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OFFICE OF HOUSING AND URBAN PROGRAMS

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1992: New Challenges, New Responses

nder the dual pressures of rapid population growth and unprecedented rates of urbanization, developing countries are undergoing profound changes in their social and economic structures. By early in the next century, their urban populations will exceed those in their rural areas, and more than half of these nations' poor will be living in cities.

Although urbanization in developing nations creates problems, cities provide great opportunities. They are the locus of off-farm employment and the centers in which much of the growth and restructuring of their economies must occur. Cities already generate half of their countries' Gross Domestic Product, a proportion that will rise over the next decade.

World events since the beginning of the decade have led to momentous changes in many countries. In South Africa and the New Independent States of the former Soviet Union, these changes have brought both new hope to the people of these countries and also tremendous stresses to their economies and infrastructure systems. In response to their pressing needs for systems to produce more and better housing, USAID's Office of Housing and Urban Programs has provided innovative, flexible assistance to municipalities and community-based organizations during a difficult time of transition.

USAID's programs include capital and technical assistance to promote sustainable policies in developing countries. The Office concentrates on three vital areas: shelter, urban environment, and municipal management.

In the pages that follow, we review our understanding of the challenges and opportunities we face in these areas and our approaches to meeting them in 1992 and beyond. We appreciate your interest in urban matters and look forward to your continued collaboration in helping to meet the needs of the next century.

Sincerely yours,



Peter Kimm, Director
Office of Housing and Urban Programs, USAID



CONTENTS

Introduction to the Office	3
<hr/>	
Regional Highlights	4
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Shelter	7
Urban Environment	15
Municipal Management	23
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Personnel	30
Housing Guaranty Program	32
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The Office's programs take a crosscutting approach to address three essential components of urban programs:

- ***shelter,***
- ***improving the urban environment, and***
- ***strengthening municipal management.***

Introduction to the Office

For nearly thirty years, the Office of Housing and Urban Programs has worked with developing nations around the world to respond to the housing needs of low-income urban families and to meet a range of other challenges associated with rapid urbanization. The policies of the Office are based on the belief that properly-managed urbanization can help meet the problems arising from rapid growth as well as stimulate the economy, maintain a healthy living environment, and help house and provide basic urban services for growing populations. The Office emphasizes urban policy reform in three interrelated areas:

- Shelter,
- Urban Environment, and
- Municipal Management.

Housing and urban development contribute directly to economic growth through capital formation and employment generation and have a strong impact on the local and national economy. Proper management of the urban environment is mandatory for sustainable growth and quality of life. USAID urban assistance works to strengthen the capacity of local governments to manage resources effectively and supports decentralization and democratization initiatives worldwide. In all three focus areas, the Office promotes reliance on individual initiative, market forces, and the efficiency of the private sector to deliver urban services and to finance and produce shelter within sensible government policies to ensure equitable and broad-based participation.

CAPITAL ASSISTANCE

The Housing Guaranty Program is USAID's primary capital resource for shelter and related urban programs. Through this program, the U.S. private sector provides long-term financing for low-income shelter and urban development to creditworthy developing countries. Since the program's inception in 1962, USAID has authorized over US\$2.8 billion in loan guaranties which have supported more than 200 projects in over 40 countries. The Housing Guaranty Program serves as a catalyst for policy change, capital market development, and the leveraging of additional resources.

TRAINING AND TECHNICAL ASSISTANCE

Training and technical assistance are vital and cost-effective elements of the Office's development strategy and supplement the Office's capital resources. The Office manages a small centrally-funded grant program for technical assistance, research, and training. The Office also has co-managed, with USAID missions and bureaus, over US\$240 million in grant-funded urban programs. Much of this has been approved in the last 5 years and is evidence of USAID's increasing urban involvement.

GLOBAL ORGANIZATION

Housing and Urban Development Officers advise USAID Missions and co-manage with them most of USAID's capital and technical assistance programs for housing and urban development. In addition to its regional officers, the Central Office in Washington has two divisions: the Operations Division, which supports the regional programs, and the Urban Policy and Programs Division, which advises the regional offices on urban issues, conducts research, promotes policy dialogue, and supports training.

Regional Highlights

Africa

❑ The *Municipal Management Training Program* sponsored 35 training events throughout the West Africa region enabling over 1,200 people to receive training in government, finance, management and service delivery.

❑ **Côte d'Ivoire's** *Municipal Development Support Project* has provided training and technical assistance to 34 Ivorian secondary cities and is now working closely with 20 urban-based Peace Corps volunteers on urban environmental issues.

❑ A new project for **South Africa** will increase the capacity of community-based groups in the field of housing development and local administration.

❑ Through the *Regional Contractor Assistance Project*, small building contractors in **Swaziland** and **Zimbabwe** are receiving training in business and construction management.

❑ In **Zimbabwe**, Housing Guaranty loans and USAID grants began in August 1992 with the signing of the project agreement designed to increase the role of the private sector in low-cost housing delivery.

❑ Gaborone, **Botswana** privatized most of its solid waste collection, and privatization of the city's disposal system is under consideration.



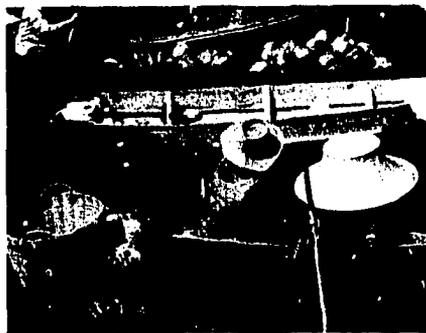
Asia

❑ Housing Guaranty support in **India** has resulted in creation and rapid expansion of the private sector housing finance system, from one housing finance company in 1979 to eighteen companies in 1992.

❑ As a result of the Housing Guaranty program in **Sri Lanka**, two private banks and two state banks signed agreements with the Central Bank forming a nascent housing finance system for low-income households.

❑ The *Shelter Resource Mobilization Program* helped develop the regulatory framework for **Pakistan's** first market-oriented housing finance system. Seven new private sector housing finance companies have been established.

❑ USAID's Housing Guaranty program in **Indonesia** has resulted in the decentralization of



urban infrastructure management, improving property tax collection, and expanding private sector participation in the provision of urban services.

❑ The **Philippine** Government recently enacted a new law which dramatically increases the role of local governments and provides them with the administrative and financial mechanisms to improve local services.

Eastern Europe

❑ In **Poland**, USAID signed a Housing Guaranty agreement to support the government's policy to establish a market-based housing finance system.

❑ The *National Association of Home Builders* and its affiliates officially opened the American-Polish Home Builders Institute in **Gdansk, Poland**. The Institute will help develop, promote, and organize a private sector homebuilding industry similar to NAHB.

❑ In **Hungary**, the Szolnok City Council approved a new housing strategy—the first vote by a local government in Hungary reducing subsidies by raising rents and implementing a housing allowance program.

❑ In the **Czech and Slovak Federal Republics**, more than 6,000 units were brought under private management and 20 firms were created in response to the growing market for building management.

❑ In **Bulgaria**, the State Savings Bank introduced modern mortgage banking principles, including underwriting and servicing guidelines and mortgage instruments suitable to an inflationary environment.



Latin America and the Caribbean

❑ In **Jamaica**, the *Housing Retrofit Project* will strengthen the homes of low-income families to resist hurricane winds, primarily through the application of low-cost hurricane roof straps.

❑ USAID approved the *Local Government Regional Outreach Strategy* project (LOGROS) to strengthen local governance and promote decentralization in Central America. **Nicaragua** and **El Salvador** have initiated consensus-building among political factions toward these goals.

❑ USAID supported a policy seminar on the role of the municipality which resulted in the creation of a sub-commission for municipal affairs by the Central American Parliament.

❑ USAID's Women and Local Development Program has led to formation of the *National Network of Women and Municipalities* in **Ecuador**.

❑ USAID helped to achieve the signing of the *Santiago Declaration* in which 23 countries in Latin America agreed to jointly address housing needs.

❑ USAID held 34 seminars, workshops, and conferences throughout the Latin American and Caribbean region in support of municipal development and low-cost shelter solutions.

❑ Through the *National Shelter Delivery System Project* in **Ecuador**, technical assistance to Quito's Water Company has resulted in 32,000 water connections for low-income households.



Near East and North Africa

❑ Through a recently completed Housing Guaranty Program in **Tunisia**, 5,000 low-income families purchased serviced sites or expandable core houses, and 22,000 poor urban households received sewer hookups.

❑ The **Morocco** Housing Guaranty Program expanded cooperation between the cities of Tetouan, Morocco and Raleigh, North Carolina.

❑ **Tunisia** has seen a 600 percent increase over 3 years in the number of private developers selling land to low-income families. Three-hundred developers are now active compared to forty previously.

❑ A training program for administrators in **Algeria's** Ministry of Housing examined policies and programs for privatizing shelter production and real estate markets.



New Independent States of the Former Soviet Union

❑ USAID approved a training and technical assistance program to develop market-oriented housing in the **New Independent States**, initially targeting national and municipal governments in **Russia**, **Ukraine**, **Armenia**, and **Kazakhstan**.

❑ USAID advisors were instrumental in the formulation of the Russian Federation's *Law on Fundamentals of Federal Housing Policy*. The law sets out the main policy objectives of the Federal government and addresses issues of housing allowances, increasing rent charges and common ownership structures.

❑ In **Moscow**, 2,000 public housing units were chosen for a pilot demonstration project awarding maintenance to private property management firms. A similar project is currently underway in Novosibirsk.

❑ An USAID pilot project to transfer ownership through condominium housing arrangements is underway in **Yerevan, Armenia**. USAID assistance is building the city's administrative capability and supporting the necessary legislative reforms to initiate condominium housing in Armenia.

❑ In **Kazakhstan**, USAID is providing assistance in the establishment of a land registration and property assessment system.





USAID supports private sector shelter development and financing, housing solutions that are affordable for below-median income families, the upgrading of spontaneous settlements, and policies that stimulate private sector participation in these critical shelter and urban development areas. Above, counterclockwise from top: urban upgrading project in clandestine neighborhood in Tetouan, Morocco; small private contractors building low-income housing in Zimbabwe; and urban revitalization efforts in Warsaw, Poland.

Shelter

Cities provide many opportunities, but the housing in which a great number of families live is deplorable. In fact, shelter conditions are worse than they need to be given the resources available to address them. Experience around the world, in a variety of contexts and at very different levels of income and economic development, has shown that certain combinations of policies and programs work much better than others.

USAID helps developing and transitional countries reform their policies and make better use of both existing and new resources. Through the Office of Housing and Urban Programs, it promotes policies and programs that rely on the initiative of individuals and families, on market forces, and on the private entrepreneurial sector. In such a system, the role of government is limited primarily to establishing an enabling policy framework and seeing to the provision of the basic urban environmental infrastructure. The privatization of land, shelter, and management services are key policy components to the success and efficiency of shelter delivery and maintenance.

Governments should do those things that people cannot do for themselves. They should adopt feasible, flexible development standards that are appropriate to the economy and the resources of their communities. By providing infrastructure in strategic locations, they can guide private investment and steer urban development in a desirable way. Through appropriate measures they can try to assure the availability of credit at reasonable terms. They can also provide clear land title or less formal rights of occupancy that will give low-income families security of tenure, collateral for home improvement loans, and encouragement to invest in their housing.

USAID measures success by the degree of change in the ability of countries to manage urbanization and produce affordable shelter for low-income families at scale and over time. Critical to achieving these goals are policies that focus on improving the efficiency of land and financial markets, increasing cost recovery, decentralizing government authority, and promoting policies which encourage individual initiative and a creative, broadly participatory private sector.

Progress in these areas substantially enhances the prospects for achieving equitable and sustainable development, both in the developing countries and in the transitional nations of Eastern Europe and the New Independent States of the former Soviet Union. Properly managed urbanization has great potential to help provide the educational, housing, service, and job opportunities that are needed. As cities can provide myriad opportunities for growing populations, so can a well-managed and efficient shelter sector play a leading role in economic growth and development.

USAID measures success by the degree of change in the ability of countries to manage urbanization and produce affordable shelter for low-income families.

Promoting Private Sector Production

USAID provides training, technical assistance, and seed money to strengthen private sector shelter lenders and affordable housing developers.

In 1992, USAID designed a US\$25 million Housing Guaranty program to assist Poland to establish a market-based housing finance system and provide

Through the Office of Housing and Urban Programs, USAID promotes policies and programs that rely on both the initiative of families as well as the private entrepreneurial sector.



Small private contractors, such as those assisted by the RECAP project in Swaziland and Zimbabwe, building low-income housing.

South African Community Groups Tackle Housing Shortage

Shelter is one of the top priorities for the low-income, largely black, population in South Africa, as the provision of housing has virtually ceased in recent years. Shortages and gross distortions in the housing system are a legacy of apartheid.

Symptomatic of the legacy are vast so-called *shack* housing areas, a collapse of local government and the housing finance system in the black housing areas, and urban planning based on racial segregation. On the positive side, there are many active community groups which are trying to fill the gaps. Since current U.S. legislation prohibits direct contact with the South African Government, these community-based organizations are the most appropriate channels for assistance.

In 1992, USAID approved a US\$30 million grant-funded initiative, the *Shelter and Urban Development Support Project*. Teams of architects, engineers, community development workers and trainers will be established in Durban, Johannesburg and Cape Town to work with community-based housing organizations nationwide. Seven grant agreements have been signed with local organizations to provide at-cost building materials depots in informal settlements, innovative group-credit financing, private capital for construction finance, and legal assistance.

resources to the private sector for construction and mortgage finance. Additional assistance helped develop underwriting, servicing, and appraisal guides for construction and mortgage lending. Technical assistance helped revise mortgage statutes resulting in the passage of acts permitting landlords to evict for cause and allowing individual mortgages on cooperative units. Policy reviews of the privatization of state-owned enterprises and cooperative housing resulted in the drafting of a condominium law.

In Hungary, USAID helped re-orient the focus of the *Ministry of Industry and Trade* toward encouragement of small-scale builders and the market system, instead of restructuring state-owned enterprises. USAID also established relationships with the private *Hungarian Real Estate Federation* to support dissemination of information through a multiple listing service, thereby promoting the evolution of an open and effective private real estate market.

A US\$50 million Housing Guaranty program for Zimbabwe was approved this year. US\$15 million of the program and an additional grant of US\$27.7 million were authorized to help the government eliminate bottlenecks in the housing-delivery system and to increase the role of the private sector in low-cost housing delivery. Private sector suppliers of housing finance will now be able to raise funds on local capital markets.

Through the approved US\$15 million *Private Developer / Housing Finance Policy Program*, the Tunisian Land Development Agency is wholesaling land to private developers for subdivision, construction and sale of low-cost houses. The Tunisian Housing Bank has contin-



ued its evolution from a contract savings plan into a dynamic, private-oriented bank. It has gone from 100 percent government-owned to 43 percent privately-held. In the first nine months of 1992, it made low-income construction financing commitments of US\$52 million, with two-thirds going to private developers, and sold three million shares of stock worth US\$18 million to more than 1,800 individual shareholders.

The Shelter for the Urban Poor II Project in Honduras resulted in over 2,600 privately-built low-income housing units. In Panama, *The Shelter and Community Upgrading for Low-Income Families Project* is supporting private sector mortgage lending through the *Savings Bank (Caja de Ahorros)*, an autonomous government savings bank which operates as a private mortgage bank. By the end of 1992, the bank had approved 2,219 eligible mortgages under this program.

Through the *Low-Cost Housing and Home Improvement Initiative* in Paraguay, USAID provided technical assistance to develop mechanisms for existing local credit unions to have access to the country's formal financial system. As a result, these credit unions have expanded their involvement in shelter lending.

RHUDO/Asia collaborated with the United Nations Development Program (UNDP) to offer a regional policy seminar in Indonesia on *Private Sector Initiatives in Shelter and Urban Programs in Asia*. Seventy-five individuals from eight countries attended. One result was a policy shift in India to focus on privatization of public services. RHUDO/Asia coordinated with *The Coalition of Housing Finance Institutions*, a joint UNCHS/UNDP regional project, to provide training and technical assistance to nascent housing finance organizations in Mongolia, Nepal, Pakistan, and Sri Lanka.

Urban upgrading project in Tetouan, Morocco.



A home improvement loan allows replacement of this leaky roof in Paraguay. Credits are extended under a RHUDO/SA-assisted program with CONAVI, CREDICOOP, the U.S. Peace Corps, and local credit unions.

Appropriate Shelter and Finance Policies

USAID assists developing countries to establish and implement policies that best serve low-income shelter and related community needs.

In 1992, RHUDO/Asia assisted the Government of Sri Lanka to move towards a market-oriented, private-sector housing finance system with the *Sri Lanka Low-Income Housing Program*. The Government has changed policies to provide for stricter shelter lending and increased private-sector participation in housing finance. The Housing Guaranty program and grant both work through the Central Bank to on-lend through retail financial institutions, both public and private. Lending is at market rates to households below the median income. Two private and two state banks have signed agreements to date. A policy advisory body is reviewing sector-wide issues, such as interest rates for housing, and how these fit into the overall finance and banking system.

RHUDO/Asia also provides assistance to Pakistan through the *Shelter Resource Mobilization Program*, which has created a policy environment that enables the development of a market-based housing finance system (virtually non-existent until that time).

In Swaziland, the government created a Ministry of Housing which will be a focal point for all public sector actions in shelter. This action was stimulated by two major conferences sponsored by USAID—the first on urbanization, land delivery and planning, and the second on local government. USAID also supported a study of the potential application to housing of the Swazi National Association of Teachers' pension fund. This study built on an earlier USAID-funded study of the housing finance system. These should lead to an increased willingness, on behalf of the only building society in Swaziland, to lend to lower-income groups.

Countries throughout Latin

America are facing similar problems in the areas of shelter policy and finance.

Regional seminars and workshops allow participants from different countries to discuss case studies and learn from each other's experiences. RHUDO/South America sponsored eleven shelter policy and finance events in 1992, focusing on the expansion of formal housing finance systems in the low-income housing market, indexation in Latin America, integration of credit unions in the national housing finance system, and informal sector housing. Over 1,200 participants attended shelter policy and finance seminars in Argentina, Bolivia, Chile, Colombia, the Dominican Republic, and Ecuador.

In the *Shelter for the Urban Poor II Project*, Housing Guaranty funds helped structure a local government sectoral program in San Pedro Sula, Honduras. In exchange for initiating an urban land use plan for the city, Housing Guaranty funds loaned to the municipality were deposited in the local financial community as a liquidity incentive for the local private sector to build and finance urbanized lots for low-income families. This approach has allowed the municipality to act as a facilitator for the construction of over 5,000 urbanized lots in accordance with the orderly urban growth of the city, while the private sector assumes all the risk but capitalizes on the establishment of an urban land market in San Pedro Sula.

India's Housing Development Finance Corporation

Since 1979, USAID has worked with India's first private sector housing finance company, the Housing Development Finance Corporation (HDFC) through Housing Guaranties totaling US\$125 million. The program was designed to demonstrate that a commercial business could mobilize domestic resources, lend funds at market rates of interest to households above and below the median income, and still return a reasonable profit to the private investors. Today, HDFC is a major actor in India's financial sector, with assets equivalent to US\$91 million; 76 percent of its stock is owned by individual investors and corporations. In 1992, it paid a dividend of 24 percent and carried over a net profit of US\$1 million. HDFC has made loans to 610,000 households, of which approximately one-fourth are below median income.

Based on the success of HDFC, in 1988, USAID advanced its program strategy to promote the development of a private sector, market-oriented housing finance system following the HDFC model. From one housing finance company in 1979, there are currently over 250 companies registered to do business, of which 18 have significant assets and operate out of more than 150 branch offices throughout India. Together, these housing finance companies have made loans valued at nearly US\$2 billion to over a million households, and in the process have created more than four million jobs.

Due in part to the success of the housing finance system, housing is no longer considered a social welfare sector in India; in 1992, the government adopted a policy which states that housing is an important economic sector which contributes to employment generation, mobilizes savings, and increases domestic productivity. The housing finance system is expected to play a major role in the development of India's financial sector and to lead to reforms in India's urban environmental improvement policies.

USAID assists developing countries to establish and implement policies that best serve low-income shelter and related community needs.

USAID Launches New Housing Sector Reform Project In Former Soviet Union

The New Independent States (NIS) face a severe housing shortage following years of under-investment and central planning. In response to this crisis, USAID launched the *NIS Housing Sector Reform Project*, a US\$25 million training and technical assistance project to foster the development of a private, market-oriented housing sector. Long-term resident advisors are currently in place, assisting municipal and republic-level governments in Russia, Ukraine, Armenia, and Kazakhstan. Their efforts focus on creating the legal and regulatory framework necessary to:

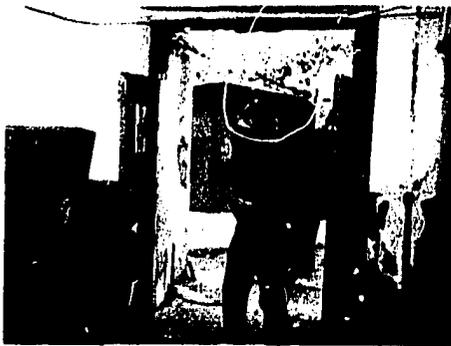
- reduce excessive public subsidies, while constructing a social safety net for the needy;
- stimulate private ownership, management, and construction;
- develop sources of housing finance; and
- establish land registration systems and property rights.

With USAID providing assistance, the Russian Federation passed a new law supporting privatization and, to date, 2.55 million units have been privatized—500,000 units in Moscow alone. Pilot maintenance and management pro-

grams in Moscow and Novosibirsk involving over 4000 public housing units have begun demonstrating that private firms can provide less expensive, high-quality building services. In Armenia, a pilot project is underway to help the city of Yerevan privatize the housing units through

condominium housing arrangements. In Almaty, Kazakhstan, the recommendations of USAID advisors resulted in a presidential decree on housing reform. Assistance is being provided to help the republic effectively implement the provisions of the decree.

The privatization of land, shelter, and management services are key policy components to the success and efficiency of shelter delivery and maintenance.



Entrance of Moscow apartment building typical of those being affected by USAID's privatization efforts in Russia.

Private Ownership and Management Stimulate Individual Initiatives

Private ownership, management, and development of shelter leads to individual initiatives, more affordable and better-maintained housing, and a vibrant real estate sector.

In Eastern Europe, the New Independent States, and Asia, USAID is helping to bring about private management, development, and ownership of housing. In the Czech and Slovak Federal Republics, USAID has helped convert more than 6,000 units to private management, stimulating the development of twenty private management firms. Similar efforts are beginning in Bulgaria, Hungary, and Russia. In other regions as well, USAID supports privatization: in Portugal, where cooperatives produce 65 percent of low-cost housing nationwide; in Chile, where USAID capital and technical assistance has allowed private sector cooperatives to almost triple their annual output of homes to around 12,000 per year; and in Bangkok, where RHUDO/Asia is assisting Mongolia to privatize 50,000 units of existing apartments, and to begin to develop a new private sector housing delivery system.

In many of these countries, USAID's capital, technical assistance, and training programs focus on the development of legal and administrative procedures, unit valuation, the building trades and construction industries, and the establishment of public/private partnerships. Pilot projects help clarify renter and owner relationships and responsibilities; provide training in condominium and cooperative law, operation and maintenance; and develop financial plans families will use to pay for the units they will acquire.



Land Development and the Upgrading of Informal Communities

The now-completed US\$48 million Tunisia Housing Guaranty program of *Sites and Services and Sewer Upgrading* resulted in new sewer services to 22,000 families and the delivery of starter housing opportunities for 5,000 low-income Tunisian households. The government will continue this program with its own resources, a mark of both the tangible benefit and the value of the Housing Guaranty program.

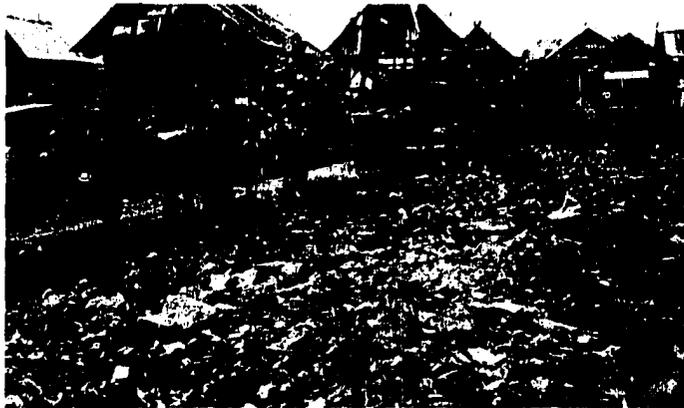
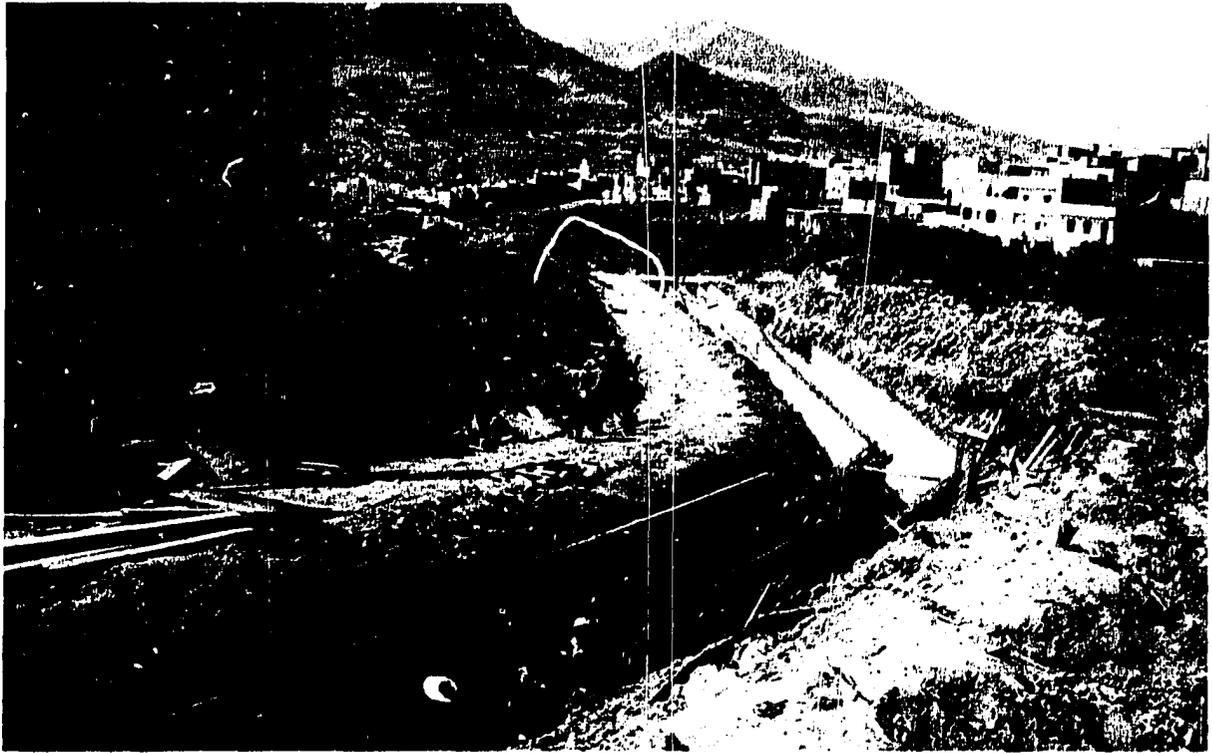
In Kenya, substantial progress was made in the provision of the basic services of water, sewers, and a skeletal road system in a slum area of Nairobi known as Kariobangi. Working with a well-established housing cooperative and the National Cooperative Housing Union, USAID financed the upgrading of part of the site with funds from the *Private Provision of Social Services Project*. Long-term financing for the project will come from the Cooperative Bank of Kenya, loaned on a community-mortgage basis.

Morocco Successfully Addresses Housing Needs of Urban Poor

The availability of low-income housing in Morocco has long suffered from low production levels of affordable, serviced, and titled land; resulting in the proliferation of illegal and underserved neighborhoods. In response to this problem, in 1984, the Government of Morocco created the National Low-cost Housing Agency (ANHI). With ongoing USAID/Morocco financial and technical assistance, ANHI has become an efficient financial institution whose adoption of market-oriented principles have effected positive changes in Morocco's urban landscape.

ANHI's efforts have resulted in higher production levels of affordable serviced land, increased participation by private developers in the production of low-income shelter, and a vast increase in access to housing finance for low-income beneficiaries. These accomplishments have directly reduced the percentage of the urban population living in slum areas from 13 percent to 6.8 percent, and significantly increased the creation of new, better-serviced, and better-planned communities in which low-income dwellers can enjoy the social and economic benefits of homeownership.

In the New Independent States of the former Soviet Union, USAID is helping to bring about private management, development and ownership of housing, including large Soviet-style apartment buildings such as these in Moscow.



Over its history, more than half of the Office of Housing and Urban Program's financial and technical resources have addressed the need for urban infrastructure that protects the environment: water and sewer systems, solid waste disposal, streets, and pedestrian paths. Counterclockwise from top: the Tetouan Upgrading Project which provides infrastructure critical to coping with rapid urbanization in Morocco; a polluted drainage canal in a Kampung neighborhood in Jakarta, Indonesia; and an open river outside of Quito, Ecuador.

Urban Environment

The world is rapidly becoming urban as more and more people migrate to cities in search of jobs and brighter futures for their children. One important result of rapid urbanization is that urban policy is becoming an increasingly important problem. The United Nations estimates that by the year 2000 nearly half the poor in developing countries will live in urban areas: as many as 90 percent in Latin America, 40 percent in Africa, and 45 percent in Asia. Although this inevitable urban population growth threatens to overwhelm existing resources and infrastructure, it is important to recognize that organized urbanization can actually play a vital role in environmental management. Not only can well-managed cities contribute to the health, welfare, and productive capacity of their own citizens, but they can also make a major contribution to the preservation of the global environment.

Well-managed urbanization and widely-shared economic growth contribute to improved management of natural resources and improved prospects for sustainable development over the long term. The Office of Housing and Urban Programs works to strengthen the role of cities in waste management and environmental protection. Cities have become dynamic centers of economic growth and development, providing jobs, education, and markets and often producing more than twice their proportional share of GNP. Cities offer greater opportunities by creating economies of scale in key public infrastructure and by providing an investment climate which reduces both capital costs and service delivery costs.

Despite benefits, the growth of urban areas does present enormous challenges, especially to developing countries with severely limited budgets. The environment will only suffer if these urban problems are not addressed within their proper developmental context. Environmental quality in rapidly-growing areas is thus really a matter of choice.

Management, not chance, is the determining factor in whether urban growth will help or harm the environment.

Environmental protection is ultimately an investment in the sustainability of the economy. It increases the number of people, the amount of economic activity, and the standard of living that a region can support.

USAID works with host-country leaders to develop policies and programs to manage urban growth and improve municipal administration. A key element is setting up appropriate policy, regulatory, and financial frameworks that encourage environmentally sound public and private sector investment.

While urban areas are increasingly recognized as major engines of economic growth, it is less widely recognized that urban development also plays a major role in protecting the environment — a role that reaches far beyond the boundaries of cities themselves.

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Well-managed urbanization and widely-shared economic growth contribute to improved management of natural resources and improved prospects for sustainable development over the long term. The Office of Housing and Urban Programs works to strengthen the role of cities in waste management and environmental protection.



Top: extraction of beach sand for construction threatens Morocco's coastal ecosystem. The Office helped to design a methodology to study the impacts of urbanization on surrounding ecosystems, and tested it in Morocco. Bottom: Jamaican and USAID officials discuss off-site water supply projects for Montego Bay's Norwood Community.

Environmental Methodologies

Collaborating with municipal governments, USAID helps develop methodologies to analyze the impact of environmental problems on urban populations, economic development, and natural resource conservation. These methodologies assess risks to urban populations from environmental factors, examine economic losses resulting from urban environmental degradation, and quantify the impact of urbanization on natural resources. USAID has tested

these methods in Indonesia, Morocco, and Thailand and has disseminated the results to scientific, donor, medical, and academic communities.

Environmental Strategies

The Office of Housing and Urban Programs helps USAID Missions and host countries to develop strategies to improve the management of urban environmental conditions. These strategies aim to identify and prioritize environmental problems and offer concrete technical assistance and training activities to strengthen environmental management policies and practices. Strategies have been completed for the Dominican Republic, Ecuador, Tunisia, and Jamaica.

Private Provision of Environmental Services

Now in its third year of implementation, the *Private Provision of Social Services Program* continues to assist local governments in determining whether the private sector can play a role in the delivery of

solid waste management services. The goals of the program are twofold. First, through the expertise of U.S. solid waste practitioners, participating municipalities are given practical, cost-effective, and environmentally sound solutions to improving existing levels of service delivery. Secondly, where feasible, the program offers additional assistance to implement privatization strategies. To date, USAID Missions have provided such expertise to eleven municipalities in eight countries.

Over the course of the program, several valuable lessons have emerged to guide future privatization efforts. Perhaps the single most important lesson is the need for strong municipal leadership to successfully implement privatization. This need was demonstrated time after time and is best illustrated in the Guayaquil, Ecuador and Tunis, Tunisia programs. In each instance, the presence of a committed mayor and city council was instrumental in creating the investment climate necessary to stimulate public/private partnerships. Other examples where the private sector has been invited to participate in the delivery of solid waste management services include: Gaborone, Botswana; Sfax, Tunisia; and Tegucigalpa, Honduras.

Municipal Environmental Management

In addition to allowing the private sector to play an important role in the provision of municipal services, cities also need to improve their own internal management as well as the delivery of those services that they continue to provide. USAID helps city governments build this capability. The municipality of Tetouan, Morocco has

Guayaquil, Ecuador Privatizes Solid Waste Management Services

Guayaquil, the largest city in Ecuador, has launched a program to fully privatize its solid waste management services after receiving technical assistance through the *Private Provision of Social Services Program*, an initiative managed by USAID's Office of Housing and Urban Programs. By November 1993, the city should have a private company fully administering the system. The city's Street Cleaning Department, which currently provides these services, will retain regulatory responsibilities. Guayaquil's mayor favors a strong role for the private sector. Although the decision to privatize solid waste management has been a politically difficult one, it should help resolve the city's acute solid waste problems.

Waste Assessment in Tunisia Brings Change

Tunis' rapid expansion over the past decade has placed once remote garbage dumps within close proximity to residential communities. Noxious fumes from fires, odors, and disease vectors now pose both a nuisance and a serious health hazard to nearby residents.

The mayor of Tunis requested that USAID assess the city's landfill dilemma. The Office sent a waste management consultant to provide municipal officials with practical recommendations to improve the city's solid waste disposal system.

The study found that both of the city's landfills will reach capacity by 1994, showing an urgent need for the city to begin planning now for future disposal sites. The life of the existing landfills may be extended by the excavation of two new cells adjacent to current dumping areas, provided that soil and groundwater conditions are suitable.

To mitigate the immediate problems, the consultant recommended a number of changes in the operation and management procedures for the landfill. The study proposed that the city consider privatizing the operation of the landfill as an alternative management approach.

Despite benefits, the growth of urban areas does present enormous challenges, especially to developing countries with severely limited budgets. The environment will only suffer if these urban problems are not addressed within their proper developmental context.

In addition to allowing the private sector to play an important role in the provision of municipal services, cities also need to improve their own internal management as well as the delivery of those services that they continue to provide.

The Mayors of Tetouan, Morocco and Raleigh, North Carolina sign an *Agreement of International Cooperation* in March, 1992 in conjunction with a US\$25 million urban infrastructure program.



Cities of Raleigh, North Carolina and Tetouan, Morocco Collaborate on Sewage Treatment

The municipality of Tetouan has created an Environmental Services Department, responsible for sewerage system services, solid waste landfills, parks and open spaces. The Department is the first of its kind in Morocco, resulting from recommendations made by the city of Raleigh, North Carolina. The two cities have signed an *Agreement of International Cooperation*. Raleigh will provide hands-on training to Tetouan staff in sewerage system maintenance, establishment of a water quality control laboratory, and other environmental services. USAID, through the International City/County Managers Association (ICMA), is providing US\$300,000 in resources for the technical assistance and training.

Raleigh will provide sewerage system maintenance equipment and commodities to equip a water quality testing laboratory. All goods will be purchased from U.S. vendors by the city of Raleigh through a grant of US\$600,000 from the USAID Mission in Morocco.

created the Environmental Services Department, responsible for sewerage system services, solid waste landfills, parks, and open spaces. The department, the first in Morocco, was established at the recommendation of the city of Raleigh, North Carolina in March, 1992. The two cities then signed an *Agreement of International Cooperation*. Raleigh will provide hands-on training to Tetouan staff in sewerage system maintenance and will establish a water quality control laboratory and other environmental services. USAID, through the International City/County Managers Association (ICMA), is providing US\$300,000 in grant resources to support this technical assistance and training.

The *National Shelter Delivery System Project* supports Ecuador's efforts to improve the quality of life for low-income families in urban areas by financing water and sewer infrastructure improvements. The project assists municipal water authorities to improve the financial management of their infrastructure, working toward financial self-sufficiency of selected municipal infrastructure



The Office provides training and technical assistance in support of its US\$2.8 billion Housing Guaranty program through a network of staff and consultants based in the field. Here, the Deputy Director of the Regional Housing and Urban Development Office serving South America presents a training seminar.

agencies. In 1992, USAID assisted Quito's municipal water authority to establish a new cost accounting system which will be replicated by other municipal water and sewer companies in Ecuador. Assistance to Quito's municipal water authority enabled it to finance 32,000 water connections in urban neighborhoods over the past two years.

USAID also supports a number of regional initiatives. RHUDO/Asia has formed a joint task force with the Asian Institute of Technology to address urban environmental issues throughout the region; one result of this collaborative effort is the development of a curriculum on Urban Environmental Management.

Urban Environmental Approaches

Cities can develop strategies that successfully address environmental problems. The critical factor is neither the size nor the growth rate of the city, but the effectiveness of city leaders in mobilizing resources to invest in urban environmental infrastructure and in developing a strategy to correct or prevent degradation of the environment.

Training is an effective approach to assisting cities develop urban environmental strategies. For example, RHUDO/Asia and the Asian Institute of Technology organized a regional policy workshop, *The Role of the City in Environmental Management*, held in Bangkok, Thailand. The 135 participants—from 10 Asian countries, the U.S. and several European countries—discussed the building blocks of urban environmental management. These include environmental risk assessment, information and public awareness, enforcement, incentives and cost recovery, and public/private partnerships.

A series of exchanges began this year between Asian and U.S. public and private organizations. Thai local and national government officials studied municipal waste water programs in the U.S. and met with representatives from the Massachusetts Institute of Technology. U.S. municipal officials also contracted to provide urban planning support to the Bangkok Metropolitan Authority.

USAID carried out training in other regions as well, including a seminar in Costa Rica on solid waste management, a

USAID's Private Provision of Social Services Program helps municipalities analyze options to improve basic urban services, such as water provision and wastewater treatment, and waste collection and landfill management. The program applies U.S. experience and links U.S. suppliers of equipment, technology and expertise with a large and growing market.



Safe drinking and cooking water is vital to human health. Housing Guaranty funds financed this water supply system in Ujung Pandang, Indonesia.

Indonesian Cities Focus on Environmental Conditions

Indonesia's cities suffer from poor environmental conditions. A seriously inadequate water supply and water-related problems (wastewater treatment, flooding and groundwater protection), together with inadequate solid waste management, are the most critical challenges, posing serious health and ecological risks. These environmental conditions will also affect the country's ability to sustain economic growth.

Urban environmental conditions in Jakarta compare unfavorably to many Asian cities. These problems are in large part due to inadequate policies for the delivery, regulation and pricing of services, and to shortfalls in the Government of Indonesia's development budget. The central government is now moving to implement a number of reforms which will increase participation by municipal governments in urban services and will strengthen their capacity to finance and manage urban environmental infrastructure delivery. To achieve change, traditional reliance by local government on central funding will have to be replaced by an expansion of local sources of revenue, enhanced use of credit for infrastructure finance, and revised

formulas for central-to-local grants.

The Indonesian government has asked USAID to assist in designing a Housing Guaranty program that supports the government's evolving urban policy. This

US\$125 million loan program, *Municipal Finance for Environmental Infrastructure*, will, among other things, promote policies that increase investment in urban environmental infrastructure and facilitate sound management of the urban environment at the local level.

series of seminars on the role of the city throughout South America, and a municipal management training program in West Africa.

Such seminars can have far-reaching effects. For example, the seminar in Costa Rica, carried out in collaboration with the Central America Municipal Association (FEMICA), generated a new consciousness of the role of the municipality in environmental protection. The seminar:

- heightened the awareness of municipal officials to the linkages between environmental degradation and deteriorating human health and economic productivity;
- illustrated proper solid waste management practices, improvement in environmental services delivery through the adoption of appropriate technologies and innovative problem-solving approaches such as inter-municipal cooperation; and
- provided an agenda for FEMICA to foster regional cooperation and information dissemination on municipal institutional strengthening and on environmental issues.

Environmental Infrastructure

Water and sanitation are major components of the Housing Guaranty program. Core housing, sites and services, and squatter settlement upgrading programs all help cities manage their growth in an organized way that is consistent with sound management of the urban environment and protects the health of their citizens.

For example, the *Tetouan Urban Development Project* addresses one of the major imbalances that Morocco is experiencing as a result of rapid urban-



Water and sanitation are major components of the Housing Guaranty program. Core housing, sites and services, and squatter settlement upgrading programs all help cities manage their growth in an organized way that is consistent with sound management of the urban environment and protects the health of their citizens.

ization: the creation of unauthorized and under-serviced "clandestine" neighborhoods. Such communities account for 20 to 30 percent of the housing production in Morocco. US-AID, through the Housing Guaranty program, is funding infrastructure improvements in the Dersa-Samsa neighborhoods in the City of Tetouan. The program, combined with other resources from the Morocco Municipal Development Bank, is financing street lighting, roadways, a citywide primary sewerage line and system hookups, and potable water for the direct benefit of 90,000 low-income people.



Top: footpaths and drainage systems financed in informal settlements in Manado, Indonesia. Bottom: water lines being laid at upgrading site in Tetouan, Morocco.



USAID assistance helps strengthen local governments and build open and democratic societies. Counterclockwise from top: members voting at a housing cooperative meeting in Tegucigalpa, Honduras; participants at the Second Annual FEMICA Congress in Managua, Nicaragua discuss the role of municipalities in Central America; emergency shelter assistance provided by USAID in response to the needs of 200,000 refugees displaced by civil strife in Rwanda; and Almaty city officials visit apartment buildings typical of those being privatized in Kazakhstan.

Municipal Management

Land, infrastructure, disaster management, environment and credit policies are likely to be most effective if the responsibility and authority for developing and implementing urbanization and shelter programs rest as closely as possible with the people who are most affected by them. Local governments are, or should be, charged with a major share of the responsibility of managing resources, providing organization and structure to stimulate economic development, and providing for the services essential for the well-being of urban communities.

Sound local government is fundamental to the democratic process and is essential for economic development. In many countries, elected and appointed local officials alike lack both a popular mandate and the resources to respond to that mandate. Structural adjustment programs, such as those in the New Independent States and Eastern Europe, and pressures for political change, such as those in parts of Latin America and Africa, are forcing governments to recognize the need for decentralization. The establishment of democratic governments and the decentralization of centrally-planned governments places pressure on local governments to address local concerns and to develop the leadership needed to handle administrative functions which were previously decided centrally. This is a major challenge, but is also a valuable opportunity to make urgently-needed policy reforms. In addition to developing the management capacity of local governments, the Office of Housing and Urban Programs supports the strengthening of private-sector institutions and community-based organizations.

To develop policies that strengthen management of today's cities, municipal governments must also establish policies that stimulate the private sector to respond to the needs and demand for shelter and urban services. The prevention and mitigation of disasters is another area that is best managed at the local level. USAID has initiated programs to promote the prevention of disasters in urban areas and to support the mitigation of those that cannot be prevented.

In all of these activities the Office emphasizes development partnerships building on the creativity and the energy of the private sector and operating within a framework of reasonable government regulation. Partnerships between the public and private sectors should reflect balance between their roles, with each doing what it does best.

Local governments are, or should be, charged with the responsibility of managing resources, providing organization and structure to stimulate economic development, and providing for the services essential for the well-being of urban communities.



Above: Karatina Market, part of the Kenya Small Towns Project which has developed numerous facilities to promote economic development. Below: delegates to the FEMICA Congress in Managua, Nicaragua discussing ways to strengthen local government in Central American countries.



Decentralization Effort Moves Forward in Central America

Over 80 mayors from all of the Central American countries participated in the second General Assembly of the Central America Municipal Association, FEMICA, August 20-21 in Managua, Nicaragua. President Violeta Barrios de Chamorro gave the opening address, stressing the importance of municipal autonomy and development within Nicaragua and the region. The Director of the Regional Housing and Urban Development Office for Central America, spoke on municipal development.

Before the FEMICA Congress, financial and technical assistance from the Regional Office for Central American Programs and the RHUDO supported in-country workshops. Expanding on conclusions drawn at the workshops, each country's delegation met separately to discuss ways to strengthen their respective local governments, and proposed their national strategies for decentralization to the more than 130 participants. The mayors agreed that FEMICA should serve as a channel for technical assistance to the municipalities, promoting horizontal cooperation and exchange of experiences at the regional level. Several functions of FEMICA were included in the *Declaration of Managua*, which was ratified unanimously by the delegations present at the Congress.

Municipal Development Supports Democracy and Decentralization

In many countries and regions, USAID supports the strengthening of municipal government, which brings responsibility and authority to the local level and enhances the impact of democracy.

The RHUDO for Central America has developed a strategy to address municipal development and decentralization throughout Central America in the *Local Government Regional Outreach Strategy Project*. This project also helps improve local governments' response to citizen demands for improved services as well as political enfranchisement—thereby reinforcing democracy in the region.

Other USAID efforts this year to strengthen local governments and democracy include:

- Assistance to Nicaragua and El Salvador to develop a consensus-building process among political factions to formulate a non-partisan national municipal strategy and action plan for decentralization.

- Providing technical assistance and training for 26 local authorities on project identification and preparation and marketplace management through the *Kenya Small Towns and Community Development Project*.

- Specialized training received by one hundred and twenty municipal officials in Poland for new responsibilities in land appraisal, housing management, land use planning, and revenue generation. Introduction of land appraisal techniques has helped develop a prototype property tax assessment in Krakow.

- The *Municipal Management Training Program* in West Africa which has carried out 35 training activities for 1,262 participants in 15 countries,



focusing on access to information on local finance, on participation of nongovernmental organizations, community groups, and the private sector in the local-level decision-making process, and on a taxpayer commitment in the use of tax revenues.

Similar USAID training, technical, and capital assistance for municipal development is taking place in Brazil, Colombia, Chile, Ecuador, Hungary, Indonesia, Paraguay, and the Philippines. Assistance focuses on municipal development, decentralization, legal and policy reforms, urban planning and land use, public participation, development of institutions to train local government officials, the role of women in municipal management, cadastral surveys, and taxation.

Improving the Provision of Municipal Services

Through USAID's *Private Provision of Social Services Program*, the Office of Housing and Urban Programs helps municipalities analyze options to improve basic urban services, such as water

provision and wastewater treatment, and waste collection and landfill management. The program helps local governments study options for improving public provision of services, introducing privatization, or employing a combination of approaches. The program applies U.S. experience and links U.S. suppliers of equipment, technology and expertise with a large and growing market.

In Botswana, studies of the solid waste collection and disposal system in the capital city Gaborone led this year to the decision to privatize half the city's collection system and to study the possible private operation of disposal facilities. In Swaziland, with USAID assistance, the Manzini Town Council developed a new slaughterhouse facility, which will be rented and run by a private company for the first time. In Ecuador, the two largest cities have solicited proposals from private companies to provide solid waste removal and disposal services. Similar activities are underway in Tunisia, Honduras, Indonesia, and Sri Lanka.

The establishment of democratic governments and the decentralization of centrally-planned governments places pressure on local governments to address local concerns and to develop the leadership needed to handle the full range of administrative functions which were previously decided centrally.

Solid waste management presents problems in many cities in East and Southern Africa. Above: privatized waste collection and disposal services being carried out in Gaborone, Botswana.

Community-Based Organizations Contribute to Development

An important objective of the South Africa program is to assist community-based organizations (often known as *civics*) to step into the gap left by the collapse of urban black local authorities which arose from political boycotts in the late 1980s. Civics have already shown themselves to be mature and hard-working groups, but lacking in experience and skills in most aspects of administration. The program will finance both training programs for members of civics and similar organizations as well as technical assistance in the preparation, implementation, and management of shelter and urban development projects.

Sound local government is fundamental to the democratic process and is essential for economic development.

Below: participants learn computer skills to help them better manage city resources during software training carried out as part of the Municipal Development Support Project in Côte d'Ivoire.



Training With an Impact: Local Revenue Generation in Côte d'Ivoire

As local governments become increasingly self-reliant in mobilizing resources necessary for local services and development, training in revenue generation is critical. The *Municipal Development Support Project* is currently working with 34 Ivorian secondary towns to assist them in assessing potential revenue resources, improving collection systems, and better managing those resources for investment in local development.

Evaluations 3 months after training reveal increases in local revenues ranging up to 240 percent for certain revenue categories. All towns evaluated to date report quantifiable improvements in several revenue categories. Qualitative results are as noteworthy. These events open up the local decision-making process by including a broad spectrum of the population and facilitating their input—directly supporting democracy at the local level. Finally, financial transparency among the local officials and the public sets the stage for a level of accountability which has never before existed.

USAID supports increased roles for community-based organizations in other countries, including Botswana, Ecuador, Portugal, and Eastern European nations.

Local Expertise Assists in Municipal Management

In Honduras, the *Municipal Development Project*, funded and managed by the USAID Mission, shares practical U.S. expertise with municipal managers and elected officials in developing countries. The project provides expertise from local government practitioners in the areas of urban management, municipal finance, environmental planning, and assistance to municipal associations.

This project is assisting 14 pilot cities to take increased responsibility for public services as part of a major government decentralization initiative. Technical assistance from the International City/County Management Association (ICMA) provides expertise to these cities in assessing and developing their financial administration, operations, and management systems. Through this process, community participation has been institutionalized with open town meetings and newsletters to involve citizens in decision-making.

Key to the success of this program has been both the formation of the Council of Governments in San Pedro Sula and the strengthening of the National Association of Honduran Municipalities. These institutions allow an exchange of information and the development of regional approaches between local governments on issues of mutual interest. They also provide a vehicle through which local officials can contribute to national policy decisions.



Joint Efforts for Improved Urban Management

Urban areas play a critical and growing role in national and global development. Strong local governments and sound municipal management are crucial in ensuring that urban areas achieve their potential. It is more important than ever to share "lessons learned" and "state of the art" approaches to improving urban management to help urban areas contribute as much as possible to sustainable global development.

A major international effort toward this end is the *Urban Management Program* (U.M.P.), jointly managed by the World Bank and the U.N. Center for Human Settlements (UNCHS) with active support from a number of bilateral donors, including the U.S. This technical support program is designed to strengthen the contribution that cities and towns in developing countries make towards human development.

Initially, the *Urban Management Program* focused on developing better understanding of urban issues and producing technical guidelines on urban management. In a second phase, the U.M.P. has established four regional offices and is focusing on capacity-building at the local, national, and regional

levels. Through its participatory structure, the program ensures that research and operational activities undertaken will be continually updated and enriched by country-level capacity-building activities.

Economic Development Project Revitalizes Downtown Kingston

The Inner Kingston Development Project continues to provide the major physical improvements necessary to increase opportunities for trade and investment in Jamaica's capital city. Early this year, the U.S. Ambassador formally opened Inner Kingston's rural bus terminal which received J\$742,000 in USAID financing. The terminal is an important element in creating a transportation center for downtown Kingston. Operation of the rural bus station will permit the relocation of other buses currently operating in congested portions of inner Kingston and will assist in the area's revitalization.

In January 1992, the newly renovated offices of the Jamaica Bar Association opened in Inner Kingston. This rehabilitation will help keep important segments of the legal community downtown—another important achievement of the Kingston Restoration Company (KRC) in revitalizing downtown Kingston.

Improvements brought about by the *Inner Kingston Development Project* have in turn improved the trade and investment climate in Jamaica's capital city. Above: King Street building renovation in downtown Kingston. Below: sewage system improvements made as part of the same project.



Municipal governments must also establish policies that stimulate the private sector to respond to the needs and demand for shelter and urban services. Partnerships between the public and private sectors should reflect balance between their roles, with each doing what it does best.

U.S. and Polish officials attending the ribbon-cutting ceremony marking the establishment of the American Polish Home Builders Institute in Gdansk, Poland by the National Association of Home Builders of the United States.



American-Polish Homebuilders Institute

Meeting Poland's need for strengthening the private housing industry, the American-Polish Home Builders Institute (APHBI) was established on the basis of an agreement with the National Association of Home Builders (NAHB) and its affiliates. Established in Gdansk, a primary aim of the APHBI is to help Polish home builders develop, promote, and organize a private sector home building industry similar to NAHB.

APHBI, the first of its kind in Central and Eastern Europe, has undertaken market surveys which for the first time will identify the extent of the realistic market for housing within the tri-city area of Gdansk, Gdynia, and Sopot. Resources are being developed in all three cities for a land inventory that will identify potential sites for private builders.

The focus is also on establishing contacts with a number of fledgling builder organizations and academic and technical institutions concerned with the development of the home building industry in Poland.

The Institute is increasingly focusing on strategic planning to assure continued viability of the organization and its activities with the support of USAID

In this second phase of the *Urban Management Program*, USAID's field offices in Abidjan, Bangkok, Jakarta, Nairobi, Pretoria, Quito, and Tunis are working closely with the four U.M.P. regional offices to ensure complementarity and efficiency in the activities they undertake individually, as well as in a number of joint efforts they have sponsored.

Disaster Mitigation

Disasters can have an especially devastating impact on urban areas due to the high concentration of people, shelter, and industries in cities. Without strategies for disaster management and mitigation, the toll on lives, economic growth, and development will continue to be substantial. Disaster prevention and preparedness are also important concerns given that one event can undo years of development planning and investment.

USAID works closely with the Office of Foreign Disaster Assistance (OFDA) in responding to the shelter aspects of disasters. The two Offices assist officials from local governments and municipalities to prepare for and recover from disasters



INTER-AMERICAN DEVELOPMENT BANK

Without strategies for disaster management and mitigation, the toll on lives, economic growth, and development will continue to be substantial.

occurring in their regions. Regional disaster advisors have been placed in the RHUDOs in Bangkok, Thailand, and Kingston, Jamaica, to advise USAID Missions in vulnerable countries on disaster strategies. A third advisor was placed in Quito, Ecuador, this year. New regional projects which encourage the active participation and collaboration of private sector entities, community-based organizations and local governments to carry out preparedness, mitigation, and prevention objectives were developed for South America and the Caribbean. In 1992, USAID addressed the shelter needs of displaced people in the Philippines due to the periodic eruption of Mount Pinatubo, by working with local officials to erect emergency shelters for displaced persons. USAID provided advice to the government on how to plan for an ongoing, multi-year disaster.

Tens of thousands of people were displaced in Rwanda and Zaire as a result of civil strife. USAID performed disaster assessment work, devised response strategies, and trained local relief groups in the construction of emergency shelters in the two areas.

Shelter Conference Helps Developing Nations Prepare for Disasters

At a recent USAID-sponsored seminar, the Office of Housing and Urban Programs and the Office of Foreign Disaster Assistance (OFDA) highlighted the importance of private sector initiatives in mitigating natural disasters. The seminar emphasized the roles of hazard insurance and of incentives to increase the involvement of both private sector enterprises and informal sector groups in planning.

The two-day meeting, organized by the Virginia Polytechnic Institute, gathered experts on domestic and international disaster relief.

Focusing on investment priorities for hazard mitigation in the shelter sector, the participants considered means of integrating disaster prevention, mitigation, and preparedness into USAID development activities. The

experts reported that in the last 20 years, more than 60 percent of post-disaster donor assistance, exclusive of PL-480, was spent on shelter investments.

The Office of Housing and Urban Programs, in cooperation with the U.S. Office of Foreign Disaster Assistance, helps local governments in hazard-prone countries to protect against loss of life and property. Above: homes in Ecuador damaged by a strong earthquake. Below: refugees outside emergency shelter provided by USAID in response to the devastation caused by eruption of Mt. Pinatubo in the Philippines.



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Housing Guaranty Program

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, USAID will request that the Office of Housing and Urban Programs, working with host country officials, determine the type of shelter 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 USAID, 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 USAID 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 USAID Guaranty

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

Additionally, USAID 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 market, including investment bankers, commercial bankers, Federal Home Loan Banks, savings institutions, life insurance companies and pension funds, have loaned monies to host-country borrowers as part of the Housing Guaranty program. To be eligible to participate, lenders must be:

U.S. citizens; domestic U.S. corporations, partnerships or associates owned by U.S. citizens; foreign corporations whose share capital is at least 95 percent owned by U.S. citizens; or 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 USAID-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 negotiation process.