing finance institutions must deal with households on the lending as well as on the deposit side and this leads to substantial risks and high transaction costs compared to the size of the loans involved. The institutions generally borrow short and lend long. They are extremely sensitive to inflationary environments. The maintenance of public confidence is essential. It finances long-term fixed investment, consumed by owner-occupants instead of being sold on open markets.[22]

Boleat identifies four types of housing finance systems or mechanisms by which funds can be transferred from those with savings to those who need loans.[23]

1. **The Direct System**
   Funds which house buyers require are obtained directly from those who have available funds (friends, relatives, etc.). Also included are builders and/or vendors of building materials who sell directly on a delayed payment deal with the buyer. This is usually done through a "markup" above the price for cash sales which can be calculated on an inputed interest rate over the payback period.

2. **The Contractual System**
   The savings of potential house buyers are used to provide the funds for house purchase. A person enters into a contract to save a certain sum of money over a period of years, generally at a below-market rate of interest. When the period of saving is complete, there is an entitlement to a loan, also at a below-market rate of interest.

3. **The Deposit-Taking System**
   Institutions, which in the normal course of their business take deposits, make loans to house purchasers, both operations generally being done at variable rates of interest. The institutions providing this service can be either general commercial banks, savings banks, or specialist building societies or savings associations.

4. **Mortgage Bank System**
   Institutions raise funds through debt issued in wholesale markets, and use these funds to make loans to house purchasers on matching terms.

Boleat stresses that learning has been slow in the housing finance sector. He believes this is so because, by its very nature, housing finance tends to be local or at best a national activity. The flow of information among housing finance institutions in different nations is irregular at best and, therefore, the lessons are not transferred. The main source of international information is provided by donor organizations, like the World Bank and USAID. The improvement of information flow should be one priority in the development of housing finance institutions.

Christian stresses the importance of improving the management of housing finance institutions in order to reduce the transaction costs and, therefore, the spread required between the costs of deposits and the lending rates. He stresses that potential gains in efficiency are possible in savings administration, liability management, loan administration, asset management, administrative cost control, and maintenance of capital adequacy. He recommends that each housing finance institution have a well-developed growth plan and management strategy.[24]

As the housing finance system develops, Christian suggests that the phased development of supporting facilities can be considered. He identifies as most important the need to establish a secondary source of

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[21] *Ibid.*, p.38.

[22] *Ibid.*, p.44.

[23] Mark Boleat, "Housing Finance Institutions," paper prepared for the IYSH Advisory Group Meeting, UNCHS, April 24-25, 1985, pp.3-5.

[24] James W. Christian, *op. cit.*, 1980, pp.55-69.

liquidity in case of "runs" on the institutions. This is best provided by a central authority which is not subject to withdrawal pressures. Other supporting facilities which can be introduced as the financial system becomes more developed include:

1. Deposit insurance which can be provided by governments based on premiums paid by institutions.

2. Mortgage insurance based on premiums paid by the borrower to provide protection for the institutions. This would facilitate loans to lower-income groups and to support innovative new lending approaches.

3. In later stages, as systems mature, consideration can be given to the establishment of secondary mortgage markets in order to provide additional liquidity to the mortgage-originating institutions. The preconditions for establishing a secondary mortgage market include a viable network of primary institutions and the availability of investment balances within the capital markets. The key to success is to formulate an attractive package in order to attract the investment balances. This might involve provision of mortgage insurance so that the debt instrument traded in the secondary market is a claim against the insurer or the guarantor, not a claim against the individual mortgagor.

4. Since many nations have such small overall mortgage markets, it may be possible to consider the development of international secondary mortgage markets on a regional scale. There are two such institutions already in existence: the Central American Bank for Economic Integration (CABEI), and the Inter-American Savings and Loan Bank (BIAPE). Both groups have encountered some difficulties, but have survived for a number of years as relatively small institutions.

Linkage to Informal Finance Markets

Boleat has described informal financial markets as follows:

> In most developing countries, there are informal rotating credit societies and savings clubs. These exist under a variety of names, but basically operate in similar ways. In the case of rotating credit societies, members contribute a set amount each week or month, and each member of the society has the right to the funds under some established procedure. In Africa and the Middle East, lots are frequently drawn to decide who has access to the funds, and normally no interest is charged. In Asian countries, interest is generally charged, and access to funds is determined by bids rather than by drawing lots. Such institutions are very similar in nature to early building societies in the United Kingdom, and similar institutions in other countries.[25]

These informal credit societies are successful because they are based on family or community groups with which people identify; they require no paperwork or collateral; they are not regulated by government; and they use group pressure to maintain a good recovery rate.[26]

They are constrained, however, because they must remain small (usually fewer than 100 persons involved); can raise only limited capital; can offer only short-term credit; and may not have a wide enough base to diversify risk.[27]

These societies are major informal sector tools for housing development. The challenge is to link them to a wider, national, housing finance system. In the words of Renaud: "To what extent, and under what conditions, can housing finance institutions grow out of the extensive interpersonal networks which represent up to 80 percent of housing investment resources?"[28]

There are presently a number of barriers that separate formal housing finance institutions from the informal sector. Most housing finance institutions have qualification policies on borrowers (such as adequate level of income, stable employment, satisfactory collateral) which low-income households cannot meet. From the informal-sector borrowers' point of view, the institution is often not attractive as a source of finance because of such things as high minimum loan sizes, high down payments required, long

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[25] Mark Boleat, *op. cit.*, p.6.

[26] *Ibid.*, p.15.

[27] *Ibid.*, p.16.

[28] Bertrand Renaud, *op. cit.*, p.23.

maturities, fixed amortization payments, inconvenient office locations, and complex terms and conditions which are not understood by the borrower.[29]

Christian has done extensive work in the methods which might be employed to link the informal credit systems with formal housing finance institutions. He outlines three basic approaches open to formal housing finance institutions:[30]

1. **Outreach Programs**
   This approach includes the use of mobile branches to bring financial services into low-income areas; paying commissions to employees who generate new accounts and service loans for informal-sector households during their off-duty hours; and development of a network of "agents" within the informal sector to serve as intermediaries

2. **Mutual Accounts**
   This approach would include efforts to attract mutual accounts in the name of the community or informal savings society with the "representative" responsible for collecting savings; the institution makes loans to the group and the collections become the responsibility of the "representative."

3. **Affiliation**
   This approach is based on establishing rotating credit societies as "affiliates" of the housing finance institution in a manner similar to the relationship of correspondent banks. The rotating credit society provides the knowledge of the local market and the formal-sector institution provides management advice, accounting services, and access to a larger pool of loanable funds.

These techniques require a mature housing finance institution and a supportive public policy environment.

* * *

The centerpiece in ensuring the maximum contribution of housing to national economic development is the establishment of a viable housing finance system capable of mobilizing household savings. The first step to this end is the linking of housing finance to the national capital markets. Governments should support this process by ensuring that there is no "financial repression" in the housing sector and that financial institutions are allowed to compete effectively for savings mobilization at market interest rates.

Experience has shown that greater access to national savings by the private sector has been linked to higher rates of overall economic growth. Insofar as the public sector is involved in housing, it should react to market forces. It is particularly important that subsidies be limited and carefully targeted to low-income groups.

It is not enough, however, to set positive policies supporting housing finance mobilzation. Specific steps must be taken to establish viable housing finance institutions, which merit public confidence, and deliver efficient financial services. This requires innovative management which seeks to actively respond to demand and develop links to the informal financial markets.

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[29] *Ibid.*, p.23.

[30] James W. Christian, *op. cit.*, p.71.

IMPROVING PRODUCTIVITY OF HOUSING INVESTMENT

The aggregate level of housing investment is, of course, a major determinant in the quality and quantity of the housing stock. However, the productivity of housing investment will be in considerable measure be determined by the other inputs essential to the housing delivery systems such as land and tenure, infrastructure, building materials and construction, and building regulations.

Housing and Land Markets

Most discussions of the economics of shelter exclude the issue of land (viewed as a non-depreciating asset). In reality, the housing market and the land market are intertwined. When the urban land market functions inefficiently, usually because of inappropriate public policies, the housing market also will be inefficient.

Where households have no clear potential for obtaining secure title to land on which to construct their houses, there will be a disincentive toward saving for housing investment. The lack of secure land title and tenure is also a major problem in obtaining access to housing finance.

Inefficient and costly regulations and procedures, inadequate cadastral surveys, and long delays in processing building permits, all add unnecessarily to the costs of housing and thereby reduce the productivity of housing investment.

Beyond these, the use of high land use standards (e.g., unnecessarily large plot sizes, road rights-of-way, or open-space requirements) will add to the cost of residential construction and lower the productivity of housing investment when measured by the total population served.

Estimates suggest that the urbanized land area of developing country cities will more than double between 1980 and 2000.[1] If this enormous growth is not handled efficiently and effectively, it will clearly have a negative impact on the productivity of housing investment and, indeed, all aspects of the urban economy. Serious efforts to increase the productivity of housing investment must include careful review of the urban land market.

The Critical Importance of Secure Land Tenure

For all households, the right to own and/or use property as legally defined is of critical importance to their social and economic well-being. Among low-income households, "secure" land tenure is often the difference between perpetual dependence and "marginality" and some degree of economic independence. Secure tenure is a prerequisite to obtaining access to credit through the formal housing finance system.

Land tenure is closely associated with historical precedents and the social/culture tradition sof the country. Therefore, there is an enormous array of land tenure forms varying from country-to-country, and general principles are difficult to formulate.

Appropriate land tenure systems are best defined by policy criteria applicable to a variety of systems:

1. **Efficiency**
   Does the system encourage a smoothly functioning land market that permits the maximum productivity of land and is responsive to market demand and changes in the urban form?

2. **Equity**
   Does the tenure system provide reasonable access to land for housing, business and other needs to all groups (particularly low-income groups)? Does the tenure system allow the public sector to recapture increases in land value brought about through public investment?

3. **Compatibility**
   Does the tenure system integrate well with other economic development and urban land policy instruments, such as the development plan, taxation, and the management of public services?

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[1]William A. Doebele, "Land and Policy and Shelter," paper to be published in a forthcoming book by Rodwin et al, 1985.

4. Continuity
Does the tenure system avoid, to the extent possible, abrupt "breaks" with the cultural and political system which led to existing tenure arrangements?

In many developing countries, the existing systems of tenure are deficient in one or more of the following respects:

- They do not result in the most efficient patterns of land use.

- They reinforce existing inequalities of wealth and opportunity.

- They are "mechanically" ill-adapted to the needs of rapid urbanization because of cumbersome methods of registration and recording, clouded titles, transfer taxes, lack of adequate powers of expropriation, and inefficient institutions.

- They do not provide sufficient clarity of "ownership rights" to allow the use of the land parcel as collateral for obtaining financing.

While deficiencies and inequalities of existing tenure arrangements are easy to observe, corrective actions are difficult to implement politically and technically.[2]

Housing and Infrastructure

The economics of infrastructure, like land, is often viewed independently from housing, yet it is in reality a key factor affecting housing investment productivity. In many countries, substantial amounts of housing stock lie dormant because essential infrastructure has not been supplied. The stream of benefits from the housing investment are postponed, carrying costs mount, and productivity is sacrificed.

Most urban centers in developing countries have very large infrastructure deficits in existing settlement areas. The effect is to lower the incentive to households to invest in the improvement of their units. It has been shown in many studies of upgrading projects that after completion there is a large additional investment generated in the improvement of the housing units.

The failure to require infrastructure for new land areas as they are developed will increase the price of such land when it is serviced later, thereby raising the ultimate cost of the housing units. This acts as a disincentive to the mobilization of housing investment since sufficient serviced land is not available to stimulate effective demand.

There are several widespread problems with infrastructure provisions in the developing countries which need to be addressed in any effort to improve the productivity of housing investment. These include:

- the use of high standards of provision which limit the supply given the high capital costs per unit of service.

- the use of subsidies in pricing policies which make cost recovery inadequate to finance future increments of service.

- overlapping and inefficient institutional structures among the entities responsible for infrastructure provision.

- too low a priority given to maintenance of existing systems and services.

Housing and Building Regulations

Another area in which the productivity of housing investment could be improved is through the adoption of appropriate and efficient building codes and construction standards. Many developing countries in-

[2]Alfred P. Van Huyck and William Doebele, *Land Tenure Choices in Program Upgrading Projects Within the Context of National Land Policy*. PADCO, Inc., September 1982.

herited their building codes and standards at the time of independence or adopted them many years ago from Western models of the pre-war period. As a result, housing construction built to these codes and standards has not captured the cost savings promised by new technologies, materials, and techniques. In some cases, the codes even require the use of imported materials when local materials could adequately substitute. Careful review of the building codes could reduce the cost per square meter of conventional housing construction.

The typical building codes also work to exclude lower-income groups from achieving legal housing because the code standards are too high to be affordable to lower-income groups. In the vast majority of cases, the codes and standards are ignored by low-income people out of necessity; however, this can have a dampening effect on their housing investment because it places them in "illegal status" which may mean insecure tenure, no access to credit, and no opportunity for infrastructure provision.

A careful review and redrafting of the codes and standards for housing construction can make a contribution to improving the productivity of housing investments for all income groups and categories of housing.

Productivity in Construction and the Building Materials Industry

The productivity of the construction sector and the efficiency of building materials development represent an area of significant potential housing cost savings in both the formal and informal sectors.

Each country will need to assess its own requirements for building materials, its available indigenous building material resources, and determine the appropriate mix between imported materials, import substitution strategies, and local production. Domestic production will be preferred over imports, but small low-income countries need to avoid investment in inherently uneconomical cement or steel plants which cannot take advantage of economies of scale.

The building materials industry lends itself to informal-sector production and small-scale enterprise which interact with the formal sector at various levels. There is considerable evidence that small-scale building materials production can be competitive. For example, a study in Gambia in 1980 calculated that a small-scale brickmaking plant (300,000 units per year) produced at U.S. 29 cents per unit while a large-scale plant (10 million units per year) produced at U.S. 43 cents per unit (Moavenzadeh, 1985).

Small building materials plants are less dependent on large markets, can utilize smaller deposits of raw materials, and can mainain lower transportation costs. They also tend to have more labor-intensive technologies and lower requirements for foreign exchange.

Experience has shown that the building materials industry will operate most efficiently when it is relatively free of government regulation and relies mainly on private-sector suppliers. Where governments have attempted to establish monopolies or "control boards" over building materials, they have created inefficiencies in the distribution system, high prices, and the development of black markets.

Appropriate standards for the production and use of building materials should encourage the efficient use of materials in construction, allow the use of the lowest-cost material which can provide an acceptable level of performance, and permit the use of "temporary" materials in low-cost housing.

The construction industry in many developing countries suffers from inadequate management, lack of skilled labor, constraining laws and regulations, price distortions, noncompetitive practices, inadequate access to credit and foreign exchange, and uneven access to building materials. These constraints must be addressed by policies and procedures that eliminate specific bottlenecks, encourage efficient management, and stimulate competition.

The maximum use of labor-intensive methods should be encouraged in low-income developing countries. This may require specific changes in labor laws and regulations which constrain the productive use of labor as a substitute for capital.

Of particular importance is the development of an efficient private-sector construction industry. Where the public sector does include construction enterprises, it should be held accountable for performance, without subsidies or other special treatment inherently unfair to private competitors.

The overall conclusion which can be drawn from this discussion on the contribution of housing to national economic development is that the maximum benefits can be achieved when there is a working partnership between the public and private sectors. This was the major focus of the *Vienna Recommendations on Shelter and Urban Development,* which states in the Preamble:[3]

The cornerstone of this new action agenda is the recognition of the absolute necessity to foster cooperation between the public and private sectors and the evolution of those aspects of nation building that each can do most efficiently.

Regardless of the political and humanitarian motivations of governments, national strategies must reflect the limited capacity of the public sector to meet all of the development requirements of the people. They cannot do the job alone. All non-governmental economic and human resources must be mobilized in the development effort, including the formal private sector, the informal private sector, the nonprofit private sector, private associations, cooperatives, and community groups. All have a valuable role to play in establishing an efficient and productive development strategy.

The basis for effective public private cooperation rests with the undersanding and fulfillment of the responsibility incumbent on each sector. Specifically, the public sector has the responsibility to:

- Ensure that macroeconomic policies avoid market distortions and are conducive to economic growth through private sector initiative.
- Encourage the mobilization of domestic financial resources and ensure adequate access to domestic savings by the private sector.
- Support pricing policies of both public and private goods and services which permit markets to function efficiently.
- Emphasize efficiently in urban management, infrastructure provision, and land policy including the provision of secure land tenure, and freedom of land title transfer.
- Restrict public-sector activities to those which cannot be done effectively by the private sector and the people themselves.

In turn, the private sector's responsibility to the partnership is to:

- balance the essential need for operating profits with a response to social needs of all income groups.
- mobilize investment capital for housing and urban development.
- accept prudent business risks, competitive principles and market results.
- develop entrepreneurship and innovation.

Public- and private-sector partnerships offer a variety of advantages:[4]

1. They will increase the total flow of funds into the housing sector.
2. They reduce public-sector expenditures by substituting private funds.
3. They can target funds to specific objectives.
4. They can reduce public-sector administrative and transaction costs.
5. They can tap private-sector management and technical expertise.

The key to success of public/private partnerships is to ensure that the objectives of both parties are compatible.

There are opportunities for public/private partnerships in both housing finance and production.

In housing finance, the public sector can provide finance directly to households, but this approach often maintains subsidies and high administrative costs, and suffers from cost recovery problems. The government also can provide capital to private housing finance institutions for on-lending for specific objectives. The public sector can provide housing guarantees, deposit insurance, and a secondary mortgage market to

[3] *Vienna Recommendations on Shelter and Urban Development,* adopted at the Second International Shelter Conference, Vienna, Austria, September 12, 1986.

[4] Royce LaNier, et al, *Public and Private Sector Partnerships in Housing.* Technical Support Services, Inc., February 1986.

support private-housing finance institutions. Governments can purchase private-housing finance institutional paper. The government can enter into joint equity arrangements with private investors to establish housing finance institutions.

In housing production, public/private partnerships can take the form of joint venture housing project development, the provision of sites and services with housing construction vested in the private sector, and the enactment of supportive policies and regulations. Turnkey projects sponsored by the public sector with private entrepreneurs also have scope to tap private resources more effectively than straight contracting.

Partnerships can be made with the private sector at the central government level or at the local government level which often can meet local needs more efficiently.

It is only through effective public and private sector partnerships that developing countries can have a realistic chance to meet the demand for housing among all income groups, as well as effectively utilize housing investment as a dynamic contributor to national economic growth.

SECTION III

PROCEEDINGS OF THE SECOND INTERNATIONAL SHELTER CONFERENCE September 10-12, 1986 Vienna, Austria

OPENING REMARKS BY DAVID ROBERTS Immediate Past President, National Association of REALTORS®

Almost two years ago, as I prepared for my term as President of the National Association of REALTORS®, I had the honor of addressing the delegates of the First International Shelter Conference held in Washington, D.C., in November 1984. I am truly gratified to observe that the private-sector International Shelter Coalition that took its first steps during that meeting is alive and well and reassembled here in Vienna. It is only through the deliberate and continued exchange of ideas that we can help each other to establish a viable role for the private sector in meeting the shelter challenge worldwide. On behalf of the National Association of REALTORS®, I am delighted to be here and to take part in what promises to be a productive and enlightening meeting. We have a difficult challenge before us, but a unique opportunity as well. With the constellation of housing experts gathered here today — and with the excellent preparatory work that has been done — I am confident that we can make a practical and important contribution to the International Year of Shelter.

Within the brief time permitted me this morning, I would like to share with you some observations on the vital role of homeownership and security of tenure in promoting economic and social progress. In every country, the shelter industry accounts for a significant proportion — sometimes as much as 30 percent or higher — of national output. The health of that sector — and rate of growth — is therefore critical to the performance of the economy as a whole. The often-heard arguments of economists that shelter is an unproductive consumption good simply do not hold up under close scrutiny. Professional research has revealed that given the prospect of obtaining better shelter with security of tenure, people at all income levels save more, not less — on average about 165 percent more. Incremental, self-built shelter also adds to the national capital stock by mobilizing investments from households which otherwise would save less and would hold their savings in unproductive assets.

The provision of better housing and greater security of tenure thus results in *more net saving,* which in turn means more resources available for investment and more economic growth, not less. The shelter sector is also a major creator of employment, both directly and indirectly, through the demand for goods and services that shelter development, maintenance and improvement create. Further, it provides an on-the-job training environment which contributes to increased productivity overall.

In addition to the economic benefits of shelter which will be discussed and debated at length throughout the conference, a healthy shelter also generates considerable social benefit. Studies performed in the United States illustrate that better housing and greater security of tenure are associated with greater family stability and reduced crime rates. Homeownership leads to greater participation in community activities and in the processes of democratic government. In the United States, there is convincing evidence that homeowners are more likely to vote than non-homeowners and are more likely to volunteer time, money and services to improve the quality of life in their communities. When people have a greater stake in their environment, they clearly will do more to improve it.

It is thus important to promote the view of the shelter sector as an engine of economic growth, of employment creation, of investment and of improvement in our standard of living. The important task for all of us is to better document this case to policymakers at both national and international levels to ensure that the shelter sector receives the attention and priority that it deserves.

What can we do to promote homeownership and security of tenure worldwide? Perhaps most important, we must understand what experience has proved time and time again. People can build their own houses quite efficiently provided that they are given access to the urban land market and to services and credit. Governments must get out of the business of building houses and must recognize that the task of providing shelter for their citizens is well beyond their available resources. Instead, they must take a sober and realistic look at addressing the institutional constraints that adversely impact the main components of the shelter problem — land, public services and finance. Without security of tenure, neither individuals nor private-sector organizations will have the confidence to invest their resources, efforts and skills in shelter construction, maintenance and improvement. The development and distribution of land for housing is one the critical bottlenecks to shelter production. Systems for the efficient transfer of property need urgently to be established before the potential of the private sector can begin to be fully tapped.

Approximately two-thirds of the families in the United States own their own homes. One of the principal incentives to homeownership is the freedom to transfer title. Since historically the value of an American home appreciates at least as fast as the rate of inflation, the owner enjoys an increase in his equity. This phenomenon is the same as depositing money in a savings account. This equity is then freely transferable to another more valuable home. Thus the pyramid of savings grows. The 750,000 members of the National Association of REALTORS® of the United States are the professionals who make this transfer possible. We would like to see these same processes established in the developing countries and we offer our assistance wherever requested.

National and international real estate organizations can play a vital role in helping developing countries meet this challenge — first, in bringing our own perspective and range of knowledge to bear on the problem and its solutions; second, in disseminating appropriate solutions through international and bilateral exchanges; third, by encouraging effective followup action. Our expertise, after all, lies precisely in areas such as identifying, assembling and preparing land for development and arranging for investment and financial backing.

I look forward over the course of the next two days to helping identify ways in which the private sector can be more fully tapped and to establishing this International Shelter Coalition as a truly viable instrument of social and economic change for the benefit of the underhoused and the countries in which they live.

Remarks By
Otto Stöben
President, International Real Estate Federation (FIABCI)

I am honored to welcome you here today on behalf of the International Real Estate Federation. My organization, with more than 7,000 members in 43 countries, has asked each of our national chapters to support the aims of this conference. We have asked for their commitment:

- to help solve the worldwide housing problem;
- to explore how more fortunate chapters can help those in the developing world create systems essential to solving the housing problem;
- to help mobilize private institutions in the effort before us; and
- to stay the course and to keep the housing issue alive and under constant examination.

Among the sponsors of this conference are housing-related associations from Asia, Africa, Latin America, the Caribbean, Europe and North America. There is here today a truly International Shelter Coalition. It is made up of people and organizations which assemble and develop land, establish and convey title, build and sell houses, finance construction and mortgages. Collected here today are both practitioners and theoreticians. This distinguished assembly is being asked to define and debate the features which any national system pretending to address housing needs must embrace if progress is to be possible.

Among the critical issues to be explored, I suggest, is the need to develop methods to strengthen, structure and improve the private development professions in the developing world. We must examine how to improve the legal, fiscal and financial interface between public regulators and private producers so that private initiative can be turned loose and more shelter can be produced.

It is often said that the private sector cannot, or will not, respond to the housing problems of low-income families. How true an assertion is this? Is the private sector response inadequate? If so, what are the constraints which prevent it from taking a more active role in this arena? Does the public sector facilitate private action or is it an impediment? These are central questions which I hope we will see debated here in this conference. The International Year of Shelter provides the perfect context in which to set forth the key issues and principles which will dominate the shelter agenda for the remainder of the century. In Nairobi in April 1987, members and observer countries of the United Nations Commission on Human Settlements will meet to discuss strategies to deal with the shelter problem. Our conference here today provides an opportunity to formulate a set of views which are reasonable and practical and which describe a blend of public and private actions appropriate for dealing with the housing problem.

Let me suggest that we have before us an opportunity to influence both the tenor and outcome of the debate. The channels for dialogue are open — certainly more than they were in 1976. We have outstanding individuals here from the developing world who are experienced experts on the issue of housing in their respective countries. It is to these individuals that we look to actually frame the agenda for the future, drawing on their own national experiences for inspiration and reflection. All too often the debate on the problem of shelter becomes dominated by Western perspectives and those of the international aid agencies. But the problem of housing, especially low-income housing, is at its greatest in places such as Calcutta, Mexico City, Kingston and Manila. Solving the shelter problem is essentially a domestic responsibility and solutions must be framed within the level of each nation's resources and institutional framework. We need, however, to establish how the private sector and private associations can help cross international lines and join forces. The aid agencies represented here also need to hear how their policies and assistance can best help to support, consolidate and institutionalize national solutions.

As a group, the associations represented here would, I believe, assert that private ownership or at least secure tenure is essential to any successful housing effort. We should debate this assertion and then forcefully advocate this proposition if it is indeed valid. Similarly, we should explore the characteristics of successful national development since it is true that successful development requires organization and assistance that are financially autonomous with independence of action and freedom to innovate. Let us explore these propositions.

Remarks By
Dr. Willi-Dieter Osterbrauck
President, International Union of Building Societies and Savings Associations (IUBSSA)

It is my privilege to speak to you as the representative of the International Union of Building Societies and Savings Associations. This Association, which I am proud to represent, brings together thrift and home financing institutions which serve more than 450 million savers, and more then 350 million borrowers in 67 countries on all five continents of the world.

It was in Washington, D.C., on November 2 and 3, 1984, that the International Union, FIABCI, NAR and the International Council for Building Research, Studies and Documentation, sponsored the first International Shelter Conference. This was a pioneering effort to attract greater private-sector initiatives into the development of shelter, financial mechanisms, land policy, settlement planning and security of tenure which would provide housing for families all over the world.

The Union is committed to helping solve shelter problems. It has provided, and will provide, assistance to individuals and countries wishing to establish savings and loan institutions for the first time. It makes experts available with skills in the development of operating systems, the training of employees and the writing of laws and regulations. Members of the International Union frequently offer persons from developing countries the opportunity to obtain on-the-job training and experience in their national systems.

1987 is the International Year of Shelter for the Homeless. There are two billion people suffering from poverty, unemployment and lack of adequate shelter. By the year 2000, if present population trends continue, the figure will be well over three billion, a prospect too grim for us to contemplate. I cite Barbara Ward's words on the eve of the Habitat Conference in Vancouver in 1976:

At no time in the history of man has the environment that man created been in such a state of confusion and total crisis.

Those words could describe 1986, too.

A most important precondition for the establishment of peace in our day, and for its maintenance in the future, is to begin to overcome worldwide social and economic disparities. In a world with a steadily growing population it is of paramount importance that those in the public and private sectors responsible for urban and rural development, for settlement policy, form partnerships for progress. Public and private settlements policy and programs cannot be effective if created or administered separately. Settlement and urban policy demand greater attention at national and international levels and the forging of national shelter coalitions with characteristics of the International Shelter Coalition gathered here today.

Housing is a basic human requirement. An important factor in attaining an adequate dwelling is the creation of financing entities like building societies. These banks of real estate credit represent an excellent example of how cooperation is possible in a community of people.

This right to adequate housing has found a place in nearly all constitutions of the states in the West and the East. The realization of this right is, of course, dependent on national economic facilities and local conditions.

With the aid of stimulants, provided by state assistance, by governmental incentives for savings and repayments of loans, even low-income groups of the population have realized, through building societies, the great value of homeownership. Homeownership provides a basis for political stability and for citizens' participation in the affairs of their community.

For 35 years, I have strived for better housing for families and for middle- and low-income groups. These goals must be achieved through savings, self-help and private initiatives and by governmental incentives for special groups of the population. The more private initiative, the less governments will be called on to spend limited public funds for housing.

As President of the International Union, I try to spur possibilities of cooperation with governmental and private organizations everywhere, but, in particular, in the undeveloped regions and countries with fledgling building societies, housing banks, mortgage banks and housing development finance institutions.

To attain our goals, it is necessary to advance, step by step; to try and relate the two questions of "why" and "how" to the circumstances of real life. Why housing? How to satisfy the needs of as many people as possible? How to allow property ownership? Are the people able and willing to save a certain amount for better housing? How can the national housing finance system work? How can cooperation be realied?

In solving the shelter problems at an international level in the eighties and nineties, we are pinning our hopes on private initiative, which is ever more necessary as budget limitations require the governments of the world to reduce public spending in the shelter sector. Members of the International Union in more than 67 countries are partners with whom they can cooperate to encourage the adoption of appropriate shelter policies and programs.

The Worldwide Shelter Condition Today

by Dr. Arcot Ramachandran
Executive Director of the United Nations Center for Human Settlements (HABITAT)

Let me take the responsibility, on behalf of all the participants in this conference, for thanking all the co-sponsoring institutions who have made this meeting possible. The first shelter conference in Washington opened up several very constructive lines of discussion, and this followup conference gives us the opportunity to build on those first ideas and identify practical actions for improving the world shelter situation. As Executive Director of the United Nations Centre for Human Settlements (HABITAT), which provides the organizing secretariat for the International Year of Shelter for the Homeless (IYSH), I shall be looking for ideas from this conference to strengthen the Human Settlements program throughout the world.

As part of the IYSH program, we have been organizing subregional governmental meetings to discuss national housing policies and to formulate priorities for governmental initiatives. We are now in the process of setting up a series of regional meetings of nongovernmental organizations, principally those focused on grassroots operations, to gain the benefit of their experiences and to mobilize their support for the IYSH. Therefore, we welcome this contribution by FIABCI, NAR and IUBSSA to the promotion of private-sector support for the program.

There has been, perhaps, some initial misunderstanding of the target group of the IYSH and of the responsible organizations that we wish to see participating in IYSH efforts. On one hand, some people appear to believe that the IYSH is directed toward the promotion of increased governmental programs for public housing delivery. On the other hand, some people perceive the IYSH as a charity drive by voluntary agencies to provide relief to deprived and destitute populations. I must emphasize that it is neither of these things. The IYSH is a framework for mobilizing the resources of all participants in the shelter sector to bring about concrete housing improvements for the majority of people in the world today. We must tap the capacities of all of those in both the public and private sectors who can contribute to our goals. This is why I place great importance on the outcome of this meeting.

The fact that this conference is taking place at all is, I think, an indication of some of the shifts of emphasis we have seen since HABITAT: the United Nations Conference on Human Settlements, which was held in Vancouver in May 1976. Ten years is actually not a long period in the development of human settlements, and most of the problems identified in Vancouver are still with us, although some of them are appreciably more acute today than they were then. However, ten years is a long enough time for us to appraise the workability of the solutions proposed by the Vancouver conference, and I think we can agree that some rethinking is required in certain areas.

The conference adopted 64 recommendations for national action to develop and operate human settlements in a situation of rapid population growth and urbanization. As expected, population numbers have increased rapidly, and levels of urbanization have risen over the past decade, but what was not foreseen was the disastrous deterioration of economic conditions in most of the developing countries. Governmental programs for human settlements have not been adjusted to the changed economic conditions we are facing; hence, it seems clear from all available indicators that human settlement conditions are deteriorating rather than improving. The HABITAT Conference did create a widespread awareness of the problems of human settlements and of some of the possible solutions. Attitudes toward human settlement issues have altered radically.

Very few governments, for example, still think that the only way to solve the problems of slums and squatter settlements is through demolition and relocation. Most governments are aware of the necessity to allocate increasingly scarce resources with a clear view of spatial implications. Yet, these positive developments are taking place in a context where change — unplanned and uncontrolled change -- is proceeding at an increasing pace. This is the fundamental problem that governments, private and public organizations and the United Nations system are confronted with.

At the present time, about 1 billion people lack adequate shelter, and a significant number of people are actually homeless, often occupying improvised shelter on streets in some of the metropolitan centers of developing countries. In the cities of the developing countries, 30 percent of the inhabitants, on average, live in slums and squatter settlements: In some cities, figures of 75 to 80 percent living in such conditions are not uncommon. It is also not unusual to find a thousand or more people dependent on water from a single standpipe and having no access to waste-disposal facilities.

In the past ten years, more than 350 million people in developing countries have been added to the population of cities. Most of them are below the poverty level and cannot afford conventional shelter or conventional water-supply, sewerage and electricity-service facilities. Most of them have been added to the population of slums and squatter settlements within cities and at the periphery of cities. They have all coped, in the sense that they have managed to find or build for themselves some sort of shelter, however inadequate and unsafe it may be. They have survived against all kinds of odds — eviction from the sites they occupied, lack of assistance or overt hostility from authorities, fierce competition within the informal sector of the economy, lack of medical care and education, and a condition of permanent physical precariousness. Their shanty-towns have become the city itself.

Generally speaking, prior to the Vancouver conference the view was that the shelter and infrastructure deficiencies of the developing countries would be made up by massive public programs and that governments merely had to follow conventional procedures to meet the desired targets. However, it quickly became apparent that governmental programs could not even keep abreast of demand growth and that deficiencies would inevitably worsen unless innovative procedures were adopted. From this realization, it was a short step to the argument that program responsibilities should be divided among those best able to meet them and that the most efficient role of government was to support the activities of those who were actually providing shelter and infrastructure, i.e., the poor themselves and the informal private-sector operators in the housing and services field. This approach generally has been termed an "enabling strategy" role of government.

As a result of this change in thinking, the efforts of the poor and of the informal sector in constructing and operating human settlements have been widely recognized: In some developing countries, a slow change is taking place toward the adoption of enabling policies, and assistance is being provided to self-help and community participation efforts. However, there is an urgent need to give a sense of direction to all of this: The bulk of the population of developing countries settles and consolidates wherever chance and opportunity permit; the sites chosen — if such a word can be used — are simply where land is available at the moment or where rooms can be rented. The "new world built on top of the present one" which was anticipated in Vancouver is essentially of this nature.

Over the period 1975-2000, the population in developing countries is projected to grow by almost 2 billion. Many countries have seen a demographic shift, with natural population increase supplementing migration as a source of urban population growth. If present trends continue, between 60 and 70 percent of the population increase will take place in urban areas, where, by the year 2000, over 40 percent of the population of the developing countries — over 2 billion people — will be located. The number of cities in developing countries with more than 10 million inhabitants may increase from four in 1980 to perhaps as many as 17. Some 40 cities could have populations of 5 million or more, and almost 300 will be above 1 million. As the stakes increase, the need to manage cities, to provide services and to enable the urban poor to find adequate shelter is becoming more evident than ever before. Action needs to be taken before urbanization becomes overwhelming.

Even in times of economic growth, such massive urbanization would strain administrative capacity, urban services and the social fabric, but this phenomenon is occurring during the most serious and prolonged worldwide economic recession since the end of the Second World War; and, despite some hopeful signs of recovery in some industrialized countries, all indications are that most of the developing countries will face serious economic difficulties throughout the current decade and, most probably, well into the next. In addition to this, the current world recession is accompanied by an enormous and, to a large degree, unforeseen international debt and liquidity crisis involving not just the developing countries but the whole structure of the international financial and banking system.

Under the burden of the $800 billion combined debt, many countries of the developing world have had to face the collapse of their models of economic development, some of which were praised only yesterday as successful examples of industrialization. Prosperous OPEC oil exporters have drastically reduced their development layouts, canceling or postponing indefinitely up to 50 percent of pending development projects because of the drop in world oil prices. Even if the volume of world trade were to expand, most developing countries still would have to use between 40 and 70 percent of their export earnings to service their outstanding debt, with little prospect of borrowing sufficient additional capital to allow for future economic growth and development. It is precisely the multidimensional aspect of the current world economic recession, accompanied by structural and technological changes, which has led to a basic crisis of confidence in both developed and developing countries and which casts such a dark cloud over the future.

These bare figures offer, I am certain, enough evidence that we are confronted by a problem of such magnitude that none of the traditional recipes can be of any practical use. Additional financing might be made available for low-cost housing, and a few people might be better off; pilot rehabilitation programs could be launched, and these experiences might show the way to widespread applications; advances probably will be registered in understanding the indispensable role of community participation in the success of settlement programs; the utilization of locally available building materials and construction techniques almost certainly will spread. Yet, none of these positive developments can ensure action on the scale needed.

Massive breakthroughs in terms of perception, understanding and policy formulation are required in the area of urbanization itself: what it is, what it means, and what new strategies are needed to exploit its potential and avoid its unwanted side effects. Only when we have this understanding can we devise a workable strategy based on the enabling concept of public/private cooperation. The search for such a strategy is essential, because the developing countries must look toward their cities to pull them out of the current recession and to provide the dynamism for future economic growth and development. The key role of human settlements in national economic and social development is self-evident. Cities are the engines of economic growth and the cradles of social change. They will provide 80 percent of the annual increment in GNP by the end of the century and, as with any productive tool, they must be properly used and maintained to generate their maximum benefit.

It is clear that if cities are to reach the projected level of output by the year 2000 to fulfill the development functions required of them, urban productivity and efficiency must increase over the coming decades. Efficiently run cities will be vital to the economies of developing countries: If cities and towns are inefficient, productivity will suffer, with serious consequences for national economic development. Cities can be key "creators of wealth," incubators for innovation, supporters of private-sector development and crucial sources of new employment, thus generating the income with which the urban poor majority can begin to improve settlement conditions.

However, urban centers which lack sufficient infrastructure to supply water and electricity and to treat wastes, and which lack sufficient communications and transportation networks, face insurmountable constraints to productivity and economic growth. Furthermore, the absence of basic services — such as potable water, sanitation and electricity for the 30 percent of the urban population which inhabits slums and squatter settlements — not only perpetuates urban squalor and poverty and undermines social stability but also is debilitating to general public health, thus increasing the constraints on productivity, since it is from these slums and squatter settlements that the bulk of the unskilled and semiskilled urban work force is drawn.

Taking into account the future impact of urbanization, the crucial role of cities in the economic growth of developing countries and the interrelationships among urban productivity and physical and social infrastructure, it must be obvious that urban policy can no longer rely on a sector-by-sector or project-by-project approach and that any new strategy for improvement of human settlements conditions must be comprehensive and based on a realization of the interdependence between all sectors of policy. Only such an approach can offer a reasonable chance of success in the face of the dimensions of the challenge that will confront us in the coming decades. Moreover, such a new strategy must be formulated with the clear understanding that future improvement of settlement conditions will depend on accelerating economic development, particularly in urban centers, and on the ability of authorities to enable the urban poor to improve their shelter conditions.

In the light of this, one priority action area for governments is to achieve the greatest possible efficiency in the operation and maintenance of the physical fabric of our settlements, to ensure both maximum levels of productivity and optimal social benefits. Too often have we seen massive investments in infrastructure largely nullified by failure to operate the installations properly and by lack of measures to keep them in good condition and maximize their working life. In this connection, I have in mind not only maintenance works to ensure peak efficiency of operation but also rehabilitation of obsolescent installations at the point where their useful life can be economically extended. It is regrettably common to see rehabilitation decisions deferred to the point where they cease to be a viable option, so that agencies are then forced into significantly higher expenditures for total replacement which could have been avoided.

We can all see that building deterioration has reached alarming proportions in the inner-city areas of many developing countries. In the process, valuable assets are lost, making the housing shortage even more serious that it need be. The poor management of water-supply systems causes excessive losses of water and energy, thus depleting water resources and increasing costs. Neglect in the maintenance of sanitation and solid-waste collection systems creates health hazards and increases pollution of the environment in many countries. The road networks are deteriorating at a faster rate then they are being expanded, and the effective capacity of urban roads is reduced by the lack of or inefficient implementation of traffic management, so that congestion occurs even in countries with relatively low car-ownership ratios. In some countries, ineffective management leads to serious economic and social consequences. It not only slows down urban economic growth and reduce employment opportunities; through the lack of regular and preventive maintenance of physical infrastructure, it also causes unnecessary capital expenditures at a later stage to replace it once it has deteriorated beyond repair. Furthermore, the inefficient operation of basic infrastructure incurs additional costs to both the public and the private sector, capturing resources which could be used to expand services or reduce costs to operators and users.

Good management practices will allow urban authorities to exercise their proper role as "facilitators" of shelter for the poor. The recognition of the unfeasibility of directly building housing for the poor is now wide and general. The majority of governments are now convinced that the best results can be achieved by facilitating the efforts of the formal and informal sectors and of the poor in self-building and community organization. However, the "enabling role" must be an active one. While we can accept that slums and squatter settlements must be rehabilitated and improved wherever they happen to be, it would be short-sighted to sit back and watch urban growth take place on the assumption that problems can be dealt with after they have been allowed to develop. It is therefore of the utmost urgency that policies be implemented, at the municipal level, to enable the poor to provide themselves with their own shelter. Governments must forestall the squatter problem by planning ahead for proper land management, promoting self-help construction, reviewing existing legislation on land use and tenure, improving land market processes, revising building codes and standards, encouraging the growth of community organizations and removing legal and other impediments to the growth of informal-sector activities in which the majority of the urban poor earn their livelihood — in many cases in their own homes.

Such measures not only will allow governments to tap the resources of low-income communities but also, in a relatively short period of time, will lead to greatly improved neighborhoods and settlements. Moreover, community-based efforts to improve shelter and infrastructure will generate economic activity in the building and related artisan trades, thus making an important contribution to urban and national economic development. For, just as it is true that, in the coming decades, the improvement of shelter conditions will hinge on the pace of national economic development, it is equally true that shelter construction and improvement can have a salutory impact on national economic growth.

The contribution of the formal-sector construction industry amounts to between 3 and 8 percent of the Gross Domestic Product of developing countries and to 2 to 6 percent of total employment. It also accounts for 40 to 70 percent of gross fixed capital formation — a prerequisite for economic growth. Construction multiplier effects create a value which exceeds the value added by the sector itself.

Investments in shelter and infrastructure programs are also supportive of informal-sector economic activity. Squatter-settlement upgrading, in particular, can give an important stimulus to informal-sector construction activity, while the provision of basic services, especially water and electricity, can increase the competitiveness and productivity of informal-sector enterprises. Shelter construction has a low import content, thus conserving foreign exchange; and it is also non-inflationary, the wage-level effects of increased activity being negligible when unemployed or underemployed labor is used.

Finally, many of the inputs to shelter can be organized without dependence on national budgets which are under strong contractionary pressure for balance-of-payments reasons. With responsive enabling legislation and a supportive governmental role, the private sector, both informal and formal, can take the programming lead, and it will be developers, cooperatives, community groups and individuals which will assume the central role in shelter construction and improvement.

It is clear that the economic future of the developing countries is linked to the growth and development of their cities and towns. It is my sincere hope that the agenda for action that will emerge out of your deliberations will provide the direction and guidance necessary to ensure that the human settlements of the developing world will be both prosperous and productive, and will not fall into an abyss of squalor and decay.

The Contribution of Shelter to National Economic Development

by James W. Christian, Ph.D.
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One cannot begin to discuss the contribution of shelter to national economic development without recognizing the longstanding controversy over this subject in the economic literature. As most of you know, housing has not enjoyed a favored position in the theory of economic development, a fact that has made the task of those working to expand the housing delivery system in developing countries much more difficult than it otherwise would have been.

This is one of the issues I will discuss in my remarks today. After reviewing briefly the orthodox development theory that is the genesis of the neglect of housing in development strategies, I will present a few reasons for including housing among the leading sectors of development programs.

Included among those reasons is the ability of housing investment to induce financial development. In my view, this is such an important element of the development process that it deserves special treatment.

The final section of my remarks will deal with policy considerations affecting housing and national development strategies.

Housing and the Classical Theory of Economic Development

In very broad terms, the classical theory of economic development does not so much argue against housing as a leading sector as it neglects to specify how the market forces upon which it relies so heavily are to be activated and guided toward national development. The error of classical theory is one of omission, rather than commission. This void has been filled with a variety of partial theories and well-intentioned — but often misguided — government policies that, taken together, have created a controversy where none should have existed.

Housing can justifiably be included among the leading sectors of a national development strategy. To establish this thesis, let us begin with the principal elements of classical development strategy.

1. As originally perceived, developing countries suffered from a superabundance of labor; far too many workers were either unemployed or underemployed in the agricultural sector and consequently were earning incomes that scarcely provided for their subsistence. Thus, a general improvement in productivity could be achieved if the surplus agricultural labor could be shifted to the industrial sector. There they might earn low wages by international standards, but wages that were still much greater than they were earning in subsistence agriculture.

2. But how could an industrial sector be developed to receive and employ the surplus workers? These countries were, in general, thought to be too poor to save; they therefore faced a shortage of capital for development.

3. Thus, the first ingredient of a development program had to be a transfer of capital from the rich countries to the poor. This capital transfer would take the form of loans and direct investments from governments, international lending agencies, private sector banks and/or multinational corporations.

4. With few exceptions, however, these capital transfers had to be repaid and repaid in hard currency.

5. How could hard currency be earned? By producing for export. Export promotion thus became a central feature of the early development strategies.

6. As the theory went, the exporting industries not only earn the hard currency needed to repay the foreign loans and investments, they also would increase domestic employment and raise personal income and business profits. Individuals would save at least some of their higher income and business firms would reinvest their profits, thus creating a domestic pool of capital to replace foreign investment.

7. Of course, an increase in imports from abroad could be expected as this process built momentum. But the type of imports coming into the country would identify the most profitable lines of production for new domestic industries. Import substitution thus became another central feature of early development strategies.

Well, what about housing?

As we have noted, development strategists built their grand design most significantly on the premise of surplus labor in the agricultural sector, labor that could productively migrate to a developing industrial sector without producing labor shortages. A development strategy geared to international trade — export promotion and import substitution — would naturally envision the new industrial sector being located in or near port cities or transportation hubs. This rural-to-urban migration would, of course, create a need for additional housing, which "the market" was presumed to be able to provide.

And that is about as far as the early development theorists went in addressing housing for the surplus agricultural workers migrating to the urban industrial centers.

To some extent, it can be said that the market did provide. There are, of course, cities in the developing world where people quite literally have no shelter — they sleep in doorways and on the streets. But the informal sector of the economies of developing countries does provide market solutions to such problems as finding a roof to put over one's head.

Those solutions, however, are not always pretty ones. They are manifest in squatter settlements lacking potable water, storm sewerage, sanitary facilities, schools, police and fire protection — in short, they provide shelter but constitute an urban infrastructure overwhelmed by rural-to-urban migration.

Surely this is not what the classical development theorists envisioned when they assumed that the market would provide.

They also assumed, however, that the market would provide for financial development. And generally it has not.

Moreover, it is much more difficult to excuse the classical development theorists for neglecting financial development. If personal saving and business profits did rise as a result of export promotion and import substitution, how would the financial system develop to mobilize saving and channel resources to productive enterprises?

Commercial banking has, of course, existed in developing countries for many years and within the informal sector, rotating credit societies and small-scale, short-term financial arrangements have developed. But in general, "the market" has produced few, if any, full-service domestic financial systems in developing countries; conscious effort, sound public policies and capable management must be applied.

These shortcomings of classical theory can be remedied, but the omission of prescriptions for facilitating and supporting the development of the domestic financial system is a glaring defect, regardless of whether one is deeply concerned about housing or simply interested in general economic development. Indeed, one can hardly imagine how self-sustaining economic development could proceed — even in theory — without a thriving domestic financial system.

Surely the market would have been able to do a better job of meeting housing needs if greater attention had been paid to domestic financial development.

Without the institutional infrastructure to mobilize domestic saving, most developing countries have continued to have low aggregate propensities to save.

And without the institutional infrastructure to channel financial resources into profitable enterprises, capital has tended to be reinvested in old-line industries and sent offshore for both profit and safety.

The neglect of domestic financial development has forced many countries to continue relying on the facilities of the international lending agencies, foreign banks and foreign capital markets to finance their development programs. It is in this continuing dependence on foreign funding that one can make some sense of the opposition to housing programs in development strategies.

Given the fundamental assumption that developing countries were capital-short and that foreign financing was required to initiate or accelerate the development process, it must be conceded that housing investment could not directly generate the foreign exchange needed to repay hard currency loans. Thus, on a project-by-project basis, one could not directly justify the use of foreign exchange to finance home construction. The same could be said for the financing of urban infrastructure — potable water, sanitation facilities, public transportation and so forth.

Housing and its associated infrastructure really should be funded by domestic — not foreign — saving. Accepting the logic of this view makes domestic financial development an essential element of any strategy that includes the improvement of housing and urban living conditions in developing countries.

We will return shortly to a further discussion of financial development. Our next task, however, is to examine the case for housing as an instrument of economic development, to offer some justification for a conscious effort to support and facilitate a market solution to providing shelter.

Housing's Contribution to Economic Development

No one really questions the fact that shelter is, along with food and clothing, one of life's three basic necessities. No one really questions the appeal of providing a safe and sanitary living environment for the citizens of a country. And few would question the contribution of housing, particularly owner-occupied housing, to a nation's social and political stability.

But housing's contribution to economic development is not so readily accepted, in part because the issue has been defined too narrowly.

Many economists have argued that housing is a consumption good and, as such, should not receive allocations of scarce capital resources. Others argue that, even though housing is an investment good, it uses far too much capital relative to its contribution to Gross National Product. Although neither of these objections to housing investment is compelling, the lack of broadly-based theoretical support for housing investment has allowed them to carry the issue.

Rather than attempt to rebut these narrow arguments against housing, we will instead emphasize the broader aspects of housing investment that fit nicely into a strategy for domestic economic development. These are the following:

First, housing construction is a labor-intensive activity, capable of absorbing substantial amounts of relatively unskilled labor. Such activities must be highly valued in labor-surplus economies.

Second, housing is linked to a variety of other industries, most of which require minimal imports and which are also labor-intensive. Building materials, such as lumber and bricks, usually can be produced locally, giving rise to domestic industrial growth. Beyond building materials are textiles, furniture and household fixtures — all housing-linked industries that can prosper with relatively small amounts of capital and limited imports. These linkages provide a demand basis for industries that never would have been identified as profitable opportunities by import substitution methods.

Thus, housing's low import component is a special virtue. Both export promotion and import substitution typically require the use of the best available technology. After all, world trade gives no competitive quarter. To compete effectively, particularly in the realm of import substitution, domestic manufacturers must employ state-of-the-art technology in production. And since most developing countries do not produce such technology at home, it must be imported from abroad. The most fundamental macroeconomic analysis easily reveals that the larger the import component of a particular type of investment, the smaller will be the multiplier on Gross National Product of that type of investment. Housing, with a small import component, has a relatively large multiplier effect. (See Appendix A for a demonstration of this proposition.)

Fourth, when the distinction between rental and owner-occupied housing is made, it becomes clear that homeownership provides local governments with a broader tax base upon which to raise the revenue for the construction and maintenance of urban infrastructure.

Fifth, and especially important, housing can be a powerful engine for domestic financial development.

Housing and Financial Development

Much has been made in the economic literature of low saving rates in developing countries. Indeed, the presumption of capital shortage leads the classical development strategy to require the transfer of capital from abroad to set the development process in motion. But relatively little attention has been given to the possibility that saving rates appear to be low in developing countries because those countries lack financial institutions that are structured to mobilize domestic saving. Without an effective financial system, individual savings flows instead into jewelry, gold bars and other stores of value that are counted in the national income accounts as consumption, rather than saving.

Commercial banks have existed in developing countries at least since colonial times. But they have operated primarily in support of commerce — they are, after all, *commercial* banks. And for a variety of sound business reasons, they generally have not sought to develop a deposit base in the household sector or a loan portfolio devoted to the credit needs of the household sector.

So it is that in most developing countries, the household sector remains the largest untapped — or incompletely tapped — source of saving for the economy.

To offer a partial description of this situation, Appendix B contains a crude measure of financial development for more than 100 countries. This measure is the ratio of currency in circulation to the total of currency and deposits in financial institutions. The higher the ratio, the more likely it is that household savings are held in sterile hoards where they can serve no productive purpose in the economy. Conversely, the lower the ratio, the more likely it is that household saving has been mobilized and converted into investment that supports and sustains the growth of the economy.

The data show that countries generally regarded as already "developed" have currency ratios of less than 10 percent, while countries generally regarded as "developing" have currency ratios that range upward from lows of around 15 percent to as high as 70 or 80 percent.

By drying up the hoards of sterile saving, the process of financial development reduces the currency ratio — households keep a smaller part of their liquid assets in the form of currency and a larger part in deposits in financial institutions, where those funds can be brought to bear productively on the nation's broader economic development objectives.

Opening the doors of new financial institutions, however, is by no means enough to get households to exchange their holdings of currency for the institutions' promises to return their money on demand or at some time in the future.

The high currency ratios shown in Appendix B tend to indicate a lack of financial institutions actively seeking deposits from the household sector. But high currency ratios also reflect an element of household distrust of financial institutions and a perception that financial institutions have no mutually beneficial relationship to offer.

A financial institution must at least offer the safety of the depositor's funds and some reward, either in the form of the payment of interest or in the form of services rendered, such as effecting payments. A business firm operating in the formal sector could scarcely do without the services of a commercial bank, even if the firm had little occasion to borrow.

The same is not true of individual households. Households in most developing countries make most of their payments in cash — they are not heavy users of checks or credit cards. And as far as reward is concerned, informal sector financial arrangements, such as rotating credit societies and "curb" markets, typically yield far higher rates of return than formal sector financial institutions.

Rotating credit societies, as their name implies, offer access to credit to participating households. Even though such credit is typically on very short terms — a few weeks or months — this access provides an inducement to save that most formal-sector commercial banks do not.

Housing finance institutions thus fill an important gap in the financial system. They offer relatively long-term credit for home construction and home purchase, in addition to safety and an interest return. Access to credit for housing thus provides the additional inducement that many households require to move their funds from cash holdings and short-term rotating credit societies into deposits with a formal-sector financial institution. In the process, individual saving loses the sterility of hoards and becomes economically productive.

Initially, this saving flows mainly into the financing of home construction and home purchase, but the repayment of home loans assures the continued presence of those savings in the domestic capital pool.

Inasmuch as the relationship that a household establishes with a housing finance institution is often that household's first relationship with any kind of formal-sector financial institution, the availability of credit for housing can serve as a bridge to the future financial sophistication of the household sector.

Households generally will not make the leap directly from informal-sector financial relationships to the support of stock issues, bond issues and mutual funds, which are among the retail elements of the sophisticated financial systems that we associate with developed economies. Households have demonstrated, however, that they will take the step from informal-sector financial relationships to a housing finance institution, primarily because of the inducement of the availability of credit for housing. From there, they will learn how to take the next steps to financial sophistication.

Homeownership makes apparent the usefulness of life insurance and hazard insurance. Pooling and securing individual mortgages can provide a low-risk, high-yield asset for trading in the open market. Indeed, a secondary mortgage market holds promise as a catalyst for the development of stock and bond exchanges. Housing finance can therefore contribute to future financial development.

Finally, to the extent that arrangements for housing finance succeed in mobilizing the underutilized funds of the household sector, housing finance fills — rather than drains — the domestic capital pool. Thus, one of the key arguments against housing as a leading sector in economic development — that it competes for capital with more productive development projects — ceases to apply.

Housing finance cannot, however, realize its potential without the availability of affordable housing. Housing development and housing finance are mutually reinforcing; together they constitute a powerful force for the development of the domestic economy.

Yet in far too many instances, housing and housing finance are restrained by the policies of national governments.

Policy Considerations

One of the ironies of the implementation of classical development strategy is that the market might well have provided if government policies had been cast in the role of support and facilitation of market forces rather than in the role of direct intervention or of restraint.

Squatter settlements stand as eloquent testimony to the ability of the market to provide shelter. Individuals and small, informal-sector contractors can and do build shelter units. They cannot and do not construct or maintain urban infrastructure. That is a task that only government can accomplish.

Could governments choose to focus their efforts on providing the infrastructure and on supporting and facilitating the development of informal sector-builders and materials suppliers? Would a policy of this sort validate the classical theory's view that "the market" would provide? I submit that it would.

In so many instances, government policy has preempted the role of small-scale enterprises and stunted their growth by attempting to meet housing needs directly and at standards that exceed the ability to pay of many, if not most, urban households.

To compound the problem, these solutions have often been funded with scarce budget resources.

Would not a policy of supporting and facilitating the development of housing finance institutions, mobilizing the latent saving capacity of the household sector, prove much more efficient and effective?

Housing has a place — an important place — in national strategies as an instrument of domestic economic development. Housing finance provides an essential means -- through savings mobilization — of funding housing investment.

Government has a critical role to play in supporting and facilitating development through these channels — a role that involves the provision and maintenance of urban infrastructure, of enforcing contracts regarding land tenure, land transfer and loan repayment, of promoting the establishment of housing finance institutions and regulating their activities to assure the safety and soundness of their operations.

Indeed, government must come to view its broader policy purposes in terms of harnessing the energy of the market — particularly as it is manifested in the informal sector — for the purposes of domestic economic development.

As this conference goes forward to consider a new agenda for action in shelter delivery, I hope that the views presented here will prove to be of some value.

A Framework for Housing Markets and Housing Finance

by Dr. Richard Pratt
Chairman, Merrill Lynch Capital Markets

I would like to talk about my own experience in housing finance. When I went to Washington in 1981 as Chairman of the Federal Home Loan Bank Board, the government organization which regulates the savings and loan industry of the United States, S&Ls were going through a very difficult time period. The S&Ls had enjoyed two or three very good decades from the fifties through most of the seventies. But they had been making mortgage loans for 30 years of fixed rates and borrowing money for very short periods. That works only when you have price stability. When inflation surged in the United States and prime interest rates went up to about 21 percent, the S&Ls were holding mortgages bearing an average rate of around 9 percent. It was mass suicide, like lemmings running into the sea. We had to close or merge some 900 institutions in the two years I was there.

The government had said that S&Ls could not make variable-rate mortgages and the rate that S&Ls would pay on savings accounts was regulated. At the same time, restrictions existed on what the institutions could invest in.

We thought that the S&Ls had to have more freedom so we went through a period of deregulation. Variable-rate mortgages were permitted, savings and deposit interest rates were freed up, and the S&Ls were allowed greater discretion in making investments.

Housing as a Market Activity

My experience in Washington reinforced my personal view that housing does not and should not transcend economics, that housing should be viewed as part of the economical market system of the various countries in which it exists. The belief that housing is mainly a market and economic phenomenon suggests that inadequate housing is mainly a problem of inadequate income. I agree with Dr. Christian that infrastructure is not adequately dealt with by a market system; but with that exception, I am convinced that the best hope for improving housing is to rely on the market to increase income through economic development.

Housing should be allowed to compete with other economic activities. Laws and regulations that hold back housing should be erased unless they furnish some other overriding social good. Zoning restrictions, building standards, or laws which interfere with land tenure and the ability to transfer property -- all of these legal impediments which discourage development, sale and financing should be dissolved.

Subsidies

Most of the housing subsidies schemes which I have encountered have resulted in poor economic development, poor equity in the distribution of income, and in many cases a low ability to produce housing. The burden of proof clearly is on those who believe that subsidies are needed, that there is something special about housing which requires subsidizing housing at the expense of education, health care, production, clothing or transportation.

Housing can have an important role in economic development and perhaps merit some special encouragement for that reason. Housing certainly does develop labor skills; and the employed are going to generate more social benefits and less social cost than the unemployed. Housing stimulates the organization or firm to produce materials. Firms which largely produce building materials can learn to produce other types of materials. And housing can certainly support the development of capital markets.

Housing Finance

Let's talk a little about housing finance directly. My business is to supervise people who lend money, mainly on mortgage assets. We daily make decisions on $1 to 3 billion dollars on one- to ninety-day loans that are based entirely on mortgage assets. I am responsible for a very small portion of my firm; that portion represents a substantial activity that is based solely on the value on mortgage instruments. That kind of mortgage-based lending is not the same as lending to homeowners.

The asset value of a home is one thing. Another is the ability of the individual to service his debt. The ability to service a loan, in turn, can be facilitated or hindered by the housing finance system. In the United States today a person may pay something like 10.25 percent interest per year for a 30-year loan, with protection from interest rate changes for a very long time. The ultimate investor in that loan, the person who finally provides the money, may earn 9.25 percent on it. The 1 percent spread will be divided between a loan originator, someone who goes out and finds the borrower and makes the loan, and a loan servicer, somebody who takes care of that loan every month and sees that the payments come in. The 1 percent or so may include a loan insurer who guarantees that the loan will be paid on time. So, there is a very efficient system where all of these operators take out maybe 1 or 2 percent of the capital amount of the loan as a rent that sees that the individual gets housing finance.

Another important factor in the housing finance system is the state of the property market. If the individual cannot maintain the mortgage loan, can he or she easily sell the house and transfer the property to another person? In a country that has less development the piece of property may stay in a family for generations, or at least for many decades. In a highly developed country, the average urban family may move every five to six years, and there is a market that can move that property.

Related to the property market is the attitude toward tenure. Can the lender take possession of a property? If religious, social or political principles say that you cannot dispossess a person of property for failure to meet his debts, then we have a problem in using the land or a building as security for a loan. We might still make loans to individuals for housing, but we shouldn't make them on the basis of the property itself.

There are savings institutions, there are mortgage bankers, there are firms that do nothing but make mortgage loans but have no money of their own. And there are investors who are willing to provide the funds to people they trust, to seek out the borrowers and make the mortgage loans. These are the mortgage bankers. Commercial banks also make mortgage loans. The mortgage market in the United States is as large as the U.S. Government debt market and all of the government agencies put together. The mortgage market, in terms of formal housing finance, is several times larger than all corporate borrowing. It's a huge market, and one that works quite easily. Obviously, you don't need that kind of a market to have effective housing and effective development. But in a large country with a large private capital market, that sort of market will develop

While housing finance is difficult in good times because of so many competing needs for housing finance, when financial institutions are feeling great pressure, it may be even more difficult. In the United States the government guarantees federally insured savings accounts up to a certain amount. Our financial institution system would have gone through some very destructive times in the absence of that insurance. It really kept financial stability in times of great difficulty.

How do you keep risk and the discipline of the market in a system where government guarantees either the loan or the deposit? Usually that has been done by risk sharing. The government normally only guarantees only a portion of the loan. Therefore, the person who is responsible for evaluating the credit and collecting the loan can incur a loss and he takes the loss before the government steps in with the guarantee.

In terms of a financial institution, we require that the owners of the financial institution put up capital. If the institution does a poor job of managing its resources, the owners will take a loss before the government comes in and makes good on its guarantee to the depositors.

Uncertainty creates an important problem in financial markets. In order to reduce uncertainty, constraints that keep the system from working well can be reduced; the government can help to reduce the cost of information. The cost of information is so great when you are trying to know the risks associated with each individual circumstance. Government intervention in the form of some guarantee on the loan or guarantee on the savings account makes some sense, but only in partnership with the private sector — by having private business involved and private risk takers putting some of their own capital at risk.

There are a couple other risks in housing finance associated with the development of secondary markets. Standardization of documents is crucial. The Federal Home Loan Mortgage Corporation in the United States provides that mortgage loans will be made on standard documents. There are probably 100,000 different types of mortgage loan contracts in the United States. It becomes impossibly expensive to try to deal with those in any sort of secondary market. So, you say, here's what the document will look like, here's the way we will proceed if there are difficulties. Here are the standards that you will be expected to meet. The lender only has to say that loans are made on Federal Home Loan Mortgage Corporation documents and the loan then is tradeable. Standardization of information is the first step in the development of the secondary mortgage market.

Let me now spend a moment telling you about myself and my firm, which is a very large firm, and what we do in the housing market. I became an economist for the United States League of Insured Savings Institutions, returned to teaching at the University of Utah, and worked from time to time in many developing countries. Then I became Chairman of the Federal Home Loan Bank Board, which regulates the savings and loan system of the United States, supervising about $1 trillion. I also served as Chairman of the Federal Home Loan Mortgage Corporation, the secondary market company I've told you about, and Chairman of the Federal Savings and Loan Insurance Corporation, which guarantees savings accounts in the United States. From there, I went to Wall Street in New York where I head up a portion of Merrill Lynch, a large capital market firm that deals in mortgages. The firm thought that there was enough opportunity in the mortgage marke. to jsutify asking me to put together a portion of the firm that deals with nothing but mortgages.

We have four areas of activity. One is a research area where we have about ten professors who spend their time studying mortgages and how they behave as financial instruments. We also have a group that trades in government guaranteed mortgages, trading about $1.75 billion a day. We will buy or sell them. A salesman in San Francisco will pick up a phone, call a building and loan society in California which may want to sell $300 million of mortgages. My salesman will pick up the phone directly to New York where a trading desk with about 50 people sit. The trader will tell him the price that we will pay at the moment for $300 million of mortgages of a certain type. If that's acceptable to the customer, he will say the deal is done. That transaction has no paper associated with it; $300 million has moved merely by two people picking up the telephone and trusting each other. That paper exchange will take place later.

We also trade loans that have not been secured by a government security on the same basis. This is more analytical. And finally, we turn mortgages into securities.

We now have 13,000 financial institutions in the United States. The current debate is whether they should be deregulated further. Deregulation will lead to a decrease in the number of financial institutions. A lot of institutions will disappear. We're going to have bigger, broader branching facilities.

How does all of what I said relate to the problem of housing low-income people in the Third World? Well, I think there are some key points. The thing that we can do for even the poorest people is to stop causing them problems. Find ways that will allow them to use their own instincts and abilities to get the best housing that they can get under the system in which they live. I think that's the place to start. We need to find a way to have building materials sold with lower markups or better delivery; and we must secure tenure on a piece of land, however marginal it might be; those kind of steps really help. We must deal with realistic solutions. I would say the only thing that is clear about the United States or any developed country is that they took a system that wasn't efficient and made it efficient. That is, housing finance in Europe or the United States was at one time in the same place that housing finance in developing countries is today. The process went from an expensive process to a cheap process. I think one must recognize economic reality and try to facilitate that reality as best one can. One should not put his or her own prejudices above the people's real desires. In many places not having a home, while certainly uncomfortable, is not the biggest problem the people face. It's getting food, it's getting education, it is investing in the human capital which their children are. I think there are places where housing is the wrong place to put money, and that we should simply stop doing the things we are doing to hurt people who are providing their own housing.

In my experience in working in developing countries, the question which always came up was whether the system itself was the problem. I guess that in both developing and developed countries, the biggest single problem is the dedication to doing things the way they've always been done. This is almost universally the problem. It is much easier to do things the way they have always been done, especially if the culture is oriented toward that sort of thing. There may be people who make their living from impeding progress. They have a good incentive to want to continue to do so.

Resource Mobilization, Household Savings and Housing: The Emerging Agenda

by Dr. Bertrand Renaud
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This shelter conference is an opportunity to examine some important aspects of resource mobilization for housing in developing countries and to contrast problems and opportunities in the late 1980s with the experience of the previous decade. Because of the relative brevity of this particular session, I should like to focus on the linkages between the performance of national economies and resource mobilization for housing. Instead of asking how more resources can be channeled into housing, we want to examine how the mobilization of savings for housing by households can raise the contribution of the sector to improving the national economy.

The three main points that we shall discuss are:

First, how changes in the international context and the burden of foreign debts are making *domestic* savings even more crucial to capital formation and growth in the late 1980s than in earlier decades.

Second, how the experience of various countries is increasingly dispelling the myth that the poor have no margin over consumption and in any case do not respond to economic incentives. In that context, we shall discuss our greater understanding of the negative indirect impacts which some public policies can have on savings mobilization and on financial development.

Finally, we shall discuss the crucial significance of housing finance institutions and the supply of financial services for the development of the sector in spite of the fact that so much housing is built in the informal sector of developing countries without the benefit of institutional financing.

Current International Context and Role of Domestic Savings

Savings are the foundation of capital formation and economic growth and there are four sources of savings for a national economy: household savings, business-sector savings, government savings and foreign savings; over time and across countries the household sector is the most important and consistent supplier of net savings to the rest of the economy. Currently, reliance on capital inflows to speed up growth is constrained by the fact that so many countries are experiencing debt servicing difficulties and better ways to raise domestic savings are the highest priority.

- In sub-Saharan Africa and much of Latin America, average per capita incomes have fallen below their levels of 1970 and 15 years of economic development have essentially been lost.

- The economic disturbances of the last few years have subsided somewhat, but the world economy has not regained its momentum of the early 1970s. Development is not making rapid progress again.

- As the attached tables and charts show, major changes in savings mobilization took place during the period 1973-1982. During that decade there was a sharp increase in foreign finance going to developing countries. As a result both the gross and net debt of developing countries increased sharply and their outstanding medium- and long-term debt increased tenfold between 1970 and 1984.

- By every measure, the debt servicing ability of developing countries has deteriorated, particularly following the two oil shocks of 1974 and 1979.

- If the rapid integration of the world economy and of capital markets over 15 years is a new phenomenon, economic history shows us that this dramatic growth in capital movements is not entirely unprecedented. In fact, in relative terms, the volume of international capital flows has often been larger than in the 1970s.

- In the early 1900s Great Britain, the leading capital exporter, invested 5 to 10 percent of its GNP abroad, while France and Germany invested 2 to 3 percent of theirs. Capital inflows were also very large. In Canada, they averaged 7.5 percent of GNP and accounted for 30 to 50 percent of domestic investment; during investment booms they accounted for 50 percent of gross domestic investment in Argentina and Australia.

- Globally, net capital inflows into LDCs during the period 1960-1983 represented 2 to 3 percent of GNP and 10 to 12 percent of investment. After 1973 these ratios rose to 3 to 6 percent of GNP and 10 to 12 percent of investment.

- There have been enormous differences in the impact of borrowing among developing countries and a few well-managed countries of East Asia have shown that an absolutely large debt is not necessarily synonymous with a debt crisis. Debt servicing difficulties, if common, clearly have been caused by combinations of poor domestic policies and a deteriorating world environment. Since small open economies cannot control their environment, inappropriate trade and industrial policies have been instrumental in turning relatively large debts into heavy burdens.

- In addition to poor domestic policies, the structure of financial flows also contributed to the difference between outcomes in many LDCs and earlier historical episodes of large capital movements. In recent years, loans have outstripped equity financing, there is a high proportion of floating rate debt, loan maturities have shortened considerably, and higher inflation and interest rates have front-loaded debt repayments.

Several general conclusions emerge from the experience of the last 15 years:

- A better balance between domestic savings and investment must be achieved in order to keep reliance on foreign capital inflows within reasonable limits.

- Foreign capital inflows must be used to support sound domestic investment policies and not as a means for governments to borrow their way out of poor industrial policies and bad investment decisions as was too often the case in more affluent years.

- We can contrast the logic of foreign capital inflows (FCI) with that of domestic resource mobilization in simple terms. The cost of foreign capital inflows is a future outflow of national income for any country whether we are speaking of the United States or Latin America. FCIs tend to raise the exchange rate and to cause exports of goods and services to lose some competitiveness. On the other hand, reliance on domestic savings allows a growth that is less at the mercy of foreign influences, less inflationary and more stable; and it obviously reduces the strong constraints generated by sharp variations in the cost and the volume of foreign capital. There are tradeoffs, but it clearly take a high degree of national consensus and good management to generate high economic growth based on large foreign capital inflows.

- A look at domestic savings performance (Table 1) and debt conditions (Table 2 and Graphs) shows that the problems of mobilizing domestic savings and improving investment levels will be particularly severe in Africa for the foreseeable future — that is, until these countries regroup and implement consistent and realistic economic policies as shown by the comparison with low-income Asian countries.

TABLE 1:
GROSS DOMESTIC SAVINGS AND INVESTMENT IN PERCENT OF GDP, 1960-1984

Year	1960 Savings	1960 Invest.	1965 Savings	1965 Invest.	1980 Savings	1980 Invest.	1984 Savings	1984E Invest.
Low-Income Economies ($260)	17	19	19	21	22	19	23	21
China ($310)	23	23	25	25	30	31	30	30
India ($260)	14	17	22	24	20	23	22	24
Other Low Income ($190)	9	11	12	15	7	15	7	16
Sub-Saharan Africa ($210)	—	—	13	15	—	—	6	15
Middle-Income Economies ($1,250)	19	20	22	21	—	—	22	21
Lower Middle-Income ($740)	14	15	16	17	—	—	16	17
Upper Middle-Income ($1,950)	21	22	24	23	—	—	26	22
Oil Exporters ($1,000)	19	18	21	19	30	27	25	22
Oil Importers ($1,460)	19	21	21	22	21	27	21	21
Sub-Saharan Africa ($680)	—	—	20	19	—	—	18	14
High-Income Oil Exporters ($11,250)	—	—	53	19	62	24	36	30
Industrial Market Economies	22	21	23	23	22	23	21	21
East European Non-Market Economies	—							

Source: World Bank, World Development Reports, Various Years

TABLE 2:
TRENDS IN SELECTED DEBT INDICATORS, 1970-1984

	1970	1975	1978	1980	1981	1982	1983	1984
GROSS EXTERNAL LIABILITIES/GNP								
All Countries	NA	NA	30.8	32.6	35.6	41.1	47.5	49.2
Major Borrowers	NA	NA	30.8	33.0	35.1	41.9	48.7	50.7
Low-Income Asia	NA	NA	19.4	17.4	18.2	20.5	20.9	22.1
Low-Income Africa	NA	NA	40.0	49.5	54.5	57.9	64.7	79.2
DEBT SERVICE/GNP								
All Countries	1.4	1.7	2.7	3.1	3.4	3.9	4.1	4.5
Major Borrowers	1.5	1.8	2.9	3.1	3.2	2.8	4.0	4.3
Low-Income Asia	1.0	1.0	1.0	0.9	0.9	0.9	1.2	1.2
Low-Income Africa	1.3	1.8	1.6	2.5	2.4	2.4	2.5	4.0
GROSS EXTERNAL LIABILITIES/EXPORTS								
All Countries	NA	NA	151.5	131.3	143.8	171.0	187.7	NA
Major Borrowers	NA	NA	220.3	189.4	195.7	233.6	253.4	239.4
Low-Income Asia	NA	NA	240.8	194.7	210.2	240.6	268.4	243.5
Low-Income Africa	NA	NA	212.5	225.6	276.4	335.9	393.1	NA
DEBT SERVICE/EXPORTS								
All Countries	9.7	8.8	13.5	12.5	13.7	16.1	16.2	NA
Major Borrowers	15.5	14.3	21.0	17.9	18.0	21.1	20.7	20.5
Low-Income Asia	18.3	15.1	12.5	10.3	10.0	11.0	14.8	13.3
Low-Income Africa	5.7	8.8	8.5	11.4	12.2	13.6	14.9	NA
GNP (BILLION DOLLARS)								
All Countries	373.2	855.0	1257.2	1749.9	1862.5	1794.7	1670.4	1682.9
Major Borrowers	228.5	506.4	758.0	1025.0	1132.8	1056.0	966.0	979.3
Low-Income Asia	75.1	119.1	155.5	210.9	220.6	226.5	245.1	244.6
Low-Income Africa	17.3	31.7	48.8	54.8	55.2	55.1	52.7	43.4
GROSS EXTERNAL LIABILITIES (BILLION DOLLARS)								
All Countries	NA	NA	387.1	570.5	662.3	736.9	792.6	827.8
Major Borrowers	NA	NA	233.8	338.2	397.2	442.1	470.5	496.7
Low-Income Asia	NA	NA	30.2	36.8	40.1	46.5	51.3	54.0
Low-Income Africa	NA	NA	19.5	27.1	30.1	31.9	34.2	34.4

Source: World Bank, Debt Tables, 1986

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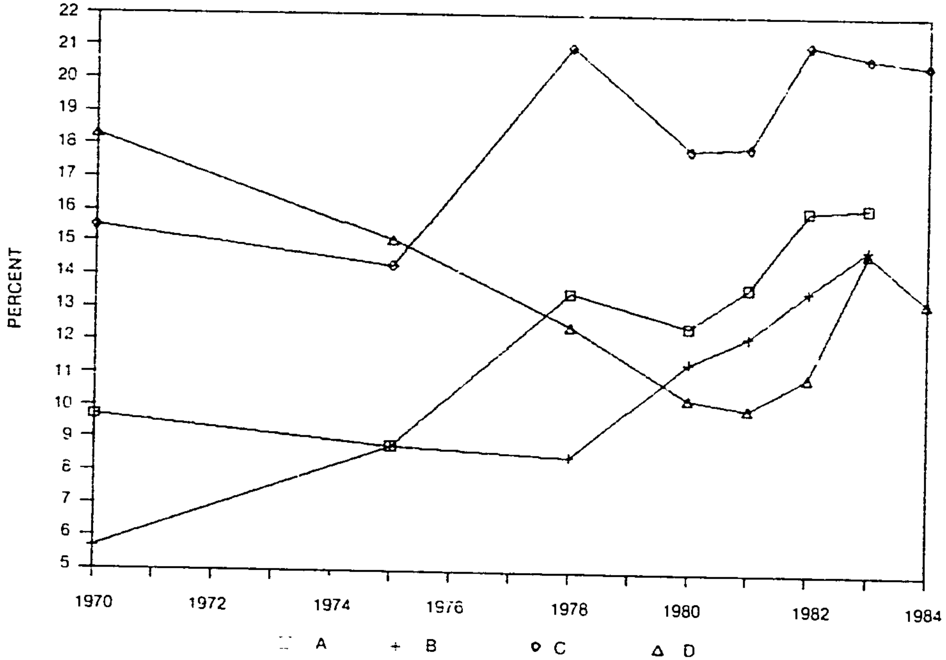
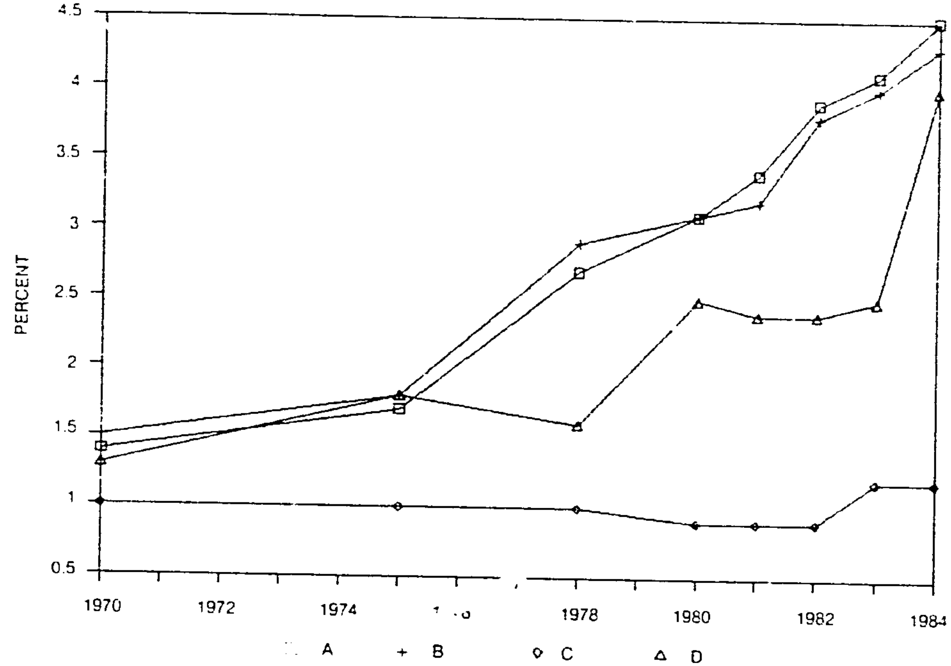
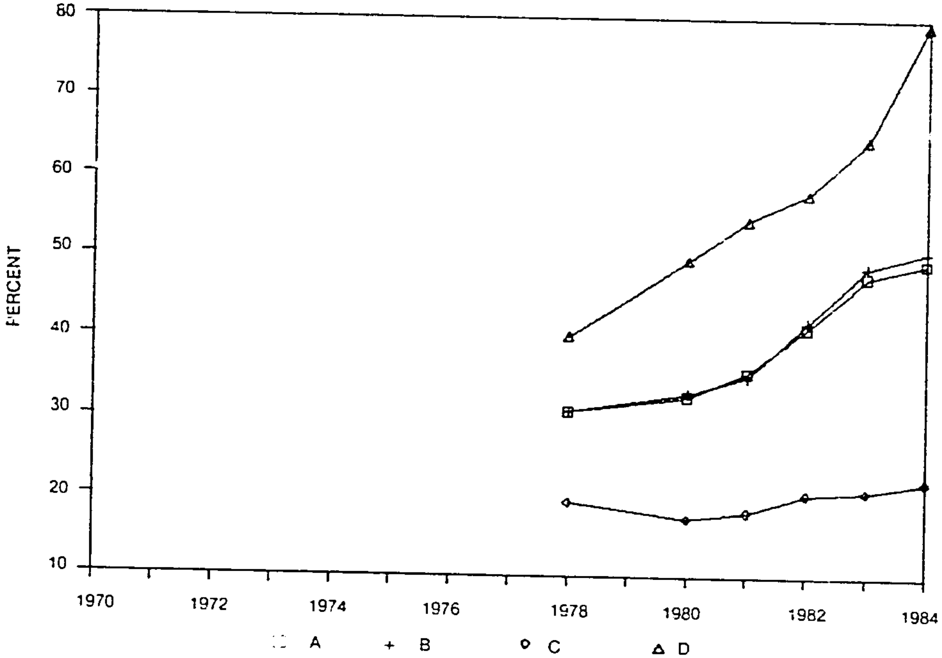
DEBT SERVICE/EXPORTS



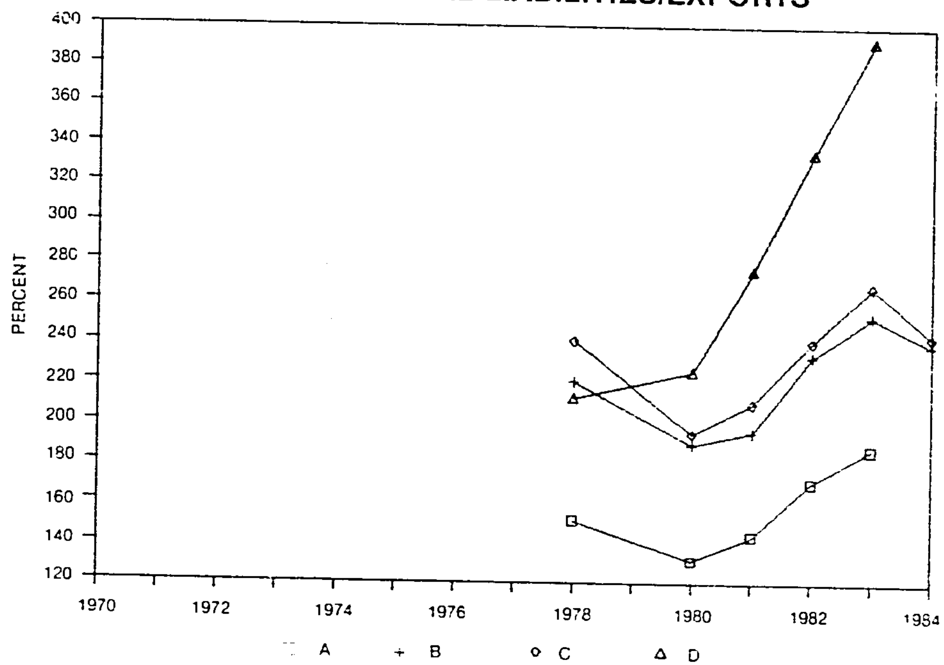
DEBT SERVICE/GNP



GROSS EXTERNAL LIABILITIES/GNP



GROSS EXTERNAL LIABILITIES/EXPORTS



A — All Developing Countries; B — Major Borrowers ; C — Low Income Asia; D — Low Income Africa

- There is a major shift of emphasis underway in financial development strategies from credit to savings because the development of domestic financial institutions depends in part on a threshold level of national savings which excessive foreign capital inflows have tended to suppress.

- The critical evaluation of past credit schemes both in the rural and the urban sectors is leading to a re-evaluation of the role and potential of household savings. With the failures of heavily subsidized and regulated credit programs both in terms of increased investment and more equitable income distribution, financial policies now need to pay much greater attention to savings by non-wealthy households which constitute the majority.

Households and the Mobilization of Small-Scale Savings

Three important questions are shaping current efforts in mobilizing domestic resources. First, are families in poor countries incapable of saving? Second, do you need subsidies and controls to promote savings mobilization? Third, what do we know about the cost and benefits of various programs?

With the renewed interest in raising domestic savings, it is now recognized that it was not true to say that the poor have no margin over consumption for saving and, in any case, do not respond to economic incentives. The real problem has been that such savings not only have been ignored but often unwittingly discouraged by public financial policies and programs as well as inflation. In the urban sector and in rural areas, experience shows that when given the appropriate vehicle for savings (such as improved tenure or access to good income-producing tools) even very low-income households will restructure the flow of their meager incomes and frequently reduce their consumption in rather dramatic ways.

When it comes to financial savings there are three crucial elements to the demand for financial assets: transaction costs, yields and liquidity. Transaction costs appear to be very important to small-scale savers; they affect the flow of savings that comes from the income that is not consumed as well as the stock of wealth that families have succeeded in accumulating over time.

In the most primitive areas of the least-developed economies where financial assets are not available, saving can only take place through immediate investment — that is, the accumulation of physical assets. The availability of currency not only permits households to escape from barter but also increases efficiency by lowering transaction costs and separating saving from investment both temporally and spatially; this has been an experience that international lenders have had in their early low-income housing projects when they experimented with the supply of construction materials instead of construction loans. Of course, problems arise when the issuer of the currency (the government) debases the currency over which it has a monopoly to finance cheap ill-conceived (i.e., unproductive) public investments or an internal or regional conflict.

The benefits of financial deposit facilities are different from those generated by currency when safe, liquid repositories of funds also offer reasonable yields. The efficiency gains from these deposits come from better information on investment opportunities and the pooling of risk by an organized financial system. An equally important point, too frequently overlooked during the last decade, is the favorable distributive impact of offering a positive real return on the savings of the small savers. One of the indictments of directed (forced) subsidized credit schemes, whether in industry, agriculture or housing, is that better-off borrowers have been subsidized by small-scale savers who have too often received a negative real return on their savings. On the positive side, countries which have controlled inflation generally have enjoyed an improved income distribution as well as a substantial development of their financial system (Taiwan, China, Korea in the 1980s as contrasted with the late 1970s).

Analyses of small-savers programs have found that their success and benefits depend on four related factors: (1) whether savers are aware of the risks they incur when depositing at a financial institution: (2) the extent to which deposits are (explicitly or implicitly) insured and the extent to which such insurance leads financial institutions to constitute riskier asset portfolios; (3) the extent to which interest yields on deposits rise with risk; and (4) the extent to which depositors are risk-averse. Whether risky loans are made with the funds mobilized is extremely relevant to the savings decision of modest- and low-income savers. Confidence, once lost, is very difficult to regain, as shown, for example, by surveys which were part of feasibility studies for housing finance institutions in some West African countries. Small savers live close to subsistence; they are particularly risk-averse and sensitive to transaction costs.

Transaction costs for small savers depend on whether financial institutions can profitably provide expanded branch office networks and other services that keep deposit liquid. Branch office expansions and other deposit services can have highly variable benefit-cost ratios depending on whether they are the result of overly simplistic regulatory policies combining forced expansion with controlled deposit rates or whether they lead to an actual decrease in the resource cost of providing reasonable yield, liquidity and risk to small savers. In the first alternative, a pattern described by some financial analysts as inefficient "regulatory avoidance" will generally emerge and involve a substitution of non-financial services for financial ones. There is concern with the emergence of such a situation in the commercial banking system of India and some Latin American countries.

A last important factor of success of small savers programs is very familiar to the housing sector; it is the "reciprocity" created when a financial institution lends to its own depositors. Originating from the universally practiced informal rotation credit associations, the eventual success of mutual financial institutions and savings banks, credit unions and other financial institutions depends on whether they can profitably lend to the same clientele from which deposits are mobilized. This problem appears to be more significant in rural markets where deposit innovations often succeed more rapidly than lending operations, by comparison with more dense urban markets.

Housing and Financial Institutions

If there has been a myth among more affluent people and many macroeconomists that the poor cannot save, there is an equally interesting myth circulating among many students of housing markets in developing countries. It is the myth that housing finance institutions are not really crucial to housing markets because so much housing is being built in the large informal sector of every country without apparent institutional financing. It is a peculiar reasoning to infer from the present lack of housing finance services that they are not needed.

As the preceding discussion already suggests, housing finance services are not available for a combination of reasons: deliberate national policies which attempt to ration households out of financial loans; inappropriate regulatory environments; the lack of financial infrastructure to handle financial risk properly (foreclosure laws, mortgage insurance, liquidity and interest rate risk facilities, as well as other housing constraints); and the indirect impact of public lending programs at heavily subsidized rates.

The development of an efficient housing finance system is very important because the residential capital stock makes up a dominant share of the total national capital stock of every economy; housing is one of the most durable investments, the most common, and it is growing very rapidly in periods of strong urbanization. Unfortunately, the generation of this capital is often quite inefficient due to the lack of appropriate sector policies and small, inefficient housing finance systems. There are therefore macroeconomic reasons, financial reasons as well as sectoral reasons, to improve existing housing finance systems.

Because time is running short we can only mention briefly why housing finance services are badly needed and how they can have a very positive impact not only on the performance of the sector but on the national economy. There are many reasons why a household would want to own a house: The transaction costs of frequent moves are significant; the quality of the services is very sensitive to its use; housing is a major saving vehicle, particularly in unreliable savings markets and inflationary environments; in rapidly urbanizing countries it is one of the assets with the best rate of return; it is often used as an income-producing asset with rental and subletting; finally, it is an instrument of social mobility.

In spite of the myth that it is not really necessary, external financing is a superior alternative to the incremental housing investment which is imposed on the informal housing sector. As was stressed by recent studies of housing markets in Cameroon and Zaire, "Methods of financial savings determine methods of construction and not the reverse. . . . They determine the dominant type of urbanization in African cities. . . . Changing the financing system would change these cities." All over the world a housing unit is worth between 3 and 5.5 times the annual income of the family which occupies it. It is an asset that is generally impossible to acquire through a pure-equity rather than a debt transaction. Moreover, incremental housing does not eliminate the need for a large equity transaction for the core asset around which the unit will be expanded.

The effective development of a housing finance system will require well-designed deposit and lending instruments. Successful policies need to recognize also that housing is not the exclusive preoccupation of households. Small and well-off savers have many purposes for savings and want to allocate their "wealth" among a range of assets — income-producing assets — such as physical capital, money, financial assets (various types of saving deposits), inflation hedges (gold, jewelry) and eventually housing as their major asset. The structure of this portfolio will change across income groups and within each social stratum along their life-cycle. There is therefore no reason to expect that a single type of deposit scheme or a single type of mortgage loan will meet the needs of every family.

* * *

Over the last 15 years a considerable amount has been learned about the dynamics of housing markets in developing countries. It is now time to work on the constraints affecting the sound development of financial systems for this major domestic sector of the economy.

The structure of the agenda is fairly clear. On the demand side the problems are: low, irregular and now falling incomes in many heavily indebted countries; poor collateral caused by unclear land titles, unserviced neighborhoods and nonconforming buildings; low rates of return on housing caused by rent control laws and disruptive land use laws.

On the supply side, improvements are needed on: the inadequate financial savings from households; the improper pricing of long-term mortgage instruments, particularly under inflation; the frequent use of financial systems as an implicit tax instrument to finance "priority" public-sector activities and the penalization of small savers; well-intentioned but poorly designed, regressive subsidy programs which undercut financial institutions and prevent them from developing efficiently; fragmented systems with inadequate regulatory frameworks and embryonic or nonexistent financial infrastructure elements. The task is awesome, but many countries are already working on changes under the combined pressure of external credit constraints, domestic credit changes and rapidly evolving financial technologies.

Policy and Programs for Urban and Shelter Lending: the Next Decade

by Ping-Cheung Loh
Director, Water Supply and Urban Development Department
The World Bank, Washington, D.C.

I am pleased to be here today to speak on behalf of the World Bank. For 40 years the Bank has been trying to help the developing countries in improving their standard of living, achieving sustained economic growth and alleviating poverty. In the urban sector, we believe that the experience of past efforts provides important lessons that all of us, from the public and private sectors, need to consider when formulating strategies to confront the many financial, economic, social, institutional and human issues that the developing world faces. One lesson, above all, is that we must work together, we must develop consensus on our objectives, and we must base our strategies in realism born of experience.

This conference has brought together a special group of people, people from the private sector, people from government and the international agencies — people with good ideas and fresh perspectives on how to approach urban development problems. Your insights and reflections can be extremely helpful to us at the Bank as we plan for the 1990s. I look forward to the discussions of the next few days and to benefiting from your thoughts and wide experience.

In my remarks this afternoon, I want to focus primarily on three questions. First, looking back across the last ten years, where have the efforts of the past brought us today, on the eve of the International Year of Shelter for the Homeless? Second, what is the environment, particularly the economic environment, that we will have to work within in the years ahead, and what constraints will we face? Third, what will be the priorities and goals of the World Bank's activities in the urban sector during the next several years?

So, let me begin with where the experience of the past has brought us, and I am referring here not just to World Bank initiatives but to all of our efforts collectively. Ten years ago, we embarked on a period of experimentation in the urban sector. The HABITAT Conference in Vancouver helped lay the groundwork for trying new approaches. The World Bank was just beginning its urban program.

In the years that followed, many institutions and individuals from around the globe, including many of you here, have contributed to a worldwide learning process. We all tend to be painfully aware of our mistakes and of how much more needs to be done, but we should not forget the progress that has been achieved during this period. In the mid-1970s, cities in the developing world were still basing their policies on ideas that we now know would never have led to permanent solutions to the rapidly growing problems of cities and towns. The bulldozer was being used to clear slums — where upgrading of slums would have done more good for more people, particularly poor people. High standards were being adopted for housing, transport, water supply and other infrastructure — where lower standards would have enabled cities to reach larger numbers at lower cost, instead of a fortunate few at high cost. Governments were trying to be the primary providers of complete new housing units — where they could have been more effective concentrating on infrastructure and leaving the construction of housing superstructure to the occupants and the private sector. Large subsidies were common in all public-sector services — where reduction of subsidies would have helped curtail the spread of nonreplicable strategies and the inefficient and inequitable use of the limited resources available.

We have made good headway on these issues. The forces behind the old, unsustainable approaches are clearly much more on the defensive today than they would have been if we had all remained silent a decade ago. And we have learned a lot in the process. Take the concept of sites and services, for example. The idea that the public sector should focus on the provision of sites and services for housing rather than construction of completed units was a controversial new proposal in its day, and helped shift government efforts away from expansion of public housing programs. Now as we have gained experience with sites and services projects, we see their shortcomings, and the need to move even further in the direction of lowering standards and mobilizing the potential of individuals, local communities, and the private sector to solve housing problems.

At the World Bank, this process of "Learning by Doing" over the last ten years has involved us in a broad range of lending activities, research, and policy dialogue with our borrower countries. Since 1972, we have financed 130 urban projects in 60 countries, for a total of $5 billion of external assistance, with another $15 billion contributed by the countries themselves. Our projects have affected over 3,000 cities and towns in Africa, South Asia, East Asia, the Middle East, and Latin America and the Caribbean. Our urban lending still remains a small fraction of total Bank lending, and always will be small relative to any measure of what is needed. But we are trying to do what we can. And we hope to be always open to new ideas and always learning.

Consider now my second question: What will be the environment we have to work within in the years ahead? The world economy recently has been through deep recession, associated with the oil price shocks, massive inflation, and very high interest rates of the past decade. Conditions have improved now for the industrialized countries. But the developing nations remain burdened with enormous macroeconomic problems, including the huge overhang of international debt. Severe resource constraints and difficult terms of trade have become a grim and persistent reality for the developing world, and for the poorer nations especially. In some countries, especially in Africa, real per capita income has been declining significantly. The outlook for world economic conditions in the next five years offers little hope of rapid improvement. At the World Bank, we expect that most of the developing world will continue to face harsh circumstances and severely limited resources in the 1990s.

Closely related to these economic trends is another issue. Many countries are or soon will be undertaking major macroeconomic policy changes, known as structural adjustment. These changes will have profound implications for every aspect of their economy, including the urban sector. Policies on foreign exchange, trade, subsidies, and agricultural pricing that have long been out of touch with economic reality are being reformed to establish a better basis for stimulating economic growth. And countries that try to put off or reject such reforms will undergo painful structural adjustment anyway, of a different kind; they will see their economy weaken further and their living standards deteriorate. One way or the other, the result will be greater pressure to reduce subsidies, more limited availability of foreign exchange, and fewer resources for new public investments.

We must not close our eyes to what this means for us in the urban sector. We must be willing to approach urban concerns within the context of national development strategies, and to see that overall cross-sectoral objectives will come before urban-centered goals. We must accept that the share of resources going to cities will not increase. We must acknowledge that in some cases the urban share should actually decrease, considering overall national objectives. Our job must be to make the urban sector a partner in development, not a special pleader for extra public funds.

This will mean developing a better understanding of the connections between urban development and macroeconomic growth. Over half of Gross Domestic Product (GDP) in the developing countries either is produced in cities and towns or is dependent on urban processing or transportation. In the next few decades, the urban share of GDP will rise even higher, passing two-thirds and ultimately three-quarters. In Brazil, it is already at 80 percent. If the urban economies of developing countries can be made more efficient and productive, their national economies will be more efficient and productive, and this can help fuel the sustained economic expansion they desperately need. At present, cities and towns in these countries are extremely inefficient relative to what they could be. Producers, workers, and consumers face unnecessarily high costs because basic infrastructure and services are inadequate or poorly maintained, or because incentives for improved efficiency are undercut by deficient government policies. High costs mean lower profits, lower returns on investments, fewer jobs, and lower economic growth. Lagos and Cairo are the most obvious examples, but there is significant potential for greater efficiency in places like Lima, Bombay, and Shanghai as well.

These considerations should have a key place in the strategies and priorities we propose. In the early 1970s, urban policymakers focused mainly on alleviation of urban poverty. More recent efforts have stressed improvement of urban efficiency. We must think of this shift not as a turning away from a concern for the poor, but as a sharpening and deepening of our understanding of how we can best achieve alleviations of poverty, given the important role that economic growth must play in raising living standards.

I also believe that this efficiency issue must be in the forefront in our discussions with colleagues outside the urban sector, as they review overall country priorities. Let me assure you, from my own experience, we must expect tough questions and have good solid answers. It will not be enough to say that a large proportion of GDP is produced in cities. We will have to be subject to the same criteria and scrutiny as other sectors. Like them, we will have to be sure that each new investment and new policy we propose will have greater benefits than costs and is a better option than other possible uses of the same resources in *any* sector.

There is one more aspect of the changing environment that we must keep in mind. Urban centers and urban populations are expanding at extraordinarily rapid rates in developing countries, and will continue to do so well into the next century. We all hear a lot of numbers tossed around on this point, and some people wonder what to believe. I will share with you my own view. In 1984, the World Bank, in collaboration with leading demographers from around the world, undertook a careful review of the evidence on population trends, considering recent developments in birth rates, death rates, family planning programs, and migration. There is no doubt, even under conservative assumptions, that the total population of the developing world will more than double within the next 60 years — unless we have some catastrophic event of unprecedented magnitude as a result of armed conflict or new diseases. The *urban share* of total population is more difficult to predict, but we can say this much with certainty: If the urban share does not continue to increase as in the past, it will only be because economic failures of disastrous scope have occurred, far more widespread than the worst situations today. Assuming things do not get as bad as that, the urban share is likely to rise to over 50 percent within the next 60 years. Putting these facts together, we must expect that the number of people living in urban areas will double within the next three decades. There is no escaping this prospect. So we must ask ourselves: Will the infrastructure, services, and jobs needed to support these people be in place? And what must we do to assure that it is?

That brings me to my third question: What will the Bank be aiming to do in the years ahead to help meet these challenges? I believe the Bank should focus on three broad objectives. One is to help improve the *policies* that underlie urban development strategies. Another is to help strengthen the *institutional development* that is needed to implement and sustain more effective policies. The third is to continue to expand the *financial assistance* we provide through our lending program, but with more concentrated emphasis on supporting policy and institutional development objectives.

With regard, first, to *policy reform,* our top priority will be to assist countries in developing a sound framework. Such a framework must start from an understanding of the points I have already mentioned about where we have come in the past ten years, the changing environment, the constraints we must accept, the importance of urban efficiency and productivity, and a concern for alleviating poverty. A good framework must include replicable approaches to the provision of infrastructure, shelter, and transport, a sensible division of labor between the public and private sector, and a balance between new investment and the maintenance of existing assets. Central to each of these elements must be a plan for mobilizing the necessary resources for both capital and recurrent expenditures.

On strengthening of *institutional development,* we, like many of you, remain concerned that so many local government institutions in the developing countries lack basic capabilities required for efficient administration. Often, too, private-sector institutions are not well developed yet. The Bank has been devoting increasing attention to these issues in recent years, under the heading of improving urban management. Previously, from the time we first began working on urban problems in the 1970s, our loans concentrated mostly on construction of facilities and related investments, particularly for shelter and transport. Now we have shifted to increase the share of our lending allocated to institution strengthening. This has meant supporting efforts to improve municipal finance, maintenance and operation of urban infrastructure, development of land management systems, and training of local officials. I see this trend continuing in future. Strengthening of institutions must mean taking on the difficult task of human resource development in the broadest sense, and not just training narrowly defined.

It also must take us further into the division of labor between local and central government, and intergovernmental financial relationships. Efficient urban management and municipal finance policies require that local governments have the authority, capacity, and revenue raising power needed to carry out their responsibilities effectively. Many developing countries are overcentralized now and need to be helped to decentralize. The phasing of this transition needs to be carefully planned, since many local governments require upgrading of their capabilities before they can handle major new responsibilities.

While acknowledging the importance of urban management, we also understand that solutions to institutional problems are necessarily city- and country-specific. There are no universal prescriptions to urban problems. We must be flexible and adaptive.

As we work to promote policy reform and institutional development, we also intend to *increase our financial assistance*. Requests for assistance have increased and efforts are underway to prepare new support to a wide range of countries in Africa, Asia, and Latin America. Our current plans call for expansion of the total amount of our assistance from $750 million per year on average to over $1 billion. The number of loans we make will increase too, from the current average of 12 projects per year.

Our lending program will place expanded emphasis on maintaining and getting maximum return from already existing assets, and will not simply involve creating new assets. We will be seeking to complement and be consistent with broader initiatives outside the urban sector, including structural adjustment and resolution of the debt problem.

We will continue to provide project-by-project lending, as well as some policy-based lending on broader sectoral issues. But we will be directing this lending to carefully chosen objectives. One objective will be to stress efforts that have a substantial demonstration effect — demonstrating new approaches that the borrower country can later extend elsewhere without further Bank involvement. Another objective will be to sharpen the poverty focus of our assistance.

I also attach particular importance to assisting countries to develop a better division of labor between the public sector and the private sector. In my view, better handling of the public/private question is crucial for the success of everything we hope to achieve in the urban sector. In many countries, governments are trying to do too much now. They should be leaving more for the private sector, and should be helping create an environment that permits private initiatives to take root and grow.

Let me illustrate what I have been saying about our objectives by referring specifically to the housing sector. We plan to continue to work toward reducing unaffordable standards, increasing cost recovery, and diminishing the public sector's involvement in direct construction of housing and on-site infrastructure. We also intend to concentrate more on land issues. Land is obviously a vital resource in urban development and will come under increasing pressure as rapid population growth continues. It is also an inefficiently used resource in developing countries today. Better solutions are needed on issues such as land registration, land development, clarification of tenure and property rights, property tax valuation and collection, and land market transfers. We will be looking for ways in which these activities can take place more effectively, at lower cost, and with less delay and risk.

In the area of housing finance, we will be expanding our efforts to assist in improving the mobilization of resources and reform of credit programs and intermediary institutions. Policies that lead to subsidizing the financing of housing frequently distort financial markets, fail to achieve their intended purposes, and hinder progress toward greater efficiency and equity. Subsidies are widespread now, embedded in mortgage interest rate policies, taxes earmarked for housing, regulatory controls on banks, creation of special government housing banks, and support of government credit programs. We will be looking for ways to help countries find better alternatives to current approaches. Often this will involve reducing subsidies, or shifting to less harmful forms of subsidies in cases where subsidization cannot be eliminated entirely.

I would also like to mention that a new entity called the Multilateral Investment Guarantee Agency (MIGA) is being established as an affiliate of the World Bank. It will provide guarantees, like a form of insurance, to eligible private and public investors against certain risks in investment projects. Qualifying projects can include, in the housing area, (a) investments to establish or strengthen mortgage-finance institutions; (b) engineering and construction services to public or private housing development activities, especially services promising improvement in the efficiency of housing production; (c) other services essential to the development or marketing of housing accessible to medium- and low-income families; and (d) investments in the local production of housing components, supplies or equipment. I have brought with me a brochure describing this new facility. Copies are available for anyone interested in taking one.

We believe that by working together with you, with HABITAT, and with other members of the international community, our efforts can be increasingly effective. We are looking forward to the meeting of the Development Assistance Committees of OECD on aid coordination in the urban sector in October, because we believe an important opportunity exists to improve the process of urban assistance.

Last December, the Bank hosted a meeting on urban assistance, attended by prominent officials from over 40 developing countries and representatives from over 20 other institutions, including many people who are here today. One conclusion from that meeting was that all of us need to do *more* and we need to do it *faster* and *better*. Our progress so far in the urban sector has been productive, experimental and thought-provoking; we have learned a great deal. But as was said in December, and I share the same view completely, the next step in addressing urban problems must be a *substantial* step, much larger than what we have undertaken so far. The stakes are getting higher every year. The need to provide services and manage cities more efficiently is becoming more urgent. Our next step must be surefooted, too. We must know where we are going, why we are going there, and what is required of national governments, city governments, the private sector, and external agencies.

We will need a shared vision of the future, to pick our way through the pitfalls. That vision cannot include privileges for relatively small groups while the poor majority remain unserved. It cannot include subsidized interest rates to house a minority while slums proliferate. It cannot include housing standards that are not affordable, or infrastructure strategies that are not replicable. It cannot include ignoring the potential of the small entrepreneur and the larger private investor to contribute to meeting urban needs. It cannot include policies that allow the users of public services to pay little or nothing for them, while others go without. It cannot include failure to deal vigorously and effectively with abysmally poor maintenance of valuable urban assets and weak local government institutional capacity. We must find practical, feet-on-the-ground answers to these problems. And to do that, I submit we will need to be prepared to take calculated risks and to set our sights high.

I urge those of you who can bring additional resources to these tasks to join with us in the analysis and research needed to find solutions to the challenges before us. This year, the United Nations Development Program, HABITAT, and the World Bank have established a new joint program to support research and technical work to improve urban development strategies for the 1990s. This program cannot and should not reach its full potential without the involvement of others, including the organizations represented here. We want your ideas and viewpoints to help guide this important new beginning. With your help, it can have a major impact similar to the UNDP-sponsored Water Decade Program, which is currently working in 40 developing countries with financial support from 12 donors, HABITAT, and UNICEF. Initiation of a new urban program is a recognition by UNDP that urban issues must receive additional attention in the years ahead. It is a sign that people outside the urban sector are willing to listen more closely to what all of us here have to say. We must not let them down. This window of opportunity will not stay open long, so we must move quickly.

Let me close by coming back to where I started. We must work together — the private-sector organizations of the developed world, with the expertise and new perspectives that you can offer; the public-sector leaders of the developing countries, with your extensive experience; the international agencies, especially HABITAT, with its vital role in the urban field; and the bilateral and multilateral aid institutions, including the World Bank. There is no time to lose. The International Year of Shelter for the Homeless is an important opportunity. Let us use it as an occasion to renew our thinking and continue learning together.

Thank you.

WORLD BANK

Lending for Urban Development Projects: 1972-86
(In current US$ millions)

	1972-73		1974-78		1979-83		1984-86		1972-86	
	#	$	#	$	#	$	#	$	#	$
East Africa	—	—	7	117.5	7	113.6	5	82.7	19	313.8
West Africa	1	8.0	2	52.2	3	78.8	7	201.8	13	340.8
Europe, Mid. East, North Africa	1	2.3	4	92.0	7	235.0	7	151.7	19	481.0
Latin Amer/Carib.	1	20.0	9	220.6	17	769.9	11	647.6	38	1658.1
East Asia/Pacific	1	16.0	6	159.1	11	576.0	8	655.3	26	1406.4
South Asia	—	—	4	171.0	6	298.2	4	283.0	14	752.2
TOTALS	4	46.3	32	812.4	51	2071.5	42	2022.1	129	4952.3

Housing Progress in Developing Countries

by Peter M. Kimm
Deputy Assistant Administrator for Housing and Urban Programs
U.S. Agency for International Development

Urbanization and the consequent need for shelter in the developing world are increasingly important issues. We have already heard an excellent presentation from Dr. Ramachandran of HABITAT on the scale of the problems. Urban growth rates continue to jar the imagination. By the year 2010, urban populations in developing countries will surpass rural populations. These nations will also see a dramatic shift in the incidence of poverty. By the year 2000 more than half the destitute will be living in urban places. This rapid urbanization is creating unprecedented pressure for shelter and related public services. Water, sanitation, health care, and education will be needed for more than 1 billion residents.

Urbanization is not an optional matter to be addressed sometime in the future. It is an urgent issue now and must be treated as a priority development concern — one which is shaping the very pattern of national economic growth, the settlement of vast populations, and the social and political stability of many countries. The donor community is beginning to acknowledge the profound influence the urbanization process is having on national economic and social development. A consensus is being formed that improving the efficiency and productivity of cities and towns is essential for fostering economic growth. Cities currently contribute over half of the gross domestic product of developing countries; by the year 2000 they probably will account for over two-thirds. And as the locus of poverty shifts from rural to urban areas, efforts to alleviate poverty must increasingly be directed at meeting the basic needs of urban populations.

At the U.S. Agency for International Development, the lead responsibility for addressing these problems rests with the Office of Housing and Urban Programs. For more than 20 years, we have been providing assistance in shelter and related urbanization through our Housing Guaranty Program. Relative to all U.S. assistance programs, the $150-200 million per year that we provide is small. On the other hand, this effort — which has amounted to over $1.5 billion in total assistance to more than 40 countries — makes the United States the dominant bilateral donor in the sector.

What I would like to do today is just make a few points about how we see the shelter problem and its solutions. First, let me describe the Housing Guaranty program and how it works. In essence, the HG program is a mechanism for channeling private-sector loans from the United States into shelter in developing countries. We provide a U.S. Government guaranty to the private lender. Most often the direct borrower is a central bank, finance ministry or other governmental entity that provides a host country guaranty to repay; in effect, it gets to use the dollars and it absorbs the exchange rate risk. An equivalent amount of local currency is then made available for shelter financing through intermediary lenders. Sometimes these intermediaries are national housing institutions, but increasingly we have been working to bring private banks, building societies and savings and loan associations into the projects.

In fact, our roots really lie in the private lending industry. When we began in the early 1960s, our geographic focus was limited to Latin America and the Caribbean. Our early efforts, and one of our great successes, was to assist in the creation of the private savings and loan system throughout Latin America. This system has experienced significant mutations, but it is still going strong, mobilizing resources and investing them in housing. Today we are active all over the developing world, supporting and working with private lending institutions in Africa, Asia and the Near East, as well as the Americas.

Our projects are developed, implemented, and managed under the direction of a worldwide staff based in seven regional offices, working as an integral part of the AID Mission in any given country. In addition to the $150 million in shelter loans that we make available, we have other grant funds which we use to support our capital assistance projects. This support takes the form of training, providing supportive technical cooperation for project design and implementation, and conducting research and project development activities. Many of our shelter projects are also enhanced by our leveraging of other AID resources — Development Assistance and Economic Support Funds — for both technical assistance and capital development.

These are the basic mechanics and tools of our program, but they do not begin to describe what we are trying to accomplish or how we endeavor to meet our objectives. To understand what we are really about, we need to look a little at our history and examine the lessons we have learned. In the more than 20 years that AID has been working to provide shelter for the poor of the developing world, we have learned a great deal about what works and what does not. We began with a set of preconceived notions about the nature of the housing problem and what needed to be done to come to grips with it. Our position today, and the policies pursued by the United States and by many developing countries are in some ways diametrically opposed to the notions with which we began. As we have gained experience, our view has evolved into one that puts increasing reliance on individual and private initiative and sharply redefines the essential role for government action.

When we began nearly a quarter of a century ago, developing countries had an image of appropriate housing based on many things, including what they saw and learned in the developed countries and what had been built in many of their cities during the colonial period. These aspirations led to the construction, sometimes with donor assistance, of the well-known housing projects, some of them for government employees: projects that were built to very high standards, that were built by government bureaucracies, and that required substantial subsidies even for the relatively well-off people who would live in them. As the realities of population growth and urbanization became apparent, so too did the impossibility of even scratching the surface of the housing need with this strategy. The economics were clear; scarce national resources could not be made available for deep subsidies for shelter in sufficient amounts to have any real impact without seriously undermining broad economic development objectives. And even if all the donor resources one could muster could be devoted to shelter, the problem would still not be solved.

So in the 1970s we all moved away from project or estate housing and into what we called the "basic needs" strategy. Our attention turned to providing shelter for the very poor. To accomplish this, new models were developed: sites and services, slum upgrading, and core housing. These techniques allowed us to provide at least minimal services to a vastly larger population of the poor. Although the housing was nonexistent or minimal, it provided families with the opportunity to meet their own basic shelter needs. Families had their own private space; they were soon protected from the elements; and they were served with water and basic sanitation facilities. For them, even the most rudimentary of shelter was an improvement over what they had before or could have hoped to attain without some assistance.

Through the basic needs strategy, we have made major accomplishments. We have not just assisted in housing the poor; we have helped to reorient the thinking of host countries about what shelter solutions are appropriate and what they can afford. We have used our Housing Guaranty program to finance projects worldwide that emphasize the provision of minimal adequate shelter to the largest possible number of families. As important, we have focused our assistance on serving poor households — those with incomes below the median for the country. In doing this, we have helped to demonstrate that it is feasible to develop shelter solutions for these families. We have also shown that if the projects are designed appropriately, poor families can become homeowners and they are a good credit risk.

This strategy, however, still was incomplete. The shelter problem was growing more rapidly than we and the other donors could hope to finance solutions. Even though projects were built to much lower standards, residents still were the beneficiaries of residual government subsidies. Sometimes land was made available at below-market prices. Sometimes financing was at interest rates that did not reflect the true cost of money. Or perhaps infrastructure was provided without adequate cost recovery through assessments or user charges. And government bureaucracies continued to play too prominent a role in the process. Their direct involvement in lending, construction and other aspects of project design and implementation frequently precluded the market discipline that could assure the most efficient allocation of resources to shelter. For these reasons — continuing subsidies and direct government involvement — the projects lacked replicability at the scale needed. As long as these conditions persisted, new projects would always require new allocations of donor and host country resources, which simply were not available in the quantity needed.

All this time, the key to the solution was becoming apparent. Government efforts aside, the vast majority of the poor in the developing world were in fact housed. The facilities may have been rudimentary, but people were able to obtain basic shelter through their own initiative and through the sometimes mysterious, but clearly effective, workings of the informal sector. Land was being made available, credit was being obtained, and housing was getting built through mechanisms not fully understood, but which were producing shelter solutions of a sort at a far greater rate than government-sponsored programs.

This was not really a surprise. For all of us, regardless of our economic or social status, one of the most important things in our lives is where we live. If we move or change locations, we will devote a significant amount of time, energy and effort to where we are going to live. We saw in our work that people were prepared to make enormous sacrifices to provide themselves with a decent place to live. In some low- and moderate-income neighborhoods, people with incomes of $1200 a year owned houses worth more than $12,000, more than ten times their income.

Putting all these lessons together, a realistic strategy for shelter in the developing world emerges. The strategy begins with the premise that individual energy is what is needed to solve the problem. Then the appropriate government response is to act as a *facilitator* and solve those problems that the *individuals cannot solve themselves*. We see those problems as falling into three basic categories: the availability of land with secure tenure, the provision of infrastructure, and the availability of credit.

Of these, perhaps tenure is most important. We have seen that if individuals have clear title and secure tenure — if they understand that whatever effort they put into their shelter will be theirs — exceptional amounts of savings are devoted to shelter. This creates security for the family, contributes significantly to capital formation in the country, and increases the health and productivity of its population. To the degree that government energies and resources can be channeled in those directions, then housing finance institutions, cooperatives, private entrepreneurs and above all the individuals themselves will see to it that appropriate shelter is produced.

All of this, then, has brought us to our current strategy. We have, through our Housing Guaranty program and related assistance resources, a couple of hundred million dollars a year that we can bring to bear on the shelter and urban problems of the developing world. We use these funds to enter into policy dialogue with developing countries in an effort to talk to each other and to work toward strategies that will do the job. This policy dialogue focuses on the national approach to provision of shelter for all. The basic idea is to adopt a series of policies which, in their totality, will set in motion the forces that will put the supply of shelter into some sort of equilibrium with the demand.

The most important consideration is the appropriate division of labors between the public sector and the private sector; between the government and families; between the municipality and the community, within the cultural and historic context that exists — the reality. Our substantial experience in many developing countries argues strongly that government should expend its energy on the things that individuals cannot do for themselves. The facilitative, policy function of government is all important; there can be no successful shelter program without appropriate government participation.

A critical element is the encouragement and support of the private sector, which almost everywhere is the principal engine of economic growth. The private sector is the proven, effective producer of shelter. By maximizing the role of private-sector institutions in the provision of credit for low-income families, we are attempting to expand the availability of long-term housing finance. By providing opportunities to private individuals, as well as developers and contractors, the production of housing for low-income families will be most efficiently achieved.

Second, we work with the countries to adjust their view of what minimum appropriate standards for shelter should be. If basic needs can be met in a home of 20 square meters to be added to later by the occupant, then it is not only a waste of scarce resources to build at 40, but only half as many people can be helped. If we can provide adequate water and sanitation by clustering facilities, then it is wasteful to pipe water into each individual unit. Appropriate standards, along with the use of appropriate, low-cost and indigenous building materials and technologies help to assure that the project is affordable to the intended beneficiaries. And affordability is the key to cost recovery.

Third, we work with the countries to develop policies that will assure project cost recovery. This is critical if we are to achieve project replicability and produce shelter solutions at a scale adequate to meet the growing needs of the developing world. Cost recovery means eliminating interest rate subsidies, charging market price for government-owned land, and recovering through appropriate charges the cost of providing basic infrastructure and services. To the extent that we increase cost recovery, we can serve many more poor families. If government is to absorb some costs, it should do so consciously, considering costs and benefits, economics, politics, and equity. Every time we design a new Housing Guaranty and then negotiate the loan terms with the host country, these issues are brought to the table.

Finally, we use our assistance leverage to help beneficiary countries improve the institutions, public and private, that impinge on shelter and urban development. We recognize that the full benefits of private initiative can be realized only in a supportive environment in which the basic public responsibilities are executed efficiently. We strongly encourage the building and strengthening of institutions which serve people locally and in which they can participate. We are supporting both neighborhood, cooperative organizations, and municipal strengthening and decentralization, which are receiving priority in countries of every region in the world. We have been a strong voice in insisting that national housing agencies and financial institutions deliver the services they are chartered to perform. To advance these goals, we provide extensive training to policymakers, senior officials and key private-sector actors on various policy and management issues related to shelter, finance and urban development.

We believe, very deeply — and have figures to support this belief — that by following these principles, the world shelter problem is resolvable. In a single generation, perhaps 25 years — within the limits of the resources that are now available — an adequate, if bare-bones house for every family is a reasonable, achievable goal.

To this end, we are actively participating in the activities of the UN's International Year of Shelter for the Homeless. The designation of IYSH is an important milestone in the world's efforts to house the poor. It is a call to the developing countries to examine their shelter policies and make renewed efforts to expand housing opportunities for the poor. Through the mechanisms established by the UN Centre for Human Settlements in support of IYSH, donors and recipients alike will be able to share their experiences. These channels of communication will serve as a medium through which new ideas and successful experiences can be exchanged. Countries can learn from each other and accelerate the realization of shelter improvements. We have been and will continue to be active in this process.

The designation of IYSH is also a recognition of the relationship of adequate shelter to the physical and psychological well-being of disadvantaged people. It is a reminder to us all of what we are really all about. Perhaps nowhere has this most fundamental aspect of shelter been more poignantly expressed than in an early novel by V.S. Naipaul, who may be the most powerful writer in the English language today. This novel, *A House for Mr. Biswas*, is clearly autobiographical, and Mr. Biswas is Naipaul's father, a middle-aged father of four who is terminally ill, his thoughts as he lay in his bed turned to the house he has struggled to pay for:

> He thought of the house as his own, though for years it had been irretrievably mortgaged. And during these months of illness and despair he was struck again and again by the wonder of being in his own house, the audacity of it: to walk in through his own front gate, to bar entry to whoever he wished, to close his doors and windows every night, to hear no noises except those of his family, to wander freely from room to room and about his yard. . . .
>
> How terrible it would have been, at this time, to be without it: . . . to have lived without even attempting to lay claim to one's portion of the earth; to have lived and died as one had been born, unnecessary and unaccommodated.

What we are all really trying to do is to provide everyone with his or her opportunity to lay claim to a portion of the earth. As we struggle with strategies and debate policies, we should never lose sight of that ultimate objective we all share.

NORTH AMERICAN SHELTER SYSTEMS: LESSONS FOR DEVELOPING COUNTRIES

The Canadian Experience

Presented by Raymond Boivin
Senior Vice President
Canada Mortgage and Housing Corporation

Adequate housing is a top priority for the Government of Canada. Housing conditions as measured by widely used indicators such as families maintaining their own households (98 percent), households with exclusive use of water, toilet and bath facilities (98 percent), average number of persons per room (0.52 percent), crowded households (4.3 percent), home-ownership rates (63 percent), all indicate that by international standards housing conditions are good in Canada. This paper will review some of the policies and institutions that have been put in place in Canada to achieve these results.

Canadians have a great deal of faith in the ability of the private sector to provide almost all the housing needed. The Federal Government sees its role essentially as the provider of the framework (legal and institutional) within which the private sector can best operate. Thus, in Canada, the private financial mortgage lenders provide 97 percent of the funds needed each year to finance new housebuilding. Also, 95 percent of the housing stock of 9 million dwellings are privately owned. The remaining 5 percent are owned either by governments or by private nonprofit organizations to provide adequate shelter to low-income households with the help of varying degrees of subsidy from government.

Housing and National Economic Development

The potential of housing to contribute to national economic development has often been played down by those experts who consider housing a consumption good that does not contribute to the creation of permanent jobs in the same way that heavy machinery and factories do. It has been estimated that each dwelling unit built in Canada creates 2.5 person-years of employment. In addition, because housing is built mainly with locally produced materials, it requires little or no expenditure of foreign exchange. Thus, during the peak year of housebuilding in Canada which occurred in 1976, new dwellings started totaled 273,000 units, and residential expenditure represented 6.5 percent of GNP. Household formation has declined since then and so have housing starts. Residential construction in 1985 nevertheless still represented 4.25 percent of GNP, as housing starts leveled off to 165,000 units in that year (up from 135,000 in 1984). In addition to new housing, we have found in Canada that additional jobs are created in housing through the rehabilitation and renovation of the existing housing stock. This renovation and rehabilitation of the existing housing stock now represents over 40 percent of all expenditures on residential construction and this proportion is expected to grow still further. Rehabilitation and renovation of the existing housing stocks is more labor-intensive than new residential construction. Thus, while $1 million of new construction would create about 25 jobs, the same $1 million spent on renovation and rehabilitation would create about 50 jobs.

These job creation abilities of housing have often been used in Canada to stimulate the economy and help pull it out of recession. During the 1970s, the stimulation programs used an innovative mortgage lending technique to bring the housing produced within the reach of medium-income families. During the 1980s, an up-front government grant was used as the incentive to greater housebuilding.

In Canada it is recognized, however, that in order to be able to use housing's job-creation capacity to its fullest, it is essential to have a well-developed capital market, through which savings can be channeled in sufficient quantities to finance both housing and the investment needed to finance plant and machinery as well as other business activities. The policy in Canada has been to encourage improvements in the mortgage market, thereby improving access of borrowers to housing finance. But the actual distribution of capital market funds between housing and business investments is determined in the capital market, on the basis of the ability on these different sectors to pay the required interest rates to borrow the needed funds.

Role of Private Sector in Housing

The private sector builds all the housing units produced in Canada each year. All of the 5.5 million home-ownership units are privately owned. With respect to rental units, the private sector owned 3.1 million rental units, or 88 percent of the 3.5 million total rental stock. The remaining 400,000 rental units are owned either by governments (200,000) or by nonprofit organizations (200,000). The private sector thus owns 95 percent of the total housing stock in the country, and 88 percent of the rental stock.

The private sector also provides almost all of the mortgage financing required for housebuilding activities. Only 10 percent of the total $155 billion mortgage debt outstanding is held by government agencies. The proportion of mortgage debt held by the private sector is expected to increase still further in future years, as only 2 percent of new housing starts are currently financed with government funds.

The housebuilding industry in Canada is a very competitive industry. This competition helps to keep the building industry efficient and able to produce housing at a cost that in relation to income compares favorably to the cost of housing in most other countries.

In order to assure themselves of a constant supply of land for their future building activities, most of the larger builders have built up a large supply of serviced land. These private land banks suffice not only to provide the land needed for their own building operations; they also sell off part of their holdings to the smaller builders as required by them. The builders in Canada have formed strong trade associations to represent their interest. The builders of homes are grouped mainly in the Canadian Home Builders Association (CHBA) and the builders of apartments in the Urban Development Institute (UDI).

Effective Institutions and Housing Markets

A great deal of emphasis is placed in Canada on the development of strong mortgage lending institutions. Measures to promote mortgage lending include providing mortgage insurance to increase the supply of mortgage funds and to improve access to housing, widening the band of private mortgage lenders by allowing more of the existing institutions (especially banks) to make mortgage loans, encouraging the development of a more active secondary mortgage market, encouraging the development of a private mortgage insurance industry, introducing changes in NHA-insured mortgage lending terms designed to maintain an adequate flow of mortgage money during periods of monetary restraint, changing mortgage lending terms to better adopt them to periods of rising interest rates and inflation, and introducing policies to protect homeowners from abrupt changes in monthly payments. As a result of these policies it has been possible to minimize funding by the government.

Public mortgage insurance was provided to the Canadian mortage market in 1954, with the introduction of the National Housing Act (NHA)-insured mortgage loan in that year.

Since the inception of this program about $70 billion in mortgages were insured under the NHA, of which $37 billion are still outstanding. About one-third of the housing starts in Canada since 1954 have been financed under this program.

When the NHA mortgage loan insurance program was introduced in 1954, the major private mortgage lenders were the life insurance companies and the trust and mortgage loan companies. The biggest financial institutions, namely the chartered banks, were not allowed to make mortgage loans, because these loans were not considered to be liquid enough for a bank. When the NHA-insured loan was introduced in 1954, banks were allowed to make NHA-insured loans. The chartered banks' mortgage lending powers were further expanded in 1967, when they were admitted to conventional mortgage lending also (conventional mortgage loans are those loans not insured under the NHA).

Further efforts were made to amplify the supply of mortgage funds through the encouragement of an active secondary mortgage market. Provision was made in the 1954 NHA legislation for all types of investors to buy NHA mortgages as long as these NHA mortgages continued to be administered by an approved NHA mortgage lender. The opportunity therefore existed for investors not in a position to originate and administer mortgages to buy such mortgages from NHA approved lenders. It was hoped that through such secondary mortgage market purchases, additional pools of savings could be made available to the mortgage market. Two large pools of savings that potentially could be tapped in this manner were savings accumulated in pension funds and estate trusts and agency funds administered by trust companies. The opportunity also existed to sell mortgages to other corporate or individual investors and to investors outside Canada. Special efforts were therefore made to stimulate greater secondary mortgage market activity. In 1984, as an additional measure to stimulate secondary mortgage market activity, legislation was introduced to allow CMHC to provide a guarantee of timely payment on mortgage-backed securities, as an additional method of reaching new investors. It is hoped that through the use of mortgage-backed securities new investors will be brought into the mortgage market willing to provide long-term fixed interest rate mortgages, which the present groups of mortgage lenders dependent on deposits to fund their mortgage portfolio are not able to do. We expect to have this new mortgage-backed securities program in operation by September 1986.

As a result of all the measures taken to improve the mortgage market and to integrate it more closely with the capital market as a whole, Canada has one of the most diversified group of mortgage lenders in the world. These include specialized mortgage institutions (trust companies and mortgage loan companies), general financial institutions (chartered banks and credit unions) as well as contractual savings institutions (life insurance companies and pension funds). These private mortgage lenders now provide 97 percent of all mortgage funds.

Steps also were taken to permit the emergence of private mortgage insurance companies. Three private mortgage companies became active in providing mortgage insurance to the mortgages lenders. By 1978 these private mortgage insurance companies were doing more business than CMHC. These three private mortgage companies merged into two companies in 1978 and into one company in 1981.

The encouragement of a wide range of mortgage lenders has made the mortgage market in Canada very competitive. All the major mortgage lenders are trying very hard to maintain or increase their share of the mortgage market. This has led the mortgage lenders since 1983 to offer borrowers more flexible lending terms and to reduce the costs involved in transferring a mortgage loan from one lender to another. All of these changes make it easier for borrowers to shop around for the best interest rate and most convenient mortgage terms.

In addition to a well-developed housebuilding industry and a well-developed mortgage market, a strong marketing network is also needed to sell the new houses produced annually and the existing homes coming up to sale each year. A strong network of real estate companies or agents is particularly important in the sale of existing homes. It is estimated that during 1985 about 100,000 new homes valued at $8 billion were sold while the value of exising homes sold was four times as large in terms of units — 400,000 and three times as large in dollar terms at $24 billion.

Private Property and Security of Tenure

Private property rights are well recognized in Canada. They are beyond debate and are not an issue here. The Federal Government, however, has the right to acquire property needed for wider social purposes, such as to widen roads in built-up areas or establish new roads in new areas. Well-established procedures exist to ensure that when the Federal Government exercises its right of expropriation, the owners of the property subject to this expropriation are paid a fair market value for their property.

Security of tenure for renters in Canada is regulated by the provinces, not the Federal Government. Each of these provinces has some form of landlord-tenant legislation that basically guarantees the landlord's right to receive the stipulated rent on time, and also guarantees the landlord to be indemnified for any damage done to the rented premises. The tenant is guaranteed enjoyment of the rented premises.

In addition, in 7 out of the 10 provinces rent controls are in effect. Basically the intent of these rent controls is to prevent exceptionally large increases in rent. Typically, this provincial rent control legislation allows increases in rents about in line with increases in the Consumer Price Index. Increases higher than that have to be justified to Rental Review Boards.

Government and Private-Sector Partnership

The role of government is to provide a framework of laws and institutions that encourage the private sector to do its job well. In framing the laws and institutions, government consults with all sectors in the economy, including those active in the housing sector. The dialogue between government and the private firms active in the housing sector takes place mainly through the trade associations that the private-sector firms have established to represent their interests. Thus all the three important branches of the housing sector — the mortgage lenders, the builders, and the sellers of real estate — have established trade associations through which they can convey their concerns to government.

Another way in which the Federal Government helps the private sector to do its job well in promoting market-oriented housing is in the collection and dissemination of housing-related data needed by the private sector to plan its housebuilding operations. These data include statistics on starts, completions, vacancies, housebuilding costs, and mortgage interest rates. These statistics are published regularly for the use of all parties interested in housing.

The Federal Government has also made efforts to give the private sector a greater role in the provision of social housing, namely housing for low-income households, that requires a subsidy from government to make them affordable to low-income households.

The capital funds for social housing units are provided by the private mortgage lenders at market-determined interest rates in the form of a National Housing Act mortgage, fully insured against default by the Federal Government. The government provides a subsidy equal to the difference between the operating costs (including mortgage repayment) and rental revenues received from tenants whose rents will be based on 25 percent of their adjusted household income.

The government also encourages cooperative housing. Thus a proposal is currently under development whereby the Federal Government will permit cooperatives to finance new cooperative housing projects through the use of Index Linked mortgages. The mortgage balance outstanding will be adjusted each year by the percentage change in the consumer price index. As a result, monthly mortgage payments, and therefore the occupancy charges of their co-ops, will increase each year by about the rate of inflation. (The actual formula used is inflation minus two percent). The Federal Government will insure these mortgages against default under the National Housing Act.

The United States Experience

Presented by James Stimpson
Deputy Assistant Secretary for Policy Development
U.S. Department of Housing and Urban Development

Americans in the United States take pride in their homes and in the sophisticated housing production, marketing and financing system which has produced one of the world's best housing inventories. I should like to review the importance of housing in the U.S. economy, the structure and size of the housing construction industry, and the growth and development of our housing finance system. I will conclude with what I believe are important lessons from our experience which would be useful for developing countries.

The Significance of Housing: Size of the Stock

The American housing inventory has expanded greatly and improved significantly in quality over the 40 years from 1940 to 1980. In 1940 there were 37.3 million housing units in the United States, including 34.9 million occupied units and 2.5 million vacant units. By 1980, the inventory had increased another 52 percent to 88.4 million units, of which 80.4 million were occupied.

In the 40 years between 1940 and 1980, the population of the United States increased 72 percent. Over the same period, the number of occupied housing units increased 130 percent. This faster increase in households occurred because average household size was steadily declining from 3.8 persons per household in 1940 to 2.8 persons per household in 1980. Meanwhile, houses were increasing in size. Thus the phenomenon of crowded housing units has all but disappeared. In 1940, 9 percent of all occupied units had more than one and a half persons per room. By 1980, under the more stringent definition of more than one person per room, only 4.5 percent were found to be crowded.

Housing quality also improved greatly over the period. In 1940, 44 percent of all units lacked some or all plumbing facilities, i.e., hot and cold piped water, a flush toilet, and a bathtub or shower inside the housing unit for the exclusive use of the household occupying the unit. By 1980, this proportion had fallen to less than 3 percent, most in rural areas. Other housing quality indicators show the same striking improvement.

This improvement in housing quality was largely due to rising real incomes resulting from a growing, vigorous economy. Other factors were also important, however. The improvement in plumbing facilities and other equipment was encouraged and in many cases made possible because of investment in public water and sewer facilities in communities and neighborhoods that had lacked them. With the infrastructure present, residents could tap in and obtain potable running water and eliminate wastes in a sanitary manner. Investment in other infrastructure — electric power lines, gas, telephone, paved roads — also improved the quality of life and encouraged the upgrading of dwelling units.

One of the most important trends in the United States has been the growth in homeownership. In 1940, less than 44 percent of all households owned their own home. By 1980 the proportion was 64.4 percent.

An adequate supply of mortgage credit at reasonable terms and a good supply of reasonably priced housing are fundamental in making homeownership possible.

The Federal Government has had various roles in assisting in the supply and financing of housing. One of the most important for the encouragement of homeownership as well as the provision of rental housing has been mortgage insurance under the National Housing Act of 1934. Under these programs, the lender is insured against the risk of possible default by the borrower, with the borrower paying the mortgage insurance premium. As a result of the insurance, millions of borrowers who otherwise would not have qualified under the lender's standards have been able to obtain mortgage loans. Similar programs, sometimes involving direct Federal loans, have been developed for veterans of military service and for rural areas. By 1983, out of the 27.8 million single-family owner-occupied houses with a mortgage loan outstanding, over one-fifth, more than 6 million owners, reported that their mortgage loan was covered by a Federal insurance or guarantee.

Production of Housing

During the 1950s and 1960s total housing production, measured by starts of conventionally built units plus factory shipments of manufactured units averaged just over 1.6 million units per year while the average increase in households was just over 1.0 million per year.

Federal involvement in total housing production has varied widely, particularly in multifamily construction. From 1979 through 1982, when privately sponsored construction was low, Federally subsidized new construction was 30 percent or more of the total. Now, in the shift toward housing vouchers and away from subsidized new construction, subsidized starts still in the production pipeline are only a few percentage points out of all multifamily starts.

New residential construction is an important part of all construction in the United States. It accounts for one-third or more of all building and non-building construction.

Investment in the existing housing inventory also represents an important contribution to the national economy. From 1980 to 1983, between $45 and $50 billion was spent each year on maintenance and repairs and construction improvements.

Investment in new production and in the existing inventory are the major components of fixed residential investment in the National Income Accounts. In 1983 through 1985, fixed residential investment accounted for between 4.5 and 4.7 percent of Gross National Product, and 27 to 30 percent of Gross Private Domestic Investment. Residential investment has a much wider effect on the national economy in generating employment and adding to the Gross National Product through its linkages to other activities.

The Housing Construction Industry

Residential builders in the United States form a highly decentralized industry. About two-thirds of single-family homebuilders build 25 or fewer houses per year. As many as 40 percent build ten or fewer houses per year. Only about one percent are large-volume builders who build more than 500 units per year.

As the residential construction industry developed, government response to it also developed, sometimes supportive but more often regulatory and sometimes obstructive. Zoning ordinances, building codes, subdivision regulations, and a host of other governmental requirements were imposed on the industry in the guise of protecting public health and welfare and maintaining property values and the taxable base. In a joint venture between the Federal Government and the homebuilding industry, we have been demonstrating that savings of as much as 20 percent in new home prices result when local governments are induced to relax their unnecessarily stringent reuglations and ordinances. There is a role for government, but it must be supportive, encouraging the construction of good, sound and affordable housing, rather than being obstructive in insisting upon obsolete materials and unneeded infrastructure investment.

Housing Finance

Federal insurance corporations were set up to insure depositors against commercial bank or savings and loan association failures. The Federal Housing Administration was created to insure holders of mortgage debt, including financial institutions, against defaults by borrowers. The Federal National Mortgage Association was formed to create a national secondary market in mortgage credit by buying Federally insured or guaranteed mortgage loans in capital-short regions of the nation and selling them in capital-surplus regions, thereby balancing the supply of and demand for mortgage credit in local markets, and stabilizing interest rates. This encouraged the growth of a form of equity investors known as mortgage bankers, who originated and sold mortgage loans, but retained loan servicing for a fee. Along with protection for depositors and lenders came regulation. The Federal Home Loan Bank Board was set up to charter, aid and regulate Federal thrift institutions — the S&Ls and mutual savings banks which wished to obtain the insurance protection — in much the same way that the earlier (1915) Federal Reserve System regulated and aided national commercial banks.

As the system evolved, thrift institutions became insulated from capital markets through incentives and requirements to make loans or investments primarily in residential real estate, and through deposit rate ceilings which favored thrifts over commercial banks. When interest rates rose above the deposit ceilings this created cycles of recession in housing construction, as depositors withdrew savings from thrifts to obtain better rates elsewhere, and thrifts were forced to stop making mortgage loans, thus halting the sale and the construction of housing. Depositors who did not withdraw savings suffered economic losses on their interest earnings.

The solution to these problems was the deregulation of the thrift industry. Deposit rate ceilings were removed and thrifts were empowered to offer new competitive forms of investment opportunities such as certificates of deposit and interest-bearing checking accounts. They were given many powers much like those available to commercial banks. Meanwhile the secondary market in mortgages had been strengthened by the creation of the Federal Home Loan Mortgage Corporation in 1970 for buying and selling mortgages without Federal insurance or guarantees, and the division of the Federal agency known as the Federal National Mortgage Association into a privately-held corporation with Government sponsorship still known as the Federal National Mortgage Association, a major investor in mortgages, and a Federal agency known as the Government National Mortgage Association, to pursue the public policy aspects of secondary market operations. The activities of these three Federal or Federally sponsored agencies has tied the mortgage market closer to general capital markets through innovations in packaging and securing mortgage instruments to attract a broader range of investors such as corporations, private pension funds, and state and local government retirement funds. The innovations include mortgage pools and mortgage pass-through securities issued or guaranteed by the Federally sponsored and other United States agencies.

Conclusions: Lessons for Developing Nations

The principal conclusions I draw from our experience are these:

1. **Institution building works.** It is important to develop, encourage, maintain and preserve private saving and lending institutions to provide both a safe repository and interest income source for savers and a source of mortgage loans for home purchases. Without a reliable source of private mortgage credit at reasonable terms, sound and widespread homeownership opportunities cannot be provided in an adequate manner.

2. **Small-scale residential production works.** It is not necessary to mount large production programs. Residential builders building fewer than 25 houses a year can meet the needs of all markets, be responsive to market demand, and fill special market niches. When effective demand is great enough that economies of scale in production are possible, some builders of a few units will naturally develop into builders of many units.

3. **The best role for government is as facilitator and supporter of the private sector.** A competitive private sector can best meet the needs of the people, for any enterprise that does not do so fails to stay in business. It is the public role to maintain healthy competition, to create the conditions for private enterprise to flourish, and to innovate and take risks to demonstrate new technologies and instruments when that cannot be done privately.

4. **Infrastructure investment is important, and it is often a public role.** The provision of streets and highways, water and sewer systems and other public services that cannot be provided so well by the private sector is necessary to aid and encourage private development of sound housing.

5. **Housing is an important contributor to the development of the national economy, creating employment and wages in linked sectors of the economy.** Furthermore, skills learned in building houses and developing residential communities can be transferred to other types of construction such as commercial or industrial building. Housing construction aids in the development of a trained pool of workers and managers.

A Panel View

Two Canadian Perspectives

Raymond Boivin (Senior Vice President, Canada Mortgage and Housing Corporation, Ottawa, Canada): I hope that my remarks will illustrate a number of features of Canada's housing system which will prove to be useful as we consider ways in which the housing experience of developed nations can be applied to Third World countries.

Successes in this field are quite limited, and I am indeed pleased that a successful Canadian practitioner in such matters has agreed to join me on this panel. I've no doubt Mr. Teron will have many interesting insights to share with us from his extensive development experience in Canada as well as in the Third World. Now, the role that the production and maintenance of housing can play in national economic development is not open to serious question from my perspective. In Canada we produce housing in all parts of our country. Our present rate of production on a population base of some 25 million is on the order of 180,000 units per years. We currently estimate that to provide for anticipated population growth and household formation we should be producing on the order of 200,000 units per year. I should note, however, that this requirement will change as our population ages during the next 25 years.

The labor-generation effects of our housing activities are considerable. We estimate that each dwelling unit built creates 2½ person-years of employment — 1 onsite, 1½ offsite in related activities. The macro-economic effects are also quite significant. Residential construction accounts for approximately 5 percent of our Gross National Product.

The renovation of our existing stock will play an increasing role in maintaining the housing sector as a key to sustained national economic growth. Over 40 percent of our expenditures for residential construction are for this purpose and we fully expect this proportion to grow in the future. This is particularly note-worthy because of the higher labor content of such work. We estimate that renovation is twice as labor intensive as convention and new construction. And we anticipate that considerable new employment will be generated in this area in the future. The housing sector has also proven to be particularly amenable to use as a stimulus for broader economic activity. The most recent such instance was during the economic recession of the early eighties when we introduced two programs to stimulate housing production and renovation.

In today's more healthy climate, there is no need for such programs and we no longer have them in operation. We have learned that stimulation programs must be developed with care to avoid introducing unan-ticipated destabilizing effects. While public programs designed to stimulate economic activity may be very attractive, they may prove to be ill advised in the long term. This is because they can build up and then cut off the productive capacity of the industry or create artificial demand, thereby destabilizing future markets. We believe that the most appropriate and fiscally responsible approach lies in the use of the public sector to facilitate the efficient and smooth functioning of housing markets. Rather than rely on stimulation programs, we recognize that it is essential to have a well-developed capital market. Our policy has been to encourage improvements in the mortgage market, thereby improving access to housing finance. I'll expound on this theme later.

Turning briefly to the question of the private sector's role in solving housing problems, we have tradi-tionally relied on private production. The private sector builds all housing units produced in Canada each year. This applies both to dwellings built for ownership and to dwellings built for rent. Some 95 percent of the total housing stock in the country is in private ownership. The balance is split between government and nonprofit organizations. The private sector also provides 90 percent of the mortgage financing required for housebuilding activities. This proportion is expected to increase still further in future years as only 2 percent of new housing starts are currently financed with government funds.

The housebuilding industry in Canada is also very competitive. This competition helps to keep the building industry efficient. It enables us to produce housing at a cost that, in relation to income, compares favorably to the cost of housing in most other countries. As one should infer from my last remarks, private property rights are well recognized in Canada. We consider them a foundation on which strong building, real estate and mortgage industries are built. In Canada, 63 percent of our dwelling units are owned by people who live in them, and of these over half have no mortgage emcumbrance.

Security of tenure for the 37 percent of Canadian households who rent there is regulated by our ten provincial and two territorial governments. Each province has some form of landlord-tenant legislation that basically guarantees the landlord's right to receive the stipulated rent on time and the tenant's right to quiet enjoyment of the rented premises.

As I mentioned earlier, I believe that the development in Canada of effective financial institutions and markets may yield the most pertinent lessons for other countries wishing to benefit from our experience. We've placed considerable emphasis on the development of strong mortgage lending institutions which provide the financing needed to support the production and consumption of housing. We've accomplished this by introducing mortgage insurance to increase the supply of funds and to improve access to housing. We have widened the spectrum of lenders who make mortgage loans and we have developed a secondary mortgage market. We also encouraged the development of a private mortgage insurance industry and introduced changes in mortgage terms to adapt them better to periods of rising interest rates and inflation.

Finally, we are just in the process of introducing a measure which will enable us to guarantee timely payment on mortgage-backed securities as an additional means of reaching new investors. As a result of these initiatives, we've been able to reduce the volume of public funds which otherwise would be required to finance the production of housing. Consequently, we've been able to concentrate the use of our resources on the provision of housing to low-income households at affordable prices. Our approach rests on our ability to provide private sector funds through the activity of private and public nonprofit organizations.

Both a well-developed homebuilding industry and a well-developed mortgage market are needed for a smoothly functioning housing market. But these alone are not enough. A strong marketing network is also needed to sell the housing. In Canada, this marketing network is provided by the members of the Canadian Real Estate Association. Such a strong network of real estate companies or agents is particularly needed for the sale of existing homes. While it is estimated that in 1985 about 100,000 new homes valued at $8 billion were sold in Canada, four times as many existing homes changed hands at a cost of $24 billion. The majority of transactions on existing homes used the services of realtors.

My final comments relate to the partnership between government and the private sector in the production of housing. The role of government is to provide a framework of laws and isntitutions that encourages the private sector to do its job well. In framing the laws and institutions, government consults with all sectors in the economy. The dialogue between government and the private firms active in the housing sector take place mainly through the trade associations. The Federal Government listens to the concerns of the associations when it considers making changes to housing legislation or institutions.

Another way in which the Federal Government helps the private sector to do its job well is in the collection and dissemination of the housing data needed by the private sector to plan its homebuilding operations. We provide estimates of future housing requirements to facilitate long-range planning by the private sector. We also monitor and provide information on current trends to enable private firms to make short-term adjustments in housebuilding programs.

The Federal Government has also made efforts to give the private sector a greater role in a provision of social housing, housing for low-income households that require a subsidy from government to make it affordable. Private mortgage lenders provide the capital funds needed by public and private nonprofit organizations to construct social housing and the Federal Government provides the subsidy.

This leads me to my concluding remarks in which I would like to offer my views on the lessons which might be extracted from the Canadian experience. First, cooperation between the private and public sectors is of paramount importance for a market economy such as ours. Even if they have the will, I doubt that governments have the financial resources to provide entire societies with adequate housing at affordable prices. Second, the division of responsibility is obvious. Government and its institutions are best placed to ensure that the financial and policy framework within which the housing finance and construction industries operate functions smoothly and efficiently. It also uses its leverage to ensure that the poor are not precluded from access to shelter. Third, the advantages of a strong residential construction sector are evident from the amount of employment it generates and its contribution to Gross National Product. Fourth, governments are well suited to conduct the fundamental research and to publish the data required to make housing markets function smoothly. The private sector, on the other hand, is responsible for the production of housing in response to market forces. Strong residential construction and property marketing industries are necessary to ensure that this takes place. Fifth, our experience leads us to conclude that the existence of a diversified mortgage lending industry will provide the single most important incentive to the effective functioning of markets. And finally, I also believe that while the utility of stimulation programs should not be discounted, they must be used with sensitivity so as not to generate unanticipated spinoff effects with unwanted consequences.

The public and private interplay has worked well for us in Canada. We have faith in the ability of the private sector to provide housing. Because of our industry's successes we are one of the best-housed nations in the world. I hope that our experiences will be useful to those of you who are also wrestling with the issues of this most complex, yet very rewarding, activity in your own country.

William Teron (President, Teron International Development Corporation, Ottawa, Canada): I spent 20 years in the private sector as a designer, builder, and developer — everything from housing to new towns. I then became president of the government's mortgage bank and insurance arm, and secretary in the Ministry of State for Urban Affairs. In the American context, I was Secretary of HUD during the HABITAT Conference. Since leaving that work of six years, I have devoted time to international work at HABITAT, the OECD and United Nations regional bodies. I became more and more concerned with what really needed to be done in the developing world. The panel today is supposed to reflect on the experience within our countries that may be of use to the developing world. And while I was aware that Mr. Boivin, with whom I worked, would describe governmental work (which really is excellent in Canada), I would like to relate to the more human element of the Canadian experience.

One of the things in the Canadian experience that is possibly closest to the developing world is that Canada itself is just emerging from being a developing country. It was a very rural society in the 1930s. I can tell you that personally: I lived in rural circumstances in what now is called a "no cash" culture. There was no money in the house. The house had a sad roof. The floor was of clay. There was no aid available. But the people were resourceful, self-reliant, and creative. What they continued to do gave them an enormous pride of accomplishment and the courage to emerge from a very rural society within 50 years.

Government recognized many years ago that a solid mortgage instrument to attract investment to housing is essential. So the government instituted inspections and a minimum standard to ensure that that product was good. The second step was to insure mortgages. The people might go bankrupt, or die, but the houses would continue as an asset.

Canadian housing mortgage funds are basically local funds that are savings recycled through the banks, the trust companies, the pension funds, and life insurance companies. These funds in Canada have exceeded the supply of mortgages for some time now. There's more money than there are houses in which to invest.

Let's turn for a moment to HABITAT. HABITAT was an excellent forum, but it was excellent in the sense of being a forum for public-sector ideas and ideals. There were no practical operational fundamentals. No one at HABITAT could tell us how to build one house with a $500 income parameter. I want you to tell me how to build a house for $1,500. No one told me that at HABITAT, and we certainly haven't heard it here.

There also was no concept of the role of individual initiative. I felt at HABITAT that when people thought in terms of a million or a billion people, they saw a million or a billion problems rather than a vast resource. There's an enormous untapped resource out there. The people are not problems, they are resources. They have one problem: affordability. You heard of Bombay's 4.5 million people. All the collective monies of all the profound institutions that are here could not afford to build sufficient housing in that one location, let alone the world.

The disparity of national economies is great. How can we think in terms as a Canadian, as an American, of providing a $20,000 solution in areas where income is under $1,000? Such "solutions" are not relevant. Nor should we borrow hard currency loans for housing. As in Canada, housing must be financed locally.

Affordable shelter solutions in developing countries should be without external loans and without subsidy. We have seen small savings and loans develop in the communities that had the confidence of the local village. They took in the money because the people had trust and confidence in them.

Appropriate technology also is a must — modest technology that can harness the people as they are. It takes ten years to train a carpenter, five years to train a mason; but I remember when I was young that we weren't trained carpenters, we weren't trained masons, but we built our houses. An enormous resource is out there. We need appropriate technology to harness local unskilled labor using local low-cost materials. Then one can begin to generate local wages, local savings, and local loans. We have also designed and built prototypes of small houses, medical centers and schools, and found that the components could be built in one day by unskilled people and that the structures could be erected in one day by unskilled people. I believe that that kind of appropriate technology can, in less than five years, enable unskilled people to do without external loans and without subsidies. If we are serious about housing the poor, we know that the dimension of the problem precludes reliance on external money; but there is a vast unused resource in the people themselves.

In one country I looked at savings and at legislation. There were no instruments on the books to deal with mortgages. So we wrote some legislation for them and watched it go through their legislature. In a short time they floated their first mortgage bond of $27 million whereas, prior to that, $3 million was the most that they were able to gather as public funds. Now that they have $27 million in private funds, they no longer need the $3 million grant.

So my agenda for action is to foster local affordability, shelter without subsidy. Public funds and aid assistance should be directed toward processes rather than projects. In a competitive marketplace, private individuals can design their own housing solutions with these processes and thereby promote savings and local investments for others to follow and do the same thing.

A West German Perspective

Dr. Ulrich Pfeifer (former Ministerial Direktor, Bonn, West Germany): Talking about the European experience is something like a menu. Within countries we have sometimes three or four different housing policies. Housing policy in Hamburg is different from that in Munich. So I decided to be very impressionistic, very subjective, and just give some examples that could be starting points for discussion.

I live in Bonn. I go to London very often. On my way to London, I observe four different types of housing policies. When you go from Bonn to Brussels on the highway, you pass a big, subsidized housing estate near Bologne for 40,000 people. It has a number of high-rises, built by nonprofit organizations and by four or five investors. This estate now has a major crisis because rents are too high in spite of subsidies. The market changed. Competition from the private market intensified so they have vacancy rates, vandalism, problems finding tenants. And the biggest nonprofit organization is the weakest. They have the highest vacancy rates, highest percentage of vandalism, and the most problems collecting rent. This one example suggests that the small suppliers the small managers, are somehow more efficient. They are in closer contact with people. In housing policies, small is not only beautiful, small is possible and small is also efficient. The small housing co-ops in Holland and our small co-ops are more efficient in managing housing than our big nonprofit organizations.

Next you come to Brussels. If you look at the Brussels housing stock, you find it a bit run down. All over the city you see signs for rent. You have enough units. If you were to move to Brussels you would have no problem finding an apartment. Brussels never put many subsidies into housing. They have no rent control. They don't have all kinds of improvement grants. They are small programs, but they are small compared to the British or the German or the Austrian programs. So the houses are a little bit run down sometimes, but you have quality structures. You see more or less the same conditions in Germany: no subsidized housing, no housing shortage.

When you go to France on your way to London, which is only 100 miles away, you pass little industrial towns. Next to the road you see big high-rises, you see buildings which are 150 meters long and 11 floors, buildings subsidized by several organizations. They are perhaps 50 years old and there's a second round of subsidies already. The buildings deteriorated so fast that a second round of subsidies is needed. Experience shows that if you start organizations which produce housing by tapping public finance, you never get away from it because you are always under political pressure. It's very hard to kill old policies.

In Europe we are in a period where we should kill lots of old policies and programs but we can't. I worked in the Ministry of Housing from 1972-82. I think the Ministry should have been abolished sometime around 1965. My main goal was to kill my programs. Sometimes I was successful, but in general they survive because there is always a little slump or the construction industry needs subsidies or employment is needed, etc. Then we create new vested interests. It's very hard to get rid of them, even if you have a change in government administration. When you start subsidized units, it's very hard to pull out.

They are trying to pull out in England right now. In England they have a long tradition of council housing. There are good examples and bad examples. On the way to London, you come to Canterbury. There the council housing is very pretty because it's placed in an old town near the Cathedral. It would be a crime to build high-rises next to a cathedral like Canterbury. The style is very modest and adjusted to the traditional way of British building. But as you come into London along the river you see all the areas of slums of the late fifties and early sixties, most of them in bad shape. Then again, London gives you other good lessons and experiences. If you look at the traditional housing stock, you have a higher percentage of one- and two-story buildings than anywhere in continental Europe. Cities like Cologne have maybe 70 to 80 percent in multi-family units. London has maybe 60 to 80 percent single- and two-family units. Different traditions are influenced by old housing policies.

I will give you a good example of policy. In the early Middle Ages cities in Europe, contrary to our usual thinking, had a very high rate of populaton growth. Cities experienced tremendous housing shortages. Berlin's population grew 150 percent within 25 years in the seventeenth century. And, again after the so called Seven-Year War, population increased within 15 years from 90,000 to 130,000. But the pressing things at that time were very practical. So they developed a very simple housing policy. They expropriated land in the French areas, divided the land into small plots and gave the plots away free to investors who were willing to invest within two years. If not, the land was taken away and given to somebody else. They provided building materials and a small subsidy of 20 percent of the construction costs. And this whole growth period happened without a real housing shortage. But the lesson was that the State was very efficient in doing things the private market could not do. It provided cheap land; there was no land shortage. No such problem existed over a period of 300 years. Land shortage was no problem. Anyone could get a piece of land if he wanted to build. But you had to build, you could not speculate with the land. You got a certain amount of services, like building materials. This policy worked for a hundred years. Later, the policy deteriorated because the State got too involved with all kinds of problems in the housing market. But at least in a very strict division of labor between the private sector and the public sector, the policy was quite successful.

Let us make a big jump ahead 200 years. Glasgow is the city with the highest percentage of council housing in the Western world. Publicly owned housing is 170,000 units in a city of 700,000 people. It's a case of an overdeveloped housing policy which created a totally underdeveloped market. The city started a housing policy it could not afford. Starting in the mid-1960s, they demolished something like 10,000 to 12,000 units per year in a city of 700,000. They built new estates all over Glasgow. The estates are grey and ugly. The grass is high. There is 30 percent unemployment in the estates but outside the houses nothing is done. You sense that the people are alienated from the housing and the environment. You have a big organization which tries to decentralize itself. They really do try hard but the structure is wrong. You have problems in producing the right services in an institutional setting like this. Again, it's an extreme lesson, but it is a lesson to take seriously.

Let's talk about systems of housing finance. When you look at the German example, we don't really have a system. We have something which developed over a period of 200 years. So we have mortgage banks which started quite easily, and the mortgage system itself started 300 years ago. The legal framework did not change much over a period of 200 years. The public land register, which was developed at the same time, is more or less the same since that time. And the mortgage banks had a certain percentage of the market — in Germany it's 20 to 25 percent of the market, but it's changing. We have no secondary market because our mortgage banks think they don't need one. They have a close relationship with their life insurance companies, so they have no problems in placing their mortgages. The risk is very low because the markets in general are very stable. But again the mortgage banks are banks which will lend in the cities. They lend for rental units less than for single-family housing. So there was a need for a certain type of financing, especially in the 1920s after the big inflation. The whole market financing system broke down. The traditional investor lost his wealth, which was a disaster for the housing market.

Out of this crisis came several interesting developments. One, for instance, was a policy to recapture the inflation gains of homeowners by taxing over a 20-year period up to the Second World War. I think this was one of the rare cases where government really took away the capital gains from the homeowners.

The second development was our housing cooperative movement. As the family lost its savings, new ways to produce housing had to be found. The housing cooperative was one response. Not only low-income people participated in this movement, but middle-income people, well-educated people also participated and created at that time very efficient organizations. Since the 1970s, our co-ops have more or less died. They don't produce anymore because it is more popular and more possible to buy your own house nowadays. We don't need co-ops anymore. But in the twenties this was a very successful movement

The third movement was our building societies. It was not invented by state policies; it was invented by amateurs — people who tried to solve their housing problem. They started at the local level. The building societies in Germany and Austria were very small institutions in the twenties. Some of them were quite successful, especially the building societies for civil servants. But in the long run, they developed into strong institutions. In Austria, I think 50 percent of housing finance is provided by building societies. In Germany it is 20 percent, but it's going down right now. So they developed into a really big business organization. We have 17 building societies in Austria. It took 30 to 40 years to develop building societies into strong market factors. In the meantime, lots of the small building societies disappeared or became part of bigger ones. So there was a tremendous concentration. But in the beginning it was a very decentralized movement combined with the local co-op movement, and it was a self-help movement which later was subsidized by the State. But the subsidy of the State was quite efficient because it helped to stabilize an institutional framework for saving. And saving is a way of life, at least in Germany, Austria, Switzerland and even Sweden. People are used to and trained to save for housing.

So my final lesson is develop a menu. Look at different types of housing policies. Don't invent something new; look at history, look at different experiments, evaluate them, and I think you will find success stories which can be adapted to your situation. You can also find lots of failures and wrong policies. Again, wrong policies can be excellent lessons.

A Bolivian Perspective

Ernesto Wende (President, Central Savings and Loan Bank, La Paz, Bolivia): We ask ourselves whether the situation of developed countries can be applicable to the developing counties. I want to tell you what I have seen happen in the last 30 years in Latin America. As a result of that analysis we can draw a conclusion.

Before 1958, we did not have savings and loan associations in Latin America. If you wanted to buy a home you had to save money all your life. When you had enough money to buy a house you paid cash. There were no home-loan financial institutions. In 1958, USAID's Office of Housing sponsored the trip to Latin America by a group of people from United States savings and loan institutions. The group thought that there wasn't much hope for the development of savings and loan institutions in Latin America because the people were too poor, unable to save or, if they made any money, they were spendthrifts.

Nevertheless, the group went to Peru and succeeded in getting the first S&L legislation enacted in 1959 in Peru. After the Peruvian example, practically all Latin American countries established a form of savings institution to promote savings for home finance. From this modest beginning, the S&L industry in Latin America has developed considerably. It has used U.S. training and advertising techniques. The countries have organized a very active inter-American savings and loan union. They have also organized their own regional housing bank with headquarters in Caracas. The savings generated by the different S&Ls amounts to over $40 billion. These are important accomplishments.

The most important accomplishment, however, is that we in Latin America have proven that mortgage financing can be raised with the domestic savings of the people. Before that we thought that long-term financing could be only done by government agencies. So this is a very important realization: We can generate sufficient resources from the savings of the people to finance homes.

How did this happen? Why such an outstanding success? We must mention USAID's Office of Housing. Its loan investment program which guarantees loans made by U.S. private investors against risks has been a seed capital source of great consequence. This office has granted technical assistance to our organizations as seed money. Institutional development assistance has been most important. It has patiently talked to different governments over the years, convincing them that it was necessary to establish and develop confidence in institutions if they wanted to resolve the housing problem. So this office has been a very important factor in determining our success.

Another important ingredient has been the U.S. savings and loan industry. The National Council of Savings Institutions, the U.S. League of Savings Associations, the United States Savings and Loan Foundation and hundreds of individual S&Ls all over the United States share with us in a very unselfish way their experience of 200 years, their knowhow, and their financial resources. This has been a very important factor because we learn directly from them their business knowhow.

The third factor which determines the success of the savings and loan industry in Latin America has been the people of Latin America. These people were attracted to the savings and loan concept. They assumed the leadership to establish these institutions; they followed up; and they put massive effort to see that these institutions were efficient. But the success of the savings and loan industry in Latin America comes mainly from the people who have regular income, who can save, and who can offer the security to borrow money and to buy a home.

Bolivia is a special case where we are talking about low-income people. In Bolivia, 70 percent of the people are illiterate. They live on farms. Eighty percent of the country's economic activities are concentrated in the hands of the government. And up to September of last year, hyper-inflation was running 50,000 percent per year. Bolivia depends on the export of tin — around 80 percent of its income of foreign currency. Now developed countries do not need tin anymore. They found glass and plastics to be more efficient and less expensive materials. So, the price of time has gone down and now we are closing down the mines.

That's why the Bolivian savings and loans system works with the lower-income groups. When you are talking about lower-income groups, you have to be concerned first about economic development. You have to be concerned about how poor people can generate sufficient income beyond that required to satisfy their basic need for food and clothing so that we can ultimately provide some shelter for them. In one of the papers distributed here, I read that United States households spent $50 billion a year on home improvements only. Fifty billion dollars divided into the 200 million U.S. population is $225 per person. The per capita yearly income in Bolivia is $220. This is a little less than what the U.S. household spends for home repair. So we organized the Bolivian savings and loan system after the U.S. pattern, financing homes up to 25 years with a fixed interest rate. But now we saw the special problem of low-income groups. Our job was to help them produce an income. No one else was doing it.

International donors do not have the ability to provide resources for these people in sufficient quantity. This is the reason we have insisted that the Bolivian Government permit S&Ls to diversity operations so that we can make economic development loans for people so they can produce income. Finally, after a long struggle we have been permitted to do so. This is the only way we have found to help poor people obtain shelter: Help them first to have additional income.

In conclusion, the North American experience has been a good lesson which helped us establish our own finance industry. If we combine outside technical and financial help with local leadership, as we have done so successfully in Latin America, the organization of a local home finance industry can be greatly accelerated.

A Jordanian Perspective

Abdel Aziz Heikal (Research Department Manager, The Jordan Housing Bank, Amman, Jordan): I thought that it may be of interest to present experience in housing finance from a developing country. This is the experience of the Housing Bank of Jordan, which was established 12 years ago. It operates on a commercial basis but in a partnership between government and the private sector. I have been working with it for more than seven years.

The first principle is that government funds allocated for housing finance institutions in developing countries are not able to meet housing finance needs. The experience is that those institutions which relied completely on government funds ended with failure and never achieved what was expected from them. In many countries they let the housing finance problem grow more acute. Therefore, the Housing Bank in Jordan from the very beginning started to compete with old financial institutions, including commercial banks, to mobilize savings. The bank offered all kinds of accounts, sought all sources of savings and funds: household savings, corporate funds, government fund , and even international funds. Of course, competing with the 29 established financial institutions in my country, some 60 years old, necessitated certain privileges and protections to the bank from the government — for example, an income tax holiday and a guarantee of repayment in case the bank fails to pay back.

The second principle is that these privileges and protections alone will never bring success and excessive reliance on them will make the bank as inefficient as other government institutions. Therefore, the bank initiated and developed appealing techniques and methods to mobilize savings. Some which have proven very successful are the following:

- A military system for savings accounts combined monthly with advertising.
- Contractual savings promotions saying: Save with the housing bank regularly for a given period of time and we promise to give you a loan to build a house and/or finance your kids' university education or a loan to get married.
- Opening the banks' doors in the afternoon hours, six days a week.
- Operating a wide net of branches covering urban, rural and even desert areas. In this regard, it is worth noting that opening branches to service very small urban rural and desert human centers persuaded people to pull their money out of the mattress and open accounts with banks without having to travel to the city where commercial banks are located.
- Offering diversified banking services to clients — for example, collecting water, electricity and telephone bills and paying on behalf of the client and then charging his account. In addition, the bank manages funds for the client's account for reasonable fees.
- Offering various banking services to clients.

In brief, the bank is looking forward to being a financial supermarket. The application of these techniques and methods enables the bank to make 17 percent of all lending and to capture 45 percent of savings accounts in competition with 29 commercial institutions.

The third principle is developing a lending policy that is based on the following concepts:

- The borrower in theory is honest and likes to fulfill his obligations. To keep him so, don't lend him more than he can afford to pay.
- The borrower should practice a bit in financing his home. He should save a lot before receiving a loan. Therefore, the bank does not finance more than 75 percent of construction costs and land is not financed.
- Building standards are reviewed with the borrower to inform him of what costly items he may not be aware of.
- Maturity of the loan is not an option of the borrower. His ability to pay in all cases 30 percent of his regular monthly income determines maturity.
- Foreclosure and eviction of frequent defaulters are considered; but experience reveals that when the bank proceeds seriously with foreclosure measures, bills are paid.

- Low-income borrowers are entitled to get long-term loans up to a certain amount within their affordability at something like 2 percentage points below market rates. To help low-income borrowers, a life insurance fund has been established in the bank. In case of the borrower's death the outstanding balance of his loan is paid by the fund within certain conditions.

The fourth principle is to lend to all income groups. Within this context the following activities have been practiced:

- Lending to developers who are individual small firms or corporations at market rates as a contribution to the housing developer system and the production of new housing units.

- Bank investment in profitable projects with a special emphasis on building materials projects. The bank's portfolio contains equity investments of more than 35 companies generating reasonable profits which enables the bank to continue its cross-subsidy strategy and lending to low-income groups.

- Offering other banking services rather than just lending for housing. For example, guarantees, letters of credit, transfers, money changes and very lately foreign exchange transactions are a practice.

- Approaching international lending agencies to raise funds to be channeled into the housing banks.

These were the main features of the Housing Bank of Jordan experience.

SECTION IV

THE VIENNA RECOMMENDATIONS ON SHELTER AND URBAN DEVELOPMENT

September 12, 1986

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Preamble

We, the participants in The Second International Shelter Conference held in Vienna, Austria, from September 10-12, 1986, associated with private-sector institutions and enterprises committed to shelter and urban development in our respective countries, have prepared these recommendations on shelter and urban development as a contribution to global policy dialogue and as a basis for national action.

The Global Need for Economic Growth with Equity

World urbanization trends project that over 3 billion people will live in urban places by the year 2000. Over 1 billion persons will have been added to the urban population between 1980 and the year 2000.

This surge of urban population growth is occurring during a period of global economic crisis. High foreign debt burdens, falling commodity prices, and low and negative rates of real economic growth make the outlook bleak for many developing countries in the short and intermediate term.

New policies and approaches are required if the global objective of sustained economic growth with equity for all the world's people is to be achieved. We believe that those policies must include emphasis on urban centers and the shelter sector.

Today, more than half of the Gross National Product of the developing countries is generated in urban places. We know that there is a strong correlation between rising per capita Gross National Product and increasing levels of urbanization. The time has come to recognize explicitly the essential contribution urbanization can make to national economic development.

Housing and urban infrastructure are prerequisite components of efficient urbanization and direct contributors to economic growth through capital formation, employment generation, and their strong forward and backward linkages to the national economy.

The complex issues of urbanization, the provision of shelter, efficient urban management, and the need for urban productivity and job generation must now be given equal consideration with agriculture and rural development in national development strategies.

The Lessons of Experience

Our experience with shelter and urban development over the ten years since the United Nations Conference on Human Settlements in Vancouver provides the basis for future development planning. The *Vancouver Action Plan* introduced new and useful ideas, but failed to achieve its objectives because of the overreliance on public-sector initiatives which exceeded limited capacities; the disregard for the need to mobilize financial resources; the assumption of public-initiated project-by-project approaches rather than development processes; and the failure to harness the potential of the private sector as a positive contributor to national objectives.

It is time to establish a new agenda for action to unite and guide governments, the private sector, the international donor agencies, and the rest of the international community in addressing the growing world urban development crisis and the need for economic growth with equipty.

The Forging of a New Development Partnership

The cornerstone of this new action agenda is the recognition of the absolute necessity to foster cooperation between the public and private sectors and the evolution of those aspects of nation building that each can do most efficiently.

Regardless of the political and humanitarian motivations of governments, national strategies must reflect the limited capacity of the public sector to meet all of the development requirements of the people. They cannot do the job alone. All nongovernmental economic and human resources must be mobilized in the development effort, including the formal private sector, the informal private sector, the nonprofit private sector, private associations, cooperatives, and community groups. All have a valuable role to play in establishing an efficient and productive development strategy.

The basis for effective public/private cooperation rests with the understanding and fulfillment of the responsibility incumbent on each sector. Specifically, the public sector has the responsibility to:

- ensure that macroeconomic policies avoid market distortions and are conducive to economic growth through private-sector initiative.

- encourage the mobilization of domestic financial resources and ensure adequate access to domestic savings by the private sector.

- support pricing policies of both public and private goods and services which permit markets to function efficiently.

- emphasize efficiency in urban management, infrastructure provision; and land policy including the provision of secure land tenure, and freedom of land title transfer.

- restrict public sector activities to those which cannot be done effectively by the private sector and the people themselves.

In turn, the private sector's responsibility to the partnership is to:

- balance the essential need for operating profits with a response to social needs of all income groups.

- mobilize investment capital for housing and urban development.

- accept prudent business risks, competitive principles and market results.

- develop entrepreneurship and innovation.

We look to the international donor community to expand its efforts in support of shelter and urban development commensurate with its importance to national economic development and the rapidly growing urban populations.

We note with appreciation the contribution of the international donor community in the past, but urge that this assistance now be more evenly directed between the public and private sectors in support of the principles of partnership enunciated here.

Specifically, we urge:

- participation in the policy dialogue and reforms advocated here in support of the public and private partnership;

- sustained support in the form of technical assistance, training, and access to capital as catalysts in responding to the shelter and urban development challenge;

- assistance in the development of efficient and viable institutions in the public and private sectors, with particular priority to housing finance institutions;

- facilitating the widespread exchange of information and research on the experience of all nations with shelter and urban development to learn from successes and avoid the failures of the past.

Finally, we urge the formation of an international private sector coalition of associations, professionals and individuals concerned with all aspects of housing and urban development to act as a forum for furthering the principles presented in this agenda.

The Action Plan Recommendations

Each nation must deal with these fundamental issues in a way which reflects its own present status of urbanization, economic development, and condition of its urban physical infrastructure. While no one prescription of urban action will be directly relevant to all nations, we believe that all nations will benefit from careful attention to the development of efficient processes and the building of viable and effective institutions.

Each nation must seek a workable model of its public private partnership which is compatible with its climate and topology, culture and political system, and natural resource endowments. However, we commend to all countries and international donors the following recommended *Action Plan* as they frame policy and programs for shelter and urban development.

The Management of Urban Development

With the developments that have taken place in the developing countries over the last decade the importance of Urban Management is increasingly being recognized.

Efficiently run cities are essential for economic growth.

The challenge to the practitioner, both public and private, must be to develop efficient approaches to Urban Management in the future.

The following four recommendations require attention:

Recommendation I
Shelter and Urban Policy Formulation

I.A All countries should have policies affecting shelter and the urban sector. These policies must relate to the existing economic conditions and availability of resources within the public and private sector and must contribute to national development efforts.

I.B *Shelter and urban policy should be an integral part of national development strategy and should be adopted at the highest levels of government.*

I.C Recommended principles for action:

(i) Efficiency criteria should guide the location of economic investments in order to achieve high rates of growth and job creation at the least cost.

(ii) The positive relationship between urban development and rural development and agriculture should be recognized and facilitated in policy formation.

(iii) The private sector should be encouraged to invest in housing to reduce the demand on public resources and thereby allow the public sector to contribute more effectively to those services which the private sector cannot provide.

(iv) Investment choices should favor projects which achieve immediate benefits for users, in order to avoid underutilized capital assets and accelerate cost recovery.

(v) The development of disadvantaged regions can best be achieved by investing in those sectors in which the region has a viable economic potential rather than supporting inherently non-economic investments through subsidies.

Recommendation II
Urban Management and Planning

II.A It is recognized that countries have many competing demands on available resources, particularly for agriculture and rural development, and therefore cannot meet urban development requirements primarily through central government investment. Urban centers need to be allowed to address their own needs for capital mobilization, management and planning through a transitional strategy that overcomes the existing weaknesses at the local level of government.

II.B *Priority should be given to improving the capacity and efficiency of local government in all aspects of urban management, urban finance mobilization, and effective planning.*

II.C Recommended principles for action:

(i) Central governments should adopt decentralization policies oriented to strengthening local government so that it can accept increasing levels of management, planning, and financial responsibility for urban development.

(ii) Priority should be given to improving effective governmental procedures for the efficient management of urban services. Attention must be paid to:

(a) training programs for local government officers and staff;

(b) local government personnel policies; and

(c) career incentives and salary structures which are conducive to attracting able and qualified personnel.

(iii) Local governments should consider the development of private-sector infrastructure service delivery systems. This has been successfully accomplished in a number of countries throughout the world.

(iv) Effective urban management requires increased citizen participation in the planning and delivery of urban services.

Recommendation III
Urban Land Policies and Procedures

III.A The availability of land at affordable prices is prerequisite for efficient urban growth. Although most urban centers have adequate vacant land resources to support development, the efficient functioning of land markets is often constrained by inappropriate public policies, inadequate tenure systems, and inefficient laws and procedures for the control, regulation, and taxation of land.

The fundamental right to secure tenure whether leasehold or freehold rights is an absolute prerequisite to the stimulation of investment in shelter and economic activity.

III.B *National land policies should reaffirm the importance of secure land tenure while ensuring the efficient functioning of land markets conducive to economic development.*

III.C Recommended principles for action:

(i) Nations should have in place or establish forms of secure land tenure for the people and investors which meet the tests of: creating efficiency in the land market; equity in the form of access to all groups requiring land; compatibility with the social and economic system; and the capacity for continuity over time.

(ii) The land market should be subject to efficient public procedures which are convenient and affordable to enterprises and households (particularly low-income households) to facilitate land acquisition, survey, transfer, and registration.

(iii) Governments should facilitate the supply of land for urbanization through the adoption of policies which provide incentives to develop urban land for various uses in response to effective demand.

(iv) Governments should ensure that urban land is efficiently and productively utilized through the adoption of appropriate land use standards (plot sizes, road rights-of-way, open space requirements etc.) which reduce development costs and facilitate the access to land of low-income groups.

(v) Where government action, through investment in infrastructure, has created substantial additional land value for private owners, it is appropriate to seek cost recovery of this investment.

(vi) The public sector has an obligation to manage public land holdings efficiently and effectively in the achievement of urban development objectives.

(vii) Goverment intervention in private land should be limited to zoning, acquisition for public purposes with just compensation, and in exceptional circumstances to facilitate access to land for low-income groups.

Recommendation IV
Infrastructure Services

IV.A Most developing countries are experiencing deficits in their existing infrastructure. These deficits have severe consequences for national productivity. Countries are unable to meet the demand for services for growing populations due to the following factors:

(i) capital requirements;

(ii) inappropriate high standards and technology;

(iii) inadequate maintenance for existing facilities; and

(iv) poor cost recovery for both capital and maintenance requirements.

IV.B *Realistic approaches to infrastructure provision should be sought which use appropriate technologies to provide affordable services to all groups, thereby facilitating cost recovery.*

IV.C Recommended principles for action

(i) Planning

Planning for infrastructure investment should be multi-sectoral and coordinated to maximize its contribution to economic development, and should assure the potential for upgrading over a period of time.

(ii) Investment

Investment in infrastructure networks should be in response to effective demand and consistent with capital available, thus providing immediate benefits to users and not creating under-utilized capital assets. Wherever feasible the private sector should be encouraged to provide services to save scarce public-sector resources.

(iii) Technology

Infrastructure investments should utilize appropriate technologies and standards in order to save costs.

(iv) Pricing

Pricing policies should seek full cost recovery and ensure that infrastructure services are sufficiently priced to serve as a disincentive to waste and overconsumption, but can usefully include selective "cross-subsidy" strategies.

(v) Implementation

The public-sector responsibilities for implementation should be restricted to planning and tender procedures, thereby leaving responsibility for construction to the private sector. Particular attention should be given to the tendering process to ensure efficient and cost-effective implementation. Overlapping of responsibilities within planning functions and service implementation must be avoided.

(vi) Operations and maintenance

Emphasis should be placed as a matter of priority on the efficient operation and maintenance of the existing infrastructure networks even at the expense of new construction.

Recommendation V
Housing Production

Housing finance and housing production affect different sectors of the housing market; while housing finance helps create effective demand, housing production is essentially a supply response in the housing market.

National policy in housing must necessarily keep both sectors in view when designing a comprehensive shelter policy. They are different sides of the same coin, and the private sector has demonstrated its capacity to contribute to both.

Partnership and cooperation between the public and the private sectors is most needed in the area of housing production. Public-sector responsibility for infrastructure provision should lead to contracting procedures that will develop the experience and capacity of small contractors. In turn, this expanded capacity can lead to increased efficiency in the production of housing, and provide for the growth of building supply firms.

The key that unlocks this process is the provision of finance. Here, too, the public/private alliance has proven fruitful in many instances. The scale and experience of the public sector can be used to establish financing mechanisms that allow the demand for housing to be translated effectively into real economic activity. But private-sector institutions must become dominant. Public-sector efforts should all be designed to create a system of viable private financial organizations that will support the housing and building supplies delivery system.

The following recommendations require attention.

V.1 *Management of housing delivery systems*

V.1.A Shelter is recognized as a basic necessity of mankind. In spite of dire warnings of huge housing deficits, the evidence is accumulating from census data that the quality of housing and the density per room is not declining worldwide and in some countries is showing improvement. These encouraging trends are being achieved not through public housing programs — which have built a small percentage of the new housing stock — nor even the formal private sector, but rather through the massive efforts of the low-income people to provide their own shelter. It is the process of private incremental self-building, that is providing approximately 80 percent of the additions to the new housing stock in some developing countries.

The documented history of public housing efforts worldwide has been generally poor (with a few exceptions). Public housing has often been overdesigned, expensive, of lower quality and required massive subsidies. For the most part, it has failed to achieve acceptable levels of cost recovery from the beneficiaries (who frequently have been of higher income levels than the initial target group). The project-by-project approach to public housing has been slow in production, costly in management time, and uncertain as to the availability of annual funding. Adequate administration, insitutional and managerial capacity to build and maintain public housing in sufficient quantity does not exist nor should it be expected. In sum, the resources devoted to public housing could have been better used by the private sector housing efforts. When the private sector can take over the home provision role of the public authorities, it should be actively encouraged, leaving the public sector to concentrate on infrastructural facilities. Even the much more successful and appropriate sites and services projects, sponsored by international donor agencies, have not overcome these basic problems.

The traditional arguments of macroeconomists about shelter as an unproductive consumption good are not valid. Incremental, self-built shelter adds to the national capital stock by mobilizing investment from households which otherwise would not save or would hold their savings in unproductive assets (gold or jewelry).

Private housing provision generates employment among skilled and semiskilled workers, and creates economic activity that will foster the development of small contractors and building supply firms. In turn, the capacity of the private sector to satisfy the need for housing at all income levels is strengthened. Moreover, the process provides incentives to increase productivity and income to households in order to obtain their own shelter and upgrade and furnish it, thereby contributing to backward and forward linkages in the local economy.

A significant percentage of low-income households also use their shelter units and plots as a base for other forms of microenterprise in retail sales, services, and manufacturing. Marginal businesses which cannot afford to pay for separate accommodations can flourish in the informal shelter environment and meet the demands of low-income populations for affordable goods and services. In aggregate, these microenterprises represent a significant contribution, albeit hidden, to their national GNP.

V.1.B *The formal and informal private sector must both be responsible for shelter provision. The public sector must facilitate this process by assistance in the provision of the essential inputs of land, infrastructure, finance, building materials, and the establishment of a supportive legal and regulatory environment.*

V.1.C Recommended action principles:

(i) National policies should be established to shift the responsibility for housing unit production wherever possible to the private sector and divert the funds saved to the provision of land, infrastructure, and finance for low-income groups. The use of low-income settlement upgrading techniques is particularly to be commended. Such approaches should be established on an ongoing programmatic basis rather than in the form of individual, isolated projects. Shelter provision through the informal sector should be recognized as a legitimate and productive contribution to national development.

(ii) National policies should be established to phase out public homebuilding corporations. However, governments should consider using public corporations for land development and infrastructure provision in support of private contractors and homebuilders.

(iii) Where public-sector civil servants' and workers' housing is a political priority, governments should use cash housing allowances to be spent on private housing provision rather than to attempt to provide the housing units directly.

(iv) The feasibility of selling the public housing stock to the occupants should be studied in order to convert these unproductive capital assets into investment capital for national development efforts.

(v) Governments should ensure that the legal processes for obtaining building permits, inspections, and approvals for housing are efficient and affordable to private-sector developers. Special flexible procedures should be used to provide convenience to low-income self-building households to obtain legal status.

(vi) The physical standards for shelter established by law should accommodate the full range of house types to be constructed. Of particular importance in setting all standards is to ensure that they provide for the least-cost technology sufficient to provide the level of performance required.

(vii) Governments should ensure that no artificial barriers to the smooth functioning of the housing market are put in place which inhibit the development and affordability of housing, impair the return to investment or otherwise act as unintended disincentives.

(viii) Housing policies should reject "rent controls" which have been proven to be disincentives to maintaining and increasing the housing stock. Rent controls now presently in place should be phased out over time, and should in no case be applied to new housing.

V.2 *The building materials industry*

V.2.A Experience has shown that the building materials industry will operate most efficiently when it is relatively free of government regulation and relies mainly on private-sector suppliers. Where governments have attempted to establish monopolies or "control boards" over building materials, the experience has been to create inefficiencies in the distribution system, higher prices, and the development of black markets.

Each country must assess its own requirements for building materials, its available indigenous building material resources, and determine the appropriate mix between imported materials, import substitution strategies, and local production.

V.2.B *National policies should encourage the development of the building materials industry through private-sector initiative with emphasis on microenterprises.*

V.2.C Recommended action principles:

(i) Building materials should be considered as an integral part of the shelter and human settlements development process and appropriate policies adopted to encourage production and distribution through the private sector unencumbered by regulations and controls.

(ii) Appropriate standards for the production and use of building materials should be adopted which encourage the efficient use of construction materials that allow the use of the least-cost material which can provide an acceptable level of performance, and permit the use of "temporary" materials in low-cost housing.

(iii) Professional associations should develop unified standareds of building materials so that specifications can be drawn with confidence, but quality control standards should not be set artificially high, thereby raising costs.

(iv) Experimentation and finance for new building materials should be encouraged with particular emphasis on the distribution of information concerning innovation to potential users. A starting point in this regard is to analyze available world experience with building materials for application in a given country situation.

V.3 *Construction industry*

V.3.A The success of the shelter and human settlements development effort will depend on the effectiveness and availability of a viable construction industry. Approximately one-half of gross fixed capital formation and 3 to 8 percent of GDP is construction output. Substantial reduction in construction costs can be achieved in most developing countries through the adoption of appropriate policies, removal of procedural constraints, encouragement of efficient management and stimulation of competition.

V.3.B *The construction industry is a vital part of the shelter and human settlements development process. Comprehensive strategies for its development through the encouragement of private-sector initia-*

tive, removal of constraints, and the provision of finance and improved efficiency should be a matter of national priority.

V.3.C Recommended action principles:

(i) Government should seek to encourage a competitive private-sector construction industry and as part of that effort public-sector construction entities should be reshaped and held accountable for performance, without subsidies or other special treatment inherently unfair to private competitors.

(ii) Public-sector contracting procedures should stimulate fair competition, provide performance incentives, timely award of contract, timely payment to contractors, and proper supervision.

(iii) Labor laws and mandatory wage rates should be responsive to local labor market forces and conditions.

(iv) Public contracting procedures should be designed to allow the participation of smaller contractors and to ensure the widest possible competition.

(v) Develop organized training programs to supplement on-the-job training for the skilled labor requirements of construction.

(vi) Support improved access to credit for the construction industry through the education of lenders as to the specific needs, requirements, and risks of the industry.

(vii) Ensure that informal construction contractors are free from restrictive practices, are encouraged to develop, and have fair access to credit, foreign exchange, training, and building materials.

(viii) Encourage the use of lowest-cost construction techniques compatible with performance requirements. Of particular importance is to avoid industrialized building systems unless they can be proved economically viable after rigorous analysis.

Recommendation VI
Housing Finance

VI.A The lack of housing finance resources is a major constraint to the housing market in most developing countries. While in many countries it may be necessary to protect and favor the housing finance system to foster its development, housing finance should enjoy equal priority with other national needs, have full access to national capital and savings markets, and should in no case be subject to financial repression.

The financial services necessary to support housing development include finance for land acquisition, on- and off-site infrastructure, construction, and long-term mortgages for the ultimate purchaser. The sources of these financial services are likely to involve a variety of institutions in the public and private sectors as well as informal networks. Each of these financing entities must mobilize its funds from the four main sources of gross savings: the household sector, business sector, government, or international transfers.

Housing finance policy must address the needs of all target groups and not just those of the low-income groups alone. In few countries are the finance institutions developed to the point that adequate sources of funding are mobilized and allocated effectively to support the needs of housing among all income groups. Typically, there are three-tiered housing markets: a small, well-financed, upper-income market supplied entirely by the private sector; a small subsidized market of civil servants and middle-class salaried workers supported by public-sector housing activities; and, a large informal housing market serving the poor.

Housing is an important sector in all national economies. Even in economic recessions, it represents a significant percentage of annual gross domestic fixed capital formation but effective demand is very sensitive to macroeconomic conditions.

In addressing housing finance issues, it is important to recognize that there is no one prescription that can be generally applied.

VI.B *All countries should seek to develop housing finance policies and institutions which are integrated into their capital markets, that maximize the mobilization of savings, and seek solutions that stress affordability, replicability, and cost recovery.*

VI.C Housing finance institutions and policies

(i) The development of the housing finance sector is a joint responsibility of the government and the private sector. In this cooperation, the contributions of the government should be made in a manner consistent with market principles and economic efficiency. These contributions should be done in a way that will promote the long-term growth, development and viability of the housing finance system, particularly its private entities.

(ii) The development of housing finance institutions should be a national objective with the rate and scale determined by the demand associated with increasing levels of GDP and the growth of the capital market.

(iii) Governments should provide a regulatory climate conducive to the establishment of private specialized housing finance institutions by allowing them to compete effectively for savings and respond to market demand for loan rates.

(iv) The full range of potential public/private partnerships in housing finance institutional development should be explored. The government should support and encourage the establishment of housing finance institutions by private groups, and, if such groups do not emerge, the government should consider establishing the institution itself.

(v) Newly established housing finance institutions should not be expected to lend initially to predominantly low-income groups but, with experience, they should be encouraged to do so. The evidence supports the conclusion that low-income groups need not be higher risk than other borrowers. Techniques are emerging which allow housing finance institutions to lend to lower-income groups with acceptable transaction costs even on small loans. Such techniques should be made available to appropriate housing finance institutions.

(vi) Established housing finance institutions should be allowed the flexibility to conduct their business in a manner consistent with long-term profitability. This includes the ability to develop products and services suited to the various borrowing needs of its customers and its own needs to raise funds; the ability to locate operations in the neighborhoods it serves, subject to management capacity; and access to technical assistance and training.

(vii) There should be efforts to link the informal housing finance mechanisms found in most countries to the formal housing finance system.

Four International Agency Perspectives

Joseph Wheeler (Chairman, Development Assistance Committee; Organization of Economic Cooperation and Development (OECD), Paris, France): The Organization for Economic Cooperation and Development (OECD) was established 26 years ago. It was an American initiative to persuade the Europeans to do more in the developing countries. A Development Assistance Committee attached to the OECD was set up to promote this goal.

Today, the United States provides less as a percentage of GNP in development assistance to the rest of the world than any of the other members of the DAC. But it still provides one-third of the total aid, so the United States is a substantial donor. The DAC has been a great success story from the point of view of getting participation of all of the OECD members, which include Japan, Australia, and New Zealand in addition to the Europeans and North Americans.

In addition to seeking to persuade each other to keep our assistance levels up, we are all concerned about efficiency issues. We are concerned about whether providing assistance in agriculture, health, or education is the best way to get the most product for a given amount of money.

One of the functional fields that we are going to look at is urban development. On October 6 and 7, we are meeting with 18 members of the OECD, the World Bank, IMF observers, HABITAT, and three of the regional development banks in Paris. We will talk about the same issues that we are discussing here. And I understand that Peter Kimm, whom you now know quite well, will be representing the United States at that meeting. So, he asked me what we intend to achieve at that meeting. I said it's an opportunity for you to get your views across to other members of the Development Assistance Committee.

There is almost a unanimity of view among the United Nations, World Bank, the aid agencies and private-sector representatives of both developing and developed countries on a general approach to get at urban development questions in the developing countries. I think that general consensus is very well represented in the *Vienna Declaration* that you have before you. I am 99 percent behind it. I have some small reservations about the *Declaration*. They are not really reservations in the sense that I oppose anything that is said here, but a certain amount of ambiguity was left in.

The *Declaration* speaks of the need to balance operating profits with a response to the social needs of all income groups. I agree that the way to provide more shelter and better services to the developing world is through full cost recovery and full use of the private sector. It seems to me that the burgeoning urban areas in the developing world cannot afford the inefficiencies which the developed countries tolerate with subsidies, tax credits, and so forth. The developing countries live on a very thin margin. They are going to have to make enormously efficient use of very scarce resources. I have to remind you that all of Africa together has the GNP of Spain. That means that their budget capabilities are very limited. Every program in urban areas must be efficient if services are to be extended to all of the people who need to be helped.

It also seems to me that we need to be sure that we maintain focus on poor people as our target group. I'm not saying that the upper 50 percent of income groups should not have housing. But it would be a shame if we were to get ambiguous about the need in our aid programs to focus assistance on the bottom 50 percent.

While the donor community should expand its efforts, it is providing U.S. $30 billion of aid. That sounds like a lot. But in your group here you have been talking about moving a couple of billion dollars a day. In that light, $30 billion is marginal. We all know it is marginal. The aid agencies are not able to provide shelter to the developing countries. What they can do is facilitate the creation of a process for providing shelter. They can help in establishing the financial institutions, the planning institutions, the land tenure institutions which will make it possible to have successful shelter programs. The point that I think you are trying to make to the aid agencies is not that they should be spending enormous amounts of money on housing and infrastructure programs in the developing world, but rather that they should be playing a facilitative role in helping developing countries to build the institutions, the legal and financial frameworks required so that people themselves can finance their own development.

I also think it's important that the effort in the developing world needs to be prejudiced toward off-budget approaches. Any program which requires more budget expenditures is courting its own failure. The only way that urban development is going to be successful is to get it off budget. That means that when you provide electricity, you charge people what it costs. I'm reminded that two weeks ago I was in Hargasus, a city in northern Somalia. And it is harder to get from Mogadishu, the capital city, to Hargasus than it is to get from Paris to Hargasus. It's quite remote. There are 400,000 people there. Today they have electricity which runs from 6 o'clock at night until 1 o'clock in the morning. They also have a rule which says it may not be used for industrial purposes. I contend that Hargasus would be better off if it had a system operating all day long in which customers are charged what it costs to provide the service. Everyone would be happier. Similarly, about one-sixth of the city has water supply. Poor people who are not tied into the water system supply are paying $2 a barrel for water in a society with a per capita income similar to that described by the gentleman from Bolivia this morning. This shows that poor people do spend money because they must have the service. But we must provide systems so that poor people can get those services as efficiently as the rich now get them. It's a question of getting cost-recovery systems if the services are to be provided.

What do the aid agencies need from you? I think that you should be telling the aid agencies that a majority of the people in the developing world will soon be living in urban areas and that they should give more importance to urban and shelter problems in their portfolio.

Ingrid Munro (Director, International Year of Shelter, United Nations Centre for Human Settlements, Nairobi, Kenya): The problem of shelter for the poor embraces 1 billion people, a quarter of the world population. Most of them are in very poor countries. In some countries, 50 to 70 percent of the population either literally are homeless or living in such appalling shelters and neighborhoods that we call them homeless. The problem is bad and getting worse. We know that the only way to stop the increase in the numbers of the poor and the homeless is to shift government policies, to adapt a businessman's approach.

The International Year of Shelter for the Homeless is not just a year. We hope to focus all of these different actors' attention on the problem and what can be done about it. We are hoping that next year we will be able to sum up four years of intensive action among governments. I am happy to report to you that more than 130 countries have actually tried out new housing solutions. Some of them are trying to change their housing policies. Some of them have already done so. Governments are realizing that the kinds of things in the Action Agenda are the kinds of things that have to be done. The International Year of Shelter for the Homeless is focused on a plan of action before 1987, during 1987 and after 1987. We hope that in April 1987 in Nairobi, we will be able to get governments to agree to carry out plans of action. Then we will ask you, the private sector, and the United Nations system to agree to those plans of action.

My plea to you is to help the small businessmen. There is fantastic activity in the slums. If we can only harness that activity and that innovativeness! You have the management skills and the money to tie these people together into real business enterprises.

One more comment on one item in the *Plan of Action*. The section on land in one of the first paragraphs says that governments should make land available for the small owners and for enterprises. That means spreading around land so that everyone has a right to own a little bit. In the last paragraph you say that government should acquire land only if it is for public purposes; only in extreme cases should government take land for poor people's housing. Is there a contradiction? There are some other things like that which you will sort out once you start acting and using this plan. To go from plan to reality, that is our emphasis — that's the emphasis with the *World Plan of Action* for shelter for all of the poor by the year 2000.

Dr. Michael Cohen (Advisor, Operations Policy & Research, Water Supply & Urban Development, The World Bank, Washington, D.C., USA): As I listened to the remarks of Dr. Ramachandran, I thought of the range of problems that many countries are facing. I listened to the policy prescriptions that were suggested by Dave Roberts and how those can address problems in developing countries. Then I listened to Peter Kimm's description of how USAID has tried to address these questions. I feel optimistic because I think that bringing these perspectives together perhaps means that we have learned enough to be able to shift our framework from attention on projects to emphasis on basic process.

The policy framework here is very much what we have been trying to say over the last 15 years. I think it's consistent with our own interpretation of our experience.

In 1982, I was asked to do an evaluation of the Bank's first ten years of urban lending. I went through more than 60 projects amounting to about $2 billion of lending in 60 different countries. The evaluation proved to be very contentious in the Bank. We could not agree whether we had done a good or a bad job. As we went through different drafts of this analysis at all levels of the bank, no clear conclusion could be reached. We had not really defined the policy framework against which we could measure our own objectives and performance. The fact is, our evaluation criteria have changed. We are now saying projects are not sufficient. We must work at a larger scale, at the level of systems or processes. That's an important lesson. I might add that along the way we were able to produce truly affordable housing.

Some numbers were mentioned in this meeting. I remember projects in Nigeria with a $1,600, two-room house. I think that was a reasonable accomplishment. In places like Madras we also reached truly affordable levels. The problem was that our work was not on a large enough scale. So that's why I think we need new delivery systems and a different framework.

The first framework really concerns urban management. Urban management is essential to maintain productivity at the national level. The justification for that framework is macroeconomic. We are talking about efficient management, about institutional development, about operations and maintenance — about land policies, in other words — about the framework in which urban investment, not simply housing or infrastructure, occurs.

Reflect on the significance of the Mexico City earthquake last year. Imagine if that earthquake had significantly undermined the productivity of the Mexican economy. Imagine the implications that would have had for Mexico's economy, its debt position, its ability to service debt, the stability of the whole financial system. Urban issues which used to be local issues now have global significance. Urban management is not a parochial question.

The second framework to which Dr. Ramachandran refers embraces shelter itself — shelter provision, shelter finance, the construction industry and the building industry. Now that's very important. The concept which brings the two frameworks together is that of local resource mobilization, that in fact the resources to improve urban management or to provide shelter will have to be raised locally. We can't rely on external resources to solve what is essentially a local problem. But the external community can help countries strengthen these frameworks and adopt realistic policies. The Bank has about $2 billion in requests right now for housing finance assistance over the next couple of years. We need to figure out a framework which will allow us to respond to those requests in a productive, effective way. It's a professional responsibility of giving good advice. I think that the Action Agenda developed here is a good starting point.

The DAC will hold an important urban meeting on aid coordination next month. This is important because there are a number of donors who have previously provided assistance mostly to the rural sector, to education or to health but not for urban assistance. Next year is the International Year of Shelter for the Homeless. I believe that fact has provided very important political support in many industrial countries. The game is changing.

I attended the meeting of the United Nations HABITAT Commission in Istanbul in May. There was extraordinary political support for the International Year of Shelter for the Homeless. What should the message be in this particular political opportunity? We have to be realistic and recognize that the private sector must play a central role in solving the problem.

It is not only the Realtors who are getting together. Over the next 18 months, 6,000 architects will be meeting in July in England. Vocal government people will be meeting in Holland. The mayors will be meeting. Suddenly all kinds of interest groups around the world essentially are debating the same questions. They understand the stakes are high. They need to find a policy framework which can move us forward. This offers a wonderful opportunity to build a coalition of groups who are all trying to address a similar set of problems.

Peter Kimm (Deputy Assistant Administrator for Housing and Urban Programs, U.S. Agency for International Development): The ideas I have heard expressed over the past few days and the action plan recommendations of this group are totally consistent with how the Agency for International Development views the shelter problem and with how I personally see it. We are at a major crossroads in our thinking about how to provide shelter for the poor in the developing countries. This conference and the actions that might follow it can help us to head down the right path. We have come a long way since I began in this business over 20 years ago, and even since the Vancouver Conference 10 years ago.

Our view of what governments can and should do has been altered by a vast body of experience that all of the donor countries and multinational organizations have accumulated over the years. The inexorable conclusion, which is becoming close to a consensus among the major players in the field, is that private, individual initiative will solve the shelter problem There is a role for governments, to be sure, but that role must be carefully defined and circumscribed. And that is the essence of what I have heard here.

I would like to make two basic points by way of summarizing the situation as I see it. The first is that, despite the enormity of the shelter problem — and increasing population and urbanization will exacerbate that need through the end of this century, at least — shelter is not a bottomless pit. We have the resources now at hand and the basic knowledge to provide at least minimal shelter to all of the poor in developing countries in our lifetimes. What we need are the right policies and the political will to implement them.

And that brings me to my second point. The right government posture is to act as a facilitator; its role is to create the environment in which action by the formal private sector, the informal sector and individuals can be focused effectively on the problem. Governments should refrain from the costly and inefficient activity of building housing. This is the message I have heard at this conference. And it is the message that needs to be carried from here back home. The next step is to "get the word out" and work for the government policies that will direct public resources into their most efficient uses and make it attractive for private resources to be devoted to the provision of shelter for the poor.

APPENDIX A

(From The Contribution of Shelter to National Economic Development, by James W. Christian, Ph.D.)

The following exercise demonstrates, in macroeconomic terms, that investments with low-import components have a more powerful effect on economic growth than investments with high-import components. Housing and many of the domestic industries to which it is closely linked have low-import components. They therefore fall into the former category of investments.

Define a simple model of the economy as:

$$Y = C + IP + IH + EX - IM$$

where:

Y	=	Gross national or gross domestic product
C	=	Consumption
IP	=	Investment in plant and equipment
IH	=	Investment in housing
EX	=	Exports
IM	=	Imports

Assume that IP, IH and EX are exogenous variables and that the behavioral equations for C and IM are:

$$C = a1(Y)$$

$$IM = b1(IP) + b2(IH) + b3(C)$$

Solving the model to identify the multipliers attached to each of the three exogenous variables (IP, IH, and EX) yields:

$$Y = \frac{(1-b1)}{1-a1(1-b3)} IP + \frac{(1-b2)}{1-a1(1-b3)} IH + \frac{1}{1-a1(1-b3)} EX$$

It is clear that if b2, which is the import component for housing investment, is smaller than b1, which is the import component for plant and equipment investment, the multiplier on Gross National Product of housing investment will be greater than that of plant and equipment investment.

It can be argued, however, that plant and equipment investment results in export growth while housing investment does not. If we therefore endogenize exports, making them a function of plant and equipment investment, we obtain a slightly less clear-cut solution:

Let

$$EX = c1(IP)$$

Solving for the multipliers on Y of IP and IH then yields:

$$Y = \frac{(1+c1-b1)}{1-a1(1-b3)} IP + \frac{(1-b2)}{1-a1(1-b3)} IH$$

Now the term (1—b2) must be larger than (1 + c1-b1) for the conclusion to hold that housing investment has a stronger multiplier effect on Gross National Product than plant and equipment investment.

To the extent that plant and equipment investment is devoted strictly to export industries, IP could possess a higher multiplier, but to the extent that IP is devoted to import substitution, then both c1 and b3, the import component of consumption, are smaller. Since b3 is common to both multipliers, it is clearly possible that a development strategy featuring both export promotion and import substitution may nevertheless yield a higher multiplier for housing investment than for plant and equipment investment.

Moreover, whatever the relative comparisons between the multipliers of plant and equipment investment and housing investment, it is clear that housing investment has a large multiplier effect so long as it has a low-import component.

APPENDIX B

(From The Contribution of Shelter to National Economic Development by James W. Christian, Ph.D.)

Currency Ratios

The ratios shown in this appendix are the proportion of liquid financial assets (currency plus deposits in financial institutions) represented by currency in circulation. The data are drawn from the International Monetary Fund's International Financial Statistics. Currency in circulation corresponds to Line 14a and deposits correspond to the sum of lines 34, 35 and 45. In some cases, the data shown for 1985 are actually the most recent data available — 1982, 1983 or 1984.

In general, the higher the ratio of currency in circulation to liquid financial assets, the less well developed the financial system of the country in question.

Region and Country	1965	1975	1985
Europe			
Austria	.210	.121	.076
Belgium	.325	.203	.146
Denmark	.123	.073	.048
Finland	.083	.057	.037
France	.294	.100	.068
Germany	.132	.089	.087
Greece	.316	.216	.134
Ireland	.192	.091	.104
Italy	.141	.094	.087
Netherlands	.188	.105	.090
Norway	.183	.143	.082
Portugal	.221	.285	.108
Spain	.165	.100	.111
Switzerland	.168	.156	.106
United Kingdom	.204	.147	.084
Yugoslavia	.120	.124	.075
North Africa			
Algeria	.527	.375	.307
Libya	.352	.254	.184
Morocco	.337	.288	.265
Tunisia	.285	.223	.181
Central Africa			
Benin	.538	.265	.182
Burkina Faso	.643	.404	.318
Cameroon	.444	.297	.182
Central African Republic	.587	.554	.715
Chad	.725	.652	.663
Ethiopia	.600	.529	.332
Gambia	.621	.556	.332
Ghana	.387	.351	.483
Ivory Coast	.463	.364	.326
Mali	.728	.575	.468
Niger	.614	.423	.309
Nigeria	.423	.243	.214

Region and Country	1965	1975	1985
Mauritania	.534	.305	.336
Senegal	.485	.342	.285
Sierra Leone	.435	.386	.364
Somalia	.414	.387	.301
Sudan	.449	.376	.356
Togo	.483	.335	.265
Southern Africa			
Burundi	.605	.481	.082
Congo	.339	.453	.357
Gabon	.521	.300	.190
Kenya	.212	.152	.126
Madagascar	.463	.449	.346
Malawi	.305	.200	.140
Rwanda	.638	.454	.306
South Africa	.067	.060	.050
Tanzania	.354	.311	.323
Uganda	.343	.293	.419
Zaire	.418	.365	.469
Zambia	.125	.172	.149
Middle East			
Bahrain	.245	.130	.087
Egypt	.489	.450	.264
Iran	.202	.137	.241
Israel		.098	.086
Jordan	.412	.482	.280
Kuwait	.149	.114	.073
Lebanon	.170	.210	.100
Qatar	.108	.137	.099
Saudi Arabia	.525	.376	.243
Syria	.724	.520	.518
Turkey	.330	.221	.123
South Asia			
Afganistan	.680	.631	.717
Bangladesh		.245	.155

Region and Country	1965	1975	1985
India	.439	.295	.211
Nepal	.591	.405	.292
Pakistan	.435	.303	.302
Sri Lanka	.326	.256	.152
Southeast Asia			
Burma	.803	.814	.638
Indonesia	.667	.244	.190
Malaysia	.316	.141	.076
Philippines	.291	.198	.175
Singapore	.278	.188	.143
Thailand	.354	.195	.098
East Asia			
Japan	.089	.060	.044
Korea	.299	.150	.100
Pacific			
Australia	.076	.083	.087
Fiji	.232	.140	.123
New Zealand	.078	.063	.035
Papua New Guinea		.347	.119
South America			
Argentina		.333	.235
Bolivia	.744	.455	.850
Brazil	.202	.113	.050

Region and Country	1965	1975	1985
Chile		.181	.115
Colombia	.274	.209	.168
Ecuador	.376	.233	.204
Guyana	.274	.192	.173
Paraguay	.402	.240	.229
Peru	.254	.301	.191
Uruguay	.368	.291	.090
Venezuela	.201	.106	.062
Central America			
Belize		.157	.135
Costa Rica	.303	.174	.131
El Salvador	.255	.187	.191
Guatemala	.336	.211	.212
Honduras	.293	.216	.201
Mexico	.174	.150	.122
Nicaragua	.294	.219	.360
Caribbean			
Barbados	.111	.112	.102
Dominican Republic	.384	.166	.198
Haiti	.487	.258	.259
Jamaica	.142	.132	.090
Trinidad & Tobago	.132	.095	.063
North America			
Canada	.101	.073	.070
United States	.080	.073	.064

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Joseph Wheeler became Chairman of the OECD's Development Assistance Committee in January 1986. A graduate of Bowdoin College, he attended the Graduate Institute for International Studies in Geneva and Harvard's Graduate School of Public Administration in 1949-51, earning a degree in Public Administration. For more than 30 years he served in progressively higher government posts in the foreign aid field, including extensive work abroad. In 1980 he was appointed Deputy Administrator of AID and served in this position until his retirement in 1982 (the highest career post in AID). He was appointed in January 1983 as an Assistant Secretary-General of the United Nations and became Deputy Executive Director of the United Nations Environment Program at its world headquarters in Nairobi, Kenya. He served in this position until his election as Chairman of DAC.

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