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ANNUAL REPORT FISCAL YEAR 1988

25 YEARS

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OFFICE OF HOUSING AND URBAN PROGRAMS
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

December, 1988

The Housing Guaranty Program has evolved during the past 25 years, attempting to anticipate and respond to the changing needs of developing countries for shelter and urban development.

Our report this year reflects on the development of the Agency's housing and urban development programs through several major phases, beginning with private builders and the savings and loan systems in Latin America, leading to today's broader approach, which balances appropriate roles for the public and private sectors.

Each of the seven Regional Offices reviews the progress of one or more of its earliest projects. These early project experiences have helped form today's largely sectoral lending approach which attempts to affect the architecture of major urban development policies and procedures.

In 1988, we continued our support of programs in over 50 countries and authorized seven (7) new Housing Guaranty Programs in eleven (11) countries, totaling \$125,000,000.

The year culminated in the *Washington Policy Conference on Housing and Urban Development*, which gathered 50 high-level officials from 33 developing countries to share with us their reflections on yesterday's programs and on tomorrow's needs.

This year also brought its share of tragedy and loss. Sara Frankel lost her life in an accident in Jamaica, where she was serving as the Director for the Caribbean region. Her tenacious spirit is missed. Please remember Sara and her family in your prayers.

Sincerely yours,

Peter Kimm
 Director
 Office of Housing and Urban Programs

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Operation of the Office of Housing and Urban Programs

The Office of Housing and Urban Programs consists of the Director's Office and two divisions: Operations, and Policy and Urban Programs. The Operations Division provides oversight and support to its seven Regional Housing and Urban Development field offices (RHUDOs), which are responsible for programs in countries within each region. The Policy and Urban Program staff provides leadership and support to the central office and the seven RHUDOs in research, policy, training and publications.

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

- private sector participation;
- policy dialogue;
- institutional development;
- technology transfer.

The principal vehicle for capital assistance is the Housing Guaranty Program. The Office has developed a number of tools to evaluate and address specific housing and urban problems. These tools include the following:

- shelter sector assessments;
- housing needs assessments;
- urban development assessments;
- municipal management assessments;
- housing policy analyses;
- housing finance strategy methodology;
- guidelines for urban land studies and infrastructure studies;
- decentralization concepts and guidelines.

POLICY INITIATIVES AND RESEARCH

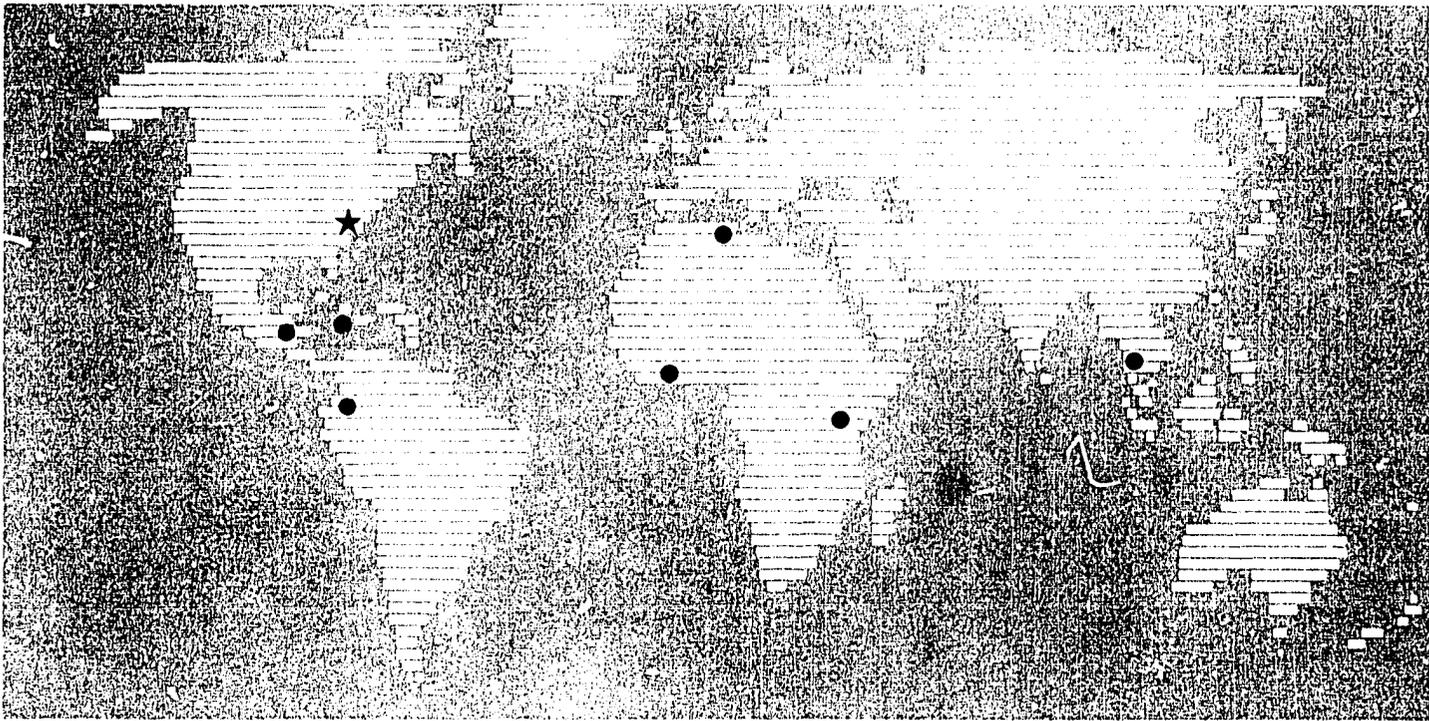
The Office of Housing and Urban Programs is continuing to support program initiatives in

urban development and management begun in the past. At the same time, it is concentrating on the future of urbanization in the developing world and on alternative Agency responses to the changes that this urbanization is creating.

As a donor agency, A.I.D. is increasingly concerned by the pace of urbanization in the developing world and seeks to define an appropriate response to this change. The Office has the responsibility to review the Agency's current urban efforts and to propose new options for its future assistance programs that take into consideration the process of urbanization. This exercise, in part, satisfies a request from the *House Subcommittee on Foreign Operations* that the Agency prepare a study with recommendations on how it will respond to urbanization in the developing world.

Sector Lending. The Office recognizes that the development issues created by rapid urbanization demand a more fundamental response from donors than can be achieved through individual capital projects. Major emphasis, therefore now is placed on sectoral programming, to use technical and capital assistance programs to achieve systemic institutional and policy changes.

To advance the change to sectoral programming, the Office developed and implemented a technical review process. Technical reviews have been conducted in four Regional Offices, examining the delivery systems for shelter and urban services in the client countries, as well as policy issues that impede delivery of services and shelter. Past assistance was evaluated, and alternative strategies were explored as a basis for future programming.



RELEVANT AUTHORIZED PROGRAMS

The Office has allocated funds to support field activities specifically designed to advance the sectoral approach. The Agency for International Development has authorized three sectoral programs during Fiscal Year 1989. Jamaica, Indonesia and Jordan will receive authorizations which will amount to \$200 million over the life of the project. In each case, a policy agenda addressing the delivery of urban service and shelter was agreed to and resources will be disbursed leading to the financing of eligible projects. An examination of the land development process in Tunisia, for example, focused on the current and potential role of the private sector in the urban land delivery system. The Office also funded a study of the institutional structure for land use management and policy in St. Lucia and assisted the African Development Bank evolve a lending policy for sustainable development of water and sanitation services.

Informal Sector. Because of its continued interest in the role of the informal sector in providing shelter and services, the Office sponsored a major workshop on this topic. Urban scholars and professionals from A.I.D., The World Bank, the Interamerican Development Bank, nonprofit organizations and the private sector participated. The discussion considered how the Office could focus on the reform of regulations that impede small-scale private

initiative, as well as provide direct support to informal organizations.

Research Agenda. The Office conducted research on three other issues of importance to development. It commissioned a report, to be completed in 1989, on urban economic development and its role in achieving A.I.D. objectives. The purpose of the report is to explore options for Agency policy and programming to harness the potential of urbanization as an engine for economic growth. A second paper was completed which presents the basis for governmental decentralization underway in many developing countries, as well as guidelines for analyzing alternative strategies to support the process. Finally, the Office is supporting the *Megacities* research project being undertaken by New York University to document and analyze innovative management techniques and technologies employed in the world's largest cities. By the turn of the century, most megacities will be located in developing countries.

The Office continues to work with the United Nations Center for Human Settlements (HABITAT). It headed the U.S. delegation to the 11th Session of the HABITAT Commission in New Delhi. The consensus of the meeting resulted in a document entitled *Global Shelter Strategy to the Year 2000*. This major policy

The Office of Housing and Urban Programs has its base in Washington, D.C., with seven decentralized regional offices, located in Ecuador, Honduras, Jamaica, Côte d'Ivoire, Kenya, Tunisia and Thailand.

statement advocates that governments adopt regulations and policies encouraging private action in the low-income shelter sector. The U.S. played a pivotal role in negotiating the language of the report.

TRAINING AND PUBLICATIONS IN SHELTER AND URBAN DEVELOPMENT

The Office of Housing and Urban Programs has been sponsoring training activities in shelter and urban development since the early 1970s. Over the Office's 25-year history, more than 3,500 participants from developing countries around the world have attended courses, conferences, seminars and workshops that address the challenges of urban growth and provide a forum for innovative thinking on current issues. In earlier years, training activities included such topics as construction management and mortgage servicing. As the focus of the Office has broadened, training activities have addressed such topics as housing finance, delivery of urban services and infrastructure, land tenure, public-private partnerships, decentralization and market town development.

In recent years, training has expanded from an *ad hoc* effort to a formalized office function. This new emphasis on training has led to the consolidation and coordination of training initiatives in the central office as well as support for regional training activities. Rather than doing training directly, the central office has served as a facilitator. It has assisted the RHUDOs in identifying needs and worldwide trends, helped to develop training strategies

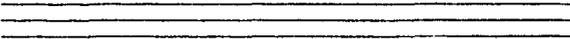
and targeted opportunities for programs supported jointly with other institutions.

Training has always been an important component in urban development efforts. The shift from project to sectoral lending has brought heightened attention to the goals of training. In this context, policy dialogue and institution building take on greater importance: communicating policy goals, developing capacity in both the public and private sectors to provide shelter and urban services, and assisting in the development of sustainable training institutions in developing countries.

The Office of Housing and Urban Programs targets its training activities on policy-making officials from both the public and private sectors. This year's central training activities included sponsoring ten participants to a course on *Housing Finance* conducted by the Fels Center of Government at the University of Pennsylvania in Philadelphia. Organizing the *Washington Policy Conference* was another activity which developed materials and case studies on current issues.

Publications continue to be a vital function of the Office. In the last year important research and project papers have been printed including two major works on urbanization in Africa.

Reflections on Yesterday



25 Years

B e f o r e 1 9 6 1

President John F. Kennedy established the Agency for International Development (A.I.D.) in 1961. Prior to this time, several agencies administered U.S. foreign assistance to developing nations. A limited number of housing loans and grants were provided. As early as 1956, the *National League of Savings and Loan Associations* recommended a U.S. guaranty of loans for direct housing investment in Latin America.

1 9 6 1

After the passage of the *Foreign Assistance Act of 1961*, Congress added Section 222 which established the *Housing Investment Guaranty Program*, with a guaranty authority of \$10 million. The program was to finance its operating expenses through loan fees, and to have interest rates comparable to commercial lending rates.

1 9 6 3

To administer the Housing Guaranty Program, in 1962 A.I.D. set up a division within the *Latin America Bureau*. This office solicited applications from builders, mostly from the U.S. This Housing Guaranty Division processed loans for demonstration projects, following the model of the FHA insurance program in the U.S. In Peru, the first Housing Guaranty Loan Agreement was contracted in mid-1963 for the

Apollo project. Independently, the Africa and Asia Bureau carried out early projects, under A.I.D.'s *Extended Risk Guaranty Program*. Projects emphasized more efficient building systems, economies of scale and the use of better equipment. The first loan for the Caribbean region was authorized this year, in the Dominican Republic. A.I.D. authorized the first loan for Central America this year as well, in Honduras.

1 9 6 5

At A.I.D.'s request, Congress expanded the program to include institution-building goals. Congress voted \$150 million additional authority. The 1965 amendments to the Foreign Assistance Act specified five types of eligible programs for Latin America:

- private housing projects, similar to those insured by the U.S. Department of Housing and Urban Development;
- credit institutions, including Savings and Loans, which financed home mortgages;
- housing projects for lower-income families;
- housing projects that promote the development of institutions important to the success of the *Alliance for Progress*, such as free labor unions and cooperatives;
- housing projects where 25% or more of the mortgage financing is from within Latin America, and where unit costs do not exceed \$8,500.

The Housing Guaranty Section was established as the *Housing and Urban Development Division*, within the *Capital Development Office* of the Latin America Bureau.

Stanley Baruch was hired as the Director in 1965 and Peter Kimm was hired as Deputy Director responsible for Housing Guaranties in 1966.

To provide decentralized services, the Office of Housing established the first regional office, serving Central America.

During the years between 1965 and 1973, the balance of the programmatic emphasis shifted toward housing finance institutions, largely the savings and loan institutions. Countries normally received development loans and a grant for technical assistance to set up savings and loan systems. The Housing Guaranty Program effectively provided seed-capital to these institutions for long-term home mortgages.

Through these efforts, housing finance systems were developed in 17 countries in Latin America. Combined, these systems now have a pool of over 30 billion dollars for housing finance. Virtually all of these loans assisted people who were previously unserved.

In this year, loans were authorized for the first time in Asia and the Near East and North Africa, in Thailand and Tunisia, respectively. In 1967 A.I.D. authorized the first loan in the West Africa region, in Côte d'Ivoire.

1 9 6 8

To assess proposed housing projects, the Housing Guaranty Section began general assessments of the national housing systems, called *Shelter Sector Assessments*. This approach recognized that coherent housing systems at a national level were important, and required governments to establish laws, develop policies, allocate funds and establish housing agencies. A loan authorized for Kenya in 1969 was the first for the East Africa region.

1 9 7 0

Congress voted additional authority for housing guaranties in Africa and Asia. The Housing and Urban Development Unit was reorganized and expanded. It was moved from the Latin America Bureau to the *Bureau for Administration* and began operations as the *Office of Housing*.

1 9 7 3

In a major shift in 1973, the Foreign Assistance Act was dramatically redrafted to emphasize that all of A.I.D.'s efforts should benefit poor people, defined as families in the lower half of the income distribution. A new A.I.D. Shelter Policy was adopted to respond to this congressional mandate. In 1973, Peter Kimm was appointed Director of the Office of Housing.

1 9 7 5

Amendments to the Foreign Assistance Act incorporated the policy changes the Office had adopted. These resulted in an increase in *sites and services* projects and programs for *upgrading* existing neighborhoods. There were major impacts also on the programs developed: standards were lowered; less-than-complete core units were built; delivery systems were changed. The basic client of the Office changed in many countries to *Ministries of Housing* and other governmental housing agencies.

1 9 7 6

A major U.N. Conference brought world leaders together in Vancouver in 1976 to hold the first *HABITAT Conference*, which produced a statement of principles for the solution of shelter needs. This year also marked the first concentrated effort on *squatter settlement upgrading*, which included facilities for water, sewer, electricity and roads, and community buildings and services. Planning processes, in addition to financial and physical aspects, expanded to include the social and economic components of low income neighborhoods in an effort to improve, incrementally, the quality of life.

1 9 7 8

The authorizing legislation for the Housing Guaranty Program was again modified. This amendment allowed the *financing of community facilities and services*, including schools, health clinics, community centers, vocational training centers, markets and small business centers. This resulted in increased work with the informal sector and the private and voluntary organizations working with them.

In 1978, the seventh regional office was opened, this one serving the Caribbean region.

1 9 7 9

The changes in the Housing Guaranty Program required increased training and technical assistance. The Latin America region had initiated *Regional Conferences* on an annual basis which were followed by similar conferences in Africa and Asia. The first worldwide *International Shelter Workshop* was held in November 1979. Shortly after that, the Office began publishing the *Occasional Papers Series*.

1 9 8 0

A global *Urban Development Support Service Project* was developed in 1980 with grant funds to focus on specific problems of urban development. This project began the process of preparing the major cities of developing countries to cope with the urban explosion that was rapidly overwhelming them.

1 9 8 2

In this year the total value of projects authorized and under contract exceeded one billion dollars.

1 9 8 3

A.I.D.'s strategy became more clearly articulated with reliance on *individual initiative* and the *informal private sector* to produce housing, with governments providing infrastructure and the policy framework. In this way, governments play a facilitating role, supporting the natural processes that result from individual initiative.

The scale of the problems caused by rapid urbanization requires appropriate policies and construction standards as well as a balance between the work of the private sector, finance institutions and governments. It came to be seen that the role of governments is to solve problems that individuals cannot solve for themselves: securing land tenure; installing basic infrastructure; acquiring credit to upgrade homes and communities.

1 9 8 4

The Regional Offices began intensifying their support of municipal development, decentralization and training. Seminars in Côte d'Ivoire on decentralization and on privatization of urban services in Togo are illustrative examples.

The Office of Housing and Urban Programs developed a computer model called the *Housing Needs Assessment* that would project the number of low-cost housing units needed over a 20 year period, project the capital required and define the construction standards. In 1984 and 1985 ten such studies were conducted. Among the countries studied were *El Salvador, Peru, Zimbabwe and Turkey.*

1 9 8 5

To assist A.I.D. in understanding urbanization processes and to determine key needs and road-blocks, the Office developed a methodology called *Urban Development Assessment*. In 1985, to test the methodology, studies were completed in *Panama, Morocco and Jordan.*

Also developed this year was the *Housing Finance Strategy Methodology*, which examined various means to mobilize funds necessary to achieve the objective of adequate housing for all. A companion methodology, the *Housing Quality Methodology*, was developed at the same time.

1 9 8 6

By 1986, policy dialogue and institutional change are becoming the primary consideration of the Office, with specific projects being secondary. This marks an evolutionary change which began with individual projects as the *primary* focus and was followed by a period in which policy and institutional changes were brought about *through* demonstration projects.

By now, projects are viewed as *supportive* of important changes.

In Central America, A.I.D. approved \$110 million to support municipal provision of infrastructure and land tenure. Missions in several countries included the increase of local authority and responsibility for urban infrastructure in their negotiations of macro-economic programs.

In Africa, the Kenya Small Towns Project illustrates a pioneering use of Housing Guaranty funds to move toward broadly-based urban development. The project has been instrumental in creating jobs, strengthening local economies and improving institutional capacity.

1 9 8 7

The Office continued moving its emphasis during 1987 from a project-focussed approach to a sectoral-lending approach. This latter approach concentrates on the reform of national policies and institutional delivery systems for shelter and urban services. Its goal is to broaden the impact of A.I.D. urban interventions toward improved management of urban growth.

The Office developed an over-all training approach, and the RHUDOs further expanded their commitment of resources to training, which is increasingly viewed as important as program design and investments to encourage governments to develop and change their shelter and urban policies.

1 9 8 8

In the past 25 years, through its Housing Guaranty loans and related grants and through its technical support, the Office of Housing and Urban Programs has worked in over 50 countries worldwide. It has provided guaranties for over 200 loans with a total of \$2 billion. Current activities of the Office are described throughout this report.

Reflections on Tomorrow

Urbanization and Shelter in Less Developed Countries

"Through collaboration between donor agencies and the developing nations, with appropriate balance of roles between public and private sectors, the cities of tomorrow should be able to turn the challenge into opportunity."

The following are excerpts from the opening session of the Washington Policy Conference on Shelter and Urban Development:

CHALLENGES OF URBANIZATION

Rapid urbanization has been occurring for several decades in developing countries. In the coming years, however, we will be challenged to respond to new and more complex problems. What makes the emerging problems different from those of the past?

The most striking difference is the sheer number of people who will be living in cities. The urban populations of developing countries have been growing geometrically and at twice the rate of the industrialized countries. This urbanization is on a scale and at a pace unprecedented in world history.

From 1950 to 1980, the cities of all developing countries grew by 237% to 966 million people. People managed to provide for themselves, frequently outside the formal institutions, and somehow the cities coped. Cities of these countries will grow by another 300% and reach over 3.8 billion people by 2025.

Cities will have to accommodate an additional 2.9 billion people. They will have to house and provide services and jobs for four times as many new residents as they did in the past.

In 20 years, nearly 80% of the populations of Latin American and Caribbean countries will live in urban areas. In contrast, Africa is now only about a quarter urbanized, but cities across that continent are growing at nearly 5% a year, almost twice the world average and putting incredible pressure on already strained economies. Over the next decades, a large percentage of the growth in Africa will occur in cities.

By the year 2000, there will be 30 cities in developing countries with populations over five million. Most dramatic, however, will be the growth of *megacities*. The *megacities* are already straining under the pressure to maintain their existing infrastructure, much less to meet the need for new growth. Mexico City is growing at a rate of 1,000 people per day and is projected to reach 26 million people by the turn of the century. São Paulo, Calcutta and Bombay will each soon exceed 16 million people.

By the turn of the century, there will be more than 450 'one million plus' cities in developing countries. Under creative, effective management, they could become critical links in the

"In twenty years, nearly 80% of the populations of Latin American and Caribbean countries will live in urban areas."

"Cities are most often part of the solution, a sign of economic advancement and a powerful stimulus to further growth."

economic systems of their countries and centers of considerable economic growth.

Along with increasing urbanization, *poverty* is becoming increasingly concentrated in cities. Today, over 40% of city dwellers live in slums and squatter settlements.

Urbanization, therefore, is not an option to be addressed in the future. It is an issue that is shaping the very pattern of national economic growth, the settlement of vast populations, and the social and political stability of many countries in the developing world. The development community is only now beginning to acknowledge the profound influence that urbanization is having on economic and social development in the developing countries. More often than not, cities are part of the solution, a sign of economic advances and a powerful stimulus to further growth. Cities provide markets for surplus agricultural goods and inputs for increased agricultural production. Only in cities can we achieve economic specialization and diversification into manufacturing and commerce. They are the forces that fuel economic growth. Although we sometimes focus on the problems of cities, they are actually centers of opportunity.

THE RESPONSE OF THE INFORMAL SECTOR

How nations respond to those opportunities depends on their image of the city. Too often, a reaction to the apparent disorder of a city is to impose controls, hoping that they will produce an ideal city. Slums offend people's senses, so laws are written against them. Street vendors crowd the streets, so they are licensed and taxed. Small homes with only basic services appear unattractive and unhealthy, so regulations require minimum sizes and service standards that the vast majority of the people cannot afford. This results in a web of rules and regulations that force the vitality of the city underground. In the shelter sector, this underground is manifested in the slums and spontaneous settlements. These settlements, which we call the *informal* sector, house nearly half the urban population.

In many cases, the informal settlements improve dramatically over time. As families



come to believe that they will not be evicted, even in the absence of clear legal title, they improve their properties. In other cases, these settlements never reach what many people would consider to be acceptable standards: growth is haphazard; infrastructure is inadequate; land titling problems seem insolvable.

Nevertheless, in the past 30 years, this process has produced the vast majority of all the low-income housing in developing countries. The informal sector has likely produced more than 90% of this shelter. This informal process has worked, while well-organized public-sector programs have tended to not work. Unfortunately, governments have often resisted the informal process with its shacks and shanties being seen as an affront to a modernizing nation.

Today, however, there is wide agreement that this informal process is essential to the growth of cities. Governments are searching for a way to invest available resources in a way that would best support this informal process. In the development community, we are searching for the answer to this question: How can we best understand the phenomena that we have observed and contribute as effectively as possible to the process?

A.I.D. SHELTER POLICY

Since the 1970s, we have pursued a *basic needs* strategy, intended to better meet the shelter needs of all, including the poor. This includes sites and services, slum upgrading and core housing projects. These programs have provided minimal services to a much larger population than could be served by more costly, traditional projects.

But in most countries, this strategy was incomplete. More projects were built at lower



Mark Edwards, Photographer

cost, but the system was frequently excessively dependent on government. The experience in many developing countries, however, argues strongly that a realistic strategy must be based on the premise that the appropriate government role is to focus first on those shelter problems that individuals cannot solve for themselves. This includes the availability of land with secure tenure, the provision of infrastructure and the availability of credit. It is also essential that the government play a *facilitative* role—one that enables the different elements of society to participate fully in the process. Perhaps the most important component of this facilitative function is the *regulatory climate*. Government's rules and actions should encourage efficient production. These principles are widely, although not universally, accepted today.

A related emphasis of our policy agenda is *decentralization*, a process sometimes driven by finance issues. Central governments find themselves no longer able to provide urban services throughout the country. More fundamentally, however, central governments frequently are too removed from the local situation to effectively design and manage many programs. Local decisionmaking is best responsive to local needs. Decentralization is not merely a means of cost effectiveness; it is a fundamental precept of democracy. It is also clear that the economic pressures of the 1980s and those foreseen for the 1990s will require an increasingly efficient use of available resources. For most countries, this increased efficiency will require a reexamination of the division of labor between the public sector and the private sector.

If the private shelter market is to work for low-income families, it will require new strategies for both the government and the private

sector. The government should create a climate that permits the other players to function, reducing development and construction standards to levels that are affordable for low-income families.

Second, the government should facilitate land ownership. Land titling and registry systems need to be simplified and organized so that low-income families have security of tenure. That will encourage them to invest in their homes, enable them to borrow against their investment and allow them to sell their property if they desire to relocate.

Third, the government needs to increase the efficiency of the credit system. Regulations that place unrealistic ceilings on mortgage interest and on savings deposit earnings can impede the accumulation of capital and ration the limited supply. Ironically, they drive low-income families to the informal market, where they pay much higher interest rates than they would in a less regulated formal system.

Lenders need to reevaluate their assumptions about loans for low-income families. Low-income families are not unusual credit risks—not if they hold a secure title to their land and borrow within their ability to repay. Mechanisms are available to structure mortgages and servicing procedures so that small loans are profitable. This has been demonstrated in a number of programs in which private intermediaries have provided loans to low-income homeowners in developing countries.

"In the last 30 years, this [informal] process has produced the vast majority of all the low-income housing in developing countries."

"A realistic strategy must be based on the premise that the appropriate government role is to focus first on those shelter problems that individuals cannot solve for themselves."

NEW STRATEGIES FOR DONOR ASSISTANCE

Although we have long been concerned with policy and institutional development, our current strategy is to place those goals at the heart of our capital assistance agreements through a *Sector Lending Approach*. This approach is based on the premise that significant increases in affordable shelter can be realized only if the entire delivery system is made more efficient. We will work with countries to identify the systemic impediments to enhanced production and to assist in alleviating them.

A sector lending program begins with an analysis of the shelter delivery system. The analysis focuses on land availability, infrastructure provision and the availability of credit and finance. This analysis, furthermore, identifies the major impediments to increasing production so that the country can set priorities for addressing them. Finally, we agree on a series of appropriate actions to review policies, improve the regulatory framework or strengthen institutions and institutional arrangements. These agreements provide the basis for disbursing capital assistance. Prior to subsequent disbursements, we review with the government the degree to which these sectoral changes have been accomplished and the extent to which adjustments in the priorities and strategy are required. We also consider the tangible evidence that these changes have resulted in increased production of affordable shelter. At a minimum, the amount loaned must be converted to shelter and urban services for low-income people.

Sector lending will take many forms as our thinking and experience evolve, and as we work with countries to develop the most appropriate assistance strategies. We believe that this approach will help our client countries identify and directly address the root causes of their shelter problems.

The General Assembly of the United Nations designated 1987 as the *International Year of Shelter for the Homeless*. Considerable world attention was focused on the need for shelter and on the rapid urbanization of the developing countries. A resulting document, *The Global Shelter Strategy to the Year 2000*, is remarkable for its emphasis on private action:

'Basic Principles: The right to adequate shelter is recognized universally, and all nations, without exception, have accepted some form of obligation to meet the shelter needs of their people. To address this obligation effectively, governments must make basic changes to their existing policies on shelter. The fundamental one is the adoption of an "enabling" approach, to mobilize and harness the full potential and resources of all possible actors in the shelter production and improvement process. An 'enabling' approach implies that people will be accorded the opportunity to meet their housing requirements according to their own priorities and capacities.'

CONCLUSION

The donor community has an important role to play in supporting the development of effective policy and providing capital and technical assistance. The donors have concluded that the real focus of their activities must be on policies and institutions.

The Office of Housing and Urban Programs has adapted its lending and technical support to the shelter and urbanization challenges of the coming decades. Through collaboration between donor agencies and the developing nations, with appropriate balance of roles between the public and private sectors, the cities of tomorrow should be able to turn the challenge into opportunity.

Regional Reports

Responding Through the Years

Region	Year Regional Presence Established	Current Location
<i>Central America</i>	1969	Tegucigalpa, Honduras
<i>South America</i>	1971	Quito, Ecuador
<i>West Africa</i>	1972	Abidjan, Côte d'Ivoire
<i>East Africa</i>	1972	Nairobi, Kenya
<i>Asia</i>	1975	Bangkok, Thailand
<i>Near East and Northern Africa</i>	1978	Tunis, Tunisia
<i>Caribbean</i>	1978	Kingston, Jamaica

The seven Regional Reports that follow present reflections on yesterday's efforts in each region with a view to how they have led to today's approach to burgeoning development problems. These program close-ups provide the prologue to solving tomorrow's urban problems. These Regional Reports highlight the increasing reliance on sectoral lending.

Today, the Office of Housing and Urban Programs is decentralized through seven Regional Housing and Urban Development Offices. An Assistant Director heads each Regional Office and is responsible for program develop-

ment and operations in that region. The RHUDOs are staffed by foreign service professionals, contract staff and local support personnel. Some of the regions also have housing advisors stationed in U.S.A.I.D. Missions in various countries.

These offices were opened over time, and as the demand for services expanded, regions were subdivided to increase responsiveness. Latin America was ultimately divided into three regions, including South America, Central America and the Caribbean. Likewise, Africa was divided into two regions, West and Central Africa and East and Southern Africa.

West African Region

REFLECTIONS ON YESTERDAY



Above. Current photo of apartments constructed in Abidjan (Williamsville) under HG-002.

The housing and urban development projects of the Regional Housing and Urban Development Office for West Africa mirror the socio-economic and political transformations that have taken place in the region during the last two decades. They also attest to the Office's commitment to developing programs that are attuned to the realities of yesterday, today and tomorrow.

Twenty years ago, the mood in West and Central Africa was one of buoyant optimism. Political independence had just been attained, and the leaders of the newly created countries envisioned rapid modernization fueled by high prices obtained for their raw materials.

At that time, in most countries, the State was the driving force behind all activity. The nascent private sector was judged incapable of playing a major role in national development, and local government lacked the experience and means to interact meaningfully with the central government. State corporations performed

most development functions, including the production of shelter.

In the post-independence era, the RHUDO worked hand in hand with the State. Projects, which mainly provided quality housing, were conceived and implemented in collaboration with central government institutions, and were often located in primary cities. They generally reflected the high aspirations of these fledgling nations.

The RHUDO's first Housing Guaranty loan in Côte d'Ivoire is a classic example of early housing projects. Authorized in 1967, HG-001 was a \$3 million loan to build 390 units in Fairmont, a neighborhood located at the edge of Adjamé, a populous low-income area in Abidjan. For the most part, these units were bought by middle-income individuals, such as civil servants, middle-level professionals and successful traders. The purchasers of these houses exhibited a strong sense of community. They created neighborhood associations and



invested significantly in their property, adding rooms, terraces, small gardens and decorative exterior walls. Fairmont today, with its tree-lined streets, is one of the more appealing residential enclaves within Abidjan.

Conditions that emerged in the mid-1970s forced a reconsideration of the assumptions of the affluent 60s. Urban populations expanding at an unprecedented rate created huge shanty towns circling the modern core cities. Falling commodity prices, political instability and inefficient management of State corporations further served to exacerbate the situation. The State's ability to supply essential services to its urban population was dwarfed by the magnitude of the task. Early optimism gave way to disillusionment and pessimism.

In the mid-seventies, the RHUDO worked towards convincing governments to rethink their housing and urban development policies and strategies. It sought to persuade them to rank their objectives by priority and to undertake programs that relieved the plight of the urban poor.

To better satisfy the needs of low-income target populations, the RHUDO began financing a wider array of methods to improve urban shelter conditions. It undertook a number of new project activities and began working in close collaboration with other donor organizations. Among the new RHUDO-financed activities were the upgrading of low-income neighborhoods, the construction of community facilities and the production of low-cost serviced sites as opposed to complete housing units. Technical assistance also increased significantly.

Typical of this transitional phase was HG-003, a \$122.3 million program financed jointly by A.I.D. and The World Bank, which was authorized in 1977. This program became the first urban development project for the city of Abidjan, upgrading neighborhoods, constructing housing units, developing serviced sites and building community facilities, in eight locations in the city.

Above. Abidjan neighborhood (Adjame) prior to upgrading work under HG-003.

Center. Cité Fairmont today (HG-001), showing the result of improvements over the years by the homeowners, including the addition of terraces, walls, iron gates, awnings, shrubs and trees.

REGIONAL REPORT

West Africa



*Above.
Distribution of
diplomas by an
official from the
Ministry of
Interior at a
Training of
Trainers Seminar
organized by the
RHUDO Training
Program.*

Contemporary RHUDO Housing Guaranty projects, most of which are located in Côte d'Ivoire, reflect today's concerns while heralding tomorrow's goals. Activities begun during the transitional mid-seventies have been retained and new ones added to meet the stringent demands of the foreseeable future.

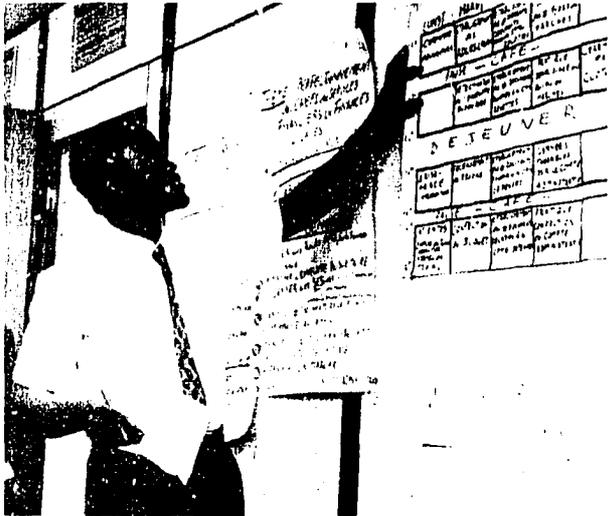
In addition to providing shelter, the RHUDO now advocates integrated development through decentralization, and most activities are geared towards supporting governmental initiatives in this area. The means employed to attain these goals are more diverse than in the past. They include the following:

- training;
- community participation;
- the creation of special funds for municipal and private sector development;

- a change in program orientation from specific projects to broader sectoral considerations.

The most visible sign of the RHUDO's present efforts continues to be the construction of key infrastructure and the upgrading of low-income neighborhoods. These activities, however, are now focused on secondary cities, where they serve to reinforce decentralization by strengthening the role of these cities as nodes of development.

Training is a less visible but equally important way in which the RHUDO is furthering decentralization. Within the region, the two-year-old RHUDO Training Office has organized training events for local and central-level officials. The goal is to improve the quality of municipal management, above all, the management of financial and technical



Center.
Participant
making a
presentation at
the Training of
Trainers Seminar.

Above right.
Participants at
Privatization of
Urban Services
Conference,
organized by
RHUDO and
U.S.A.I.D. Togo,
held in Lome,
Togo (June, 1988).

services, and to expand municipal capacity to develop and implement local level development projects which incorporate cost recovery measures. Within Côte d'Ivoire, municipalities that successfully demonstrate a mastery of these concepts, either by instituting reforms or new management systems, reap tangible rewards in the form of access to project financing under the newly authorized HG-004A.

The Training Office has organized a series of regional conferences on decentralization and related issues. Conference participants have been high-level decision makers from the public and private sector. They examine existing problems and propose viable solutions. These conferences result in action plans tailored to fit each country's specific needs.

The RHUDO has also sought to help host countries promote municipal development through increasing the level of community participation in all phases of its project activities. In Côte d'Ivoire, committees have been created within low-income neighborhoods to work with municipal authorities on community development projects. The objectives of the community participation program and the training program are mutually reinforcing.

A primary concern of the RHUDO and the host countries is the institutionalization of training and community participation efforts. This is being assured through the development of training modules and manuals which can be used by both public and private institutions throughout the region.

Decentralization is also being supported by promoting development on the part of the private sector. At the policy level, governments are encouraged to withdraw from the construction of housing and the provision of services in favor of the private sector and to limit their role to enhancing the environment in which the private sector functions.

As it plans for tomorrow, the RHUDO is taking a number of steps towards operating in a sectoral mode:

First, the RHUDO's day-to-day involvement in project activities is decreasing and greater responsibility is being delegated to the implementing institutions. Major steps also have been taken to increase collaboration and improve coordination between institutions that impinge on a particular sector.

Second, RHUDO funding is being channeled into programs that are not tied to specific project components nor to particular towns, but the advancement of policies and institutions that are of principal concern to the RHUDO.

The RHUDO for West Africa knows that during the next 20 years, its programs will evolve, its strategies will be altered and its short-term objectives will change. But these transformations will all contribute to the achievement of its constant goal: improving the living conditions of low-income families as rapidly and effectively as possible.

East African Region

REFLECTIONS ON YESTERDAY



Above. Workers preparing foundations for Umoja II, also a low-income housing development. Rooms and private open space are individually owned; common space and clustered facilities are shared.

Achieving national housing policy goals in much of East and Southern Africa has remained challenging. In retrospect, there has been a discernable evolution in the RHUDO's approach to helping nations achieve their goals of providing every family with a decent home that offers the basic standards. The approach progressed from providing immediately habitable structures to providing expandable core units; it evolved from developing housing programs in primary cities to constructing community facilities such as bus parks and markets in secondary towns. Finally, it evolved from almost total concentration on government institutions providing low-income housing to the first attempts to have the formal private sector play a more substantial role.

In the 1960s, as the mounting need for adequate shelter became a worldwide concern, A.I.D. opened a one-person office in Addis Ababa, Ethiopia to make plans to deal with the problem in East Africa. By the early 1970s the Regional Housing and Urban Development Office was established in Nairobi, Kenya.

Kenya's first Housing Guaranty project was Kimathi Estate. This project, consisting of 343 four- and five-room units, located four miles east of the center of Nairobi, was completed in 1977. From the start, its tenant-purchase plan enjoyed great popularity, providing new housing and a sound investment. For the Nairobi City Council, the project provided a welcome addition to the housing stock as well as practical and legal procedures that would be useful in the future.

The success of Kimathi Estate prompted the RHUDO's first venture into low-income housing. Umoja I, financed by a \$10 million Housing Guaranty loan, provided 3,000 expandable housing units and was immensely popular. Near the completion of this project, plans were underway for Umoja II. Also a low-income housing project, Umoja II was designed to have complete cost recovery and generate a small profit to develop other self-financing, low-cost plans. It is designed according to a high-density courtyard concept, which groups five or six units around a common open space.

Each unit has private open space and initially contains one room, which can be expanded to two. Water and sanitation facilities are clustered to serve several units.

To adapt to the architectural design, a unique land tenure system has been developed, based on the condominium concept. Rooms and private open space are individually owned, but ownership of the common space and clustered facilities is shared.

In the late 1970s, the RHUDO increased its activities in the region by conducting Shelter Sector Assessments in Sudan, Malawi, Mauritius and Swaziland. Technical support encouraged these countries to formulate sustainable housing policies.

The first sites and services project using Housing Guaranty resources was in Botswana. The project included important technical assistance from the Cooperative Housing Foundation to develop a Self Help Housing Agency, which provided building materials loans and community development support. Botswana also received assistance in developing a comprehensive national housing policy.

The RHUDO's next programmatic thrust was the Small Towns Shelter and Community Development Project in Kenya. In 1979, A.I.D., the World Bank and the British Overseas Development Administration were approached by the Government of Kenya with a request to fund projects in secondary cities and small towns. After lengthy dialogue with participating donors and Government officials, an implementation agreement was signed in 1983 and the first construction contracts awarded in June 1985. The project earmarked a total of 29 towns as participants.

The Small Towns Project represents a pioneering effort by RHUDO in using Housing Guaranty funds to move toward broadly-based urban development. Though encountering some delays, the project has been instrumental in creating jobs, strengthening local economies and improving institutional capacity. There has been region-wide demand for the training and technical materials resulting from the project, which have greatly expanded overall devel-

opment capacity. The Small Towns Project has called attention to the need for Kenya and its neighboring countries to focus on the interdependence of their rural, urban and regional economies.

As part of the RHUDO's evolving program Housing Guaranty financing has been earmarked for a project designed to induce private developers to construct housing affordable to families with incomes below the median. The project envisions long term mortgages and loans from private housing finance institutions, which would be engaging in such lending on a substantial basis for the first time. While en-



countering initial delays, the pieces are now in place for the project to move ahead.

Today, the RHUDO is working with nine East African countries to address housing and urban problems. Each country has different needs and priorities. The RHUDO has responded to the diversity of needs by working closely with each individual government and U.S.A.I.D. Mission. Underlying this current effort is the concept that the role of private enterprise should be increased by working with individuals, formal and informal private developers and financial institutions.

To accomplish this goal, the RHUDO is working with counterpart ministries to modify existing housing and planning policies. It is encouraging governments to stimulate private initiative by establishing realistic planning and building standards, by providing serviced land at a reasonable cost and by focusing on the problems of land tenure. At the same time, the RHUDO is working to increase the capacity of the local governments to raise revenues, to plan and manage urban services, and facilitate private development.

*Above.
RHUDO's first
venture into low-
income housing,
Umoja I, was
extremely
popular and
provided 3,000
expandable
housing units.*

East Africa



Above.
Karatina
Market, Kenya.

The RHUDO's goal is to help prepare the region's nations for the demanding urban development needs of the coming decade. To do so, collaborating with A.I.D.'s Africa Bureau, the RHUDO will take a much broader view of those needs than it has taken in the past and consider the linkages that exist between urban and rural areas. This view was expressed in the highly successful *Eleventh Conference on Housing and Urban Development, Agricultural Growth and Market Town Development*, held in Malawi in May 1988. This conference was sponsored jointly by the RHUDO, the Africa Bureau, and the Government of Malawi.

One of the region's most pressing problems is that urban areas are growing at an alarming rate. Estimates for the region's various major cities range from 6% to nearly 10% growth per year. Overall, economies are growing more slowly than populations are, and employment generation is a major problem. As the agricul-

tural sector is unable to provide adequate economic opportunities for the steadily increasing population, towns and secondary cities, particularly those with close economic ties to the rural areas, will become increasingly important. They will have to provide the additional employment opportunities needed to sustain economic growth.

Experience in both agricultural development and urban development points overwhelmingly to the linkage of the two, if either type or development is to occur. Subsistence agriculture without the incentives and stimulus of markets will remain subsistence agriculture, with obvious negative consequences on employment and income. Primary cities will continue to fill themselves with unemployed squatters, and the many small market towns that could contribute much more to sustained development, will never meet their potential.



To meet the challenge of urbanization the RHUDO approach will be broader than it has been in the past, more oriented to programs than to projects, and will emphasize market town development. The strategy will include encouraging government to stimulate private initiatives and job generation. It also will include helping urban areas to address their growth problems, needs and opportunities by emphasizing their role as markets and their linkages to their agricultural hinterland. While the largest portion of resources will be targeted on physical infrastructure, a major emphasis will be on building up institutional capacity—building for the future in both central and local governments.

The best example of the RHUDO's new thrust is in Kenya, although the possibilities of similar efforts are being explored in several other countries in the region, including Botswana and Uganda.

In Kenya, the RHUDO is working closely with the U.S.A.I.D. Mission, the Ministry of Local Government and Physical Planning and other ministries to develop the Kenya Market Development Program. This program will be funded initially by \$55 million of Development Fund for Africa and PL 480 resources. Up to a further \$30 million may be funded through the Housing Guaranty Program, when borrowing and investment needs are verified.

This program has several interrelated parts:

- (1) to increase agricultural production and incomes by improving the efficiency of agricultural marketing and information systems;
- (2) to make urban areas more efficient and more attractive to private investment by targeting investment on feeder roads and infrastructure for market towns;
- (3) to encourage decentralization and the reform and improvement of local government revenue systems and management.

Similar to the new, integrated approach taken by the RHUDO and the Africa Bureau, other major international donors have also begun to take a new approach. The RHUDO's efforts will continue to be closely coordinated with these other donors, such as U.N. HABITAT and The World Bank. Through these combined efforts, the direction of development can be affected and the region's urban needs of the coming decade can be met.

Center. Speakers and participants at the Eleventh Conference on Housing and Urban Development, Agricultural Growth and Market Town Development, held in Malawi (May, 1988).

Above. As populations grow, local governments struggle to provide needed education services.

Near East and North African Region

REFLECTIONS ON YESTERDAY



Above. Inside courtyard of improved home in Mellassine Upgrading Project (HG-003B).

The Mellassine project exemplifies recent trends in development approaches in the Near East and North Africa. The Regional Office of Housing and Urban Development for the Near East and North Africa initiated this project in 1978. It was the first upgrading project in the squatter settlement of Mellassine, in the Tunisian capital, Tunis. The success of this upgrading project, supported by a \$5 million Housing Guaranty loan, encouraged the Government of Tunisia to shift its policy from counter-productive slum clearance to the physical and socioeconomic transformation of existing low-income neighborhoods.

This Mellassine project was the model for the first World Bank urban upgrading project which involved upgrading slum areas both in Tunis and Sfax, Tunisia's second largest city. Together, these initiatives led to the creation, in 1983, of the National Urban Renewal and Upgrading Agency, which was charged with designing and implementing upgrading programs on a national scale.

When the project began, inhabitants of Mellassine had no running water; roads were not paved and garbage stagnated in streets, which were dark and unsafe at night. The rains flooded many dwellings. Today, an estimated 45,000 people in Mellassine have bene-

fited from urban infrastructure brought into the neighborhood. Over 1,200 families obtained loans to purchase core housing, serviced lots or building materials to improve their homes. Complementing the HG loan, a \$609,000 grant, under the worldwide *Integrated Improvement Program for the Urban Poor*, provided the neighborhood with a community center, a market and a health care center, as well as social programs, including a women's vocational training program and a small-business credit program.

The Municipality of Tunis played the central role in planning and carrying out the project. Both the Housing Finance Fund and the National Housing Authority provided important support. The Housing Finance Fund provided financing to the municipality for community infrastructure and to individual low income families, for shelter. The Housing Authority built the core housing.

Effective cost recovery remains an important goal, in order for the municipal government to give continuing support to its low-income population. An important lesson learned from this project is that the necessary cost recovery procedures must be fully integrated into project design from the outset.

The success of the Mellassine project permitted the Government of Tunisia to take a major step forward in solving the urban problems of the country's low-income population. The government found that it was supported by the neighborhood residents, who demonstrated a tenacious ability to work on the construction or improvement of their own homes. Today, the project includes core houses that have been expanded as well as shelter upgrading undertaken as the result of a home improvement loan.



These efforts demonstrate that with the right assistance, the personal initiative of individuals constitutes the basic momentum for urban change and improvement.

Top center. Architect reviews U.S.A.I.D. project in Tetuoan.

Bottom center. Beneficiary receiving technical assistance from AFH technician in Sanitation Upgrading and Sites and Services Project in Tunisia (HG-004B).

Above. Improvements seen in first Housing Guaranty Project in Tetuoan (Dersa)

Near East and North Africa



Above and far right. Typical private developer built apartments with units eligible for mortgages under the Housing Guaranty Program in Jordan. Cost of units is between 7000 JD and 13000 JD.

Inadequate supply of serviced land for low-income families, unrealistic construction standards and overcentralized delivery systems must be addressed so that the countries of the Near East and North Africa can meet their urban needs in the coming decade. Today's approach to shelter and urban development within the region rests on three major goals:

- increasing *private sector participation* in the provision of shelter for low-income families;
- increasing *institutional capacity* to assist in meeting the shelter needs of low-income groups;
- promoting *rational and integrated systems* for managing urban growth.

The RHUDO has assisted the host countries in designing and developing Housing Guaranty programs that universally impact on the region's urban problems.

TUNISIA. An existing \$15 million Housing Guaranty program is pursuing a sectoral approach designed to help restructure public and private sector roles. The public sector will facilitate access to land, infrastructure and housing finance, leaving the private sector to provide site and housing development in the *low-income* shelter market.

This sectoral approach will transform the National Housing Finance Fund from a public sector institution producing and mortgaging housing units into a full-service housing finance bank helping prospective homeowners and private sector developers acquire land and build housing. The National Land Agency will un-

dergo major organizational reforms. It plans to move away from site development and individual plot sales towards land assembly for sale to the private sector.

The Housing Guaranty program includes a pilot project, incorporating public sector land assembly and private sector site and housing development. The RHUDO is also working closely with the National Land Agency, Housing Development Fund and National Sewerage Authority through a \$48 million Housing Guaranty program supporting sanitation upgrading and sites and services projects.

MOROCCO. The \$25 million Tetouan Urban Upgrading Program and a related Mission grant address institutional development at the local level and coordination among the national, regional and municipal agencies involved in urban development. Besides providing funding for upgrading activities, the program stimulates cooperation between the municipality and private developers in providing land and infrastructure to low-income families. Although the Tetouan Program had been designed for a specific neighborhood, it has generated debate at the national level on key policy issues.

The RHUDO and Mission-grant funding also financed a feasibility study for the creation of a municipal development bank which will finance trunk line infrastructure for urban land and other new municipal projects and allow for joint financing with specialized shelter agencies.

In 1985, the U.S.A.I.D. Mission in Morocco recommended the establishment of the National Upgrading Agency (ANHI). Today the largest land developer for the poor in Morocco, ANHI sells serviced land to private developers and below-median income families. The RHUDO assists this agency to give its beneficiaries access to long-term shelter credit and to support decentralization through col-



laboration with local governments in land development and upgrading.

JORDAN. The \$35 million Housing Guaranty program in Jordan currently provides financing to the Jordan Housing Bank to stimulate the production of low-income shelter by private developers and to support mortgage financing for low-income families. Based on the success of this program, a \$50 million multiyear sectoral Housing Guaranty Program was approved in 1988. Its goal is to support implementation of the National Shelter Strategy, which will guide more private sector investment to the production of low-cost housing.

The new program speaks to the problem of the inadequate supply of land for low-income households by encouraging downzoning and the sale of smaller-sized plots. A related objective is to expand the Jordan Housing Bank's lending terms so that developers and individuals can obtain loans for land acquisition for low income shelter, as well as for its construction.

PORTUGAL. The \$75 million Housing Guaranty program in Portugal, approved in 1984, illustrates sectoral policy oriented lending. The Mission and the RHUDO have collaborated with the Government of Portugal to develop cost ceiling and affordability criteria, that

would qualify a housing unit for Housing Guaranty financing. The RHUDO has worked with the National Housing Fund (INH) to channel available financing to housing and urban development. The Fund has succeeded in increasing housing production by assisting local developers and cooperatives. U.S.A.I.D. and the RHUDO are working with INH to define a strategy for the Fund to meet current and future

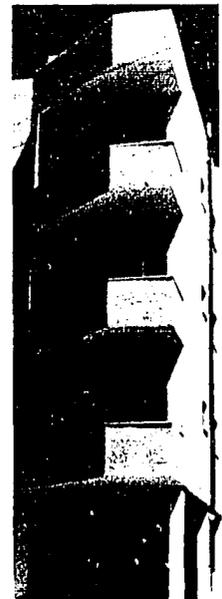


national construction needs. Efforts to facilitate mortgage and title processing are now being undertaken. Technical assistance has been initiated to assess market supply and demand in order to identify constraints on the private developer.

OTHER REGIONAL ACTIVITIES. The RHUDO's Regional Housing Finance Institutional Advisor has helped both Tunisia and Morocco establish new sectoral agendas. He has guided financial, land development and municipal institutions to prepare for their changing roles in meeting their nation's housing and urban needs. A second Regional Advisor provided recommendations to U.S.A.I.D. Egypt on a series of housing finance issues in that country.

A regional training advisor was hired to develop a program of activities. A regional Urban Land Workshop, held in Portugal, assembled high-level public officials and representatives of the private sector as well as international and U.S. experts to discuss the critical issue of making land available to house the urban poor. Other regional activities have included seminars and a series of publications prepared especially for the region.

Left center. Antonio Pinto, Director of Plans and Studies for the Ministry of Planning and Territorial Administration



(Portugal) speaking at Regional Urban Land Workshop, which assembled high-level public officials and private sector representatives.

Right center. U.S.A.I.D. Director Charles Johnson with Project Designer Kharchafi.

Asian Region

REFLECTIONS ON YESTERDAY



Above.
Offices of the
Housing
Development
Finance
Corporation
Limited.

Asia has an increasing need for affordable shelter and services for the urban poor. Thus, the RHUDO supports the development of housing and municipal finance systems and promotes appropriate policy changes that reinforce and sustain those systems. A.I.D.'s program with the Housing Development Finance Corporation is an excellent example of what can be accomplished as a result of a partnership with a private housing finance institution.

THE HOUSING DEVELOPMENT FINANCE CORPORATION

Housing Guaranty support for the Housing Development Finance Corporation, Ltd. (HDFC) of India began in 1981. It is a financially successful institution, which has responded to increased demand for shelter and urban services by developing innovative programs. HDFC's original range of services is now expanding to include home improvement loans, infrastructure financing in low income communities and encouragement of private investment in urban services.

Registered in 1977, HDFC was India's first private housing finance institution. Beginning with a \$30 million loan in 1981, the RHUDO has supported HDFC's own evolving agenda.

The objectives of the first Guaranty program (1981-1984) were straightforward:

- construction of 6,000 housing units, at a cost of \$20 million, serving households below the median income;
- increased institutional capacity in HDFC, through training and technical assistance, to raise the level of lending and to attract and absorb higher levels of borrowing and deposits.

There also were medium- and long-term objectives:

- expansion of HDFC's operations in terms of geographic coverage, income levels reached, type of shelter financed and the variety and source of debt obligations obtained;
- promotion of a functioning, country-wide housing finance system.

The goal of A.I.D.'s first Housing Guaranty Program with HDFC was to develop its *institutional capacity*. HDFC expanded its branch

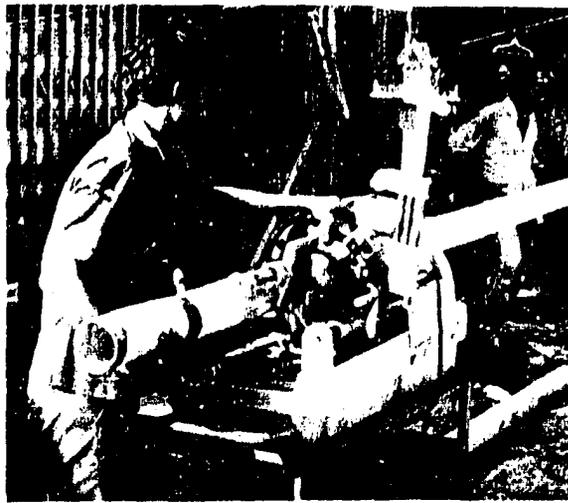
network and supported the beginnings of a multilender housing finance system.

In 1984, A.I.D. approved a second multi-year Housing Guaranty program of \$60 million. An evaluation of the first program concluded that HDFC's success in leveraging local resources and influencing regulatory change made it the most appropriate vehicle to promote the new program's goal of a national housing finance system.

The program included support to develop a national housing finance system by both expanding and deepening existing structures. *Expansion* requires both the continued widening of the branch system to underserved areas and the creation of additional private lending institutions. *Deepening* of the system involves the development of ancillary components, such as new deposit and credit instruments, insurance facilities and a secondary mortgage market—all components of a fully developed market-oriented housing finance system.

A \$60 million loan increased the level of resources available to HDFC, thereby facilitating expansion of the branch network. The technical assistance component of the program, comprised of \$120,000 in grant funds, was made available specifically for studies and training related to the development of a housing finance system.

This technical assistance is ongoing—most recently to help HDFC complete plans for a training and research institute it is establishing. This institution will not only provide in-house staff training and research capabilities but will also provide other emerging housing finance institutions in the region with a valuable developmental resource. HDFC has already provided expert advice to many institutions, at the request of A.I.D. and other



Above. Throughout Asia RHUDO supports greater emphasis on community self-help projects as a critical means of improving shelter conditions.

development agencies such as The World Bank and the United Nations. Thus, the Housing Guaranty program with HDFC has had an important developmental impact on the shelter problems not only of India, but of other Asian countries as well.

This past year, through HDFC, the Housing Guaranty program has continued to support the development of a housing finance system in India. Indeed, its pioneering work has been instrumental in laying the groundwork for the increasingly numerous private and public/private housing finance institutions that a new \$50 million program will support.

HDFC has been responsible for promoting significant changes in housing finance policy and for supporting new housing finance institutions in India. Since HDFC's success has created a positive environment for housing finance, A.I.D. can be satisfied with its seven-year investment.

Asia



*Above.
Rehabilitation
Housing program
for lower income
families,
sponsored by the
Kerala State
Housing Board
(Trivandrum),
India.*

The Regional Housing and Urban Development Office for Asia, located in Bangkok, Thailand, administers A.I.D.'s shelter and urban programs in a large and diverse region that extends from Pakistan in the west to Indonesia and the Pacific Island nations in the east. This region is comprised of over 1.5 billion people with widely varied cultures, religions, languages and histories. The economies of the countries also differ in their level of development, nature and degree of exports and rate of growth.

This year marks not only 25 years of A.I.D.'s work in housing and urban development, but also the initiation of new approaches in Asia. These have a consistent focus on a policy-lending approach based on the belief that changed policies will expand the supply of housing infrastructure and financing and will result in accelerated development.

The RHUDO assists host-country officials to analyze the effects of current policies on the shelter sector; determine how those policies can be changed to remove constraints on the provision of shelter and urban services; and identify how best to implement the revised policies. The RHUDO's programs are based on the conviction that given the correct policies, there are sufficient financial, material, and human resources in Asia to provide shelter and basic urban services for the region's poor.

The RHUDO encourages the development of national policies that recognize and strengthen the linkage between urbanization, shelter and economic growth. It also promotes policies that provide opportunities and incentives for the private sector to participate fully in urban and shelter development; that strengthen the capacity of local government to mobilize resources; and that acknowledge the

potential contribution of the informal sector to small-scale production and trade, shelter development and the delivery of basic urban services. A new Indonesian Housing Guaranty Program demonstrates these policies.

This \$100 million, five-year municipal finance program is based on the belief that urban infrastructure increasingly will be financed by domestic investment capital and that municipal governments will need assistance to develop the necessary linkages between the municipal finance system and private sector capital markets.

This program has three objectives:

- increasing the participation of the private sector in providing and financing urban infrastructure and services;
- improving the role of central government in funding urban infrastructure and services affordable to low-income households, through a system of grants and loans that encourage the mobilization of local resources;
- strengthening the capacity of the local government finance system to mobilize and manage resources.

The program operates under a policy agenda, mutually determined by the RHUDO and the Indonesian government, for removing obstacles—institutional, technical or policy-related—to achieving its objectives.

The Indonesian Housing Guaranty Program supports both the A.I.D. Mission and the Indonesian government's strategy of decentralization. It is keeping with the objectives of generating revenue and with the priorities of a municipal finance system as contained in the National Urban Development Policy.

PROGRAM IMPACT

New Housing Guaranty Program Assistance. In this past year, the RHUDO's regional program has continued to affect the shelter and urban development of several countries in Asia. The RHUDO has long-term resident advisors in India, Sri Lanka, Indonesia and Thailand who work with local officials on shelter and urban policy issues and on programs related to those issues.

A new program in India provides \$50 million over five years and will support the con-

tinued expansion of the market-oriented housing finance system. A special Housing Guaranty, in conjunction with A.I.D./Sri Lanka's *Reconstruction Assistance Project*, provided \$15 million for the reconstruction of war-damaged housing in the northern and eastern regions of Sri Lanka; support for the country's ongoing *Million Houses Program* is continuing with a new \$10 million Housing Guaranty borrowing. The Indonesians will use Mission-financed technical assistance and the \$100 million in Housing Guaranty resources described above to support the effort to build a stronger system of local finance. In addition, innovative work, focusing on housing finance, has begun in Pakistan.



Technical Assistance and Training. The RHUDO supports a variety of technical assistance and training activities to advance both its continuing and new shelter and urban programs. This assistance has included providing experts to advise professionals in the region on policy issues and technical implementation and to conduct research on specific topics related to shelter, urban development and finance. The RHUDO developed a regional training strategy, and a regional training advisor joined the RHUDO staff to coordinate activities and implement the strategy. This past year's most significant training event was a policy seminar, which brought together experts from the public and private sectors in Asia. They identified and discussed key issues and the policy changes that would be required to promote the provision of low-cost shelter and urban services.

Above. Infrastructure needs in Asian cities are a key component in supporting economic growth. RHUDO for Asia is focusing increasing resources in this critical area.

Caribbean Region

REFLECTIONS ON YESTERDAY



*Above.
Black Ants Lane
Settlement
Upgrading,
financed in 1978
under HG-010
(Kingston,
Jamaica).*

Programs in Jamaica typify the evolution of A.I.D.'s activities in housing and urban development in the Caribbean over the past 25 years.

A.I.D.'s shelter programs in Jamaica have had a rich and long history. In the 1960s, the Government of Jamaica, with A.I.D. support, initiated numerous projects to assist low-income families. One, the first of its kind, was a self-help project in Central Village, St. Catherine, where cane cutters, with the aide of technicians, built two-bedroom units. RHUDO also funded other projects in Elletson Flats, Kingston and Ensom City, St. Catherine. Government policy was to provide complete houses to persons with incomes below the median.

The early 1970s witnessed an attempt to establish a secondary mortgage market, through creation of the Jamaica Mortgage Bank. Housing Guaranty funds financed the construction of two-bedroom units in Westport, St. Catherine. In the later 1970s, the focus shifted to upgrading slums, with the focus on a lower income population.

In 1981, activities continued to stress upgraded infrastructure in existing low income communities and transfer title through sale of improved lots to the occupants. There was, however, a new initiative to construct core houses affordable to low income Jamaicans, which could then be expanded as income increased. One example of this starter home project, was Darliston in

Westmoreland. This program also supported the squatter upgrading initiatives in Black Ants Lane in Kingston. A later program continued and expanded both upgrading and core housing.

In the mid-1980s however, as the Jamaican economy turned downward and public shelter resources dwindled, government planners increasingly realized that their 1981 program was not providing sufficient affordable housing for the low-income target group. An analysis of shelter constraints and demand was completed and led to the formulation of a new National Shelter Strategy in late 1986.

This strategy called for collaboration of the public and private sectors. The public sector would concentrate on providing infrastructure, improving squatter settlements and legalizing land tenure, while making it possible for the private sector to expand its role in constructing and financing housing for low-income groups. To support these objectives, A.I.D. authorized a program which would make use of the Caribbean Housing Finance Corporation to provide loans to private banks, building societies and credit unions, for low-income borrowers.

This program achieved two of the RHUDO's long-standing goals:

- to increase private sector participation in providing and financing shelter of low-income households;
- to support private financial institutions, facilitating credit for low-income borrowers.



To expand and build upon these accomplishments, A.I.D. approved a major \$50 million five-year program to support the implementation of the Government of Jamaica's National Shelter Strategy. It is designed to provide technical and capital assistance to a broad array of public and private institutions such as water and electrical providers. It will focus on working with those utilities to eliminate the obstacles to delivery of basic services needed by the poor. It is the culmination of years of shelter and urban development work in Jamaica and should ensure a lasting and self-sustaining system for comprehensive urban services to the urban poor.

*Above.
Westport,
St. Catherine,
middle income
housing financed
under HG-007.*

Caribbean



A.I.D.'s urban activities in the Caribbean are managed by its Regional Housing and Urban Development Office, based in Kingston, Jamaica. As a result of experience in implementing programs in Jamaica, Haiti, Barbados and the Eastern Caribbean, the RHUDO for the Caribbean now promotes a *regional* program that reviews the entire shelter sector. This approach seeks policy changes that encourage collaboration of both the formal and informal private sector with the public sector. The goal is to have the public sector facilitate shelter delivery and provide infrastructure services. The RHUDO's new approach is to determine what are the sectoral constraints to efficient delivery of shelter and urban services and then address those constraints through its Housing Guaranty programs, technical assistance, and other regional programs.

REGIONAL NETWORK AND TRAINING PROGRAM

Spearheading the regional expansion is the RHUDO's *Regional Network and Training Program* to establish a viable training and information network. This program identifies new projects and orients public and private entities to RHUDO objectives. Second, the program identifies training needs and sources of support for ongoing projects.

As it has expanded its regional reach, the RHUDO has become increasingly aware of the informal processes by which the urban poor acquire shelter and urban services—e.g., illegally occupying land, constructing shelter from scrap materials and tapping into public infrastructure services for water and electricity. To develop efficient shelter and urban services programs, the RHUDO designed a research program to study informal shelter delivery in

Jamaica, Haiti, Barbados, St. Vincent and Dominica. The resulting data form the foundation for the RHUDO's regional three-year informal sector intervention.

The RHUDO has published several issues of its quarterly publication, *The Forum*, and, in July 1988, the Regional Network and Training Program sponsored a regional conference in Barbados for private professionals and government officials on *Low Income Housing and Urban Development Issues and Strategies*. The conference discussed what constraints each country faces in providing shelter and urban services and how the informal sector responds to them.

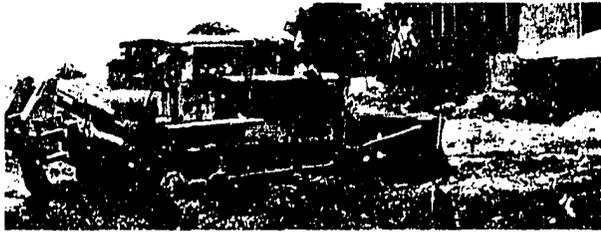
URBAN ECONOMIC DEVELOPMENT

JAMAICA. The *Inner Kingston Development Project* provides the model project for the preparation of an urban economic development strategy. This project addresses two key constraints limiting economic recovery and growth: 1) the shortage of production space needed to accommodate business expansion and relieve unemployment; and 2) the economic and physical deterioration of downtown Kingston.

Two institutions implement the project: the Kingston Restoration Company, a private public interest corporation formed by leading insurance companies, building societies and developers; and the Urban Development Corporation, a parastatal experienced in large project development. The Restoration Company has completed rehabilitation of two properties and is developing several commercial projects, 12 restoration and 10 community development projects. Reflows from investments should enable the Kingston Restoration Company to be self-sustaining.

Similar urban economic development projects may be possible in other islands. The Haitian private sector has expressed interest in a similar endeavor for downtown Port-au-Prince.

HAITI. The RHUDO's involvement in Haiti began as an attempt to address the absence of a housing finance system. The result was the creation of the *Banque de Credit Immobilier*,



the first mortgage finance institution in the country and the development of a new savings bank law to establish a complete housing finance system. Not only has the initial institution been a success, but after less than two years of operation, other institutions are taking their place in the system, thus enhancing the economic benefits of housing construction.

In late 1987, the RHUDO began a study of the informal sector in Haiti. This study revealed the possibility of creating links between formal financial institutions and low-income families, by working with community-based and nongovernmental organizations. In response, pilot activities will be developed that will allow the *Banque de Credit Immobilier* to begin servicing low-income groups in cooperation with community-based coordinating entities.

Currently, the RHUDO is assisting the U.S.A.I.D. Mission in Haiti to prepare a seven-year strategy for its Private Sector Program. RHUDO is studying the construction sector and is encouraging the Mission to broaden its policy agenda to include the constraints that inadequate infrastructure and urban services pose to private development and overall economic development.

EASTERN CARIBBEAN. The RHUDO is helping the Regional Development Office of the Caribbean, located in Barbados, to prepare its Regional Development Strategy for the

Eastern Caribbean region. A current cross sectional study is analyzing the finance, infrastructure and land delivery systems in the Eastern Caribbean countries of Trinidad and Tobago, St. Vincent, St. Lucia and Dominica. This study is also assessing the additional lending possibilities from the Housing Guaranty Program to the Caribbean Development Bank and possibly other regional development institutions, such as the Organization of East-



ern Caribbean States. The analysis serves as a first step in assisting the RHUDO to formulate a sectoral development approach to the Eastern Caribbean region.

In St. Lucia, the RHUDO assisted the Regional Development Office for the Caribbean to identify the constraints and critical issues for the development of the southern region of St. Lucia. The RHUDO will continue to expand its scope in this region through capital development projects, urban economic development activities and regional training and informal sector initiatives.

BARBADOS. A Housing Guaranty project, *Private Initiatives in Housing*, which began in 1982, was funded by a \$10 million loan and a companion \$470,000 technical assistance grant. The project succeeded in improving housing conditions for a significant portion of the low-income population in Barbados. It also encouraged private builders to produce low cost housing units for the first time and stimulated public and private housing and financial institutions to improve their capacity to serve the lower-income market.

When the project is completed, the RHUDO will continue to provide technical assistance and training to Barbados, particularly for development of the Housing Credit Fund, established to manage the Housing Guaranty Program, as a secondary housing finance institution.

Center. Norwood Project, HG-012, construction of main road.

Above right. Section of main thoroughfare which has already been excavated. Upgrading will be incremental, and lots on either side of the road will be sold.

Central American Region

REFLECTIONS ON YESTERDAY



Above and opposite page. The Honduras Urban Upgrading Project provided nearly 100,000 low income families in 38 marginal communities in San Pedro Sula and Tegucigalpa with potable water, street upgrading and other essential infrastructure.

A.I.D. has been working in Central America since 1963 to assist countries to reduce their housing deficit and to provide basic infrastructure for the neediest families. A project in Honduras illustrates RHUDO assistance.

THE HONDURAS URBAN UPGRADING PROJECT

In 1980, Honduras had the second lowest per capita income in Latin America and the highest rate of population growth. Nearly 38% of all Hondurans lived in urban areas, which were growing twice as fast as rural areas. Over half of the total population lived in Tegucigalpa and San Pedro Sula, which were growing over 6% annually, 12% in marginal settlements.

Formal production of low-income housing production was extremely limited; 60% of new urban shelter was produced informally usually in unplanned, illegal or undeveloped areas lacking basic services. In 1980, nearly 60% of the units in Tegucigalpa and San Pedro Sula lacked private indoor plumbing, water or a

flush toilet. Although the two municipalities carried out sporadic improvements, they were unable to mount permanent programs to upgrade them.

Project Design. The Honduras Urban Upgrading Project improved the capacity of the cities of Tegucigalpa and San Pedro Sula to upgrade marginal urban communities on a scale sufficient to reduce the housing and infrastructure deficits and be financially self-sufficient.

The total cost of the project was \$14,535,140, of which 80% (\$11,600,000) was for capital investment, 17% (\$2,500,000) was for administration, and 3% (\$435,140) was for technical assistance. The sources of funds were as follows:

- \$10,000,000 in Housing Guaranty funds, for capital investment;
- \$4,100,000 in Government counterpart funds, for administration and off-site infrastructure;
- \$435,140 in USAID grants, for technical assistance and training.

A.I.D. grants provided technical assistance and training to the two municipalities and con-

centrated on infrastructure standards, the development of social promotion systems, the resolution of land tenure issues, betterment tax systems, computerized billing systems and to conduct socioeconomic analyses and overall evaluations of the urban upgrading program.

The bulk of Housing Guaranty capital resources provided infrastructure services. While the original project design envisioned a diverse array of potential works, including street paving, pedestrian walks, storm drainage, potable water, sanitary sewage, and street lighting, the targeted communities overwhelmingly preferred to limit services to potable water and sewage systems, and to a lesser extent, street paving. A home-improvement loan component, which represented one-tenth of the original loan package was eliminated, when it became apparent that the margin between the cost of the Housing Guaranty resources and government interest rate limits did not provide sufficient incentive to private financial intermediaries.

An estimated 96,600 low-income people residing in 38 marginal communities of Tegucigalpa and San Pedro Sula benefited from the project. The average monthly family income of participating communities was \$212 in Tegucigalpa and \$300 in San Pedro Sula, representing 50% and 92% of the median income in each city, respectively.

Over 6,000 low-income families received secure property titles. The total employment generated was just over 630,000 person-days, mostly unskilled labor. These achievements required a relatively small investment per family, approximately \$800 in capital investment and \$935 in total cost per family. The loan terms to beneficiaries were at real interest rates. Clearly, the project demonstrated the dramatic impact upgrading activities can have, improving shelter, health and employment, all with a relatively low cost per beneficiary.

The two cities also benefited, significantly improving their systems of financial and administrative management. The project resulted

in the development of Honduras' first betterment tax system. This system will provide for special assessments to pay for future urban upgrading projects, without placing further demands on severely limited municipal or central government resources.

Lessons Learned. The project proved the value of upgrading existing marginal neighborhoods as opposed to providing new construction. Both low-income communities and the municipalities demonstrated the desire to undertake upgrading activities and the potential to institutionalize effective tax systems adaptable to low-income community upgrading activities.

The project also highlighted several important issues to be considered in planning and implementing future urban upgrading efforts:

1) Sufficient time and technical assistance must be provided to municipal governments when they initiate an urban upgrading program so that they can develop the institutional capacity to plan and manage such efforts.

2) Technical assistance should be provided not only to the units responsible for the programs, but also to Cadastral Departments, national utility companies and other institutions whose activities affect the implementation of such projects.

3) The design of urban upgrading programs should include explicit and integral provisions for the financing of off-site infrastructure.

4) Contracting out both the construction and supervision of physical works to the private sector substantially improves the efficiency and effectiveness of urban upgrading projects.

5) The early identification of land tenure issues and the development of operational procedures to be used in adjudicating land titles is essential to the success of urban upgrading projects.



Central America



Above and opposite page. Over \$14 million in resources was provided by Housing Guaranty funds and counterpart Honduran funds to improve the capacity of the principal cities to upgrade marginal urban communities.

Fundamental *policy and institutional constraints* in each of the Central American countries continue to prevent successful projects like the one in Honduras from being fully replicated. The RHUDO, therefore, is seeking to emphasize sectoral goals, by disbursing new Housing Guaranty capital assistance in response to policy and institutional accomplishments, rather than progress in implementing specific projects. During this past year, the RHUDO created a Policy and Urban Program Division to head these efforts. Its objectives are to promote policy, programmatic and institutional changes that will result in sustained improvements in the system for delivering shelter and related services and facilities to low-income families. These are the key principles and approaches to achieve these objectives:

- promotion of policy and program agendas that are an integral part of national development;
- identification and formulation of realistic policy agendas;

- mobilization and effective use of public and private sector resources;
- expansion of training and technical assistance at the sector level.

COUNTRY OBJECTIVES

These principles are being applied to meet each country's level objectives listed on the next page.

In addition to programs in each country, there is the regional Central American Shelter and Urban Development Project which the Central American Bank for Economic Integration (CABEI) is implementing. This project will complement and reinforce bilateral capital assistance and technical assistance initiatives. It consists of \$45 million capital assistance through a Housing Guaranty of \$5 million, an A.I.D. loan of \$15 million and \$25 million in CABEI funds.

Technical assistance is provided through a grant of \$4 million from A.I.D.'s Regional Office for Central America and Panama (ROCAP).

Guatemala

- Set the analytical basis for expanding in the coming year the RHUDO's policy and programming related to: 1) national housing finance systems and policies; and 2) urban and municipal development.
- Promote more effective participation of the private sector in constructing affordable housing.
- Integrate research and training activities of the Central American Institute for Business Administration (INCAE) to support and complement the RHUDO's regional objectives.

Capital Assistance:
HG-004 \$10 million

Technical Assistance:
Mission Grant \$0.6 million

Honduras

Set the analytical and policy basis required to expand RHUDO and Mission sector programming related to: 1) national housing finance systems and policies; and 2) strengthening of local governments.

- Develop the analytical basis to prepare an urban development strategy for the Mission's upcoming Country Development Strategy Statement (CDSS).
- Provide technical support for the preparation and implementation of technical assistance to support the San Pedro Sula Urban Development Program.
- Promote more effective participation of the private sector in the construction of low-cost housing.

Capital Assistance:
HG-008 \$35 million;
Local Currency \$7.5 million

Technical Assistance:
Mission Grant \$1.6 million



El Salvador

- Review housing finance and urban development sectors to provide inputs for the Mission CDSS.
- Promote more effective participation of the private sector through technical training and policy dialogue in the development of low-cost housing.

Capital Assistance and
Technical Assistance:
Mission Grant \$36.5 million

Costa Rica

- Monitor and support technical assistance and training for the National Mortgage Bank (BANHVI); provide policy and program support to the Mission and BANHVI.
- Implement the INCAE training and technical assistance program to strengthen municipal governments to plan, program and finance capital investments in basic infrastructure services to meet medium- and long- term needs.
- Promote more effective participation of both the private and public sectors in the design and provision of low-cost housing.

Capital Assistance:
Mission Grant \$50 million

South American Region

REFLECTIONS ON YESTERDAY



*Above left.
Dr. Victor Paz
Estenssoro,
President of
Bolivia, signing
the
authorization to
open the first
Bolivian Savings
and Loan, Mutual
"La Primera"
(June 20, 1964).*

*Above right.
A.I.D. and
Savings and Loan
Officials, along
with the winning
architects
looking at the
site plan model
for the
development of
Los Pinos.*



One of the most significant accomplishments of A.I.D. in South America is its assistance to the development of national and regional savings and loan systems.

Even before the emergence of A.I.D. and the Housing Guaranty legislation in the Foreign Assistance Act of 1961, A.I.D.'s predecessor, International Cooperation Agency (ICA), was working with members of the U.S. savings and loan industry in establishing thrift and home lending institutions in a few developing countries. The earliest efforts took place in the region now served by the Regional Housing and Urban Development Office for South America.

Before the early 1960s, a few banks served the needs of the wealthy, but there was no organized credit system in Latin America serving the housing needs of middle- and low-income families. Today, most countries in the region have savings and loan institutions, many based on the U.S. pattern, firmly established in their financial communities to help the growing middle class and lower income families accu-

mulate savings and to provide long-term financing for them to acquire or improve their homes.

In 1988, there are active systems in seven countries in South America, which serve an estimated 77 million savers and have total savings deposits of an impressive \$32 billion. Some 2.5 million homes have been financed by these institutions over the past 25 years.

The Peruvian savings and loan system was the first in Latin America. The first association opened in 1959 after legislation was drafted with the help of U.S. savings and loan executives under ICA sponsorship. During this same period, ICA also was sponsoring the development of savings and loan associations in Chile, Ecuador and Venezuela. Sponsorship always involved a combination of government and private industry.

ICA provided technical assistance in the form of high-level U.S. savings and loan executives to help host countries write legislation and to nourish the first savings and loan associations. In some cases, ICA also provided

small development loans as seed capital to stimulate early growth. Since 1961, A.I.D., through its Housing Guaranty resource has continued to exploit this winning combination in support of shelter finance institutions.

The Los Pinos Housing Project, located in La Paz, Bolivia, is a superb example of early U.S. savings and loan industry collaboration with two Bolivian savings and loan associations, which were then newly founded. This project financed and developed fully serviced, 3,200 walk-up apartment units.

As the number of private savings and loan businesses in Latin America grew during the 1960s, through A.I.D.'s Housing Guaranty Program, substantial resources were made available to these growing businesses with loans from U.S. private investors channeled through central housing banks. It is no coincidence that many of the investments of the late 60s and early 70s came from U.S. savings and loan associations. The same industry internationalists who had fostered thrift institutions in Latin America promoted U.S. legislation in 1967 that permitted U.S. associations to invest overseas with A.I.D. Housing Guaranties. Many U.S. savings and loan associations participated in this program through a unique arrangement with the Federal Home Loan Banks of New York and Boston, which had been authorized to pool the associations' resources to propose substantial A.I.D. guaranteed investments. Between 1969 and 1976, the U.S. savings and loan industry accounted for 85% of the 73 Housing Guaranty loans, investing a total of over \$340 million.

As the Latin American systems grew during the 1960s, industry executives felt the need for training and regional interaction. The Interamerican Savings and Loan Union (now called the Interamerican Housing Union) was founded in Caracas in 1964 as a vehicle to carry out these functions. A.I.D. has continued to support the Latin American Savings and Loan Union, remaining in contact with key industry officials in the entire region, including countries

such as Brazil and Venezuela where there no longer are active A.I.D. housing programs. This intimate working relationship is best exemplified by the fact that three regional advisors in this RHUDO were prominent actors in the region's savings and loans industry.

The premier event of this continuing U.S./ Latin American collaboration in housing fi-



nance is the annual Interamerican Savings and Loan Conference. The most recent was held in 1988 in Quito, Ecuador, now the home base of this Regional Office of Housing and Urban Development. A.I.D. has supported conferences, as well as the activities of the Interamerican Housing Union, through small grants. These grants are among the most cost-effective activities supported by the Agency.

The participation of A.I.D. over the last 25 years in the development of the \$32 billion Latin American savings and loan industry is a major success story. Two-and-a-half million lower- and middle-income families in the region have been housed. A solid base of small savers exists in all of the countries and has proved to be immune even to the economic crisis now facing Latin America. The United States has demonstrated its willingness and ability to share its human and financial resources, through both the government and private U.S. business, to help create lasting institutions in the region that benefit the population.

*Above left.
Original office of
"La Primera".*

*Above right.
View of "La
Primera" where
its modern main
offices are
currently located
on a principal
avenue in La Paz,
Bolivia.*

South America



The major regional constraint on developing shelter programs at a scale commensurate with the needs of rapidly growing urban populations in South America is the lack of a continuing and effective dialogue among the three groups involved in shelter development: government, private entrepreneurs and neighborhoods. As a result, each group contributes without the benefit of interaction with other groups in the sector, institutional capacity is not used as effectively as it could be, and resources are not allocated in the most efficient manner. The components of a solution exist, but they must be assembled.

To address this challenge, the RHUDO is concentrating its efforts on promoting active dialogue and coordination among governments and the private formal and informal sectors in order to implement large-scale shelter programs. To complement the traditional dialogue with government and the business sector, this Regional Office is also expanding its contacts to include: infrastructure agencies; finance institutions such as credit unions; the construction materials industry; regional institutions oriented toward working with local governments, private entrepreneurs and informal sector communities involved in shelter and urban development. The RHUDO is attempting to incorporate them into a working group that will plan and carry out activities in the region related to RHUDO's agenda.

The RHUDO has specific objectives:

- to foster acceptance of the need to support and assist the informal housing sector, based on the conviction that the necessary resources

already exist to generate minimum housing and basic services for the growing urban population in each country;

- to promote a more active role for the formal private sector in providing needed housing and services, a shift in the public sector from shelter provider to facilitator and a more active role for local governments in the provision of basic infrastructure;
- to develop ongoing contacts between A.I.D. and individuals in each country in the region who can be influential in formulating and implementing housing and urban development policies in their countries.

IMPLEMENTING THE AGENDA

Many of the RHUDO's objectives can be achieved by focusing the energies of organizations and individuals on finding collaborative solutions to local problems. The RHUDO is concentrating on the creation of regional networks of organizations and individuals and of national or local coalitions to address shelter and urban development problems. Regional networks broaden awareness of the need for collaboration among the formal private sector, informal private sector and public sector. Local public-private coalitions develop strategies and programs to address local problems.

Participants in the regional network plan activities jointly with the RHUDO, provide technical assistance to local coalitions, carry out regional seminars and collaborate to build the network through newsletters or other contacts in the region. These have been some of the themes of their seminars and publications:

Foreign Assistance Act of 1961, as Amended (1988)

TITLE III—Housing and Other Credit Guaranty Programs

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

Sec. 222.

(a) To carry out the policy of section 221, the President is authorized to issue guaranties to eligible investors (as defined in section 238 (c)) assuring against losses incurred in connection with loans made for projects meeting

the criteria set forth in section 221. The total principal amount of guaranties issued under this title or heretofore issued under prior housing guaranty authorities, which are outstanding at any one time, shall not exceed \$2,158,000,000. The authority of this section shall continue through September 30, 1990. The President may issue regulations from time to time with regard to the terms and conditions upon which such guaranties shall be issued and the eligibility of lenders.

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

- (1) projects which provide improved home sites to poor families on which to build shelter and related services;
- (2) projects comprised of expandable core shelter units on serviced sites;
- (3) slum upgrading projects designed to conserve and improve existing shelter;
- (4) shelter projects for low-income people designed for demonstration or institution building purposes; and
- (5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor.

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

heating, biomass conversion, photovoltaic and wind applications, and community-scale solar thermal applications.

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

Sec. 223. GENERAL PROVISIONS. (a) A fee shall be charged for each guaranty issued under section 222 or 222A in an amount to be determined by the President. In the event the fee to be charged for such type guaranty is reduced, fees to be paid under existing contracts for the same type of guaranty may be similarly reduced.

* * *

(j) Guaranties shall be issued under section 222 only for housing projects which are coordinated with and complementary to any development assistance being furnished under chapter I of this part and which are specifically designed to demonstrate the feasibility and suitability of particular kinds of housing or of financial or other institutional arrangements. Of the aggregate face value of housing guaranties hereafter issued under this title, not less than 90 per centum shall be issued for housing suitable for families with income below the median income (below the median urban income for housing in urban areas) in the country in which the housing is located. The face value of guaranties issued with respect to housing in any country shall

not exceed \$25,000,000 in any fiscal year, and the average face value of guaranties issued in any fiscal year shall not exceed \$15,000,000. Of the total amount of housing guaranties authorized to be issued under section 222 through September 30, 1982, not less than a face amount of \$25,000,000 shall be issued for projects in Israel and not less than a face amount of \$25,000,000 shall be issued for projects in Egypt.

Section 238. DEFINITIONS. As used in this title -

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

Program Summary

1

9

8

8



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

- sites and services and core housing;
- urban neighborhood infrastructure, such as roads, drainage, water and sanitation systems;
- municipal facilities, such as markets, community centers, transportation depots, health centers, schools and artisan centers;
- training on financial and technical

management skills for municipal administrative and technical staffs.

During 1988, the Agency for International Development authorized Housing Guaranty Loan Programs totaling \$125,000,000, for the following:

- Central American Bank for Economic Integration (\$5 million);
- Ecuador (\$5 million);
- India (\$25 million);
- Indonesia (\$25 million);
- Jamaica (\$25 million);
- Jordan (\$25 million); and
- Sri Lanka (\$15 million).

Financial Report 1988

At the close of the fiscal year ending September 30, 1988, the Housing Guaranty program had a net worth of \$108.6 million. Total income from all sources for the year was \$ 19.7 million which represents an increase of more than \$4.4 million dollars over the prior fiscal year.

In fiscal year 1988, the total Congressional Authority remained at \$2.18 billion, but the amount under contract increased to \$1.65 billion in 164 projects. This is an increase of 6 projects and \$72 million over fiscal year 1987. As of the end of the year, monies authorized but

not yet under contract decreased to \$566 million in 43 projects. The total authority available as of September 30, 1988 was \$175.4, down from \$237.2 million the previous year.

During fiscal year 1988, a total of \$125 million was authorized for new projects and amendments.

Administrative expenses amounted to \$6.2 million, including contractual services. Interest on Treasury borrowings, amounted to \$2.38 million.

OFFICE OF HOUSING AND URBAN PROGRAMS STATEMENT OF CONTRACT ISSUING AUTHORITY As of September 30, 1988

I. CONGRESSIONAL AUTHORITY

World-wide Housing Guaranties

1. FAA 1969 (Sections 221 & 222)	\$2,158,000,000	
2. Prior Authority (Section 223d)	25,100,000	
TOTAL CONGRESSIONAL AUTHORITY		\$2,183,100,000

II. REPAYMENTS

1. Sections 221,222 and 223 d	\$ 234,449,825	
2. Less Section 223 d (Not Available for new guaranties)	22,111,075	
NET REPAYMENTS		\$ 212,338,750

III. PROGRAM STATUS

Loans Authorized	No. of Loans	Dollar Amount
1. Projects Authorized and Under Contract		
Africa	21	\$ 184,067,064
Asia	18	254,960,149
Latin America	103	839,243,265
Near East	22	374,192,798
TOTAL	164	\$1,653,463,280
2. Loans Authorized and Not Yet Under Contract		
Africa	5	70,364,000
Asia	6	125,000,000
Latin America	14	143,998,234
Near East	12	187,800,000
Inter-Regional	6	39,328,620
TOTAL	43	\$ 566,490,854
Totals	207	\$2,219,954,134
TOTAL AUTHORITY AVAILABLE		\$ 175,484,616

OFFICE OF HOUSING AND URBAN PROGRAMS
STATEMENT OF FINANCIAL CONDITION
As of September 30, 1988

ASSETS

Funds with U.S. Treasury	\$ 13,648,321	
U.S. Obligations less Unamortized Discount	3,405,532	
Accrued Fees Receivable	4,998,065	
Interest Receivable on Rescheduled Claims	6,121,833	
Late Charges Receivable less Allowance	15,148,349	
Travel and Other Advances	59,214	
Accounts Receivable	39,120	
Subrogated Claims Receivable	79,048,923	
Rescheduled Claims Receivable Less Allowance	36,559,291	
Furniture and Equipment, less Depreciation	507,710	
Total Assets		\$ 159,536,358

LIABILITIES

Loan from U.S. Treasury	\$ 45,000,000	
Accounts Payable	972,334	
Accrued Expenses Payable	3,092,141	
Deferred Rescheduled Claims Payable	323,617	
Interest Payable	1,485,441	
Accrued Annual Leave	290,931	
Total Liabilities		\$ 51,164,464

NET WORTH

Capital	\$ 87,042,915	
Cumulative Gain—Beginning of FY	12,027,134	
Net Income—FY '88	6,147,357	
Section 222-A Guaranty Reserve	3,445,419	
Total Net Worth as of 09/30/88		\$ 108,662,825
Unfunded Accrued Annual Leave		(290,931)
Total Liabilities and Net Worth		\$ 159,536,358

STATEMENT OF INCOME AND EXPENSE
October 1, 1987 through September 30, 1988

FEE INCOME

Fees	\$ 7,914,566	
Late Charges	8,084,913	
Interest on Rescheduled Claims	3,757,740	
Gross Income		\$ 19,757,219

ADMINISTRATIVE EXPENSES

Personnel: Direct Hire	\$ 2,941,918	
Contract Personnel	208,429	
Housing	434,820	
Operational Travel	288,293	
Other Office Operations	688,151	
Agency Support Costs	1,052,328	
Total Administrative Expenses		\$ 5,613,939
Contractual Services		588,278
Interest on Treasury Borrowing		2,381,043
Provision for Uncollectible Accounts		3,000,000
Total Expenses Before Claim Losses		\$ 11,583,260

NET INCOME

Net Income before Claim Losses	\$ 8,173,959
Total Net Claim & Fee Losses	(2,033,010)
Net Operating Gain for FY 88	6,140,949
Prior Fiscal Year Adjustments	6,408
Net Income	\$ 6,147,357

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Housing Guaranty Loan Process

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

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

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

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

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

THE A.I.D. GUARANTY

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

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

LENDERS

A variety of participants in the U.S. capital markets, including investment bankers, commercial bankers, Federal Home Loan Banks, savings institutions, life insurance companies and pension funds, have loaned funds to host-country borrowers as part of the Housing Guaranty Program. To be eligible to participate, lenders must be:

(1) U.S. citizens; (2) domestic U.S. corporations, partnerships or associates owned by U.S. citizens; (3) foreign corporations whose share capital is at least 95 percent owned by U.S. citizens; or

(4) foreign partnerships or associations wholly owned by U.S. citizens.

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

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

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

U.S. Agency for International Development
Ambassador Alan Woods, Administrator
Jay F. Morris, Deputy Administrator

OFFICE OF HOUSING AND URBAN PROGRAMS

Peter M. Kimm, Director
Fredrik A. Hansen, Deputy
Director
Sean Walsh, Financial Advisor
Daryl P. Daniels, Secretary
Gereda Bolt, Secretary

Operations

William Gelman, Assistant
Director for Operations
Lee Roussel, Housing and Urban
Development Officer
Aaron Benjamin, Housing and
Urban Development Officer
Barbara DeGroot, Housing and
Urban Development Officer
Carlene Dei, Housing and Urban
Development Officer
Jeremy Hagger, Housing and
Urban Development Officer
Douglas Heisler, Housing and
Urban Development Officer
Tom McAndrews, Housing and
Urban Development Officer
Julie Otterbein, Housing and Urban
Development Officer
Barbara Beverly, Secretary
Netherly Carter, Secretary

Policy and Urban Programs

Amy Nolan, Assistant Director for
Policy and Urban Programs
Sonia Hammam, Deputy Assistant
Director for Policy and Urban
Programs
Howard Sumka, Housing and
Urban Development Officer
David Grossman, Program Officer
Robert Freed, Financial Informa-
tion Management Officer
Lawrence Birch, Information
Officer
Monique Cohen, Training Officer
Tamara Wessel, Presidential
Management Intern
Mary J. Green, Secretary
Andrea Chambers, Secretary



Office of the General Counsel

Michael G. Kitay, Assistant
General Counsel, PRE
Barton Veret, Attorney Advisor
Robert Sonenthal, Attorney
Advisor
Dale Sarro, Attorney Advisor
John Power, Attorney Advisor
Gloria Gordon, Legal Secretary
Juanita Thorpe, Legal Secretary

Office of Financial Management

Don R. Newman, Chief, Loan
Management Division
Harry Dorcus, Deputy Chief,
Loan Management Division
Steve Papas, Chief of Housing
Guaranty Branch
Barbara Spangenberg, Accountant
Shirley Frierson, Housing
Guaranty Accounting Clerk
Cynthia Miles, Accounting
Technician
Brenda McArthur, Secretary

REGIONAL OFFICES

Asia—Bangkok, Thailand

David L. Painter, Assistant
Director
Thomas E. Johnson, Housing and
Urban Development Officer
Earl Kessler, Housing and Urban
Development Officer

Colombo, Sri Lanka

Diane Tsitsos, Housing and
Urban Development Officer

Caribbean—Kingston, Jamaica

Lane Smith, Assistant Director
George Deikun, Housing and
Urban Development Officer
Peter Feiden, Housing and Urban
Development Officer

Central America—Tegucigalpa, Honduras

Mario Pita, Assistant Director
Ronald Carlson, Housing and
Urban Development Officer
Sarah Wines, Housing and Urban
Development Officer
William Yeager, Housing and
Urban Development Officer

San Jose, Costa Rica

Jeffery Boyer, Housing and
Urban Development Officer

San Salvador, El Salvador

Kraig H. Baier, Housing and
Urban Development Officer

East Africa—Nairobi, Kenya
Michael Lippe, Assistant
Director
Joel Kolker, Housing and Urban
Development Officer



Near East—Tunis, Tunisia
David Olinger, Assistant
Director
Alexandria Panehal, Housing
and Urban Development
Officer



Cairo, Egypt
Jack Gisiger, Housing and Urban
Development Officer

Lisbon, Portugal
David Leibson, Housing and
Urban Development Officer

Morocco
Harry Birnholz, Housing and
Urban Development Officer

South America—Quito, Ecuador
Francis Conway, Assistant
Director
Sonny Low, Housing and Urban
Development Officer
James Stein, Housing and Urban
Development Officer
Lindsay Elmendorf, Housing and
Urban Development Officer

**West Africa—Abidjan, Côte
d'Ivoire**
Stephen Giddings, Assistant
Director
David Bensen, Housing and Urban
Development Officer
Michael Enders, Housing and
Urban Development Officer

Photo Acknowledgement

We appreciate the efforts of all staff and friends of the Office of Housing and Urban Programs who have supplied photos for this year's Annual Report. These photos not only help inform our readers about our programs, but they illustrate the human dimensions of our efforts.

U.S. Inquiries

Director, Office of Housing and
Urban Programs
Room 401-State Annex 2
U.S. Agency for International
Development
Washington, D.C. 20523-0214
Telephone: (202) 663-2530
A.I.D. Development Information
System
A.I.D. Document and Information
Handling Facility
U.S. Agency for International
Development
PPC/CDIE - Room 209 - SA-18
Washington, D.C. 20523-1802

Overseas Inquiries

Persons desiring further informa-
tion may contact one of the regional
offices of the Office of Housing and
Urban Programs or the U.S.A.I.D.
Mission or the Embassy in their
country.