ASIA PERSPECTIVE

1988 RHUDO POLICY SEMINAR

Shelter and Urban Policy : An Asian Perspective

CONTENTS

RHUDO POLICY SEMINAR 1

KEY ISSUES IN ASIA 4

CONFERENCES 6

TRAINING 7

A publication of the U.S. Agency for International Development, Regional Housing and Urban Development Office for Asia (RHUDO/Asia)
MAY 1989
VOL. I NO. I

The Regional Housing and Urban Development Office (RHUDO) last September conducted a seminar in Bangkok on the relationship between shelter, urbanization, and national economic development. The purpose of the event was to bring together carefully selected individuals from public, private and community organizations in Asia to identify and discuss key issues and related policies in these subjects. The fourteen participants in this "Expert Group" included creative thinkers and practitioners from Pakistan, India, Sri Lanka, Nepal, Thailand, Indonesia, and the Philippines (see next page for participant list). The intent was for the Expert Group to help shape the RHUDO's regional strategy by identifying priorities for future activities. The seminar also helped to establish a network of highly experienced professionals throughout Asia.

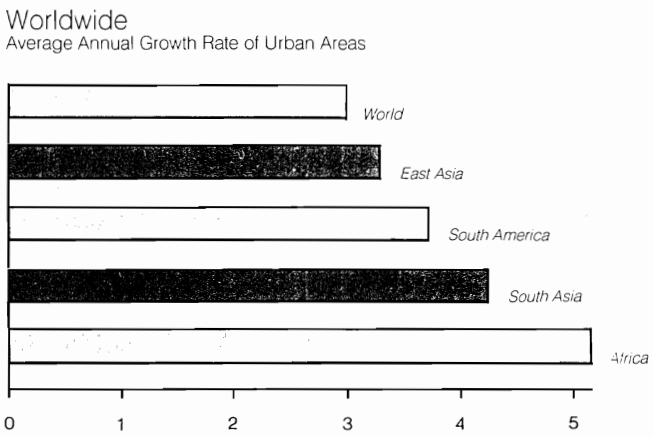
The seminar was intended to take maximum advantage of the participant's experience, and thus the seminar's process and format supported open dialogue concerning what the group determined to be the critical issues in the shelter/urban sector. While the lack of background studies, position papers, or formal statements was found unique by the group, the process proved to be very constructive.

David Painter, the Regional Director of RHUDO/Asia, opened the event by emphasizing that urbanization and shelter provision can, and does, make a substantial contribution to economic development. This linkage is, however, to a large degree contingent upon clear and consistent national policies. Increasing experience indicates that such policies should:

> *reflect the linkage between shelter investment and economic growth; provide sufficient incentives and opportunities for the private sector to fully participate in all aspects of urban and shelter development; acknowledge the contributions of the informal sector to small scale production, shelter development, and basic urban services; and, adequately address the critical shelter, employment, and service needs of the urban poor.*

In an initial round of discussions, the group indentified more than thirty specific policy issues. These were reduced to a single high-priority group of eleven which were felt to be critical areas for attention. The final list included :

- land value, supply and management
- public/private partnership mechanisms
- converting the need for low cost shelter into effective demand
- institutional reform responsive to shelter and urban needs
- legitimization of slums
- urban poverty
- environmental aspects of urbanization and shelter
- development of community–the human element
- institutional development for resource mobilization
- community participation in planning and policy formulation
- the need for integrated national policies to address urbanization, shelter and economic development



SOURCE: Agency for International Development

The group selected two of the topics, land and public/private partnerships, for further indepth discussion during the remainder of the seminar. Ideas were shared about the nature of the issues, and the opportunities and constraints frequently associated with them in Asia were discussed The dialogue concluded with a thorough discussion of the types of actions needed to achieve policy reforms in these areas. Of particular utility was the sharing of experiences, both successes and failures, on the part of the whole group.

The participants in the Seminar formed themselves into an advisory group able to give RHUDO a truely Asian perspective on shelter and urban issues.

It is anticipated that this group will become the nucleus of a network that will exchange information and ideas among themselves and the RHUDO well into the future.

List of Participants

INDIA

Mr. Deepak Satwalekar
General Manager, Housing Development Finance Corporation of India

Mr. Kirtee Shah
Director, Ahmedabad Study Action Group

INDONESIA

Dr. Ferry Sonneville
President, Real Estate Indonesia

Mr. Hendropronoto Suselo
Director, City and Regional Planning, Ministry of Public Works

NEPAL

Dr. N.K. Sharma
Additional Secretary, Ministry of Housing and Physical Planning

PAKISTAN

Dr. F.A. Rabbani,
Chaiman, House Building Finance Corporation

SRI LANKA

Dr. A.C. Randeni
Director of Economic Affairs, Ministry of Finance

P.A. Kiriwandeniya
President, Federation of Thrift and Credit Cooperatives

THAILAND

Fr. Joseph Maier
Director, Human Development Centre (Bangkok)

Dr. Utis Kaothien
Senior Urban Expert, National Economic and Social Development Board

Mr. Pratak Simapichaicheth
Managing Director, Thai Real Estate Company

Mr. Kitti Patpongpibul
Managing Director, Government Housing Bank

Mr. Sidhijai Tanphiphat
Deputy Manager, Government Housing Bank

PHILIPPINES

Mr. Nathaniel von Einsiedel.
Commissioner, Metro Manila Commission

WELCOME TO ASIA PERSPECTIVE

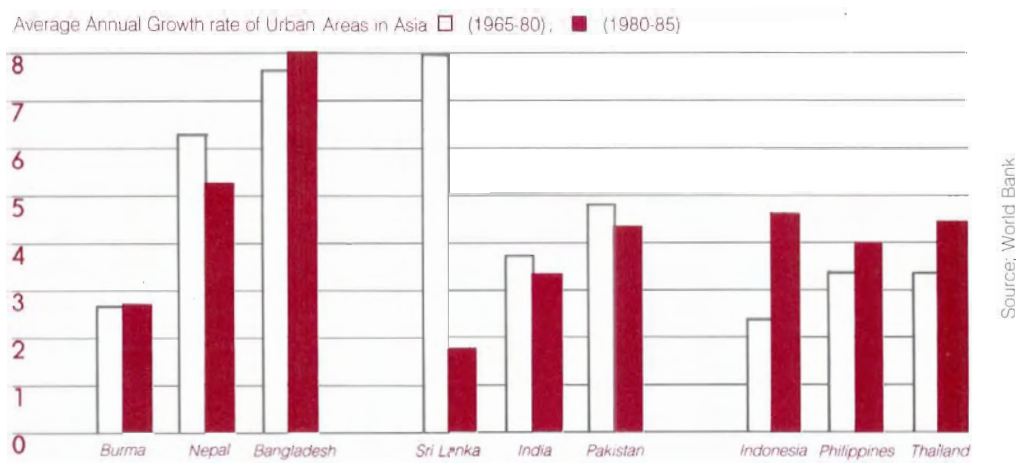
We are pleased to introduce the first issue of ASIA PERSPECTIVE, a periodic publication of the U.S. Agency for International Development, Regional Housing and Urban Development Office for Asia (RHUDO/Asia).

More than any other region of the world, Asia contains a bewildering diversity of cultures, levels of development, problems and opportunities not least of which in terms of shelter and urban development. This level of diversity is but one aspect of Asia that has led us to believe that a publication such as this, one concerned exclusively with Asian shelter and urban issues, is warranted.

In spite of the diversity within the region many similarities also exist. A major goal of ASIA PERSPECTIVE will be to present material that is relevant to the widest possible readership. This will be accomplished by focusing on issues that illustrate such similarity, and are of importance to policymakers and professionals in the region.

It is only proper, then, that this inaugural issue's feature piece concerns a new forum, the RHUDO/Asia "Expert Group", in which many of the region's top practitioners can meet on a regular basis and discuss key areas of importance and interest in the fields of shelter and urban development. This issue also takes a preliminary look at the topic of land, which the Expert Group's inaugural meeting concluded was of paramount importance in Asia.

The ultimate success of ASIA PERSPECTIVE is contingent upon meeting the needs of its readership. We feel that while RHUDO will publish ASIA PERSPECTIVE, it is intended to be your publication. The material included in it will be a direct result of what you see as important and of interest. As such, we ask that you take the opportunity to share your thoughts and suggestions with us by completing the questionnaire on the last page of this issue. It is our hope that you find the information and news in ASIA PERSPECTIVE stimulating, useful, and of continuing interest.



KEY SHELTER ISSUES

URBAN LAND IN ASIA

It should come as no surprise that land was judged by the 'Expert Group' (see lead article) to be the most critical shelter and urban development issue in Asia. As one participant commented, "We cannot implement even the most progressive national urban policies if we do not deal with the issues of land, it affects all shelter policy."

In this issue, ASIA PERSPECTIVE will begin to examine the topic of urban land in Asia, utilizing observations (relative to their own countries) by the members of the Expert Group made during the seminar. Future issues will devote considerable attention to the specific problems, opportunities, and approaches within this broad topic.

Land Issues : An Asian Perspective

The Nepalese participant in the group related his national government's original desire to stay out of direct intervention in urban land development. Government action, he added, was now necessitated by "widespread informal conversion of agricultural land that has resulted in numerous substandard areas and rising maintenance costs". The Ministry of Housing and Physical Planning is investigating land pooling, and the planning and provision of infrastructure, the cost of which would be passed on to private developers.

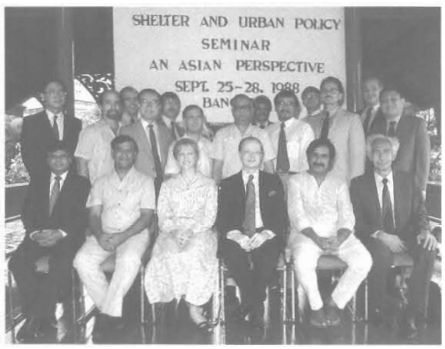
NEPAL
Limited government intervention is necessitated in the management and servicing of urban land.

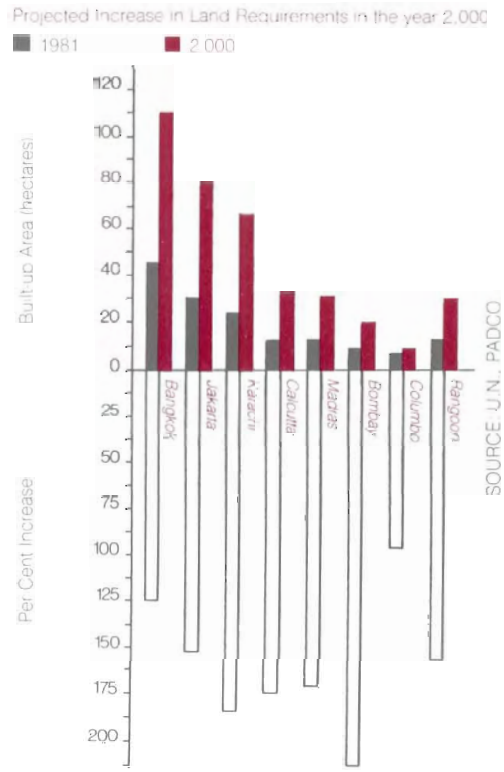
The group member from Pakistan stated that land speculation is acute in his country, and that the prices of land are doubling every two to three years. This is in spite of the fact that most urban land in Pakistan is in public ownership, and is generally allotted to low income households at less than market prices. Currently, land is responsible for 40–50% of the total price of low–cost shelter.

PAKISTAN
Speculation in land is a serious problem. Partially as a result, the cost of urban land is responsible for 40-50% of the total cost of low-income shelter in urban areas.

The seminar participant from the Philippines said that his government has tried in the past to rely on free market forces relative to land allocation and pricing, and has only intervened in situations where extremely poor households have been involved. Currently, the national Congress is revising the country's urban land reform law in the areas of land management, valuation, taxation and ownership rights, and the government is examining what, in general, is the most appropriate degree of state intervention in urban land issues.

PHILIPPINES
Past reliance has been placed on market forces to allocate and price urban land. Current re-examination is underway of the most appropriate degree of state intervention in urban land issues.





INDIA

The cost of land is responsible for well over half the total cost of shelter in some urban areas. State legislation and procedures contribute to the high cost and cause land management problems.

The price of land is perhaps the largest shelter related problem in India. Often, 60–70% of the cost of shelter is attributable to land. The Indian group members stated that the Urban Land Ceiling Act, adopted in 1976, has resulted in an artificial scarcity of land that has driven–up prices in most urban areas. In response, one of the Indian participants suggested a vacant land tax as an alternative means to control speculative land holding. It was also stated that the procedures involving the transfer of land are so complicated and costly that may landowners avoid them, with the result that many land titles are no longer clear.

SRI LANKA

Urban land problems are not as acute as in other Asian countries. Measures are being taken, however, to reduce pressure on urban land resources.

Urban land issues may not be as extreme in Sri Lanka as they are in other Asian countries represented in the group, but the country has experienced enough pressure on urban land that the government is exploring policies of relocation and decentralization of economic activity. These policies also take the form of reclaiming buildable land, and 'creating' land through land filling operations. The government also has an extensive program of opening up new lands in rural areas to relieve the pressure on urban land.

INDONESIA

New urban land policies are being developed that stress land economics, local revenue generation, and public/private partnerships.

The participants from Indonesia related that their country's existing land policies are basically agrarian in their orientation, and yet have been used (unsuccessfully) in urban areas. New urban land policies are being developed that stress land economics. These policies include an emphasis on property taxation that result in revenue for local governments, and the use of public/private partnerships in land development.

THAILAND

The high cost of urban land may be the country's greatest shelter-related problem. A public/private sector body has been attempting to address the issue.

The group members from Thailand felt that land acquisition at affordable prices was perhaps their country's greatest shelter problem at the present time. Quite often the government is unable to purchase land for shelter programs due to its high price, and concern was expressed that government land development for industrial purposes will similarly be stymied. Large–scale purchases of land by foreign investors and "excessive" valuation of land were indentified as contributing to market imperfections. One Thai participant pointed out the dilemma in having the private sector involved, profitability, in what is essentially a 'social need' area. Nevertheless, a joint public/private sector "Housing Policy Council" has been active in attempting to address this issue.

CONFERENCES

Eight respected professionals from Asia in the urban and shelter sectors participated in the Washington Policy Conference, conducted by A.I.D.'s Office of Housing and Urban Programs. The purpose of the conference was to provide the opportunity for experts from around the world to share experiences and ideas about effective approaches to formulating and implementing improved policies in these sectors.

The opportunity to meet was particularly important at this time because economic conditions and the overall policy environment are now changing so rapidly. Most countries, including several in Asia, face a much more austere economic environment than they did a decade ago. National governments are attempting to respond through structural adjustment programs and other broad policy changes. Those concerned with shelter and urban development cannot avoid noticing that this combination of economic change and macro–policy response is having a dramatic impact on sectoral problems and opportunities.

The conference theme was predicated upon the emerging view, held by both international donors and top leaders in the developing world, that massive urban growth is inevitable. The corollary is that central governments cannot manage or pay for all of the requirements associated with this growth. The implication at the heart of the conference is that the focus of responsibility in providing for, and taking advantage of urbanization should shift more to the private sector (informal as well as formal), and to local governments.

These themes were reflected in the major topics of the conference: *shelter; decentralization and strengthening local government; infrastructure provision and financing; and, urban job generation.* The participants discussed what processes could be established to best address this range of related issues, such as how to support the formulation of effective policies in differing national circumstances and to assure that new policy initiatives are effectively implemented.

The contributions made by the participants from Asia, and the insights they took away from the conference will be reported in a future issue of ASIA PERSPECTIVE

WASHINGTON POLICY CONFERENCE
Policies for Housing and Urban Development November 6-9, 1989
Omni Shoreham Hotel
Washington, D.C.

SPONSOR:
AID Office of Housing and Urban Programs

TRAINING

MARKET AND FINANCIAL STRATEGIES FOR HOUSING DEVELOPERS
BANGKOK, THAILAND
JAKARTA, INDONESIA

SPONSORS

Thailand
Contact:
Dr. Warin Wonghanchao,
Director
Land Institute Program,
Socio-Economic Policy and
Forecasting Unit,
Chulalongkorn
University Bangkok 10500

Indonesia
Contact:
Dr. Ferry Sonneville,
President
Real Estate Indonesia
Jl. Pejambon No. 7
Jakarta Pusat

This past summer nearly 300 professionals in Thailand and Indonesia took part in a short-term training event entitled, "Market and Financial Strategies for Housing Developers". The course in each country was conducted by Dr. David E. Dowall, a professor with the Institute of Urban and Regional Development, University of California at Berkeley, and a noted expert on land and housing development. In both countries RHUDO/Asia co-sponsored the course with local academic and professional institutions involved with shelter development.

The rationale for the course is based upon the increasing importance of private sector housing developers in providing low-cost housing in both Thailand and Indonesia. Current and future housing market conditions in both countries suggest that the role of the private sector will expand, especially into the previously largely ignored lower-cost housing market segment. (In Thailand, homes in this segment range in price from $ 6,000-8,000.) RHUDO and the course sponsors felt this expansion could be facilitated by assisting housing developers position themselves within this segment, and by helping developers to better read and respond to market conditions.

The principal objective of the course was to train the professional staff of housing development companies in the practise of real estate market and financial analysis. With such training, developers are better able to systematically gauge housing market conditions, identify development opportunities, and define which housing product types are in high demand. Another important objective of the course was to serve as a catalyst in establishing an ongoing professional training capacity at one or more of the co-sponsoring institutions.

Case studies were prepared in each country to illustrate the specific topical material, which included :

- the roles and uses of market analyses
- demographic and economic trends shaping housing conditions
- choosing a market niche and housing product type
- estimating housing market demand, and capture and absorption rates for a project
- framework for determining project feasibility
- linking market studies and feasibility analysis

The reaction to the event in both countries was very positive. In a post-course evaluation survey, the participants in Thailand indicated that follow-on event topics might include land appraisal techniques or "further details on feasibility studies". The extensively prepared course readers, which include the case studies, are available at cost through the local sponsors.

QUESTIONNAIRE

1 What topics do you think ASIA PERSPECTIVE should cover? (If you select more than one please prioritize.) Please feel free to add to the list in the space provided.

( ) priority policy issues in Asia
( ) policy analysis, change, and implementation
( ) program design and implementation
( ) case studies of successful sectoral programs
( ) current shelter and urban development research in Asia
( ) notices on upcoming conferences and training
( ) features on top Asian professionals in shelter and urban development
( ) _____
( ) _____

2 The intent of ASIA PERSPECTIVE is primarily to present, or disseminate, existing information. That is, original works produced especially for the publication will be avoided in favor of assimilating and/or editing of the excellent existing material already available in Asia.

Do you know of specific material related to any of the above topics that your colleagues in the region could benefit from through publication in ASIA PERSPECTIVE?

( ) Yes ( ) No

Description : _____

SUBSCRIPTION INFORMATION

ASIA PERSPECTIVE c/o RHUDO/Asia, USAID/Thailand
37 Soi Somprasong 3, Petchburi Road
Bangkok 10400

Please make the following addition to your mailing list :

Name : _____
Title : _____
Organization : _____
Address : _____
City : _____
Country : _____
Postal Code : _____

RHUDO REGIONAL STAFF
David L. Painter
RHUDO Regional Director

Earl Kessler
Deputy Director/Regional Housing and Urban Development Officer

Thomas Johnson
Regional Housing and Urban Development Officer

Barbara Foster
Regional Training Advisor

RHUDO COUNTRY STAFF
SRI LANKA
Dianne Tsistos
Mission Housing Advisor
(USAID/Sri Lanka)

INDIA
Michael W. Lee
Urban Affairs Advisor
(USAID/India)

INDONESIA
William Frej
Urban Development Advisor
(USAID/Indonesia)

THAILAND
Donald R. Hubbard
Housing Advisor
(USAID/Thailand)

ASIA PERSPECTIVE
c/o RHUDO/ASIA
37 Soi Somprasong 3
Petchburi Road Bangkok 10400
TEL. (662) 255-3650
FAX. (662) 255-3730

Photo Credits:
Anne Frej: p. 3
NHA Thailand: p. 4
Shari Kessler: p. 5
Kim Retka: p. 6
Editor: Thomas Johnson

ASIA PERSPECTIVE

PUBLIC/PRIVATE PARTNERSHIPS IN SHELTER AND URBAN DEVELOPMENT

CONTENTS

PUBLIC/PRIVATE PARTNERSHIPS 1

PUBLIC/PRIVATE BIBLIOGRAPHY 4

CONFERENCES 6

TRAINING 7

A publication of the U. S. Agency for International Development, Regional Housing and Urban Development Office for Asia (RHUDO/Asia) NOVEMBER 1989 VOL 1 NO. 2

This issue of Asia Perspective will highlight public/private partnerships in shelter and urban development. Participants in RHUDO/Asia's first Regional Policy Seminar (reported in the last issue) selected "public/private mechanisms," or partnerships, as one of the key policy issues within Asia's shelter and urban development sector. As a result it was selected as the theme of the second Regional Policy Seminar, held this past June in Jakarta. A review of this event can be found on page six of this issue. During the seminar the group discussed the different kinds of public/private partnerships, some innovative examples in the shelter/urban development sector, and how the increased use of partnerships might be assessed.

Public/private partnerships have no single definition, instead they respond to specific local conditions and customs. There are, however, common themes that partnerships develop. These reflect the need to address development issues in terms of process and policy, not projects.

- *partnerships are a means to increase the availability of human, financial, and technical resources necessary to tackle shelter and urban development needs;*
- *partnerships should not be confused with "privatization", which is normally taken to mean the transfer of responsibility for urban services from the public to private sector (some partnerships may iinvovle privatization, but others do not);*
- *the partnership involves mutual commitment for mutual benefit, but also the possibility of all parties being exposed to risks; and,*
- *partnerships are <u>not</u> an excuse for governments to cast responsibility for difficult shelter and urban development problems onto the private sector, nor for the private sector to strap the public sector with responsibilities and costs the private sector can more effectively address.*

Public/private partnerships in shelter and urban development are becoming more common in Asia, as elsewhere, for one overriding reason:

> *Governments at all levels are realizing that their increasing human, technical and financial resource constraints will preclude them from alone providing the shelter and urban development requirements of growing urban populations. It is becoming increasingly clear that only through partnership mechanisms that facilitate private initiative will these resources be mobilized to meet basic shelter and urban development needs.*

The Partnership Potential

Over the past decade governments have attempted to meet urban and shelter needs through programs based on either of two broad policy options. The first allocated government resources directly to assisting the poor. This approach often meant ignoring the needs of other constituent groups, and more significantly, overlooking potential economic development opportunities because the poor might not directly benefit. The subsidies often associated with this approach never succeeded in assisting the vast majority of those truly in need, and worse, they contributed to public sector financial difficulties. It is now seen that not only did this subsidy-based approach have the tendency to retard economic growth, it did not necessarily resolve "basic needs" problems either.

The second option was basically the converse; that is, government resources were directed at areas with the greatest possible economic return. This often resulted in investing limited

financial resources in areas with the greatest comparative economic advantage. While this strategy frequently promotes widespread economic growth, it can further exacerbate inequitable income distribution, particularly in the short-run. The specific problems faced by the urban poor were often given a low priority under this "growth-oriented" approach.

However, an approach that constructively integrates public and private sector actions can develop mutually supportive roles for public sector entities, expand the resources required to adequately address specific development and economic growth issues, and mitigate the detrimental effects of the past approaches outlined above. Such public/private partnerships focus public policies and programs towards creating an environment that may mobilize, facilitate and channel private resources into the areas with greatest economic potential, while reserving and committing public resources for the provision of urban services and shelter, which the private sector cannot economically provide to the poor. Ideally, this partnership approach will allow a country to benefit from the economic growth potential inherent in the "growth-oriented" model, while increasing delivery of "basic needs" to the urban poor through better targeting of increased resources.

Types of Public/Private Partnerships

As noted above one of the strengths of public/private partnerships is that they can take many forms. Partnerships, however, tend to group into three basic types:

- **Joint Ventures**
- **Passive Partnerships**
- **Facilitative Partnerships**

Joint Ventures:

These types of partnerships rely on active participation of both the public and private parties. Although not as common as the two other types of partnerships, joint ventures are often the most visible simply because the parties are both responsible for significant actions required to fulfill the partnership's objectives. Examples of joint venture partnerships would include *land readjustment* schemes as practiced in Japan and Korea (see center column), and the *land sharing* technique developed by Thailand's National Housing Authority in partnership with private landowners. Another example of a joint venture can also be found in Thailand: the "Housing Policy Subcommittee" of the government's National Economic and Social Development Board. As implied by the name, this group consists of representatives from both the public and private sectors, and develops national policies affecting shelter. In most all cases the government takes the lead in establishing the mechanism and implementing joint ventures and other examples of public/private partnerships identified by the Subcommittee.

Passive Partnerships:

Passive partnerships may be the most common, if overlooked, form of public/private partnership. Simply speaking, such an arrangement is predicated upon the government giving the private sector a freehand in addressing those needs for which it can economically provide. It is in essence an implicit partnership, which nevertheless benefits both parties. Government's responsibility in the "deal," as one participant in the Policy Seminar put it, is "(to) get out of the way." In a passive partnership government regulation, and indeed involvement of any type is kept to a minimum.

JOINT VENTURE PARTNERSHIPS

Two specific techniques for achieving the objectives of public/private partnerships are featured below. As the World Bank noted in its 1988 World Development Report chapter on financing local government, both techniques can be included under the general category of "benefit financing". Benefit financing techniques all effectively shift the cost of providing services, land and infrastructure from the general (often property tax paying) public to those who directly benefit from the urban development activity. The first technique is ***land readjustment*** *and the second* ***development charges****. Both techniques reduce the financial outlays by local governments for land development and other infrastructure provision by transferring responsibility for these costs to the private landowner, property developer, or other beneficiary.*

Land Readjustment

Modern land readjustment has been practiced in Korea, Japan, Taiwan, and to lesser extent, India. Although the technique differs somewhat in all of these countries, the basic procedure is the same. Numerous small parcels of raw land owned by a variety of parties are consolidated by a public or private entity set-up to administer the program. Nothing is paid to the owners for the land. The land is serviced and subdivided for urban use and a portion of the developed land is then returned to each original owner. The amount of land returned is based both on the initial value of the landholding and the new value of the serviced land.

The advantage of land readjustment is, of course, that either public or private entities can develop land without the need to finance land purchase. Financing is still required for land servicing costs, but since the debt can be retired as soon as the land is sold the financing term is relatively short. For both reasons carrying costs are kept very low, which results in more affordable prices for the final product whether it is housing plots or industrial sites. Land readjustment can be a prime example of public/private partnerships.

Development Charges

Development charges are actually best described as a class of related benefit financing techniques. Some are already in use in less developed countries (LDCs), while others have only been widely utilized in the United States. Descriptions of the most common techniques follow.

In a public/private partnership in Thailand, private-sector builders are constructing housing on slum land serviced by the National Housing Authority.

Development Fee
Payments made by property developers in exchange for the 'right' to develop their land. Funds thus collected are used for financing new public services and off-site infrastructure required by the development, for example, public schools and water distribution network extensions. In rare occasions the developers may opt to construct the improvement(s) themselves in lieu of payment of the fee.

Development Impact Exaction
A specialized variety of development charge assessed on a developer of property in order to finance additional facilities and services necessary to mitigate adverse impacts on existing members of the community caused by the development. Development impact exactions can be assessed on developments in newly urbanizing areas, or inner-city "infill" or redevelopment sites. Exactions are often used to manage urban growth by requiring that adequate public services keep pace with land development and that growth does not negatively impact existing residents.

Betterment Levy
A type of assessment designed to recover the cost of infrastructure development from direct beneficiaries identified on the basis of real property values increased by the infrastructure or service improvement. Betterment levies are based on the concept of "value capture", or public recapture of the value created in an area by expenditure of public funds. Such levies are used to help finance roadway development and improvement in Latin America, where they are known as "valorization" charges. Conceptually, betterment levies are very similar to land readjustment; it is easy to imagine the two techniques used in conjunction. For example, development costs for a specific area of land could be financed using land readjustment, while the costs associated with providing off-site road access or waterline extension could be covered by the betterment levy.

Conclusion
Benefit financing techniques such as land readjustment and development charges offer proven methods by which public/private partnerships can be put into practice. Although they can be administratively complex, their successful use in Asia and elsewhere demonstrates the complexity can be managed, and indeed, underscores their utility in reducing the need of public expenditures for private development needs.

Government provision of services or shelter that it has no comparative advantage in providing, often in competition with the private sector, has only led to reducing the levels of resources available for infrastructure and shelter programs. Unfortunately, examples in Asia of passive partnerships are still rare. Perhaps the closest example, at least in terms of shelter provision, can be found in Thailand where housing development is booming and at the same time shelter is becoming more affordable to lower income households. This result has been accomplished more by relaxing regulations and reducing public sector housing programs than by explicitedly promoting the sector through various incentives, or engaging in formal joint ventures. Having said that, Thailand's success does also involve a limited degree of pro-active public actions, such as streamlining the land transfer process, designed to facilitate private involvement in the housing sector. Facilitation is a key feature of the last type of partnership.

Facilitative Partnerships:
In a facilitative partnership, government plays a supportive role in program implementation, yet has important responsibilities in developing policies that succeed in mobilizing private initiative. The public sector takes an active role in facilitating progress toward mutually agreed-upon objectives, concentrating on the regulatory framework, economic incentives and policy development functions that are legitimate public concerns. The facilitative type of partnership holds great promise.

In a workshop entitled, "Public Private Partnership in the Provision of Infrastructure for Human Settlements" held last year in Indonesia, a participant from the Netherlands stated that for any type of partnership the following circumstances should be sought to promote the chances of success:

1.) Mutual trust and goodwill. The initial phase appears to be of great importance for the quality of the partnership. Agreement on a unified course of action is a matter requiring particular care.
2.) Convergence of interests. It is important to recognise that both between the public and private sectors, and within each sector, different individual goals and interests apply. A successful partnership can be formed only if these different goals are not mutually exclusive and, preferably, if they complement each other.
3.) A business-like and market-oriented approach and procedures. The public sector must start to think more along these lines than in the past, especially if it accepts risks as a partner must under such an arrangement. The necessary expertise must be developed by the public sector; such a result can be another objective of a successful partnership. The private sector should as well forego its monopolistic tendencies to support greater competition.
4.) Coordination and correlation of policies and actions within the public sector. Public/private partnerships cannot work if the result is put at risk by government entities outside of the specific partnership agreement. It must be the responsibility of the government entity involved in the partnership to ensure that the necessary coordination takes place.

cont'd. on page 8

PRIVATE SECTOR PARTICIPATION IN MUNICIPAL SERVICES DELIVERY IN THIRD WORLD CITIES:

*A Select Annotated Bibliography, prepared by Amy U. Nolan, A.I.D. Office of Housing and Urban Programs.**

'Privatization' is broadly defined as the mobilization of private resources... energy, skill, money... to more effectively service the needs of economic and social development. Many LDC governments hold that services such as health care, water supply, and education are merit goods and therefore should be provided not only without charge but exclusively by the public sector. Yet many of such services are enjoyed only by a small minority, while paradoxically the poor majority are served if at all by "informal" private services delivery. The author favors wider resort to the private sector to expand urban service delivery. Three areas recommended for prompt action by LDC cities include: (1) privatization of management, eg., contract and lease mechanisms; (2) contracting-out of maintenance and services, eg., load-shedding; and (3) deregulation to encourage greater and more efficient private sector participation.

1.) BERG, ELLIOT
The Potentials of Privatization in the Development Strategies of the 1980's; (Paper presented at the Development Policy Seminar for Senior UNDP Executives, The Institute of Social Studies, The Hague (November, 1982))

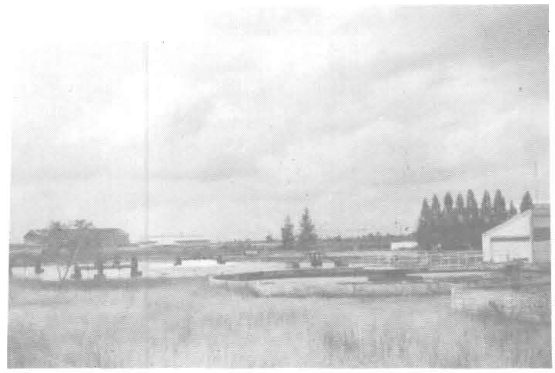
This paper identifies privatization of services as the policy area with the greatest potential in terms of lightening the public sector burden, increasing the efficiency of resource use, and stimulating growth. Private provision of services presents less explosive political issues than divestiture and is therefore more amenable to reasoned policy dialogue. It mobilizes new resources, mainly increased individual effort, greater intensity of work, and the commitment of skills useful in the marketplace. The author discusses examples of private provision of services as well as government contracting of services in numerous LDCs. Ultimately the larger role for the private sector is seen as a vehicle for dispersion of economic authority and thus contributing to more decentralized and democratic societies.

2.) BERG, ELLIOT
Changing the Public-Private Mix; IMF Document DM/83/10 (February 1983)

This paper acknowledges that most developing countries operate under a highly centralized form of government when development depends on integrating the efforts of all government levels. In particular, effective public sector management depends on the ability of the central government to harness the resources of lower levels of government. Cochrane states that many developing countries depend heavily on local government to deliver basic services but do not accord local government the authority or administrative capacity sufficient to generate local revenues to support the cost of such services. The cost of services can be recovered from the consumer: (a) through user charges; (b) the local government revenue base; or, (c) the central government, either through revenue sharing or the grant system. The author advocates greater use of user charges by local authorities since those who consume services and who have the necessary resources are in principle those who should pay. Refuse collection, electricity, telephones, public housing and recreation are areas in which cost recovery is recommended. A proliferation of local public enterprises or branches of national corporations such as a national water and sewerage authorities, while providing or financing certain services, are frequently poorly managed and regulated resulting in serious waste of local resources and functional fragmentation. Publicly-structured service delivery approaches have turned out to be static rather than dynamic with little improvement in performance over time.

3.) COCHRANE, GLYNN
Policies for Strengthening Local Government in Developing Countries; World Bank Staff Working Paper No. 582 (July 1983)

*** NOTE :**
Additional material relating to public/private partnerships that has been published since Nolan's bibliography will appear in a future issue of Asia Perspective.



Public treatment facilities for (private) industrial waste illustrate one partnership arrangement.

4.) COINTREAU, SANDRA J.
How to do More With Less: Reducing Solid Waste Services Costs; (Paper prepared for World Bank Seminar on Management Options for Urban Services; Cesme, Turkey (November 1985))

The author quantifies the costs of solid waste management in developing countries which, on the basis of field observations, can consume 20 - 40 percent of a municipal budget. The article underlines the importance of maintaining municipal or metropolitan control of the service even if some operations are delegated to the private sector. The experience of developing countries with contracting out for this service is that mostly international waste management service firms are retained because local private enterprises, if they exist at all, are not equipped to meet the demand. The author calls for joint-venturing of international firms with local firms to promote and develop the private sector capacity in solid waste management in developing countries.

5.) COYAUD, DANIEL P.
Private and Public Alternatives for Providing Water Supply, Sewerage and Other Municipal Services (paper prepared for World Bank Seminar on Management Options for Urban Services (Nov. 1985))

The paper identifies and discusses institutional alternatives for public or private delivery of water and sanitation services, models which might be used for other urban services as well. The French experience in water supply is used as the framework for discussion as the French have tried or tested most of the institutional alternatives both at home and in former francophone colonies. Alternatives discussed include: government-owned institutions; privately-owned institutions; contracts for specific operating services; management contracts; management contracts with profit sharing arrangements; leasing; and, concessions. A table comparing management options of the various alternatives is incorporated into the paper.

6.) HANKE, STEVE H.
The Private Provision of Public Services and Infrastructure; John Hopkins University, Baltimore, MD. (Report prepared for A.I.D. Bureau of Private Enterprise (May 1984))

This report investigates the desirability of substituting private supply for public supply of goods and services that are typically thought of as being the sole responsibility of the public sector. The report is divided into three sections discussing: (1) theoritical support for privatization; (2) comparative cost studies presenting positive empirical evidence for the proposition, mostly from developed countries (34 service sectors are covered); and, (3) types of privatization - complete, partial and temporary. The report concludes that privatization of public infrastructure and services is a desirable policy that should be encouraged by A.I.D. in developing countries because it allows for more economically efficient output or increased quality and/or quantity of output for the same resources.

7.) RONDINELLI, DENNIS, ET. AL.
Decentralization in Developing Countries: A Review of Recent Experience; World Bank Staff Working Paper No. 581 (Jan. 1984)

A large number of governments in developing countries have attempted to decentralize development planning and management responsibilities during the past decade. The author categorizes decentralization in developing countries into four types: decentralization, delegation, devolution, and privatization. In most cases, privatization has not been a deliberate policy of governments but has usually evolved from situations in which private sector firms began offering goods and services that government provided poorly or not at all, or only in some parts of the country. The document lists a number of private sector organizational arrangements used by developing countries for project implementation. Among these, the role of non-governmental parallel organizations, community development associations, in the delivery of services to meet human needs is discussed.

8.) ROTH, GABRIEL
Private Provision of Public Services in Developing Countries; Oxford University Press (Book prepared for the World Bank (Jan. 1987))

This book challenges the notion that public services in LDCs can only be supplied by the public sector. The author presents and analyzes examples of private sector provision of public services in LDCs in six areas: (1) education; (2) electricity; (3) health; (4) telecommunications; (5) urban transport; and, (6) water and sewerage. The author argues that the experiences of one country, however, do not necessarily imply suitability for another country. Each situation has to be examined on its merits, viewed in light of the traditions of the society concerned and of the resources, both the public and private, available to it.

CONFERENCES

RHUDO conducted its second ***Regional Policy Seminar****, June 19-23 in Jakarta. The title of the event was, "Policies and Programs to Promote Public/ Private Partnerships in Shelter and Urban Development"*. It was attended by sixteen shelter and urban development experts from the region, along with RHUDO staff and senior representatives from A.I.D.'s Office of Housing and Urban Programs in Washington, D.C..

This event was the second forum for this "Expert Group" to meet and discuss key issues in the shelter and urban development sector (see issue no. 1 of *Asia Perspective* for a description of the first). The event's theme issue of public/private partnerships had been awarded very high priority by the participants in the earlier meeting.

Peter Kimm, Director of the Office of Housing and Urban Programs, gave the keynote speech. Mr. Kimm stressed that government is still important, but its proper role is best defined as one that encourages and facilitates greater private sector participation in financing and developing the provision of public services. For instance, one possible public role in a partnership includes establishing objectives and providing an appropriate regulatory system that results in improving the quality and efficiency of services provided to the public.

Government attempts to have a role as a supplier of shelter, and to a lessor extent urban services, have largely been a failure. Mr. Kimm emphasized that government can more effectively increase the supply of shelter and urban services by finding ways to mobilize private participation in these markets. He argued that it is in the "rules of the game", ie., regulation and supervision, where government involvement is most natural. The skill and sensitivity with which it performs this function will have a major influence on the market efficiency for shelter and urban services. It is significant that these "natural" areas of government involvement require little in the way of public funding.

Mr. Kimm concluded by listing three 'rules' for successful public/private partnerships:

1. clear and open delineation of responsibilities regarding roles,obligations and freedom of action;

2. respect by the private sector of the public sector's role in setting and enforcing appropriate regulations and standards; and,

3. respect by the public sector for the private sector's ability to deliver shelter and urban services within the established rules of the game.

The first session of the seminar involved an exchange of participant experiences with public/private partnerships in shelter and urban development. The participants offered a wide range of experiences in their countries, although it became clear that some countries have progressed much further than others in the use of partnerships. For example, participants from India and Pakistan stated that their respective governments were in many ways still wary of (formal) private sector motives, and that partnerships were therefore limited. On the other hand, experts from Thailand and Indonesia shared a number of examples of existing or proposed public/private partnerships. As one of the seminar facilitators commented afterwards, such a diversity of experience was welcomed and indeed promoted learning, which for all of the participants including the RHUDO staff was a significant outcome.

In the next two sessions a wide variety of key policy issues in shelter and urban development were discussed. This was followed by a field trip to the site of the Bumi Serpong Damai new town outside Jakarta. This private sector venture provided a useful and concrete example of one form of a successful public/ private partnership. The last session included a presentation by the Indonesian Ministers of Public Works, and, Housing, and an ensuing roundtable discussion. The participants discussed new perspectives they had gained from the seminar, and what opportunities might exist for future actions.

POLICIES AND PROGRAMS TO PROMOTE PUBLIC/ PRIVATE PARTNERSHIPS IN SHELTER AND URBAN DEVELOPMENT

SPONSOR:

Regional Housing and Urban Development Office for Asia (RHUDO/Asia)

TRAINING

THE ROLE OF MARKET TOWNS IN STIMULATING NATIONAL ECONOMIC DEVELOPMENT

SPONSER:

His Majesty's Government of Nepal (HMG/N), in conjunction with RHUDO/Asia and USAID/Nepal.

A three-day workshop was held September 12-14 in Kathmandu, Nepal on the role of market towns in stimulating national economic development. The workshop was sponsored by His Majesty's Government of Nepal (HMG/N), in conjunction with RHUDO and USAID/Nepal. The Research Triangle Institute (RTI) developed and conducted the event. A total of fifty-five individuals, including five from Indonesia and eight from Pakistan, participated in the event as attendees, researchers, and observers.

The major themes of the workshop were:

- The economic framework of market town development, linking agricultural development, urban infrastructure investment and employment generation;
- The newest methods for conducting market town analysis, covering agricultural marketing and processing functions, investment needs, and local financial capacity analysis; and,
- The support requirements of market town development covering local government management, infrastructure financing and workforce development.

Dr. Prakash Chandra Lohani, Minister of Housing and Physical Planning gave the inaugural address in which he stressed the need for going beyond past HMG/N strategies that focused on growth corridors and growth axis concepts - ideas based more on spatial than economic criteria. Dr. Lohani said that among the essential ingredients of economic transformation are an increase in the productivity of labor and a simultaneous expansion in marketing and trade. He added that market towns play an important role in this process by providing the necessary technological, institutional and informational inputs to rural settlements, allowing them to recognize their economic potential.

The seminar presentations fell into two categories: first, "market town description and analysis", outlining general principles and methodologies; and, examples from Nepal illustrating these principles and methodologies. Presentations in the first category were made by Dr. Dennis Rondinelli, RTI, and Mr. Harry Garnett of Abt Associates. In the second segment the participants heard from Dr. Pitamber Sharma, Tribhuvan University; Dr. Charles Strickland, USAID/Nepal; Mr. Raju Tuladhar, Management Support for Urban Development Project (MSDP), Ministry of Panchayat and Local Development; and, Dr. James McCullough, RTI.

Detailed information on this event will be contained in the next issue of *Asia Perspective,* which will focus on market towns as a means to link and support urban and rural development strategies.

For further information on the Market Towns workshop contact RHUDO, or:
Dr. James McCullough
Office for International Programs, RTI P.O. Box 12194
Research Triangle Park, NC 27514 USA
Telex: 802509
Fax: (919) 541-5989

Market towns are important sites of agro-based economic activities, as this cotton-ginning operation located northwest of New Delhi illustrates.

cont'd. from page 3

5.) Continuity. Partnership programs may stretch over a long period and it is important to allow scope in the agreement to respond to changing circumstances. Political changes can result in an altered government perspective of the partnership and while particular situations cannot be foreseen, procedures for the management of conflicts in the event of a dispute between the partners should be addressed in the original partnership agreement.

Conditions for Public/Private Partnerships

Before the type of partnership mechanism is decided upon, certain conditions in the sector should be assessed. Such an assessment should focus on the needs within the sector, and the relative capacities or strengths of the potential public and private participants. A possible framework for this type of assessment is offered below to address the question: *What is the relationship between the public and private sectors?*

Public/Private Partnership Assessment

Public Sector Capacity	Private Sector Capacity
What programs are government currently pursuing? How effective are these in meeting objectives and why have they succeded or failed?	In what areas does the private sector operate and what is its technical expertise in shelter and urban development? Which areas could be strengthened?
What budget and other financial resources are available? Are funds adequate to administer current programs or expand others?	Are private sector firms well-managed, profitable, and investing in the local economy? What factors affect this performance?
What organizations have responsibilities in the shelter and urban development areas, and are the roles clear, well defined and coordinated?	Is capacity widespread among many private entities or is it confined to a few operating in particular areas, ie., what level of competition exists? Do public sector entities compete with private sector firms?
What policies, regulations and standards affect the shelter and urban development sectors? Are they effective or should they be revised, and if so, in what ways? How do they facilitate or hinder private sector participation in these sectors?	Do private sector concerns have adequate access to manpower, equipment, materials, capital, and other inputs? What factors affect private sector access to these?
What incentives and subsidies are the government providing? What is the cost associated with them? Are they necessary?	Does the private sector, including the informal sector, have the resources and capacity to expand activities?What is needed to strengthen the private sector capacity to provide shelter and urban services?

Public/private partnerships are no panacea for all the challenges of shelter and urban development, but when developed and used appropriately they offer an important means to expand the supply of a variety of resources available through private initiative. RHUDO will continue to assist both public and private sector entities investigate the potential of such arrangements throughout the Asia region. If you, the reader, have an idea for an innovative partnership that you'd like to share or discuss, or would like further information on the concept, please do not hesitate to contact us.

RHUDO REGIONAL STAFF

David L. Painter
RHUDO Regional Director

Earl Kessler
Deputy Director/Regional Housing and Urban Development Officer

Thomas Johnson
Regional Housing and Urban Development Officer

Barbara Foster
Regional Training Advisor

RHUDO COUNTRY STAFF

SRI LANKA
Dianne Tsitsos
Mission Housing Advisor
(USAID/Sri Lanka)

INDIA
Michael W. Lee
Urban Affairs Advisor
(USAID/India)

INDONESIA
William Frej
Urban Development Advisor
(USAID/Indonesia)

THAILAND
Donald R. Hubbard
Housing Advisor
(USAID/ Thailand)

ASIA PERSPECTIVE

c/o RHUDO/Asia
37 Soi Somprasong 3
Petchburi Road Bangkok 10400
TEL. (662) 255-3650
FAX. (662) 255-3730

Editor: Thomas Johnson
Typesetting by : CompuPrint

ASIA PERSPECTIVE

URBAN LAND MARKETS IN ASIA

CONTENTS

LAND VALUE AND PRICE 2

LAND MARKET EFFICIENCY 4

RHUDO LAND AGENDA 7

CASE STUDIES 8

A publication of the U. S. Agency for International Development, Regional Housing and Urban Development Office for Asia (RHUDO/Asia) APRIL 1990
VOL. 2 NO. 1

Introduction

In this issue ASIA PERSPECTIVE *highlights the topic of urban land in Asia. This focus helps lay a foundation for the upcoming 1990 RHUDO Regional Policy Seminar which will have urban land delivery as its theme. Land is also one of the key urban and shelter related issues likely to affect our readership's professional responsibilities and interests.*

Land issues are especially significant in Asia for at least two major reasons:

- Demand for urban land is significant due to continuing rapid urban growth rates and the absolute size of the urban populations; and,
- Land is a basic economic asset that can and should be put to productive use in the effort towards economic development. This is especially true in urban areas that are increasingly becoming Asia's "engines of economic growth." Unfortunately, increased economic growth almost always results in urban land prices increasing at a faster rate than desirable and thus reducing land's accessibility to many urban residents.

While the populations of most Asian countries are still predominately rural, unlike most Latin American countries, and the urban growth is less than that in many African countries, the gross number of new urban residents that many of Asia's cities must cope with during a relatively short period of time is unheard of in human history. For example, the Government of India's National Commission on Urbanisation projected in 1987 that, based on the then current urban population growth rate of 3.5 percent, the urban population would increase over the next 20 years by a total of *340 million*. This increasing population has many needs: food and water, employment, shelter. Land is arguably one of the most important factors of all.

The task of providing serviced land for millions of new urban households per year is daunting under the best of circumstances, and the situation in Asia is made significantly more difficult due to several factors, including:

- inappropriate policies that both directly and indirectly distort land allocation,use, and price;
- inadequate financing for land servicing and development;
- institutional inefficiencies within public agencies reponsible for urban land management; and,
- private sector land requirements, especially those of the informal sector, that are met largely outside a manageable policy and service provision framework.

All of these factors work to reduce the efficiency of urban land markets to allocate and price land appropriately. Its relatively easy to see how the increased demand for urban land brought about by population pressures and economic growth is reflected in its increasing price. What is all- to-often overlooked, however, is that the factors mentioned above work to reduce the supply of land and thus contribute not only to scarcity, but significantly higher land prices as well. Therefore, it should come as no surprise that urban land prices in many Asian cities are among the highest in the world, especially when considered relative to average household incomes.

TABLE 1:
Projected Land Needs for Third World Cities (1986)

City	Population (000's)	Land Area (Km^2)	Existing Density (P/Ha)	2000 Projection (000's)	Projected Need (Km^2)
Bangkok	2,050	291	70	11,030	1,101
Karachi	4,000	237	169	15,862	675
Madras	2,470	128	193	10,375	343
Bombay	3,840	68	565	19,055	212
Calcutta	4,200	127	331	19,663	350

SOURCE: PADCO (1985)

The key is to expand the supply of urban land, and thereby reduce price increases by enhancing the efficiency of urban land markets to allocate and price land. *This can be accomplished first-and-foremost by mitigating the constraints on the market.*

Although the specific urban land issues facing different countries in Asia may be varied, there are certain broad, interrelated issues of which that every policymaker should be cognizant.

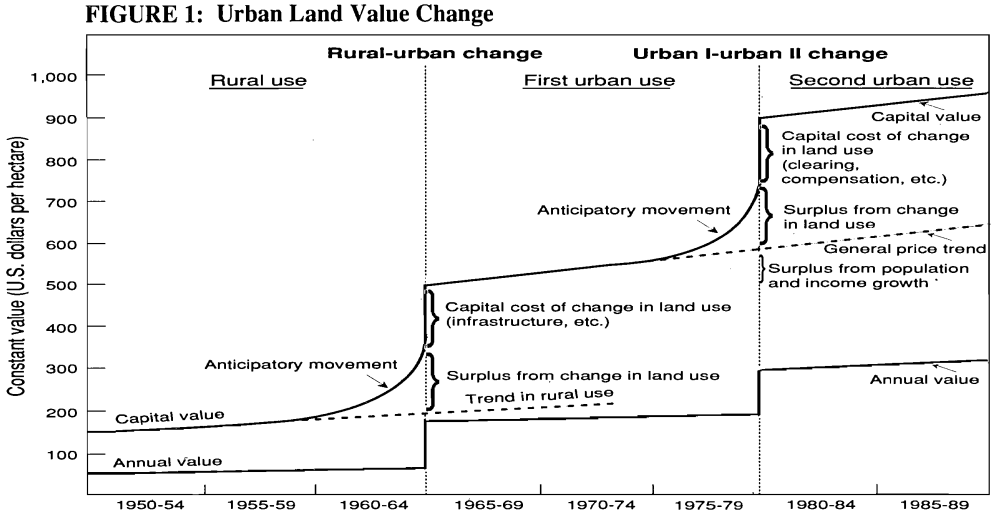
- What gives land value, and how is price determined?
- What is the role of land in the urban economy?
- How can urban land market efficiency be increased?
- What is the appropriate level and type of governmental intervention in the dynamics of the urban land market?

Cases studies in Asian countries of various aspects of urban land regulation, allocation, pricing and servicing follow the review of these issues. One final note: although urban land has many uses, eg., commercial, industrial and institutional, the focus of this examination will be on land's use for shelter.

Land Value and Price

To begin, a distinction must be made between the value of urban land and its price. The two concepts are frequently thought of as though they were the same, and this confusion has often led to inappropriate public interventions in land markets, or ill-advised private sector actions. The **value** of land is a measure of its intrinsic economic worth. If defined in terms of money, this value should, in a 'perfect' market, determine the land's **price**. However, the world does not contain any perfect markets, since no one yet has learned how to read the future; as a result, price and value can only be approximations of each other. Experienced investors do analyze a variety of future conditions that will affect the value of the land they are considering for purchase, based on the best possible information they can assemble. This analysis is the basis for the "market mechanism" of land pricing and allocation.

FIGURE 1: Urban Land Value Change



Factors Affecting Demand for Urban Land

Factors Relative to Land Price in General

1. *general availability and rate of return on alternative investments, relative to the expectation of inflation and the absence of other inflation hedges;*
2. *the availability, cost and conditions of credit;*
3. *economic and urban income growth rates;*
4. *taxes and other fiscal or regulatory influences that reduce income from land*
5. *general uncertainty concerning future regulation or expropriation; and,*
6. *current supply of land to the market*

Factors Relative to Specific Land Parcels

7. *accessibility, especially as related to transportation costs;*
8. *availability and level of infrastructure and services;*
9. *nearby land uses, and in particular externalities arising from those uses;*
10. *level of risk associated with the parcel, eg., potential of change in allowed (regulated) use; and,*
11. *required development standards and other regulatory reqirements.*

Factors Affecting the Supply of Urban Land

1. *availability of infrastructure and service delivery associated with land development;*
2. *planning and land use regulations, eg., zoning, infrastructure standards;*
3. *transaction procedures and costs, ie., titling problems;*
4. *availability and cost of financing to develop land;*
5. *general skill levels of land developers and public administrators;*
6. *overall physical limitations of urbanizable land;*
7. *attractiveness of alternative economic activities;*
8. *land market information (reduces risk); and,*
9. *type of land tenure.*

Land supplies can be constrained by physical characteristics such as poor drainage. Development of marginal land by the formal sector is often very costly, while use of such land by the informal sector often has undesirable environmental consequences.

Additional Considerations Affecting Urban Land Value and Price:

- *Market values, though fundamentally based on economic returns, also depend on the extent to which the landowner is entitled to the full economic return eg., taxation of income derived from land can lower its value and price;*
- *As with other types of investments, a general rule is that the higher the risk the higher the rate of return and the more rapid and sudden the rate of price increase. Lowering risk, for example, through better information, will therefore moderate price increases;*
- *In a stable "price environment", land prices and returns should be such that the annual rate of return on holding serviced land is equal to the rate of return on unserviced land, ie., the costs and value of servicing land are perfectly capitalized into its new price and there is no incentive to speculatively hold unserviced land off the market. However, due to market imperfections such as the supply-side constraints listed earlier, such a stable price environment is rare at best;*
- *In many countries, including some in Asia, the high price of land relative to the value of its current surplus value reflects the expectation of high inflation rates and the absence of other inflation hedges; and,*
- *Market prices are also affected by the general availability of other forms of readily marketable securities for the alternative investment of savings. Development of viable capital markets in a country should ease the pressure on land prices.*

When land markets operate efficiently, land prices closely reflect the intrinsic economic value of the land, and prices cannot, objectively, be said to be "too high", or too low as is the case when developed land inputs are subsidized resulting in speculation and exclusion of low-income households (see the Karachi case study on page 10). However, an inefficient urban land market can produce land prices which are in excess of the land's value, and therefore can accurately be said to be "too high". If, as discussed below, land markets are distorted by any number of factors, value and price exhibit less congruence.

Determinants of Land Value

The most basic principles affecting land value are supply and demand. Those factors contributing to higher urban land values are:

- increasing **demand** for serviced urban land brought about by a growing urban population and often exacerbated by rapid economic growth; and,
- **supply** constraints - both natural and artificial - which reduce the availability of serviced land.

Within these two broad categories, are a number of specific influences upon both urban land prices in general, and of unique parcels of land. These are presented in the center column.

Land Markets and the Urban Economy

The significance of land markets in productive urban economies should not be underestimated. An efficiently functioning land market involves the allocation and pricing of land resources that both literally and figuratively underlie all economic activity in an urban area. An efficient land market insures that required services are available to businesses, land can be easily transferred thus ensuring the mobility of labor and capital, and that land is accurately priced. When urban land markets are not functioning efficiently, economic productivity fails to reach the potential that is inherent in urban areas. For example, in Bangkok desperately needed transportation improvements, and in particular an expanded roadway network, are essentially precluded from serious consideration due to the high cost of land required to be expropriated for road right-of-ways. A recent study estimated that Bangkok's traffic congestion reduces the area's annual GDP by 10 per cent.

Land tenure and price considerations can also affect the urban economy by constraining the mobility of the labor force. Where land titles are confused and land transfers problematic, residential mobility can be reduced due to difficulties in exchanging properties, and labor supplies may have difficulty in responding to demand from businesses. Land prices, especially in center city areas that are difficult for working class households to afford, can also result in disequilibrium between labor supply and demand. Both of these problems are obviously compounded when urban transportation systems are deficient.

In fact, this remains an issue in the United States. In portions of the suburban area around Washington, D.C., where land values are among the highest in the country, labor shortages exist because workers for many service sector positions there cannot afford to live near the employment sites. In addition, the public transportation system was not equiped to provide access from the central Washington area, where a significant labor pool exists, to the outlying employment centers. A partial solution was found as a result of employers arranging private transportation from central Washington (corresponding to low land value) to the job sites. Undoubtedly this problem has a cost to the urban economy.

An efficiently functioning urban land development delivery system allocates and prices land according to its highest and best use. However, market allocation of land use is not always well suited to prevent externalities, ie, differing land uses in the same vicinity creating problems for each other.

Land Market Efficiency

An efficiently functioning urban land development delivery system allocates and prices land according to its highest and best use. While social considerations, such as housing affordability across an entire city may not be addressed, the answer to these problems is not to intervene in such a way that lessens the efficiency of the land market, but rather to adopt measures to mitigate the effects of a market-based allocation and pricing system. Bangkok provides a good example. Although land prices have increased significantly over the past few years, housing affordability has actually increased due to the allowance of more appropriate land subdivision and infrastructure standards. If a land market becomes disrupted through inappropriate policy intervention the entire urban population, including the poor, will suffer the consequences. India's Urban Land Ceiling Act (see page 9) is a clear example of this result.

Land market efficiency can be promoted in several, often related ways:

- *Increasing the quantity and quality of market information;*
- *Reducing uncertainty regarding government policies, regulations, and actions;*
- *Lowering non-monetary transaction costs through the development of streamlined land transfer procedures, and accurate land title and cadastre systems;*
- *Insuring the timely provision of infrastructure to service urban land; and,*
- *Removing incentives to speculate in land; for example, by promoting the development of alternative investment opportunities.*

Increasing the quantity and quality of information

If accurate information regarding land markets is lacking or deficient, then inefficiencies will be introduced through higher transaction costs and increased risk. Information is important for both public and private sector participation in land market activities. Public sector regulators and service providers benefit from accurate information concerning land transactions, ownership, and locational demand for land. The latter information, for example, is essential for taking advantage of economies of scale in the timely provision of infrastructure to areas with high demand for urban services. Private sector land market investors and developers need information on service provision, demand for various land uses, and recent transaction costs and land prices. The greater the quantity and quality of information available to all parties, the more risk will be reduced and the closer land prices will correspond to true land value - the test of efficiency in any marketplace.

Key Characteristics of Land

An understanding of urban land markets in Asia may be assisted by understanding of several characteristics that are unique to land, including:

- *Its quantity: it cannot, except to a very limited extent, be created or destroyed. However, the intensity of land use may be increased, thus serving the same purpose as additional quantities of land;*
- *It is, along with labor and capital, one of the three classic elements of all production. In urban areas, economic productively is dependent on sufficient land supply and its efficient use;*
- *Its value is to a significant degree 'created' by the demand associated with the public phenomenon of urbanization and economic development. In LDCs land often represents a very significant portion of the country's total wealth. The efficiency of the country's land markets are therefore of great importance.*
- *Land differs from other commodities in that it is used for producing some other good or service. The demand for land is therefore derived from the demand for the product or service produced on the land, or for its private use for housing;*
- *However, land is sought not only for production purposes, but also as long-term investment or as a basis for savings. In fact, land is often a very attractive, inflation-indexed investment for both the wealthy and individual households.*
- *Land is physically undepreciable and thus does not lose its value over time. While a few investments gain in value as they age, eg., most art, wine, etc., virtually all other commodities depreciate.*
- *Since each piece of land is unique in terms of location, it is generally considered in law and economics to be a non-fungible good, ie., one unit cannot be substituted for another. Since land is locationally unique and is of course not transportable, the price of land in a specific area is principally fixed by the supply and demand in that location. Land values are affected, however, by what has been called a "chain effect" in which high land prices in one area affect lower-priced land located elsewhere in the urban area.*

Efficient urban land markets promote the provision of low-cost housing. These condominium units in Bangkok are affordable by 60% of the city's households.

*The **"urban land market"** can be broadly viewed as the context in which the supply (sale) and demand (purchase) of land takes place. The market includes land, both developed and undeveloped, in a specific "market area", as well as the institutional environment in which it operates. Large metropolitan areas will have several identifiable sub-markets corresponding to particular market influences such as accessibility, land use, physical and amenity characteristics, etc.. The urban land market also involves non-physical components such as land tenure types and ownership patterns, and processes such as transactions and physical improvement. Urban land markets are affected by a multitude of influences, from demographic trends and economic growth, to monetary policy and information availability.*

*An **"urban land delivery system"** can be defined as the process by which raw or underdeveloped land is assembled/acquired, serviced with various types of infrastructure, (re) subdivided (if necessary), and made available for use by households, businesses, or the public sector. The delivery system is comprised of the operational relationships between several land market components.*

Reducing uncertainty regarding government policies, regulations, and actions involving urban land

If uncertainty about external influences upon a land market are reduced, then the perception of risk is likewise reduced and market efficiency increased. This fact is obviously closely related to the one involving better information. Since the private sector plays a significant role in land market activity, it is extremely desirable for it to have as much information as possible about government attitudes (as reflected in policies), interventions (regulations and procedures), and actions (service provision or expropriation). For governments concerned about the cost of urban land, reducing uncertainty is an important remedial step which they can take to improve market efficiency. As with all forms of market information improvement, reduced risk translates into lower prices, as the "uncertainty surcharge" is reduced.

Lowering non-monetary transaction costs through the development of streamlined land transfer procedures, including accurate land title and cadastre systems

If non-monetary transaction costs are lowered, then efficiency is enhanced through the reduction in time required for land development. Because transaction costs (both monetary and non-monetary) are usually fixed, and therefore do not vary proportionately with the size of the subdivision or plot being developed, these costs are considerably higher for small developments than for larger ones. Thus, transaction costs can be a particular obstacle to the development of more affordable land for shelter. It is interesting to note that in Thailand, where monetary transaction costs in the form of a land transfer fee are significant, but non-monetary transaction costs are relatively low (see pg. 8), the market has been able to produce a significant amount of affordable housing. This may provide support for the contention that non-monetary transaction costs, although more difficult to quantify, are often more substantial than monetary transaction costs.

Insuring the timely provision of infrastructure to service urban land

If urban infrastructure is provided based on the demand for serviced land, then the balance between land supply and demand will result in both a lower market clearing price for land and reduced transaction costs - both clear signals of market efficiency. The most powerful method to promote efficiency in any market is to take measures that balance supply and demand. The urban land market is no different.

Obstacles to the timely provision of urban infrastructure largely fall into two areas: *inadequate financing and institutional inefficiencies.* Insufficient financing is most often the result of failing to charge adequately for the full costs of service provision. The consequences of such a widespread policy are exemplified in the Karachi case study . Lack of funding to extend heavily subsidized urban services (where subsidies are usually justified on grounds of social equity) in most all cases results in low income households continuing to suffer from lack of access to serviced land. It is far better to lower the need for subsidies by increasing user charges to recover costs of services based on appropriate, ie., more affordable standards. "Informal subdivisions" found throughout much of Asia have developed using such standards; it is an unfortunate comment on many public land policies that it is often only the informal sector that is capable of supplying land for lower income households.

Existing urban services often suffer from a lack of adequate maintenance.

Installation of urban services in an "informal subdivision" on the edge of New Delhi.

Institutional inefficiencies on the part of public service providers are often also responsible for constraining the supply of serviced land. Such inefficiency can result from a variety of causes, but two major ones are lack of sufficient coordination between service providers, and procedural requirements involving many time consuming steps. The first source of inefficiency can result, for instance, in land with road access but no water supply or electricity. This problem is exacerbated when the land is sold by formal sector developers and demands are made for costly after - the - fact servicing.

A procedure for land development known in the Indian state of Gujarat as a "Town Planning Scheme" (TPS) exemplifies the second type of institutional inefficiency. The TPS is a form of land readjustment that holds promise as a means to both finance and expedite the assembly and servicing of privately-owned land. Unfortunately, unnecessary procedural requirements result instead in multi-year delays that render the process all but useless. (It is interesting to note that another main reason for lengthy processing required in the TPS process relates to the poor state of land records. This is a clear illustration of a manifestation of large transaction costs, and their direct link to constraining the supply of serviced urban land.)

Removing incentives to speculate in land; for example, by promoting the development of alternative investment opportunities

If strong incentives exist to purchase land as an investment, then demand for land is accentuated through its attraction both as an investment and for productive uses, and the efficiency of the land market may be lessened. Although the role of speculation in land price increases is often overstated, land is clearly a principal choice for investment in many LDCs. This is largely a function of the lack of alternative investment vehicles (stock markets, banks, industrial operations) combined with land's high yields and security. The process of urbanization, especially when accompanied by strong economic growth, also can greatly increase the demand for urban land thus assuring rising values. Supply constraints discussed earlier also can significantly push the price of land higher than its economic value, and thus make it much more attractive as an investment.

It is important to note that land investment is not just the result of big-money "corporate" involvement in the land market, but to a significant degree also that of a large number of small individual investors. Unfortunately, this quite logical form of investment is often perceived as speculation. The removal of constraints to land market efficiency, combined with the promotion of alternative investment options, will be more successful than regulation in reducing the "speculative" investment demand for land.

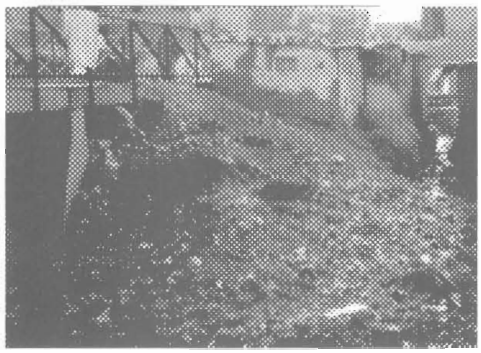
One final note on land market efficiency. In theory, the unregulated land market will allocate and price land efficiently, but in practice such markets do not reflect all of the economic factors affecting land price. For example, pure market allocation of land is not well suited to prevent differing land uses in the same vicinity from creating problems for each other. Market allocation and pricing also often fail to reflect the social costs that can result from unplanned land use.

Land Market Regulation

An efficient urban land market also needs some degree of appropriate government regulation. "Appropriate" may be defined as regulation that engenders the successful functioning of land markets. Circumstances of course differ, and the degree and type of regulation must be tailored to individual situations. One example of an appropriate regulation in some circumstances might involve separating land uses, a function that the market doesn't always perform well itself. To require that noxious land uses, a paint manufacturing factory for instance, locate some distance from schools would seem appropriate to the public. Some regulatory requirements are always desirable. For example, the requirement to register land subdivisions and sales is necessary to insure that future transactions are possible with minimal delay and cost.

Any regulation, to reduce its impact on urban land market efficiency, should meet the following criteria:

- *Its enforcement must be feasible at the level of administrative capability that can be reasonably expected;*
- *The cost of its administration must be reasonable in light of other demands on public funds;*
- *It must permit the kind of development that is desired by the public, at costs that they can afford;*
- *It must minimize the potential for arbitrary manipulation; and,*
- *The set of all policies affecting land market activity must be consistent within an overall framework and approach.*



Consequences of inefficient serviced land development include environmental degradation and associated health problems.

Conclusion: Initial Agenda for RHUDO Urban Land Program

It is hoped that this special issue of ASIA PERSPECTIVE *provides our readership with material that will engender thoughtful consideration and discussion of one of the key shelter and urban development related issues in Asia - the provision of serviced urban land.*

The material presented above represents RHUDO's perspective on many critical urban land issues in Asia. The actual agenda for any programmatic response would contain a more limited number of elements corresponding to country-specific urban land issues. RHUDO suggests the following points which are critical to any agenda be considered .

(1) Improvement in the efficiency of urban land market operations

Economic Efficiency

a.) Review and modification of public policies and regulations that both directly and indirectly distort land allocation, use, and pricing.
b.) Address legal requirements and administrative procedures that delay land acquisition and transfer, or constrain the supply of land.
c.) Address land information deficiencies which result in higher transaction costs, reduce the ability of suppliers to respond to demand for serviced land by the public, and hamper public sector planning and provision of services.

Reducing Environmental Costs

a.) Promotion of appropriate land use controls, including environmental impact assessments needed to mitigate environmental consequences of land development through timely service provision.
b.) Promotion of appropriate zoning to protect sensitive environmental areas, eg., groundwater recharge areas, areas prone to landslide, etc..

(2) Increasing the efficiency of serviced land development

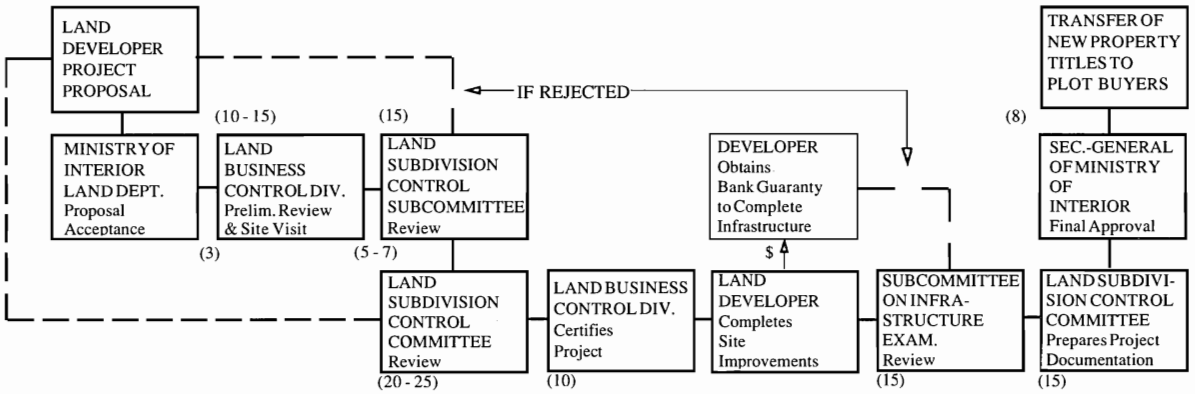
a.) Increase the understanding of the roles and contributions of all public and private sector parties involved in serviced land development.
b.) Address procedural and operational inefficiencies within and across public sector agencies responsible for land development and service provision.
c.) Promote public/private partnerships involving the development of serviced land projects.
d.) Promote the integration of "informal" land development processes with those of the formal sector found to be appropriate, especially in a manner that will anticipate incremental public provision of services.

(3) Increased mobilization of resources for land and infrastructure development

a.) Address public sector cost recovery which promotes sustainable serviced land development through recirculation of funds. Address public attitudes towards government provision of services and identify appropriate mechanisms and responsibility for cost recovery.
b.) Promote private sector project financial feasibility stressing pricing that recovers costs, product marketing, and affordability.
c.) Promote the development of mechanisms to finance infrastructure provision.

ASIA PERSPECTIVE welcomes our readers to respond, from their own perspective, to this preliminary agenda. Your insights will be valued as RHUDO increasingly focuses its attention around the region on these areas of concern.

FIGURE 2: THE LAND SUBDIVISION PROCESS IN THAILAND



( ) - No. of Working Days Required (Total - Approx. 100)

CASE STUDIES

Case Study No. 1: The Urban Land Delivery System in Thailand

Thailand has over the past few years been perhaps the best Asian example in which to examine the market's allocation and pricing of urban land. Although the government facilitates land development and transfers, as noted below, it has had little or no control over the character of land transactions, other than attempting to enforce the law against foreign property ownership.

The effects of rising land prices have been largely mitigated by housing developers who have reduced the size (and some would say quality) of their product directed at lower and moderate income families, and have built further outside the center city where land is less expensive. The Royal Thai Government has also adopted more realistic and affordable service standards such as road widths which have further lowered development costs. Low non-monetary transaction costs as a result of Royal Thai Government (RTG) land subdivision and transfer procedures have also resulted in greater affordability relative to other countries in the region.

The Land Subdivision Process in Thailand

The first step of the process is the submission of a land subdivision project proposal to the Ministry of Interior's Department of Land. The contents of the proposal consist of land title certificates, a project description, maps and plans, and details on the firm making the proposal. The next step involves the preliminary review of the documents and a site visit. This action is taken by the Land Department's Land Business Control Division.

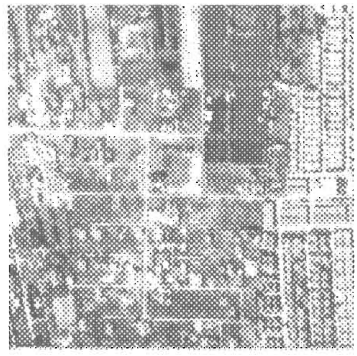
The third step is the responsibility of the Land Subdivision Control Subcommittee which considers the approval of the subdivision proposal. If the project is approved by the Subcommittee, the Land Business Control Division will transmit the project proposal to the Land Subdivision Control Committe for approval If approved, the Land Business Control Division will certify the project and transfer a copy of the certificate to the Land Department's provincial or Bangkok office, and the Bangkok Metropolitan Authority for plot subdivision and construction approval.

The land developer can begin improvements and project pre-sales after the Committee approval. After the completion of the site improvements, the Subcommittee on Infrastructure Examination will be appointed to examine the provision of improvements as per the approved plans. If the provision is approved the Land Subdivision Control Committee will prepare project documentation. If approval is not gained, the developer must submit bank guarantees to cover improvement deficiencies while correcting the problem.

The last step involves the recommendation by the Committee to the Secretary General of the Ministry of Interior to sign the final subdivision approval. Copies of the final approval will be sent back to the Land Department, which will then transmit them to the local land title office and to the developer. The actual transfer of the new property titles to the plot purchasers then takes place.

Adding-up the time required for the subdivision process, it can be seen from the diagram (top of page) that approximately 100 working days, or five months are required, exclusive of the time required for site improvements. This compares with an average of 32 months in Indonesia, and five to eight *years* required in Malaysia, as cited in two recent World Bank studies. It is clear that the process is much more efficient in Thailand, with correspondingly lower transaction costs. For example, the Thai subdivision process involves review or approval on the part of only five distinct government bodies, and all within the same ministry, while in Malaysia 15 to 20 separate government departments are typically involved.

The urban land delivery system in Thailand is quite efficient. As these aerial photos indicate even small in fill sites are developable for housing.



Case Study No. 2: The Urban Land Market in India

The approach to urban land pricing and allocation historically taken by the Government of India (GOI) is based on equity considerations that benefit the poor. Indeed, the national government has for many years viewed land more as a social than an economic good. While it is hard to argue that the social objectives are not without merit, almost all observers today agree that GOI land policies based upon these premises have failed. In fact, a strong argument can be made that some of these policies have actually exacerbated the poor's lack of access to urban land.

Of particular notoriety is the Urban Land (Ceiling and Regulation) Act of 1976 (ULCA). As a Indian member of the Regional Policy Seminar Expert Group observed, "The ULCA has been a disaster in terms of implementation, (that) and has resulted in the single largest increase in the cost of housing."

The primary objective of the ULCA was to reduce speculation and profiteering and to bring about an equitable distribution of land in urban areas, to benefit the urban poor. This was to be accomplished through the imposition of a ceiling on vacant urban land ownership, with land in excess of the ceiling to be sold to the Government for not more than 10 Rupees (currently less than US$ 1) per square meter. The ULCA stipulated that land thus acquired was to be used primarily for affordable housing sites.

The problems that have arisen with the ULCA are too numerous to explore in any great depth here. Suffice it to say that it has not met its objectives, as a few figures indicate. The GOI has recently estimated that countrywide there are approximately 166,000 hectares of "excess" land. Of that amount the GOI had, through 1987, taken physical possession of only 3,852 ha., and of this amount only 621 ha. has been used for the construction of housing (0.37% of the total "excess"). To make matters worse, the majority of that housing was not aimed at low-income households.

If the ULCA did not make any significant impact in acquiring excess vacant urban land, it did succeed in effectively freezing the urban land market and thereby driving-up land prices. Reliable current data on urban land prices in India is hard to come by, but information from past years is available and largely illustrates why the ULCA failed. In the city of Ahmedabad, land prices in 1975 ranged from Rs. 55 to a high of Rs. 300 per sq. meter. In 1980, minimum and maximum prices ranged from Rs. 110 to Rs. 1800 per sq. meter: annual increases running from nearly 20 to over 50 percent - well in excess of the annual inflation rate of approximately 7.7 percent. On the other hand, in 1981 the minimum price for land in Madras was still only Rs. 4 per sq. meter, in spite of the fact that its population of 4.3 million had increased 120% in twenty years. While several factors are likely responsible for Madra's low land prices, and for that matter high land prices in other urban locations, it is important to note that the State of Tamil Nadu in which Madras is located was one of the few states that developed its own less onerous version of the ULCA.

Why the ULCA Failed and in the Process Exacerbated India's Urban Land Supply Deficiency

It is easy to see why private landowners were reluctant to accept the 'purchase' provision of the ULCA. The maximum compensation of Rs. 10 per sq. meter for excess land paid by the government, was significantly less than the market price required to be paid by the public sector under the Land Acquisition Act, 1894. In most all cases this compensation limit meant that private property was being seized by the government at a fraction of its value. Not surprisingly, property owners took advantage of the ULCA's appeal process which can involve years in a series of courts, resulting in tens-of-thousands of hectares of prime urban land becoming frozen until the dispute was resolved. As a result, the price of land that remained on the market - either small parcels, or that outside the municipal limits and thus not affected by the ULCA - significantly increased.

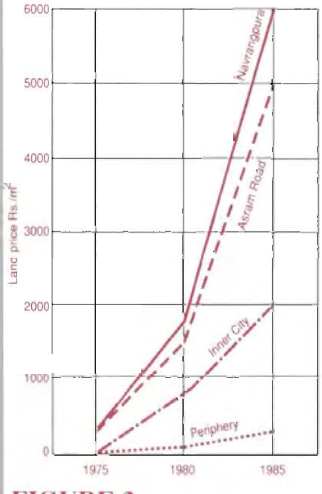


FIGURE 3:
Ahmedabad: Land prices after ULCA (1976)

SOURCE: GOI National Commission on Urbanisation Interium Report (1987)

Open for page 7 . . . .

As the ULCA illustrates, GOI urban land policies that attempt to increase the social equity aspects of land pricing and allocation have most all failed in implementation. The result is that land for affordable housing and other urban development needs is both in short supply and priced well above its economic value. One must ask, therefore, if the alternative approach of land pricing and allocation based on the "market mechanism" would be more sucessful.

Case Study No. 3: The Public Servicing of Urban Land in Karachi

A recent study conducted in Karachi gauged the impact of infrastructure development on urban land prices. The results of the study survey found that the level of infrastructure development "plays a critical role in determining land prices." Indeed, the provision of infrastructure was found to double the price of land after holding constant for distance from the city center. (see table above) These results are not surprising, as confirmed by other studies.

The study also found that the Karachi Development Authority (KDA), the public body responsible for developing public lands, was not selling its plots at a market clearing price, but rather at a price calculated to cover the easily quantifiable direct development costs. In following this pricing policy, required by the KDA's enabling legislation, the authority is granting a substantial subsidy to its plot allottees (selected by computer ballot). Empirical evidence confirms the suspicion that many allottees do not utilize their plots as a housing site, but rather sell them to monetize the subsidy represented by the difference between the actual development cost and the market price of the plot. In specific terms, this policy was estimated to 'cost' the KDA Rs.189,562,793 (US$9,967,989) in 1985 alone, representing a 34 percent discount off their market price, and enough to develop an additional 5,330 plots - more than half again as many as the actual total.

This pricing and allocation process results in strong land market inefficiencies. The shortage of serviced land in Karachi is caused in large part by the KDA's capital financing shortfalls, which in spite of the ability to cover development costs, is exacerbated by the pricing policy. The supply shortage, in turn drives up prices which increases the incentive to hold onto property as an investment and further exacerbating the shortage of serviced land available for housing, especially for low income households.

TABLE 2: Average Residential Plot Prices in Karachi by Level of Infrastructure Development and Year
(Rs. per sq. yd.,)

Level of Development	1980	1985	1987	1988
Developed	1,201	1,300	1,618	1,746
Developing	499	572	695	756
Not Developed	367	371	429	454

Source : Karachi Land and Housing Market Study (PADCO, 1989)

RHUDO REGIONAL STAFF

David L. Painter
RHUDO Regional Director

Earl Kessler
Deputy Director/Regional Housing and Urban Development Officer

Thomas Johnson
Regional Housing and Urban Development Officer

Barbara Foster
Regional Training Advisor

RHUDO COUNTRY STAFF

SRI LANKA
Dianne Tsitsos
Mission Housing Advisor
(USAID/Sri Lanka)

INDIA
Michael W. Lee
Urban Affairs Advisor
(USAID/India)

INDONESIA
William Frej
Urban Development Advisor
(USAID/Indonesia)

THAILAND
Donald R. Hubbard
Housing Advisor
(USAID/ Thailand)

ASIA PERSPECTIVE

c/o RHUDO/Asia
37 Soi Somprasong 3
Petchburi Road Bangkok 10400
TEL. (662) 255-3650
FAX. (662) 255-3730

Editor: Thomas Johnson
Typesetting by : CompuPrint

ASIA PERSPECTIVE

EFFECTIVE HOUSING FINANCE

CONTENTS

EFFECTIVE HOUSING FINANCE 1

INNOVATIONS 4

USAID'S PROGRAMS IN ASIA 6

HOUSING FINANCE INFORMATION 7

A publication of the U.S. Agency for International Development, Regional Housing and Urban Development Office for Asia (RHUDO/Asia) NOVEMBER1990 VOL.2 NO.2

Introduction

Asia is rich with experimentation and ideas for providing mortgage loans for families to buy their own homes. Many countries, however, are still in the formative stage for the development of their housing finance systems. Most have core institutions in place, but are experiencing difficulties with resource mobilization, and with channeling benefits both to lower income households and to families outside the large cities. They are also discovering contradictions in the political and financial imperatives with which they have to survive.

This issue of ASIA PERSPECTIVE seeks to share among our readers some of the experiences of housing finance in the region: it explores new ideas, and describes different facets of this fascinating and many-sided subject. From having worked in the region for many years, USAID's Regional Housing and Urban Development Office for Asia (RHUDO/Asia) has built up a body of knowledge about the special characteristics of housing finance in Asia; sections of this newsletter also summarize some of our own recent activities and publications dealing with housing finance.

Why this interest in promoting housing finance?

A house is too expensive for most families to afford to buy at the time when it is first needed – typically, on marriage. If, then, a family is to be able to live in and possess a decent home of its own, the head of household will have to borrow much of the price of the house, and repay the loan as she or he can afford over a period of a number of years. In most developing countries of Asia, only around 20 to 30 percent of the cost of a country's new housing is borrowed from formal financial institutions. This compares with a figure of close to 60 percent in developed, OECD, countries.

A poorly developed housing finance system – such as is found in many Asian countries – means that people either have to borrow from informal sector lenders at very high cost in order to improve their housing conditions or, more commonly, are unable to borrow any significant amounts of money and therefore have no choice but to live in substandard shelter.

Experts point out the converse of this argument: that the creation of a well-functioning housing finance system has numerous benefits. They include:

- households are encouraged to make savings in financial institutions, rather than merely accumulating unproductive physical assets such as jewellery;
- considerable social benefits result – better housing, improved health, lower costs of living – especially for the poorest households;
- financial institutions can now diversify their asset portfolios into housing, essentially an extremely safe asset;
- the availability of housing finance stimulates the construction and maintenance of housing, in turn contributing significantly to local and national economic prosperity.

Components of an Effective Finance System

There are several necessary preconditions for increasing the supply of affordable housing finance. Experience has shown that not all of these are easy to meet. Among them are the following imperatives.

BARRIERS TO ACCESS TO HOUSING FINANCE

	PRESENT FINANCING SYSTEMS	BARRIERS
richest	own resources; privileged access to institutional finance	maximum loan size
	formal housing finance on market terms	NO BARRIERS
	personal and informal finance; could afford market loans	reluctance of companies to loan to lower-middle income households
	below poverty line: need grants for adequate shelter	non-availability of financeable physical solutions
poorest		repayment capability

(1) Loans to Low Income Borrowers

It is in the financial and political interests of housing finance institutions to make loans to households throughout the social and economic spectrum. However, housing finance companies often hesitate before lending to low income households: it is clearly thought to be difficult for them simultaneously to remain financially viable and to make small loans to borrowers in the informal sector. Indeed, well- intentioned government directives requiring companies to fulfil social welfare objectives by making cheap loans can easily have the effect of bankrupting an operation. This does not mean, however, that lending to low income families is inconsistent with running a viable enterprise. Quite the contrary.

The following points provide a key for our readers to refute arguments which may be raised against lending to non-conventional target groups.

- "Small loans are more expensive than large ones." This is true. So, a solution is to charge borrowers the full cost of making the loan, so that small loans become proportionately (a little) more expensive than large loans. The cost to borrowers, however, will still be lower than the price charged by the informal sector and will therefore be more affordable to borrowers.
- "The poor are more susceptible to fluctuations in income than richer households, and cannot be trusted to repay on time; they therefore represent bad risks to lending institutions." This is generally not true: studies have shown high income households to be worse payers than poor families. However, institutions do need to take special precautions in the case of families with irregular incomes: several techniques have been developed to guard against this sort of risk.
- "Informal sector families are uninterested in using formal banks for long term finance." This is partially true: but case studies in the following sections of ASIA PERSPECTIVE show that formal sector institutions can adapt to the particular needs of people unfamiliar with modern banking systems. If people prefer to take short or medium term loans, then these facilities can easily be made available.
- "Good business comes only from making large loans." This is certainly untrue, unless a government requires that interest rates on small loans be subsidized. The lower and middle income groups make up a huge potential market for housing finance; experience from Thailand – see the photograph on page 5 – and from other countries bears out the conclusion that businesses thrive on making quantities of smaller loans.

(2) Positive Interest Rates

In the long run, the volume of lending can only be expanded to meet a country's needs if interest rates are positive. Housing finance institutions have to take the responsibility for raising funds for lending, as governments alone cannot provide enough money to meet even a fraction of a country's housing finance needs. Resources for housing, therefore, need to be raised from the wider financial markets, but this can only be done at prevailing rates of interest. And in order for housing finance institutions to be able to borrow and repay this money, they have to lend it

Risk

Housing finance institutions need to manage their operations to take account of a variety of different types of risk. The most important forms of risk are as follows:

Credit risk *is the risk that borrowers may not repay their loans. This risk is best reduced by prudent underwriting practices, by which the housing finance institution assures itself of the repayment capability of potential borrowers and of the marketability of the mortgage. Underwriting standards normally include a rule that repayments should not exceed, for instance, 30 percent of a household's income. Credit risk can also be relatively high if a company cannot easily foreclose a mortgage - - perhaps because of inappropriate legislation.*

Interest rate risk *is the risk faced by a lender when its interest costs exceed its income. It occurs when the interest rate on liabilities – the funds used by an institution – varies independently of the interest rate on mortgages already in force. The risk is high when mortgages are made at fixed interest rates. A housing finance lender may bear a considerable risk if public or political opinion believes interest rates on its mortgages to be fixed, even if the rates can legally be varied.*

Intermediation risk *is the risk that a lender may have difficulty in replacing liabilities – such as deposits – that may be withdrawn before the term of a mortgage loan. This is classically described as the problem of "borrowing short and lending long". Practice has shown, however, that short term borrowings from a large number of individual savers tend to provide a much more robust liability base than longer term but large deposits from a few institutions. Under many circumstances the intermediation risk can be reduced by consistent marketing for short term deposits from individuals, preferably families of different economic circumstances. The existence of a secondary market for mortgages can also reduce intermediation risk.*

Head office of the Government Housing Bank, Thailand. The GHB led the turn-around of the housing finance sector in Thailand in the mid-1980s. It embarked on an aggressive strategy of expanding and improving the terms of its mortgage lending activities, and of tapping the domestic savings market, thereby attracting other lenders to the business of housing finance.

Non-mortgage housing finance

This issue of ASIA PERSPECTIVE concentrates on one aspect of housing finance – mortgage loans for new housing. A study* recently commissioned by USAID documents the importance of other components of the housing finance system.

For instance, much of the new housing stock in South Asia is created by additions to existing structures; but, at least until recently, it has been very difficult for a family to obtain any loan from the formal financial sector for home improvements or extensions. Although there are a few informal channels available for borrowing, these are either not readily accessible to most families or are very expensive. Many households would undertake improvements to their homes if short term loan funds were available on commercial terms; these improvements themselves often generate income.

Housing finance for house purchase however, is more readily available than is generally assumed: corporate employers make large volumes of unsecured loan funds available to their employees, often on soft terms. The finance system as a whole, however, strongly favors people who work in the formal sector.

The role of the private sector in land assembly and the provision of infrastructure in India is prevalent, but the availability of institutional financing for these activities is very limited. The sector's consequent dependence on non-formal finance entails high costs, that are eventually passed on to consumers.

* *Housing Finance Systems in Metropolitan Areas of India, Meera Mehta and Dinesh Mehta. Ahmedabad School of Planning for USAID/New Delhi, October 1989.*

to individual borrowers on commercial terms.

To illustrate the point, Professor Jack Guttentag, of the Fels Center of Government, Wharton School, University of Pennsylvania, asks which of the following is preferable:

(a) An institution raises money at 6% and lends it to individuals at 8%. At this price, which is below the rate of inflation, although there is demand for 100,000 of these relatively cheap loans, the institution can only borrow enough money to make 5,000 loans. It can therefore make no more than 5,000 loans at this low interest rate.

(b) The same institution now raises money at 14% and lends it at 16%. The demand for borrowing has been reduced to 50,000 loans, but at this rate it is possible for the institution to raise enough money to meet the demand in full. As a consequence, 50,000 loans can be made at the higher interest rate.

A finance institution can raise loan funds from a number of different sources. One organization may choose, for instance, to attract savings deposits from tens of thousands of individual families, another to raise funds by selling bonds. Nevertheless, regardless of the source of funds, the same principle holds true: *in order to mobilize sufficient resources for lending for housing, it is essential to pay and therefore to charge rates of interest in line with general market conditions.*

(3) Variety of Loan Instruments

The standard, level payment mortgage– as offered by housing finance institutions around the world – is an easy instrument to understand. It has proved itself acceptable to millions of borrowers, probably including most readers of ASIA PERSPECTIVE. However, people's incomes and family circumstances vary considerably over a lifetime, and their ability to repay loans consequently changes. Sometimes their income decreases: for example, when a wife leaves work to start a family. More often, a household's income will increase periodically, perhaps merely because of adjustments to inflation. The family would then be able to repay its mortgage in a shorter time, or could afford a larger loan. A conventional loan (or conventional management policies) will not allow these changes. There is, then, a potential demand for more flexible types of mortgage.

Other families may not need or want a mortgage loan for new housing, and different kinds of instrument would be more appropriate for them – perhaps for upgrading their existing homes. Yet other people, although creditworthy, do not have any collateral for borrowing.

Many different techniques are available for making housing loans. Some of them are described on other pages of this issue of ASIA PERSPECTIVE. All of them increase customer choice and thereby tend to increase the market for housing finance. They are, however, not without cost: some require relatively sophisticated management information systems, some involve a greater element of risk than conventional loans.

INNOVATIONS

Grameen Bank

In 1976, Muhammad Yunus, a professor of economics at the University of Chittagong in Bangladesh, started an experiment to bring banking to people who were landless, had no assets and who could not prove that they can repay – breaking all the rules of conventional banking. This experiment was the beginning of the Grameen ("Rural") Bank, which has since helped over half a million impoverished families to break out of the vicious cycle of "low income, low savings, low investment, low income ". *It is an experiment that has proved that poor people are bankable, and can even be better customers than the rich.*

In its early years the Grameen Bank mainly loaned small amounts of money for income-generating projects. Housing loans were started in a small way only in 1984, but their volume has expanded rapidly since the floods of 1987. As in their other lending programs, loanees are landless men and women who form themselves into groups of five, in order to receive the loans for which no collateral is required. Several groups combine to appoint representatives who validate loan proposals and supervise activities.

The most popular type of housing loan has an upper limit of about $350, but there are also "moderate housing loans" available for up to about $600. They can be used for new construction, or for the improvement of old dwellings. Loans are to be repaid on a weekly basis, the period of loan depending on its size. Housing loans are generally made only to people who have previously borrowed for income-generating projects, and who have a perfect record of repayment. Priority is given to women and to those poorest members who do not have their own homes. Experience has shown that repayments of the housing loans are mainly made from sources of income which have been created by earlier loans.

By June 1990, a total amount of $14 million had been disbursed in housing loans. The rate of loan repayment is stated to be close to 100 percent.

The Community Mortgage Program

It has long been conventional wisdom that, since institutions believe it to be risky to make housing loans to families with low and irregular incomes, secure lending can only be made to groups of households, who provide a communal guarantee of repayment. Several examples of such programs are found around the world, but rarely are they replicated on a large scale; one of the most successful is the Grameen Bank's program. However, these schemes lend to people who already own houses to be improved, or own the land on which they can build. There are many communities throughout the developing world which first need to acquire the land under their homes before they can reasonably think of borrowing for housing.

The Philippines is no exception: 20 to 40 percent of the urban population are squatters, for whom housing loans are no answer to their immediate shelter problems. Standard settlement upgrading schemes suffered from an array of implementation problems, mostly resulting from a lack of commitment by the residents to the solutions proposed by the Authorities. The Community Mortgage Program aims to provide the answers.

The Program, administered by the National Home Mortgage Finance Corporation, was started in 1989. The initiative comes from community associations in depressed areas, wanting to buy the land that they occupy, or land where they would eventually move to. (Communities may be of as few as 30, or up to 1,000 households.) The first stage of the program allows the community to buy the land; the second stage finances site development; and the third, individual housing loans. Land is first titled in the name of the association; later, the members gain individual title. Community Mortgage Program loans are available for up to 25 years, on terms subsidized by the central government; there is a ceiling loan of $1,800 per developed lot, or $3,200 for lot purchase plus house construction or improvement. Facilitation of the program is undertaken by NGOs (voluntary organizations), local governments or by the National Housing Authority.

In its first year almost 300 projects, with 52,000 beneficiaries, were accredited, with a total mortgage value of $37 million. As the program becomes better known, the numbers continue to grow.

India's New Mortgage Instruments

India is benefiting from the creation of a National Housing Bank – see page 6. The Bank's mandate includes the promotion of housing finance lenders, and to assist them with the delivery of appropriate loan instruments.

Housing Finance for the Informal Sector

Lack of a system for financing informal sector housing is critical for the majority of families in developing countries.

There is ample evidence that savings mobilization is possible in the informal sector.However, what is usually lacking is the incentive to save, in the absence of the possibility of obtaining credit. Where informal credit is obtained from outside sources (i.e., not from family or friends), the cost of the credit is generally disproportionately high in relation to the lender's risk.

Nevertheless, the formal sector does face difficulties in lending to informal sector households. Institutions are often constrainedby policies that hold interest rates artifically low and thus limit the resources available for investment in shelter. In addition, formal sector financial institutions are inhibited from serving the informal secto by their inherent conservatism, both with respect to perceived and actual lending risks and to dealing with an unfamiliar clientele. Experience quoted in this issue of ASIA PERSPECTIVE indicates that membersof the informal sector need not, though, be poor credit risks. Reinforcing this conservatism are the conventional mortgage instruments and credit practices used by formal sector institutions, as well as the lack of decentralization and thus lack of contactwith informal sector clientele.

The Informal Sector in Housing and Urban Development: A Review and a Road Map. Cooperative Housing Federation, for USAID's Office of Housing and Urban Programs, March 1990.

Easy access to housing finance and sound housing and land policies promote demand for and supply of better value housing. *In 1980, 85% of households in Bangkok could not afford developer–built housing. By 1988, less than 40% of the population was left out of this market. The photograph shows typical housing now being financed by the Thai Government Housing Bank.*

India's Housing Development Finance Corporation (HDFC) has been one of the region's most dynamic primary lenders for several years. Individual mortgage loan programs form the core of HDFC's lending. Most are regular level payment mortgages, with borrowers making monthly payments of equal amounts throughout the term of the loan. However, in order to reach a wider market and to be able to tailor mortgages more closely to the particular financial circumstances of individual customers, HDFC has begun to offer a range of different types of mortgage. *These new products allow borrowing by households in a lower income bracket than would be able to borrow on conventional terms.*

One of these instruments is known as the Step-Up Repayment Facility (SURF). In this, monthly payments are periodically raised during the course of a 15 year loan (typically at the end of the third and seventh years). This version of a graduated payment mortgage thus allows repayments to start at a relatively low level and to increase as households' repayment capability improves. A variant offered by HDFC is the Telescopic Loan Program, in which an extended, 30 year, mortgage term is reduced (and monthly payments consequently rise) as borrowers' incomes increase.

Other special products available from HDFC include Home Improvement and Home Extension Loans. In addition to its individual mortgage loans, HDFC also provides loans for corporations to on-lend to their employees who wish to purchase a home. In yet another program, HDFC makes loans directly to individual employees, carrying a guarantee by the corporate employer and with loan payments being made by automatic monthly salary deductions.

The Gujarat Rural Housing Finance Corporation (GRUH) is another innovative company in India. It makes loans predominantly to residents of small towns and villages, and numbers many farmers among its borrowers. Since they get most of their revenue only when they sell their farm produce, once or twice a year, the terms of housing loans made by GRUH allow for repayments to be synchronized with the cropping cycle.

Women in Resource Mobilization and Cost Recovery

The Self-Employed Women's Association (SEWA) of Ahmedabad, India, opened a cooperative bank in 1974, to the background of scepticism and resistance from the formal financial sector. The bank is open only to poor self-employed women, with the intention of helping them to become financially independent. It proposed to eliminate much of the red tape involved with conventional financial institutions, and to use procedures which would help illiterate women to get small loans without difficulty. More recently, it has also offered housing loans.

The SEWA Bank has thrived, by 1987 having 11,000 shareholders and 23,000 depositors. It is financially self-sufficient, initially, having taken loans from commercial banks; now, it meets its loan obligations from its own deposits. Loans are generally made at 12.0 to 16.5 percent interest (i.e. at positive interest rates, and compatible with commercial rates), with repayment over 36 months. *All administrative costs, including the cost of the considerable support services needed to ensure a good relationship between staff and borrowers, are fully recovered in the bank's interest charges.*

Over 40 percent of the loans now made are for housing, about half being for new construction and half for improvements. Loans are also granted to repay private debts on housing. Unlike most other housing loans, SEWA loans are not based on property mortgage. (Foreclosure proceedings would in any case be extremely difficult.) Housing loans are, instead, granted on guarantees by two people; jewellery is also accepted as collateral. Bank officials say that it is not very difficult for applicants to find guarantors or collateral, and emphasize the potential repayment capacity of the borrower. Around 95 percent of borrowers repay their instalments regularly.

Asia-Pacific Coalition to Strengthen Housing Finance Regionally

UNCHS (Habitat) is planning to provide financial assistance to a coalition of leading housing finance institutions in the Asia-Pacific region, to serve as a focus of expertise in the field. Participating institutions are being selected for the pioneering work they have done in their own domain. Public and private institutions will be represented: primary lenders with a proven record of success serving informal and formal sector borrowers, and organizations with strong research capabilities. The coalition will seek to share the institutions' experience, knowledge, technologies and, perhaps most importantly, methodologies for implementation of their own programs, with each other and with other housing finance institutions in this region.

A Housing Program Agreement was signed in New Delhi in March 1990 by the U.S. Ambassador to India, Mr William J. Clark, Jr. (on left) and Mr K. S. Sastry, Chairman and Managing Director of the National Housing Bank. The Housing Finance System Program is briefly described below.

The coalition will be used to help create:

- more effective housing finance institutions in the region;
- a self-sustaining regional technical cooperation program, particularly to strengthen and establish new credit mechanisms for lower income groups;
- a knowledge base about key constraints in the sector; and
- permanent links between formal and informal sector institutions, in terms of both credit dissemination and savings mobilization.

The coalition will explore two important but neglected ingredients of a comprehensive housing finance strategy: the link between financial savings and housing, and methods of improving the accessibility of housing finance to low income households.

USAID'S HOUSING FINANCE PROGRAMS

Sri Lanka Sri Lanka is about to embark on another innovative approach to low income housing finance. The current USAID Low- Income Shelter Program is designed to assist the government of Sri Lanka implement its 1.5 Million Houses Program. **After years of heavily subsidized interest rates and low loan recoveries, the National Housing Development Authority and RHUDO/Asia are formulating a program which replaces subsidized interest rates for housing loans with a combination of grants and loans.** The grant portion will reduce monthly payments to affordable levels for beneficiaries who cannot afford market-rate loans of the size needed to meet minimal housing needs.

- Pure grants will go to a very limited number of households who do not have the capacity to take out a loan for home construction or improvement.
- Bridging grants will go to households who can bear the repayment of some loan but whose basic housing needs require a larger loan than they can afford. The grant will reduce the loan size so that the monthly payment is affordable.
- All loans will be at full market rates, which in Sri Lanka are estimated to be at least 19 percent per annum.

The redesigned program will also expand the role of private credit unions, commercial banks and other market-oriented suppliers of housing loans.

This new scheme is a continuation of a long-standing program in Sri Lanka, by which USAID supported the government's former Million Houses Program, and provided capital assistance for the reconstruction of war-damaged housing in the northern and eastern regions of the country. Since 1981, USAID has provided guarantees for $60 million of loans to the Government of Sri Lanka for housing programs.

Pakistan There are currently very limited opportunities for Pakistanis to borrow for buying or building their own homes. The opportunities which do exist are often for subsidized loans, which are in short supply. A new USAID project seeks to overcome these constraints through the creation and promotion of private sector housing finance companies. These companies will mobilize savings and investments for all types of housing. To create these institutions, however, the policy environment must change in certain significant areas in order to permit the companies to provide effective financial intermediation services.

The USAID Shelter Resource Mobilization Project, has an approved level of $100 million in Housing Guaranty loans, plus $5 million in grants for funding related technical assistance and training. (The first Program Agreement for this project was signed in Islamabad by the Government of Pakistan and USAID this September.) Among other activities in 1990, U.S. experts have provided advice on revising current mortgage loan foreclosure procedures and on the policy framework needed for the licensing, supervision and regulation of housing finance companies.

India The housing finance system in India has been substantially transformed over the course of only a few years. In the early 1980s, it was characterized by extensive government control and a high degree of segmentation; formal housing finance reached only a small proportion of urban households. With the

Financial Assistance from USAID

Capital assistance from USAID is provided in the form of Housing Guaranty (HG) loans, through which the United States government provides guarantees for loans from private American investors to institutional borrowers in other countries. The term of a typical HG loan is up to 30 years, with a 10-year grace period on repayment of the principal. An important condition of every loan is that its benefits must be affordable to households below the median income. In order to enhance the developmental benefits of a HG loan, they are customarily supplemented by government-to-government grants for training, seminars, information, advisory services and research studies.

The Sri Lankan Ministry of Policy Planning and Implementation and USAID jointly sponsored a seminar, "Mobilizing Financial Support for Housing" earlier this year. The seminar reached a consensus on the formation of a housing finance action group to prepare a realistic national strategy for housing finance. The picture shows, from left to right, Dr George Jones, Director of USAID/Sri Lanka; Mr W. D. Ailapperuma, Secretary to the Ministry of Housing; Dr Lloyd Fernando, Director of National Planning; Mr R. Paskaralingam, Secretary to the Ministry of Finance; and Ms Dianne Tsitsos, RHUDO/Asia.

beginning of the 1990s, the essence of a structured system is in place. Directed credit is gradually being supplanted by reliance on market forces for mobilizing domestic resources. Housing finance has benefited from the creation of the National Housing Bank (NHB) to regulate and promote the sector. In the last few years, too, India has witnessed the birth and infancy of a large number of outlets for housing loans. Simultaneously, affordable housing finance is becoming accessible to an ever-larger number of households throughout the country.

USAID is proud to have been associated with this transformation. Our program in India started formally in 1981, with the first of several projects which gave assistance to the Housing Development Finance Corporation (HDFC), a private sector mortage bank. More recently, an agreement has been signed with the NHB to continue the program, by providing financial support to emerging housing finance companies. USAID's goal continues to be the development of a market-oriented housing finance system which is capable of raising capital from domestic sources and which provides long-term shelter finance to a wide range of families, particularly to lower-income households. USAID has guaranteed loans of $125 million to HDFC, and more recently has approved a $50 million Housing Guaranty program agreement with the NHB.

HOUSING FINANCE INFORMATION

Courses and Conferences

Formal training and conferences devoted to advancing the principles and practices of housing finance have increased throughout the region in the past two years. Recent national seminars in Pakistan and Sri Lanka have focused on country-specific challenges, and regional offerings by HDFC's Centre for Housing Finance in India and the Government Housing Bank of Thailand provide opportunities for formal education in this field. In addition, a number of Asian participants have taken advantage of the seminar offered every year in the United States by the Fels Center of Government, University of Pennsylvania.

Seminar in Pakistan

"Housing Finance: An Enabling Strategy for the Private Sector" took place in Islamabad in August 1990. This was Pakistan's first housing finance seminar and was co-sponsored by USAID/Pakistan, RHUDO/Asia and the Ministry of Finance of the Government of Pakistan. It was attended by about 75 Pakistanis from the private and public sectors, including nascent housing finance institutions and others interested in establishing housing finance companies. The seminar was designed to advance Pakistan's new shelter resource mobilization program, and concentrated on defining and analyzing the building blocks of a housing finance system. Experts from the U.S., Pakistan, Thailand and India shared perspectives on the critical issues involved with mobilizing private resources to meet the demand for housing credit in the country.

Training Courses

HDFC has established a Centre for Housing Finance in Lonavla, India which offered its first regional courses in 1990. The two initial offerings were "Credit Evaluation and Loan Servicing in Housing Finance Management" and "Housing Finance Management and Managerial Effectiveness". A third, entitled "Housing Finance Policy, Finance and Organizational Development Workshop", is scheduled to take place on December 10-15, 1990. Faculty for these workshops are senior HDFC staff members and organizational development consultants. For further information about these and other planned training courses at Lonavla, contact the Centre at the address listed at left.

An international seminar, "Effective Housing Finance", is scheduled to take place in Bangkok, on January 2-12, 1991. This is a collaborative effort of three organizations: the Thai Government Housing Bank, the Fels Center of Government and RHUDO/Asia. Key faculty members include regional and Thai experts, as well as Professor Jack M. Guttentag, Professor of Finance at the Wharton School, University of Pennsylvania, and Mr Marshall W. Dennis, Chief Operating Officer of the National Mortgage Institute, the training facility of the U.S. National Council of Savings Institutions. For further information, contact RHUDO/Asia.

In May 1991, the Fels Center of Government will offer its annual three week course on housing finance. For further information, contact RHUDO/Asia or the address at left.

Contact Addresses

Centre for Housing Finance
CONTACT:
Mr S. Ramanath
Resident Manager
Centre for Housing Finance
Plot 167A, TPS No. 1
Tungarli Road
Lonavla 410 401
India

Fels Center of Government
CONTACT:
Ms Marja Hoek-Smit
Course Director
Fels Center of Government
University of Pennsylvania
39th and Walnut Streets
Philadelphia, PA 19104
U.S.A.

Abstracts is a semi-annual publication of USAID's Office of Housing and Urban Programs. It includes recent studies prepared for the Office of Housing on topics likely to be of interest to a broad audience of practitioners and academicians involved in urban issues in developing countries. Housing finance is one of the subject areas routinely covered. Please inform RHUDO/Asia if you want to be placed on the mailing list for Abstracts. Our address can be found in the right-hand column on this page.

Publications

Better Access to Finance for Low Income Households

A recent study, undertaken for the Indonesian Government by the Urban Institute, analyzed the two principal systems of housing provision in Indonesia – the popular and the formal. The popular, household-based system has provided decent shelter to the majority of Indonesian households, without direct government assistance. The researchers believe that this housing system is an important resource, which should be protected and encouraged.

They recommend a number of actions which would improve the informal housing market. One would be to increase the supply of housing credit available to poorer households, through loans originated by non-traditional lenders such as credit unions or community-based organizations. These non-traditional lenders – who are typically short of loanable funds – could obtain funds from commercial banks. "The advantage of this approach is that the tasks of fund mobilization and loan origination are separated, with different entities doing the job for which each has a competitive advantage."

The policy analysts also find that "the formal housing system could be improved by encouraging BTN [the state mortgage bank] to target more of its loans to low-income households... Instead of subsidizing borrowers' interest payments as they do now, all BTN borrowers should pay market interest rates on their loans. Government subsidies should be in the form of payment of part of the purchase price from BTN to the developer at the time of sale, thus reducing the amount of the loan and making the subsidy explicit. Under these conditions, many new institutions would lend funds for housing, thereby increasing competition among lenders and driving down the high cost of intermediation."

The Market for Shelter in Indonesian Cities, Raymond J. Struyk, Michael L. Hoffman and Harold M. Katsura. University Press of America, April 1990.

A Secondary Mortgage Market in India

There has recently been considerable growth in the number of outlets for housing loans in India, and housing finance is becoming available on a much wider geographic basis than ever before. However, for continued growth in the volume of lending, mobilization of funds is the critical issue. The idea of creating a secondary mortgage market has been offered as one way to attract funds from a broader range of investors and to integrate housing finance more fully with the country's financial markets. A new report finds that, while it may be conceptually appealing, the feasibility of establishing a secondary mortgage market in India must be carefully analyzed before any decision is taken. The study's guarded judgement is that a secondary market for mortgage-backed securities may be possible in several years time, perhaps as early as 1992/93. The report describes the implementation steps necessary for the development of a secondary facility.

A Secondary Mortgage Market for India: Notes on Feasibility and Structure, Raymond J. Struyk. USAID, New Delhi, June 1990.

Housing Finance Strategies

A popular publication of USAID's Office of Housing and Urban Programs describes a housing finance strategy methodology which enables policy makers and analysts to assess alternative mechanisms for mobilizing and deploying financial resources for achieving improvements in housing quality. This study identifies the most economically efficient strategy for increasing resources within the housing sector to achieve the goal of minimally adequate housing for all. The guidelines describe the six steps in developing a strategy and discuss how to organize an application of the methodology.

Guidelines for Creating a Housing Finance Strategy in a Developing Country, Raymond J. Struyk and Margery A. Turner. Urban Institute, for USAID's Office of Housing and Urban Programs, 1987.

RHUDO REGIONAL STAFF

David L. Painter
RHUDO Regional Director

Earl Kessler
Deputy Director

Barbara Foster
Regional Training Advisor

Michael Lee
Regional Finance and Economics Advisor

RHUDO COUNTRY STAFF

INDIA
Charles Billand
Urban Affairs Advisor

N. Bhattacharjee
Program Specialist

INDONESIA
William Frej
Urban Development Advisor

PAKISTAN
Jon Wegge
Mission Housing Advisor

SRI LANKA
Dianne Tsitsos
Mission Housing Advisor

Kamalini Balasuriya
Program Specialist

THAILAND
Donald R. Hubbard
Housing Advisor

ASIA PERSPECTIVE

c/o RHUDO/Asia
37 Soi Somprasong 3
Petchburi Road, Bangkok 10400
Thailand
Tel: (66-2) 255-3650
Fax: (66-2) 255-3730

Editor: Michael Lee
Typesetting by: CompuPrint

ASIA PERSPECTIVE

THE URBAN ENVIRONMENT

CONTENTS

THE URBAN ENVIRONMENT 1

ENVIRONMENTAL PRIORITIES 4

LAND AND THE ENVIRONMENT 5

USAID' S STRATEGY 6

PUBLICATIONS 7

DAVID PAINTER : A FAREWELL inset

A publication of the U.S. Agency for International Development, Regional Housing and Urban Development Office for Asia (RHUDO/Asia) SPRING 1991 VOL. 3, NO. 1

We know that our towns and cities are suffering from chronic pollution and from degradation of the physical environment. We believe that the situation is growing significantly worse. The critical question is, How can the environmental destruction of Asia's cities be reversed?

Look, first, at the range of problems faced by towns in Asia. It is immense; its totality is beyond the immediate experience of most of us.

What are Asia's urban environmental conditions?

Take a city, any city. In Karachi, for instance, two thirds of households have no *piped water connection*. Bangkok and Jakarta have no *sewerage system* at all, and *waste water disposal* is often indiscriminate: Shanghai's river Huangpu has been described as "a chemical cocktail of raw sewage, toxic urban wastes and huge volumes of industrial discharges". A consequence of poor water supply and disposal is that residents suffer from diarrhoea, dysentery, typhoid, intestinal parasites, and more. The practice of *solid waste disposal* is often little better: in Manila, garbage is thrown into the canals and waterways, contributing to their blockage and consequent flooding each rainy season. Floods in that city cause damage valued at $45 million a year. The *noise* from river traffic in Bangkok is such that 80 per cent of boat operators are estimated to suffer from hearing loss. *Cramped and crowded conditions* in settlements also result in ill health: in Kanpur, India, 60 percent of slum children are said to have tuberculosis.

There are yet other problems. For instance, there is severe *air pollution* in many cities of the region. In Kuala Lumpur recently, the persistence of a noxious cloud of industrial and vehicular pollution prompted the cabinet to issue directives curbing excessive emissions by vehicles. Elsewhere, much of the air pollution comes from power stations; 60 percent of Calcutta's residents suffer from associated respiratory diseases. *Traffic congestion* is heavy in many of Asia's cities and is notorious in Taipei, Bangkok, Tokyo and elsewhere. The *cultural and historic heritage* of many cities is being lost through redevelopment -- witness the bulldozing of Macau's graceful buildings in favor of high-rise hotels and shopping complexes -- and concern for conserving the *human scale* in our urban environment is now rare. Urbanization, too, can have severe consequences on the *regional resource base*: the city of Bangalore in southern India, "Science City", consumes over 400,000 tons of commercial firewood a year, cut from forests up to 700 kilometers distant.

The persistence of these problems imposes unnecessary costs on us all: additional costs of doing business, degradation of natural resources, reduced benefits from domestic and international tourism, lower life expectancy and an impaired ability to go about our daily lives in good health. Sound environmental protection is not a luxury: it is a necessity in order to permit sustainable economic development and to foster decent health for our citizens.

What has caused this degradation?

While the severity and extent of environmental problems in urban areas are also a function of geographic location, climatic circumstance and topography, environmental degradation nonetheless is often a by-product of urbanization and of increasing prosperity. However, economist David Foster points out that adverse environmental conditions also result, in large part, from poorly-conceived or

EXPENDITURE ON ENVIRONMENTAL PROTECTION

Annual capital plus maintenance expenditures by government for pollution control investments for waste water, air and other media

	% of GDP	$ per capita
OECD Countries	1.28%	$84.83
China	0.70%	$ 2.03
Indonesia	0.38%	$ 1.71
Korea	0.40%	$10.76
Singapore	1.09%	$106.86
Thailand	0.24%	$ 2.04

Source: Urbanization and Environment: Managing the Conflict, TDRI, Bangkok, 1990.

poorly-implemented urban policies:

- Urban development policies have often neglected the dynamics and speed of urban growth, and rely on idealized and static land use plans, with little thought as to how they can be implemented.
- Where administration is generally weak, policies tend towards excessive reliance on regulatory control while lacking the basic rudiments of an ability to enforce regulations.
- Governments are unable to raise enough local revenue to finance needed infrastructure; weak property tax systems effectively subsidize urban sprawl, which further increases the cost of urban services.
- Ineffective land tenure procedures take away incentives for sound environmental land management.

Are we too late?

Prophets of doom point to the fact that certain rivers are already biologically dead; that forecasters say road capacity can never catch up with vehicle demand; that even the rich countries are failing to cope with their waste disposal problems; that our level of familiarity with these conditions has immunized us against taking effective action.

The Economist predicts that things will get worse before they get even a little better. "First, Asia's population is growing -- roughly twice as fast as Europe's and America's -- and so therefore is the size of Asia's cities. Second, with the notable exception of Japan, South Korea and Taiwan, Asia still has a long way to travel along the polluting curve of industrial progress."

It is, however, not true that deterioration of the built and natural environment was and is a necessary and unmanageable cost of rapid economic development and urbanization. We do have the means, now, to reverse the processes of urban degradation.

What is to be done?

Of the many approaches to deal with these problems, Asia Perspective would like to focus on just three.

(I) Strengthen Environmental Planning

Many of us are well aware that traditional land use planning has generally been unsuccessful, and that less rigid, less deterministic approaches are needed. However, since much of Asia's environmental degradation results from an absence of successful land management and of coordination between infrastructure investment and private development in particular, it follows that orderly land development -- the assembly, planning, servicing and distribution of land for urban development and, above all, its servicing -- should be utilized as a key environmental management tool.

The City of Bangkok is an example of planning failure. Only 11% of its land area is devoted to transportation (roads, railways, car parking)-- about half the proportion found in many other cities-- leading to considerable capacity problems. The road network also lacks coherence, with an exceptionally low density of distributor roads and with a very inefficient network of local roads. These shortcomings are the consequence of a failure to plan for and provide sufficient road space. It has resulted in massive congestion, with commuters traveling up to 5 hours a day, and in heavy, deadly

Acknowledgements

Many of the illustrative examples on pages 1 and 2 are taken from Squatter Citizen, Jorge E. Hardoy and David Satterthwaite, Earthscan Publications, London, 1989; and from various issues of Environment and Urbanization. Thanks are also due to this journal for material on the Centre for Science and The Environment (page 6 of this issue of Asia Perspective).

Several ideas have been borrowed from papers prepared by David Foster: in particular, Urbanization and the Environment: Managing the Conflict (co-authored with Banasopit Mekvichai, Sopon Chomchan and Phanu Kritiporn), Research Report No.6 for the 1990 TDRI Year-End Conference, Thailand Development Research Institute, Bangkok, 1990; and "Viewing Environmental Protection as Investment in Urban Infrastructure", in Urbanization and the Environment in Developing Countries, USAID Office of Housing and Urban Programs, Washington, DC, 1990. The section on Environmental Planning (page 3) draws on the paper New Directions for Urban Planning and Management, University of Birmingham, England, 1989, as well on papers included in Urbanization and the Environment in Developing Countries. The quotation from The Economist is taken from its edition of October 6, 1990, page 19.

Illustrations

Page 3 (Magic Eyes), logo of the Thai Environment and Community Development Association. Page 4: (Air Pollution in Asia), data reproduced by courtesy of the World Resources Institute and by permission of Basic Books, Inc., New York. Page 5 (Flight of the Angels), courtesy of the Bangkok Post. Page 6, (March for Conservation), photo by Dianne Tsitsos. Page 7 (Urban Degradation), photo by Michael Lee. Page 8 (David Painter), photo by Dagmar Painter.

Magic Eyes is the logo for the Thai Environmental and Community Development Association. The Association, described on page 7, aims to create public awareness about social environmental conditions. An independent survey found that 92% of respondents in Thailand were aware of Magic Eyes, and that 89% of these say it has contributed "quite a lot" to society.

"Environmental protection is an investment in urban infrastructure. It is not a luxury, not a subject limited to rural natural resource ecosystems, and not an arcane speciality requiring totally new skills and new methodologies. Most of the technical skills required are those already employed in other infrastructure investment areas: finance, cost recovery, land use planning, and project management. More specifically, it is an investment in the economic carrying capacity of urban areas. It increases the number of people, number of economic activities, and the standard of living that a region can support."

Source: David Foster, "Viewing Environmental Protection as Investment in Urban Infrastructure", in Urbanization and the Environment in Developing Countries USAID Office of Housing and Urban Programs, 1990.

pollution.

We believe that planning should have a protecting and guiding role. Regulation, for instance, should be used positively, to influence the pattern of development in the desired direction. Orderly land development can be facilitated by working with and guiding the land market, rather than attempting to suppress or control it, particularly in the light of available resources and of the opportunities for corruption. Appropriate tools include the provision of infrastructure to influence development decisions, land taxation, negotiation with developers and public-private cooperation arrangements. It has been argued, too, that negative controls should be limited to the most critical situations, often exempting the vast bulk of development from the control process.

(2) Encourage Public Commitment to Environmental Management

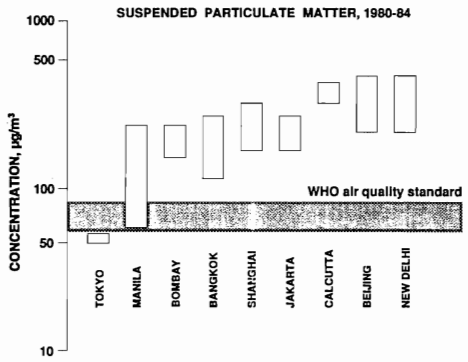
Public awareness and support is considered essential to build effective urban environmental programs. Although regulation and enforcement can only be undertaken by government, there is a limit to the effective involvement of the public sector in environmental management. Take the example of the United States: there, far more waste has been controlled through voluntary efforts than has ever been controlled through mandatory programs.

- Non-governmental organizations have a valuable role to play in educating the public, providing information to the public authorities, taking some limited action in managing local environments and in building a constituency for preventive action and supporting difficult environmental decisions. The center columns on pages 6 and 7 describe the efforts of a few Asian NGOs which work on urban environmental programs.
- In developed countries, the private sector has often taken the lead in moving to sounder environmental practices. In developing countries, industry must be made aware of the economic consequences of pollution, the commercial benefits of being seen to be "green", and of the opportunities for cost saving through resource conservation, recycling and pollution control at the point of origin.

(3) Improve Financing for Environmental Control

Price mechanisms and financial incentives are an essential means of reducing pollution, enforcing environmental standards and stimulating the provision of environmental infrastructure.

- Price control for use of the environment (clean water, pure air and so on) can be a more effective, and cheaper, means of pollution control than direct regulation. The environment is a scarce resource that is used in the production of goods and services by public utilities, industry, etc. The burden of paying for its use must be placed squarely on the polluter--the "Polluter Pays" principle.
- A variety of mechanisms are available for financing the construction and maintenance of environmental infrastructure (sanitation, drainage, solid waste management systems). Many of these are still novel to Asian countries. Techniques being explored in Asia include charging through subdivision regulation, the use of special assessments (betterment, valorization), land readjustment and development impact fees, as well as degrees of privatization of different utility services.



Of the Asian cities cited, only Tokyo meets the air quality standards of the World Health Organisation. Data source: World Resources Institute.

URBAN ENVIRONMENTAL PRIORITIES

Which Environmental Problems are the Most Serious?

Thailand has experienced particularly strong economic growth over the last few years. However, the poor and deteriorating environmental conditions in Bangkok pose extremely serious threats to the continuation of this growth.

Among other things, air pollution and noise -- from industry, traffic and construction activity -- are growing problems in the city. Toxic chemicals are found in foodstuffs and rivers. About one fifth of the city's garbage is uncollected; however, most of the refuse that is collected is placed in open dumps, which attract rats and insects, and generate toxic run-off. Only a negligible proportion of the city's population is served by sewage treatment facilities: most of the sewage from the rest of the population finds its way into reserves of surface or ground water. A significant part of the population, unserved by mains water, relies on well water for its everyday needs. With the depletion of underground water, Bangkok is literally sinking; and as it does so, the city floods. The cost of flood damage runs into hundreds of millions of dollars annually.

The cost of addressing this multiplicity of problems is staggering, and certainly exceeds the level of resources available. Faced, then, with a catalog of environmental problems like this, decision makers need to be able to decide which of them should be tackled as a matter of priority.

A study recently commissioned by USAID* addresses this issue. Its purpose was to develop a methodology for prioritization of environmental issues. It was the intention that the methodology should be applicable in different countries, with a variety of problems and with differing qualities of data. The study asked the question for Bangkok, "What are the most serious environmental problems facing the city today?" The next step would then be for a government to ask, "What can we do about these, the most serious problems?"

Other research studies have listed environmental problems, often at great length, but none has previously attempted to rank the problems in order of priority.

The Methodology

In searching for a common denominator against which all of these disparate problems could be compared, the study noted that all of the identified problems posed some risk to human health. Using techniques developed by the U.S. Environmental Protection Agency, it is possible to quantify the risks involved in terms of their effects on health.

The consultants combined toxicological and epidemiological data on observed health effects of environmental pollutants, with information on local environmental conditions, to produce quantitative estimates of the effects of these conditions on the health of residents of Bangkok. The authors of the study then prioritized each problem according to the magnitude of the health risk it caused. Problems were ranked as higher, medium or lower health risks.

The methodology of the study makes fascinating reading. For instance, the authors of the study experienced problems in tracing data, and the report explains how they resolved data availability problems. Some of the issues they encountered posed unexpectedly serious health problems, needing extensive analysis. The study also developed a new analytical method for assessing risks from microbiological contaminants.

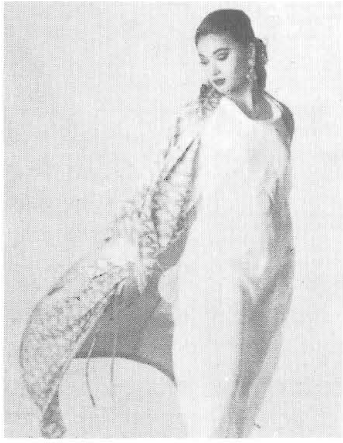
So, What are the Findings?

Three problems are ranked as higher risks. Each of these three problems causes very widespread health effects, including a substantial number of deaths. The first of these is the level of *airborne particulate matter concentration,* which results in the average resident of Bangkok suffering from more than eight days per year of restricted activity, meaning that individuals feel sufficiently ill to remain at home, in bed, unable to pursue a normal level of activity. It also results in up to 1,400 deaths per year among the city's population. Major sources of airborne particulates include industry, construction activities and diesel engines.

*Ranking Environmental Health Risks in Bangkok, Thailand, Abt Associates, Inc. and Sobotka and Co., Inc. for USAID's Office of Housing and Urban Programs and the U.S. Environmental Protection Agency, 1991.

Consequences of Population

Phenomenon
overloaded land
overburdened urban infrastructure
overloaded natural resources
overwhelmed urban institutions
overconcentrated economic activity



A fashion show, Flight of the Angels, was organized recently in Bangkok to raise funds for the Environmental Protection of the Chao Phraya River Project. The outfit pictured was designed by Nagara Sambandaraksa, who said on this occasion, "I do hope that what we do today will nudge other bigger and more influential organizations to pay attention to cleaning up our highly esteemed river".

Concentration in Urban Areas

Consequences

o higher population densities
o higher land prices

o diminished service quality
o decreased service accessibility

o increased pollution
o decreased environmental quality

o decreased institutional responsiveness
o decreased public participation
o fragmented bureaucratic action

o depleted resources
o increased prices
o increased economic disparities

Source: "Urbanization and Environmental Quality", in Urbanization and the Environment in Developing Countries, USAID Office of Housing and Urban Programs, 1990.

The second risk is caused by excessive levels of *lead* in the city's air, drinking water and food. These levels are likely to result in several hundred thousand cases of hypertension a year and, stemming from them, up to 800 cases of heart attack and stroke, and up to 400 deaths. Among children, significant reduction in mental capacity is expected. The likely primary contributors to lead in the air are combustion of leaded gasoline and lead smelting. Lead levels in the Thai diet are also surprisingly high, but how lead gets into the food is uncertain. The report identifies a number of possible routes.

Thirdly, *microbiological diseases* (mainly acute diarrhoea, dengue fever, dysentery and helminthiases) are a longstanding source of health problems in Bangkok, as well as in nearly every developing area of the world. The authors estimate that between 850,000 and 1,700,000 cases of these diseases occur in Bangkok every year, and predict that 6% of all deaths in the city are attributable to this cause. The incidence of these diseases is related to poverty, poor sanitation, poor housing, malnutrition, limited water supplies, lack of sewage disposal and treatment, and inadequate health care and education. Some of these contributing factors are, however, obviously not "environmentally-related".

Two further problems were ranked as of medium risk: *Carbon monoxide air pollution* (resulting from heavy use of vehicles with poorly controlled emissions in congested conditions), and the presence of *manganese and cadmium* in body tissues of Bangkok residents.

THE ENVIRONMENT AND URBAN LAND

Recent studies undertaken by and for USAID have focused on the implications for the environment of existing policies and laws for developing land for shelter in India*.

The studies start by identifying the main environmental problems associated with urban land development. Many, but by no means all, are health problems which result from deficiencies in the quality and quality of the water supply, from the absence of adequate drainage and sanitation systems, and from inefficient practices of solid waste collection and disposal. Other problems are associated with questions of the suitability of land for development (the issue of whether soils and land forms can accommodate anticipated land uses and building types); natural environmental risks and hazards (flood hazards; seismic risk; extreme noise conditions; proximity to toxic and hazardous materials); the presence of noxious air polluters; and community values (the preservation of historic and archaeological resources; and the preservation and enhancement of visual quality and amenity).

The studies attempt to trace the causes of each of these problems. They note that existing laws provide for ample remedies for most of the problems, but that they are not being enforced. Is poor enforcement, then, the ultimate cause of India's environmental problems? The studies find not: in general, the laws and regulations are unenforceable and inappropriate. For instance, much of the environmental degradation in urban India probably results from excessive control: people are unable to meet the requirements of the legislation, and so resort to sub-optimal solutions -- illegal occupation of land -- where conventional solutions to environmental problems are irrelevant.

Rather than recommending "stricter enforcement", or "more public expenditure on environmental infrastructure" (which may, indeed, be desirable), the studies indicate alternative solutions to these problems. Among other solutions identified, the studies point to the value of participatory approaches to land development (partnerships between public and private sector developers), the need for improved training in urban environmental issues, improvement of public and political awareness of environmental issues, and the revision of unrealistic laws and regulations.

* Including unpublished studies by the Operations Research Group, Baroda, and Jason M. Cortell and Associates, Inc.

Citizen awareness is an important prerequisite for the overall improvement of municipal environmental services. The photograph shows a parade by the Sri Lankan NGO "March for Conservation", described in the center margin of this page.

AN URBAN ENVIRONMENTAL STRATEGY

The Office of Housing and Urban Programs: A Strategy to Address the Environmental Problems of Urbanization

The urban environmental strategy of USAID's Office of Housing and Urban Programs is to focus on activities which provide for efficient and equitable delivery of urban services, such as water, sanitation services, and solid waste collection and disposal, and to demonstrate to policy makers the environmental efficacy of improving urban management, stimulating different mechanisms for financing urban services and strengthening the private sector.

The Office of Housing and Urban Programs has, in the past, dealt with critical urban environmental concerns through the implementation of sites and services projects to direct urban growth in an environmentally sound manner and of urban upgrading projects to improve conditions affecting health and the quality of life in existing poor neighborhoods.

Currently, the Office is taking steps to incorporate urban environmental concerns as an integral part of our basic program, which includes technical assistance, training and policy dialogue throughout the developing world, as well as the financing of projects. As a part of the strategy to address the needs of the countries with which we work, the Office has formulated an action plan which identifies specific activities to be undertaken in the next year. This Action Plan has three objectives: (1) to improve ability to analyze problems (methodologies); (2) to improve ability to design programs (guidelines and technical assistance); and (3) to improve urban management capacity (such as through the private provision of public services, technical assistance and training).

To strengthen in-country ability to identify key areas of environmental degradation, guidelines will be developed for identifying the nature and relative importance of urban environmental quality problems.

Testing new private sector approaches to the provision of municipally financed environmental services is one objective of this program. For instance, the Office is presently financing technical assistance to ten countries for projects in solid waste management (collecton, disposal, recycling). The purpose of this technical assistance is to demonstrate how, with the involvement of the private sector, solutions to specific urban environmental problems can effectively be addressed.

Another objective is to increase our ability to identify, analyze and rank urban environmental problems and to facilitate the capacity of host countries to do the same. Towards that end, we have identified methodologies which form the basis of our research program. In the study described on page 4, a methodology was tested to rank urban environmental health problems. Future work will examine other environmental problems, such as environmental impacts on local and national economies and on natural resources.

A third objective of the Office is to integrate urban environmental issues into the design of our programs and to assure inclusion of urban and industrial pollution concerns and environmental health as areas of focus for USAID as a whole.

Housing Finance in India

We have received the following comment from Mr. Mulkh Raj, Director of Finance for India's Housing and Urban Development Corporation (HUDCO), after reading the issue of ASIA PERSPECTIVE which dealt with housing finance:

"HUDCO is the premier housing finance Government institution in India. It sanctions over half a million houses per year. Till 28th February 1991 it has sanctioned 4.4 million housing units with loan commitment of Rs. 50,950 million. The operations of HUDCO are undergoing major change from new house construction to shelter upgradation supported by training and skill upgradation programmes. During the year 1990-91, HUDCO has already sanctioned money for 629,000 dwelling units, of which 288,617 units are covered by housing upgradation programmes. HUDCO is also establishing in a big way institutional finance system for urban infrastructure programme in India. During the period 1990-95 it proposes to sanction Rs. 40,000 million. It has already sanctioned Rs.2,711 million during 1990-91."

Environmental NGOs in Asia

Sri Lanka: Industrial Pollution

March for Conservation (MfC), one of many environmental NGOs in Sri Lanka, promotes all aspects of natural resource conservation, but focuses especially on education and research. It aims to create understanding and appreciation of the environment through research and publication education, with programs targeted at school children, administrators and planners.

One of the most important and far sighted activities undertaken by the MfC is the school lecture program on industrial pollution. For this activity, MfC selected six schools within the City of Colombo and its suburbs, close to industrial sites. Up to ten students constituted a school team, each of which was supervised by a science teacher from that particular school.

Each group identified industrial inputs and outputs with particular emphasis on the nature, composition and volume of polluting materials; and then assessed apparent effects of pollutants on the natural and human environment, through observation and interviews of residents of the affected areas.

The second phase of the program is to take follow-up action to address the problems of industrial pollution in and around Colombo.

India: Citizens' Reports

The Centre for Science and the Environment (CSE) was founded in 1981, by a group of young scientists, engineers and environmentalists, to undertake research and increase public awareness of issues concerning the environment and development. Unlike most other environmental NGOs, CSE integrates human settlements concerns into its current programs.

It is perhaps best known for the two pioneering reports, The State of India's Environment: A Citizens' Report and The Second Citizens' Report, which are at the

The air pollution problems of Bangkok derive mainly from vehicle emissions. It is estimated that 40 per cent of traffic police suffer from pollution-induced illnesses. This painting was executed on a fence around a construction site, by the Thai Environment and Community Development Association, to draw public attention to urban environmental pollution.

same time readable and highly informative. These reports have been described, by the journal Environment and Urbanization, as "two of the most comprehensive and detailed reports on the state of the nation's environment, anywhere in the world". They have been published in several languages, and are read and used by voluntary organizations, government officials and Indian and foreign researchers, among others. As part of its public information service, CSE also puts out a monthly Green File of press reports on environmental issues.

CSE promotes action in support of environmental causes by organizing workshops and seminars, providing resources and support to a range of non-governmental and voluntary organizations, and by working with the media by providing workshops and fellowships for journalists.

Thailand: Public Awareness

Some of the promotional activities of the Thai Environment and Community Development Association are illustrated on other pages of Asia Perspective. The Association numbers many of Thailand's leading corporations as members, in its efforts to raise social responsibility for preserving and protecting environmental conditions. Its basic aim is to help keep Thailand clean.

TECDA works through widespread publicity and promotional campaigns (including TV slots, distribution of Magic Eyes badges, T-shirts, etc., and the production of sign boards in conjunction with the Bangkok Metropolitan Administration). The Association also sponsors a range of educational programs which teach children that pollution is caused by indiscriminate littering.

Government Minister Mechai Viravaidya says, "The lesson is: Don't wait for magic. Get your own."

The Thai Environmental and Community Development Association is assisted by USAID.

PUBLICATIONS

Urbanization and the Environment in Developing Countries

This volume contains three important research papers. Each of the three papers begins with the premise that urbanization in the developing world is irreversible, and has been beneficial to the extent that economic output, investment and income growth have been stimulated. Urban growth however, has outstripped the capacity of authorities to manage development and respond to the need for infrastructure, services and land. The resulting environmental degradation and depletion of natural resources now threatens to undermine the productivity of cities and hamper economic growth..

The first paper, "Urbanization and Environmental Quality" (Blair T. Bower, Eric Hyman and Rodney R. White), identifies the adverse effects of urbanization on environmental quality, and discusses the dilemmas that governments face in preserving natural resources and delivering environment-related services. Among the key management problems identified are fragmented governmental structures, inadequate staffing, lack of incentives, poor quality information and data bases, and an inadequate understanding of the costs and benefits of implementing environmental protection programs. To dispel the concern that improving environmental quality is necessarily expensive, examples are offered of affordable measures that can be adopted as part of an urban environmental management strategy: measures for reducing industrial discharges, for example, simple methods of analyzing information on environmental quality, or the introduction of incentives for modification of behavior to improve environmental quality. The paper finishes with a brief description of current and planned donor activities in the area of the urban environment.

The second paper, "Urban Environmental Management in Developing Countries" (Royce LaNier, Stephen Reeve and April Young), emphasizes the need for cities in the developing world to be perceived both as engines for economic growth and as intricate environmental systems. The complexity of urban environmental systems in the developing world requires that economic development policy, environmental management and urban investment decisions be closely linked and necessitates the development of new urban management tools, methodologies and principles to address the needs for greater policy coordination. Policy tools discussed by the authors include institutional, economic and land reform options.

The final paper, "Viewing Environmental Protection as Investment in Urban Infrastructure" (David Foster), presents a review of basic environmental concepts, and examines the advantages and disadvantages of alternative approaches to environmental protection. The author's central tenet is that environmental protection should be treated in the same way as any other investment in urban infrastructure and measured in terms of potential dividends or losses. Environmentally sustainable policies at the municipal level should include the internalization of environmental costs in development planning, strengthened environmental regulations and economic incentives to encourage responsible behavior.

Urbanization and the Environment in Developing Countries: Background Papers from the Roundtable Conference on Urbanization and the Environment in Developing Countries held in Washington, D.C. on November 29, 1989. USAID's Office of Housing and Urban Programs, 1990.

Management of the Urban Environment

The author of this paper considers the environmental challenges facing cities in the developing world and suggests approaches for managing these concerns. Water supply, wastewater treatment and solid waste management represent major challenges. The author argues that these problems can be addressed by privatization of municipal services, including risk and non-risk contracting schemes, turnkey projects, franchising and the development of opportunistic services such as water vending.

Urban Environment Management in Developing Countries. Alison O. Wescott for USAID's Office of Housing and Urban Programs, 1990.

Related USAID Publications of Interest

Energy Inefficiency in the Asia/Near East Region and its Environmental Implications; RCG/Hagler, Bailly, Inc. for USAID's Bureau for Science and Technology, 1989.

Directory of Country Environmental Studies: An Annotated Bibliography of Environmental and Natural Resource Profiles and Assessments. Center for International Development and Environment, World Resources Institute, with support from USAID, April 1990

David Painter who, until recently, was Director of RHUDO/Asia. David has written a farewell letter, which is included as an insert to this issue of ASIA PERSPECTIVE.

Urban Impacts on the Coastal Zones of Developing Countries: Problem Identification and Recommendations for Mitigation, Matthew R. Auer, for USAID's Office of Housing and Urban Programs, 1991.

The Impacts of Investments in Urban Infrastructure on Municipal Revenues and the Integration of Informal Sector Activities: The Abidjan Experience, Mona Serageldin for USAID's Office of Housing and Urban Programs, 1990.

For assistance with obtaining these publications, please contact Asia Perspective at the address on the right.

A REGIONAL TRAINING AGENDA

RHUDO/Asia attempts to design and present relevant training events on critical topics of interest to those involved in promoting effective shelter and urban development policies. The challenge of environmental degradation brings another topic to our attention. Asia Perspective readers are asked to share with us your ideas about training needs in this subject, both from national points of view and regionally.

There are any number of points of departure for a training seminar or seminars dealing with urban environment. In order to help us plan, please review the areas noted below and rank them in order of importance from your perspective. Information gained in this manner will be used to help us structure our training agenda in the field of Urban Environment.

RANK ORDER	ISSUE
_____	REGULATORY FRAMEWORK: How to develop a system of consistent, practicable and readily implementable regulations appropriate for local conditions.
_____	ENFORCEMENT: The development and implementation of adequate monitoring and enforcement systems including environmental record keeping, monitoring equipment and enforcement techniques
_____	MANAGEMENT: How a country manages its natural environment and built environment: land use management, infrastructure provision and maintenance, hazardous and industrial waste management, solid waste management and planning processes.
_____	COST RECOVERY AND FINANCE: Incentives are an important environmental management tool, including the concept of "polluter pays". The concept of putting financial responsibility on the polluter or on the beneficiary (the consumer of pollution generating products) is key here.
_____	PUBLIC AWARENESS: Urban Environmental Protection is not an elitist issue or program. Only by education of the entire population will pressure build to have the entire public become involved in protecting the environment. There should also be ways to increase government awareness so that different agencies can mutually reinforce the works of each other.
_____	PROTECTION OF TOURIST AREAS: Environmental protection of tourist areas is a potential opening wedge for environmental protection since tourism is a major earner of foreign exchange and because sustained successful tourism is closely tied to environmental quality. Tourist communities also offer unique potential cost recovery mechanisms such as airport, hotel and restaurant taxes.

Please cut out or photocopy this page, put the above issues in order of your priority for regional training, and send it to us at the address on the right.

RHUDO REGIONAL STAFF

Earl Kessler
RHUDO Regional Director

Julie Otterbein
Deputy Director

Barbara Barrett Foster
Regional Training and Urban Policy Advisor

Michael Lee
Finance and Economics Advisor

RHUDO COUNTRY STAFF

INDIA
Charles Billand
Urban Affairs Advisor

N. Bhattacharjee
Program Specialist

INDONESIA
William Frej
Urban Development Advisor

PAKISTAN
Jon Wegge
Mission Housing Advisor

Javed Akhtar
Program Specialist

PHILIPPINES
Elena Panganiban
Urban Advisor (DSUD)

SRI LANKA
George Deikun
Mission Housing Advisor

Kamalini Balasuriya
Program Specialist

THAILAND
Mintara Silawatshananai
Engineer

ASIA PERSPECTIVE
RHUDO/Asia, USAID,
37 Soi Somprasong 3, Petchburi Road,
Bangkok 10400, Thailand
Tel: (66-2) 255-3650
Fax: (66-2) 255-3730

Editor: Michael Lee
Typesetting: CampuPrint

ASIA PERSPECTIVE

CONTENTS

USAID'S ROLE IN ENVIRONMENTAL MANAGEMENT 1

SETTING URBAN ENVIRONMENTAL PRIORITIES 1

PUBLIC ENVIRONMENTAL AWARENESS 2

MAGIC EYES INTERVIEW 3

ENFORCEMENT: IT'S NOW OR NEVER 4

EXPANDING THE PRIVATE SECTOR ROLE 5

FINANCING ENVIRONMENTAL INFRASTRUCTURE 7

EARL KESSLER: A FAREWELL 8

ANNOUNCEMENTS 8

A publication of the U.S. Agency for International Development, Regional Housing and Urban Development Office for Bangkok (RHUDO/ Bangkok) SPRING 1993 VOL.5, NO.1

USAID'S ROLE IN URBAN ENVIRONMENTAL MANAGEMENT

Maintaining environmental quality is a prerequisite and necessary condition for sustainable economic development. However, it is widely viewed that economic development, if not managed properly, contributes to the rapid degradation of the environment through natural resource depletion and excessive pollution. Hence, cities in developed and developing countries alike are groping for ways to curb environmental decay without jeopardizing economic growth.

USAID remains firmly committed to supporting sustainable development objectives which nurtures economic development while at the same time protecting the environment throughout Asia. In most cases, environmental conditions have deteriorated to the extent that it is too complicated and costly for developing countries to handle on their own. In addition, developing countries may lack the technical expertise or financial resources to identify and remedy their environmental problems. As a consequence, USAID is prepared to offer financial and technical assistance in providing self-financing or "turnkey" urban environmental infrastructure investments.

The following articles look at the components of a comprehensive urban environmental management strategy in developing countries, as outlined in David Foster's article entitled "The Role of the City in Environmental Management". Foster points out that while the city is often the driving force in economic growth, it often lacks the institutional capacity to respond to environmental problems. Thus, he advocates strengthening the role of the city so it can devise and implement a well-defined environmental management strategy which strives to enhance economic prosperity, increasing employment and educational levels as well as minimizing environmental decay by controlling wastes and pollution.

The major elements include:

- Establishing urban environmental priorities
- Increasing public awareness and participation
- Improving enforcement and cost recovery
- Increasing the role of the private sector and NG0s in the provision of environmental services

SETTING URBAN ENVIRONMENTAL PRIORITIES

The critical question decision makers regularly encounter is how do we rank environmental concerns? It is quite easy to become overwhelmed by details and the magnitude of environmental problems. By setting urban environmental priorities, decision makers not only avoid becoming overwhelmed but also, the process of implementing meaningful and effective programs aimed at reducing environmental degradation is expedited.

Resources must be pooled together and programs must focus on specific objectives. An agenda which is too broad or unrelated may actually lead to substandard results because resources are spread too thinly. Establishing priorities avoids the problem of inefficient resource and leads to significant improvements of the local environmental conditions.

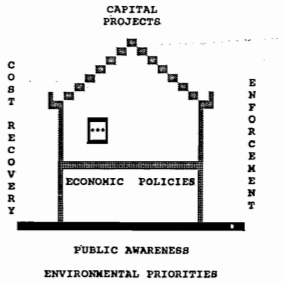
Who determines the assumptions and sets the priorities makes a big difference. Policy makers who may be isolated from public opinions or who lack first hand knowledge of the problems often create poorly conceived policies which are almost impossible to implement or enforce. Public involvement is essential, particularly from the disenfranchised.

The public attempts to elect representatives who articulate their concerns and are responsive to their environmental needs. Local governments are sometimes considered more appropriate than the central government building an environmental constituency capable of enacting specific

Sound urban environmental management is analogous to the quality of a building. The objectives, and the activities which support them, provide an integrated framework leading from underlying policies, to supportive institutions, to private sector investment in environmental infrastructure. Capital projects provide the "cap" to the environmental program.[1]

[1] Source: J. David Foster, Role of the City in Environmental Management, USAID Office of Housing and Urban Programs, September 1992.

Strategic Framework for Urban Environmental Management



preventative and curative actions which will lead to the steady improvement of the environment. Local municipalities tend to be closer to the problems and to their constituency while the central government tends to be more detached and insulated from public pressures.

The burden of solving the problems should not be placed exclusively on a given organization or sector. Environmental problems tend to be interrelated and therefore require the cooperation of a mixture of different organizations from multiple sectors to establish environmental priorities.

Tackling all the issues at once may prove too costly and ineffective. A more practical approach would be for decision makers to rank environmental concerns according to their respective risk levels. In practice, quantifying the risk in terms of their impact on society is a subject of great debate. A simplified, two-step process might involve Risk Assessment and Institutional Assessment.

Risk assessment can be broken down into three related steps. (1) defining a set of criteria such as the number of people affected, severity of impact, economic cost, threat to the poor, (setting criteria allows the review and comparison of alternatives); (2) assessing the relative environmental risks and determining the relative costs of mitigating these risks; and (3) comparing the measurable impacts with their corresponding costs of reduction or control.

Environmental concerns should be measured and evaluated in terms of their potential risk and impacts, e.g., on human health, effect on the poor, physical environment, economic productivity, and quality of life. This involves intensive data collection and analysis. It is critical that decision makers understand how this relates to the extent, impacts, and processes of environmental degradation.

A cost-benefit framework is a useful tool to gauge the relative risks of varying environmental impacts. It involves reviewing the existing environmental conditions, weighing the costs of environmental interventions and their corresponding impacts, or reduction of benefits.

When ranking environmental problems, it is also useful to carry out an institutional diagnosis which reveals the institutional capacity in terms of planning and managing of urban environmental services delivery. It is important to see if mitigation measures are even feasible. Thus, each environmental threat must be evaluated in the context of current institutional arrangements, degree of coordination, existing policies, standards, and regulations. For example, government inaction due to the lack of community and private sector participation is a common problem which diminishes the likelihood of implementation.

In conclusion, establishing environmental priorities are a necessary prerequisite for defining long term planning and management objectives. It is important to remember that resources alone will not solve the problems. Active participation and coordination of the communities, government, and private sector must exist to achieve the common environmental objectives.

PUBLIC AWARENESS BECOMES A CRITICAL INGREDIENT TO ENHANCING ENVIRONMENTAL MANAGEMENT

Active public participation is essential to environmental protection for a variety of different reasons. Addressing present environmental problems and avoiding potential ones must be seen as the responsibility of everyone. Each individual makes daily decisions that can contribute to the destruction of the environment or that can help reverse environmental degradation. For

The **urban environment** has two basic components -- Built, and Natural. It primarily includes physical elements such as water quality, water supply and availability, air quality, solid waste disposal, water and sewage systems, roads and transportation systems, ambient noise levels, traffic patterns, and availability of open and green space, but may include natural resources, flood control and soils. (Source: ASIA PERSPECTIVE 3.1.)

WASTE MANAGEMENT: The Case of Padang, Indonesia

In 1973, the governor of Padang, Mr. Azwar Anas commissioned a design team to adapt the national K3 program to address poor sanitation and urban environmental conditions. The K3 program stands for Discipline, Cleanliness, and Beautification. This program advocates urban environmental improvements by providing a framework for coordinated planning and action at the local level.

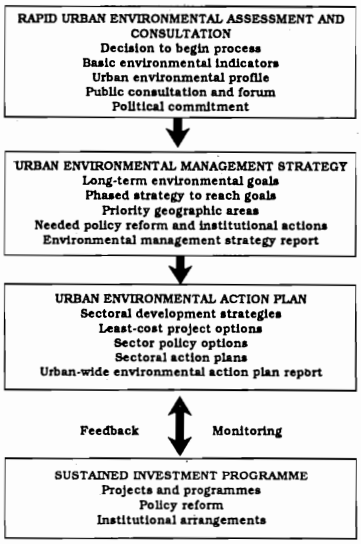
The most interesting aspects of this K3 program are its waste management program, the public awareness efforts, and enforcement tactics.

Waste Management Program - The "Padang Waste Management Model" focuses on the routine collection and disposal of solid refuse. Residents are first encouraged to burn as much solid waste as possible. Afterwards, the remaining garbage is consolidated in plastic bags and picked-up and disposed by the Dinas Pembersihan Kota (DKP).

Public Awareness Programs - The government continues to sponsor various community events such as neighborhood visits and public seminars to promote environmental awareness.

Enforcement Tactics - Informal enforcement which appeals to the cultural attitudes of the region appears to be most effective. For example, the "Shy Culture" tactic encourages people to change their behavior to prevent other people from talking about them behind their backs. Peer pressure and the fear of public embarrassment provide the necessary motivation.

Padang's waste management program, which has popularized the saying "a clean city is a better city", has been so successful that it has been replicated in a number of cities throughout Indonesia.



The Urban Environmental Planning Process consists of 4 discrete steps. Source: Environment and Urbanization, Vol. 4, No. 2, October 1992.

URBAN ENVIRONMENTAL MANAGEMENT MASTERS DEGREE PROGRAMS, ASIAN INSTITUTE OF TECHNOLOGY

RHUDO/Bangkok is pleased to announce the establishment of a new Masters Degree Program at the Asian Institute of Technology: Urban Environmental Management. RHUDO/Bangkok has worked closely with and has supplied support for the development of this new program.

This new field of study has been developed in response to needs articulated by the 1992 United Nations Conference on Environment and Development (UNCED) held in Rio De Janeiro and the September 1992 joint RHUDO/Bangkok - Asian Institute of Technology Conference on the Role of the City in Environmental Management held in Bangkok. This new program at the Asian Institute of Technology will prepare professionals to work on urban environmental planning and management issues such as sustainable development, environmental impacts of rapid urbanization, resource depletion, and other topics related to balancing economic development with environmental protection.

The Urban Environmental Management Program offers a masters of science degree and is administered by the school of environment, resources and development. For more information and the curriculum requirements, please contact the following:

Program Officer
Urban Environmental Management
School of Environment, Resources and Development
Asian Institute of Technology
G.P.O. Box 2754
Bangkok 10501
THAILAND

Tel. (662) 524-5670
Fax (662) 516-2126

example, a family can decide to recycle an empty aluminum can or simply throw it in the trash. Improving environmental conditions requires the full participation of everyone from the individuals, family households to government agencies and multinational corporations. This implies that people and organizations must learn to accept responsibility for their behavior especially if it involves voluntary action which may adversely impact the natural environment.

If people are expected to accept personal responsibility for the environment then they must be given access to adequate information and the means to comply with specific standards and regulations. The government must support this exemplary behavior by enforcing environmental standards and actively sponsoring environmental awareness programs.

Educating the public on environmental awareness and conservation is a arduous and ongoing process. Often, non-profit organizations (NGOs) play a critical role, elevating the environmental awareness of the public through a wide variety of approaches. Their efforts, unfortunately, sometimes are overlooked and accomplishments taken for granted. What follows are excerpts from a recent interview with Khunying Chodchoy Sophonpanich, President of Thailand's Environmental Awareness Group known as the Thai Environmental & Community Development Association (TECDA) or simply "Magic Eyes". This highly successful NGO aims to inform the public, especially children, about environmental conservation and the importance of practicing environmental responsibility.

A PROFILE OF MAGIC EYES

Magic Eyes is a non-profit NGO which works closely with the private sector and local communities to develop environmental awareness programs for the masses. Magic Eyes utilizes various forms of mass media including advertising strategies adopted from the private sector as a vehicle to educate and inform people about the environment in an effort to change their insensitive attitudes and behavioral patterns. Magic Eyes has a three part strategy; promotion, education, and activities.

(1) Promotion - Environmental awareness is promoted through the use of multimedia techniques. (TV, radio, plays, brochures, T-shirts).

(2) Education - Magic Eyes routinely incorporates environmental protection and conservation messages into a school's extracurricular activities. By developing teaching manuals and brochures, Magic Eyes inspires people and institutions in the community to work together towards improving local environmental conditions.

(3) Activities - School and community activities are used to reinforce the environmental message. Magic Eyes also supports street cleaning contests, city and school competitions or children's plays, and art exhibitions to boost solidarity. Having all these activities helps to create a climate which encourages environmental responsibility.

Pictured is Khunying Chodchoy, founder of Magic Eyes, giving an opening speech for a recent city beautification campaign in Saraburi Province which involved street sweeping contests, a children's art exhibit, and tree planting ceremony.

Magic Eyes concentrates its efforts in the areas of solid waste, water, and tree planting. These three topics are attractive to Magic Eyes because they are environmental problems everybody can relate to.

What makes Magic Eyes so unique is its close working relationship with various corporations. Magic Eyes was founded nine years ago thanks to the diligence and foresight of Khunying Chodchoy and six local corporations. This group of companies convened every week for several months developing the conditions and environmental objectives of the organization. Together, the companies came up with the "annual membership fee" idea and program sponsorship terms which were acceptable to them. Over the years, the list of corporate members has grown from six to 35.

Magic Eyes represents one of the few public service organizations which relies heavily on a cooperative effort by the private sector. Magic Eyes gets most of its financial support from its member corporations. However, the annual corporate fee of $4,000 (100,000 baht) per year is used exclusively to pay the salaries of a professional staff of 19 people and related administrative expenses.

Magic Eyes does not rely on corporate donations to finance specific environmental programs. Instead, Magic Eyes attempts to develop programs with other corporate sponsors in mind. The corporate sponsors provide program funding in exchange for "in kind" services such as free advertisement on brochures, T-shirts, etc. These funds originate from the marketing and advertising budgets of various companies and are not considered special allocations or charitable donations. For example, Nestles, the makers of Milo Milk, sponsored a children's play about cleaning up the environment. Magic Eyes adapted the company's advertising jingle and incorporated it into the play.

Magic Eyes is most concerned about people's limited awareness and environmental concern. Available information is often inaccessible to the general public because it is not put into a format or context in which "environmental problems and their effects on people are easily understood by everyday people." Another major problem is people's refusal to accept individual responsibility for environmental problems. "Everybody points a finger at someone else". She believes that once people are convinced that protecting their environment is worthwhile and that "it can be done", it will be possible to resolve some of Thailand's problems. "Blaming others does not lead to significant results. It simply delays indefinitely the problem solving process. If everyone did their fair share, the environment would be much improved."

As for the future, Khunying Chodchoy wants to continue working with children who in her opinion, represent the hope that future generations will protect the environment and be more environmentally responsible. In addition, she envisions Magic Eyes as the "catalyst" offering "hope" and presenting new ideas and methods to improve local environmental conditions. "Magic Eyes won't do it for them (communities) but we'll do our best to provide them with the expertise and know-how to help them solve their local environment problems."

How does Magic Eyes define success?

Khunying Chodchoy attributes three important elements for much of Magic Eyes' popularity and success: continuity, sincerity, and professionalism. **Continuity** means having a clear and concise mission or set of objectives. "Magic Eyes cannot be expected to do everything because it will be too frustrating, even self-defeating." **Sincerity** means actively seeking a real solution to Thailand's environmental problems. Magic Eyes is not just concerned about publicity but it is genuinely concerned about getting results. This requires strategic planning and a commitment to making a real impact. For example, each environmental program requires a minimum of 4-6 months of planning with specific deadlines. **Professionalism** means managing each project using good business discipline and maintaining high professional standards in their work. She emphatically says, "Magic Eyes is not a charity or volunteer organization but more like a professional business enterprise."

ENFORCEMENT: ITS NOW OR NEVER

Today, a host of chronic environmental problems plague cities around the world. The situation is most severe in developing countries where cities suffer from inadequate wastewater treatment, improper solid waste disposal, excessive air pollution and traffic congestion, toxic waste, and overcrowding. If no decisive action is taken to remedy the current crisis, living and environmental conditions will become significantly worse.

The official logo for the "Clean Up The World Day" campaign. Magic Eyes is responsible for coordinating environmental activities for all 72 Provinces in Thailand for the upcoming "Clean Up The World Day" on September 19, 1993.

Magic Eyes is the trademark for the Thailand Environmental and Community Development Association. This not-for-profit NGO employs mass media in the promotion and publicity of public environmental awareness and antilitter campaigns. Magic Eyes has popularized the saying "Don't wait for Magic ... get your own" to encourage environmental responsibility, especially among children.

Enforcement has historically been a weak link in environmental programs in many countries in Asia. Environmental organizations have been increasingly active in setting standards and developing environmental regulations, but the actual implementation and enforcement of these regulations have been limited. Environmental agencies in developing countries are chronically understaffed. They often seek to address enforcement by simply copying the standards from more developed countries, without fully understanding the rationale or resource requirements for implementing such regulations.

Recently, many governments have created Ministries of Environment and drafted an overabundance of environmental policies, standards, and regulations. Unfortunately, even though ample environmental regulations and policies exist, they are rarely enforced. This poor track record of government enforcement is primarily linked to the lack of "political will" on the part of the politician and the lack of environmental awareness on the part of the public.

Public officials are dissuaded from enforcing environmental regulations because the political costs are too great. What often happens is that public officials will routinely turn a blind eye towards environmental violations for fear of losing political support and campaign contributions from special corporations and special interest groups.

The absence of sufficient levels of public environmental awareness also contributes to inadequate environmental enforcement. To some degree, NGOs and other community groups have served as the "watchdogs" of environmental protection and enforcement -- attempting to ensure that decision makers and politicians are held accountable for their actions or lack thereof. However, the lack of public awareness and the inaccessibility of current and reliable environmental information has made an NGO's job of pinpointing violators and assessing environmental catastrophes much more difficult. As a result, NGOs rarely have enough political support to carry out their environmental activism.

Inadequate enforcement of environmental regulations and standards often increases the propensity for violators to continue polluting thereby accelerating the rate of environmental degradation. In economic terms, the failure to comply with environmental specifications constitutes a subsidy to the polluter. In this case, a firm has a financial disincentive to comply with environmental regulation especially if the firm's competitors are also knowingly ignoring the same environmental regulations. By complying, a firms adds to its cost of doing business and thus is at a comparative disadvantage to its direct competitors.

In the case of Thailand, steps are now being taken to ensure that sustainable economic development is maintained by renewing a call for more vigorous and reliable environmental enforcement.

ENVIRONMENTAL GUARANTY FUND: ENHANCING THE ROLE OF THE PRIVATE SECTOR IN SOLVING ENVIRONMENTAL PROBLEMS

One of USAID's primary objectives is to facilitate the provision and financing of efficient and equitable urban public services such as water supply, wastewater treatment, solid waste collection and disposal. USAID/RHUDO/Bangkok is working with the government of Thailand on a concept which involves private financial institutions in a new environmental infrastructure.

INFRASTRUCTURE FINANCING MECHANISMS/INTERNATIONAL EXPERIENCE			
	METHODS OF FINANCING BASIC INFRASTRUCTURE		
SOURCE OF CAPITAL	CURRENT EXPENSE (UP-FRONT)	DEBT (LONG-TERM)	EQUITY
PUBLIC	1. TAXES 2. USER CHARGES 3. BETTERMENTS	4. BONDS 5. LOANS 6. SPECIAL DISTRICTS 7. TAX INCREMENTS	
PRIVATE	8. IMPACT FEES 9. CONNECTION FEES 10. CAPACITY ALLOCATIONS	11. EXACTIONS	12. ASSESSMENT DISTRICTS
PUBLIC - PRIVATE	13. LAND READJUSTMENT 14. VALORIZATION	15. EXCESS CONDEMNATION 16. LINKAGE	17. CONCESSIONS 18. JOINT USE AGREEMENTS 19. TAX CREDITS

Despite a booming economy and rapid private sector growth in urban areas of Thailand, investment in municipal infrastructure lags far behind. Failure to provide adequate infrastructure threatens the health and welfare of its citizens and the long term sustainability of the Thai economy itself.

No country has been able to meet all these investment needs out of current public revenues and most successful ones have developed effective mechanisms to attract private sector resources to assist in this effort.

Municipalities could employ the private sector to construct and manage BOT/BOO or other "turnkey projects" in providing basic environmental infrastructure services, such as water supply, waste treatment, and drainage projects. Unfortunately, municipalities in Thailand still remain overwhelmingly dependent on limited capital transfers from the central government despite the abundance of private sector capital in Thailand.

Thailand must begin to use private financing to a much larger extent in its investment plans. Although some private banks are already lending to certain municipalities on a very limited basis, the perceived risks associated with municipal lending leads to high interest rates and short term loans poorly suited to infrastructure finance. The current situation neither meets the needs of the municipalities nor private sector lending institutions.

To effectively tap private sector capital for loans, the question of risk, real or perceived, of lending by the private sector to municipalities must be addressed. One way to stimulate the flow of private investment capital would be to promote a facility designed to guaranty repayment of loans made by private sector institutions to municipalities for urban infrastructure.

Funding for such a Guaranty Facility might come from three sources:

a) Central government.

b) A private sector equity share would come from participating private Thai institutions, matching proportionately the public sector's contribution.

c) Finally, municipalities might also take part as equity share holders both to provide additional guaranty funds and to encourage their support for the sustainability of the Guaranty Facility itself.

The capital held by the Guaranty Facility would not be used to make loans directly but to guarantee repayment of loans made by Thai private sector institutions for investments in municipal infrastructure. These guaranteed loans could then be made both to municipalities and to BOO/BOT firms investing in municipal infrastructure.

Financial institutions lending for investment in these municipalities would then have repayment of their loans guaranteed, perhaps up to 100 percent. Because these loans are guaranteed, they can then be made at preferential rates. For example, if a bank normally charges 4 points above cost for a new borrower without a guaranty, that same borrower with a guaranty might be charged only 2 points above cost.

International standards for facilities of this type allow loans of up to 8.5 times the amount of total equity or guaranty. Managers of a Guaranty Facility should be able to leverage their resources five or six times at least and provide for far more investment than might be obtained by lending directly. For example, a guaranty facility with equity of $100 million could leverage up to $500-$600 million in private sector loans.

SUBJECT: WORKSHOP ON ENVIRONMENTAL ENFORCEMENT IN THAILAND

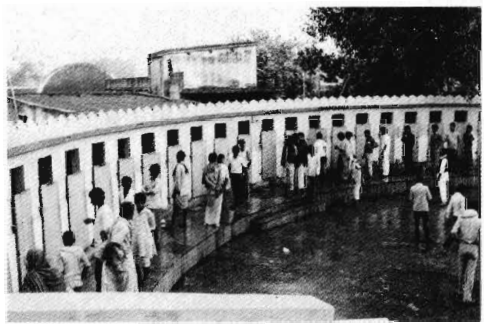
In July, A.I.D.'s Regional Support Mission, through RHUDO/Bangkok, the U.S. Environmental protection agency (USEPA), and the Ministry of Science, Technology and Environment (MOSTE) jointly sponsored a three-day workshop on environmental enforcement in Thailand. This Workshop was specifically designed to train trainers working in the enforcement area and to give them a better understanding of basic enforcement principles. The Seminar made extensive use of case studies and role playing exercises. Attendance was limited to 22 participants to encourage full participation. These participants represented a cross section drawn from government agencies, the private sector, and NGOs.

The Workshop had three Objectives:

a. To help environmental officials to understand the enforcement process;

b. To train potential trainers in effective techniques for presenting complex enforcement issues; and

c. To assist the Ministry of Science, Technology and Environment in developing training programs for their own staff and other officials involved in the enforcement process.



A photo of a typical Sulabh Community Latrine: Promoting hygiene and freeing scavengers from carrying night soil.

FINANCING ENVIRONMENTAL INFRASTRUCTURE AND COST RECOVERY

Introducing the appropriate price mechanism and financial incentives can greatly enhance the provision and maintenance of environmental infrastructure programs which are designed to reduce environmental pollution and protect the environment.

Cost recovery represents a reliable mechanism to finance environmental infrastructure on both small and large scales. For instance, a project which is partially or fully self-financing can stimulate the delivery of basic public facilities and services to urban communities which suffer from poor sanitation and inadequate infrastructure.

User charges, which represent one popular form of cost recovery, can be a reliable means of financing environmental infrastructure projects. Local municipalities are often financially overextended and thus cannot be relied upon to provide basic infrastructure to urban communities who need them most. Also, the private sector may be encouraged to participate since the initial capital investments can be eventually recouped and the project will generate ample funds to maintain its operations.

User fees are charged based on the amount or frequency of use of public services. For example, toll charges on bridges or highways and water supply fees are quite common. The rationale for charging user fees is based on the notion that consumers place an economic value on these services and thus are expected to pay for them in proportion to their costs. Distributing the costs among all its users can be a reliable and efficient way to install essential urban infrastructure services.

Without user charges, precious resources are squandered due to excessive consumption. Charging full cost based on the value of used renewable resources promotes conservation. In other cases, the government does not have the resources to invest and operate public services so citizens, especially low-income people, are denied basic urban services. By employing a cost recovery mechanism the provision of public services becomes partially or fully self-financing, making it easier for local municipalities or private companies to provide basic infrastructure facilities and services.

Although the cost recovery principle appears straightforward, charging for basic urban services can be problematic. Sometimes, charging user fees for basic urban services can be politically risky because many residents believe that providing basic infrastructure services is the responsibility of the government, especially basic necessities such as water. With regard to low-income households their ability to pay is obviously diminished. Demanding that low-income families pay the full cost of urban services is often viewed as a regressive tax which creates additional hardship on the poor. If user charges are too costly, people will attempt to circumvent the system by refusing to pay or they may resort to more illicit activities such as illegal connections in the case of water supply.

There are, however, examples of full cost recovery through user fees for services for low income groups.

SULABH INTERNATIONAL

Sulabh is a non-profit voluntary NGO in India which has developed a very impressive program for providing sustainable sanitation in low-income areas. It constructs and maintains toilets and bathing facilities. All the of its operations are financed through user fees. What is particularly significant about the program is that where most infrastructure is heavily dependent on government support and financing, this project clearly demonstrates that important services can be provided on a self-reliance basis even the poorest communities.

The program addresses several problems at one time:

- Lack of adequate sanitation facilities in poor households
- Indignity and health problems associated with traditional system of waste disposal
- Ineffective and inefficient waste disposal technology
- Government delays in basic infrastructure
- Lack of fundraising for construction, operation and maintenance

Sulabh began with a public awareness program stressing the benefit of improved sanitation. A community latrine demonstration was provided at both existing sites and through mobile units. In the course of their demonstration, Sulabh discovered that the current residents are so dissatisfied with the current situation that they would be willing to pay for clean, accessible, well-maintained facilities in their communities. Hence, the "pay and use" community latrine concept was born.

The appropriate size, location, and design of the facility was then determined as well as the necessary fee to recover all costs. Following the assessment of needs and willingness to pay, sulabh provided training in the construction and the necessary materials and start up financing. Sulabh hired and trained a manager who is responsible for providing 24 hours, 7 days a week maintenance.

Sulabh now has programs throughout India and has been responsible for construction of over 2,000 facilities. Thus, the Sulabh experiment has proven effective and can be efficiently replicated under a wide range of circumstances. Their most important legacy, however, may be that the demonstration that environmental infrastructure with full cost recovery can be achieved across all economic sectors.

Earl Kessler recently left RHUDO/Bangkok to become the new Director of RHUDO/New Delhi, and Julie Otterbein became Director of RHUDO/Bangkok. Earl Kessler has written a farewell letter, which is included as an insert to this issue of ASIA PERSPECTIVE.

FAREWELL LETTER FROM EARL KESSLER

The urban environment has pushed itself into the consciousness of the donors, the general public, governments, and the private sector. Daily, one reads about new disasters, unsuspected levels of degradation and new side effects of exposure to contamination. That is the bad news. The good news is that one also reads about experiences in clean up and hard political decisions. Policy is being oriented to attract the human and financial resources necessary to correct environmental problems and to change the attitude that "its his problem". We are starting to understand the tradeoffs and to do something about the mess we have created. USAID is changing along with this mass movement.

Five years ago, I arrived to work in the Regional Housing and Urban Development Office (RHUDO) for Asia in Bangkok. The Office's area was vast and its programs few. During the past five years the USAID/RHUDO portfolio of urban programs in Asia expanded greatly both geographically and substantively. Capital and technical assistance programs are now being implemented in the Philippines, Indonesia, Sri Lanka, India, Pakistan, Nepal, Mongolia and Thailand. Our programs seek systemic means to address past, current and future needs in housing finance, urban environment infrastructure improvements, municipal development, privatization and disaster preparedness and response. The threads of the different programs are woven into development patterns that with some tailoring can fit a variety of circumstances.

For the Office of Housing and Urban Programs, adequate support for these diverse urban programs has meant the opening of additional RHUDOs. From the one RHUDO/Asia, emerged three - Bangkok serving IndoChina, Jakarta for the Pacific Rim, and New Delhi for South Asia. Looking around it is clear we have yet to begin coping with urbanization. The "U" word has only become legitimate recently in economic and environmental circles. But better late than never. Developing clear and simple processes to access credit, land and services remains the challenge. It has been five years in Bangkok for me and my family. We have all grown. It is now time to move to New Delhi as Director of the new RHUDO/New Delhi perhaps for another five years.. From there I'll be reporting to you on our activities in South Asia. ASIA PERSPECTIVE as we know it, will no longer be published. However, I hope that we will continue to use our various networks to share experiences.

ANNOUNCEMENTS:

(1) The United States Environmental Protection Agency in conjunction with Purdue University have developed 19 different programs covering a broad range of environmentally related topics. For example, some of the titles include Principles & Design of Onsite Waste Disposal with Septic Systems, Wetland Education System, and Agricultural Pollution Prevention just to name a few. Each software set also comes with a slide show diskette explaining how the program works and a brief history of its development.

The software is FREE of charge on a first come first serve basis while supplies last. To order, please send your name, address, mailing address, phone number, and list of items ordered to the following address below.

(2) The Research Triangle Institute has completed a comprehensive bibliography of urban environmental literature for USAID, RHUDO/Bangkok. The bibliography which was published in September, 1992 covers a wide range of current topics including Privatization, NGOs, Cost Recovery, Public-Private Partnerships, Enforcement, Impact Fees, Tourism and Tourist Taxes, and Coastal Resources just to name a few. Supplies are limited. To receive your copy of the urban environmental bibliography please write to the following address below.

USAID
RHUDO/BANGKOK
37 Petchburi Soi 15
Bangkok 10400 THAILAND
Attn: Mr. J. David Foster

RHUDO/BANGKOK
Julie Otterbein
Director

David Foster
Regional Environmental Advisor

Barbara Foster
Regional Training Advisor

Curtis Borden
Urban Program Officer

RHUDO/NEW DELHI
Earl Kessler
Director

Charles Billand
Deputy Director

N. Bhattacharjee
Program Specialist

SRI LANKA
Howard Kane
Housing Finance Advisor

Kamalini Fernando
Mission Housing Advisor

RHUDO/JAKARTA
William Frej
Director

Joel Kolker
Deputy Director

ASIA PERSPECTIVE
c/o RHUDO/Bangkok
USAID/Thailand
37 Soi Somprasong 3
Petchburi Road, Bangkok 10400
Thailand
Tel: (66-2) 255-3665
Fax: (66-2) 255-3730

Editor: Jonathan Tom
Typesetting: Prachoomthong Printing Group Co., Ltd.