

EVOLVING SHELTER POLICIES FOR DEVELOPING COUNTRIES

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

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

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

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

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

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

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

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

So in the 1970s we all moved away from project or estate housing and into what we called the "basic needs" strategy. Our attention turned to providing

sites and services, slum upgrading, and core housing. These techniques allowed us to provide at least minimal services to a vastly larger population of the poor. Although the housing was nonexistent or minimal, it provided families with the opportunity to meet their own basic shelter needs. Families had their own private space; they were soon protected from the elements; and they were served with water and basic sanitation facilities. For them, even the most rudimentary of shelter was an improvement over what they had before or could have hoped to attain without some assistance.

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

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

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

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

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

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

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

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

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

Second, we work with the countries to adjust their view of what minimum appropriate standards for shelter should be. If basic needs can be met in a home of twenty square meters to be added to later by the occupant, then it is not only a waste of scarce resources to build at forty, but only half as many people can be helped. If we can provide adequate water and sanitation by clustering facilities, then it is wasteful to pipe water into each individual unit. Appropriate standards, along with the use of appropriate, low-cost and

indigenous building materials and technologies help to assure that the project is affordable to the intended beneficiaries. And affordability is the key to cost recovery.

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

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

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

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

The designation of IYSH is also a recognition of the relationship of adequate shelter to the physical and psychological well-being of disadvantaged people. It is a reminder to us all of what we are really all about. Perhaps nowhere has this most fundamental aspect of shelter been more poignantly expressed than in an early novel by V.S. Naipaul, who may be the most powerful writer in the English language today. This novel, "A House for Mr. Biswas" is clearly

autobiographical, and Mr. Biswas is Naipaul's father, a middle-aged father of four who is terminally ill; his thoughts as he lay in his bed turned to the house he has struggled to pay for:

"He thought of the house as his own, though for years it had been irretrievably mortgaged. And during these months of illness and despair he was struck again and again by the wonder of being in his own house, the audacity of it: to walk in through his own front gate, to bar entry to whoever he wished, to close his doors and windows every night, to hear no noises except those of his family, to wander freely from room to room and about his yard. . . .

"How terrible it would have been, at this time, to be without it: . . . to have lived without even attempting to lay claim to one's portion of the earth; to have lived and died as one had been born, unnecessary and unaccommodated."

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