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Office of Housing and Urban Programs

**CONCEPTS AND STRATEGIES FOR
HOUSING AND URBAN DEVELOPMENT PROGRAMS
IN THE POST WAR MIDDLE EAST**

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Concepts and Strategies for Housing and Urban Programs in the Post War Middle East

Executive Summary

The economic repercussions of the Gulf Crisis on other countries transcend the loss of trade and tourism revenue or the higher energy costs experienced in the second half of 1990. The massive displacement of some two million expatriate workers since August 1990, is adversely effecting all labor exporting countries, from the Philippines to Morocco. The sudden and unexpected loss of about \$10 billion of foreign exchange contributions has increased recessionary forces and is threatening the collapse of the weaker economies. An estimated additional million workers are still in Iraq and Kuwait, but their ability to remain is uncertain and will depend on the evolving political picture in the Gulf. Their forced repatriation will aggravate further an already critical situation.

Impacts of the Gulf Crisis on the Urban Sector.

Workers' remittances support large segments of the urban population and rural populations too, at least in the case of Egypt and Yemen. They sustain the thriving informal housing sector that meets the shelter needs of limited income groups. Saturated domestic labor markets cannot absorb the returnees. Furthermore, their reabsorption into the international labor market will be affected by political factors and the skill profile of the displaced labor. The implications for Egypt and Jordan are disastrous as unemployment rates have already reached or exceeded 25% to 30%. This politically destabilizing factor is aggravated by the displacees' loss of personal income and savings.

The immediate and longer term impacts of this disruption in regional labor movements on the urban sector have been largely overlooked in assessing the repercussions of the crisis.

Two types of impacts can be identified: problems which are basically transitory in nature; and structural problems which impede sectoral development over the longer term.

Countries affected in the short-term. In Morocco, Tunisia, and Turkey, the trade embargo, rising energy costs, and depressed tourism receipts have caused temporary dislocations that should begin to smooth out over the coming months. Increasing the flow of funds to these countries will help them overcome their short-term problems. In the longer term, increasing the efficiency of their housing sector will strengthen their economy.

Countries affected in both the short- and long-term. In Egypt, Jordan and Yemen as well as in Pakistan, India, Bangladesh and the Philippines, the large number of workers displaced from Iraq and Kuwait and, to a lesser extent Saudi Arabia and the Emirates, has created a crisis. In some cases, 20% to 30% of the country's labor force have lost their jobs and their savings and their plight is compounded by uncertainty over future employment prospects. Regardless of the

extent to which the oil producing countries of the Gulf manage to reduce their dependency on imported labor, the mix of nationalities is likely to change in the political aftermath of the Crisis.

The return of workers, perhaps a third of whom were accompanied by dependents, has created burdens that impacted countries cannot resolve on their own. The urban sector, which generates 75% of the GDP, presents the most intractable problem resulting from the Gulf Crisis. Governments already suffering from a chronic deficiency of public revenue are unable to respond to urgent needs. The massive influx of displaced families will affect the structure of urban areas and further erode living standards. This is already evidenced by an increased demand for housing, rising densities and the overcrowding of schools. The magnified longer term impacts of the Crisis will devolve upon decentralized municipal structures, ill-prepared to cope with problems of such magnitude.

Assistance to the urban sector is needed in order to mitigate the economic and social impacts of the Crisis, both short and long term. Its ability to generate employment quickly will facilitate the integration of returning workers.

Investment in urban infrastructure is urgently required to support land development and stimulate the emergence of micro-enterprises which offer a range of employment opportunities to a labor pool lacking the skills and mobility needed to compete in tight and highly organized international labor markets. The multiplier effect of investment in urban infrastructure is generally two to three times higher than direct investment in housing. It ranges between three and six, depending on type and location of improvements, city size, and country.

Criteria for an Urban Sector Intervention Strategy.

The uncertainties that presently underlie the future of the countries affected most by the Gulf Crisis as well as the need for a rational utilization of assistance provided in an emergency situation require that investment programs address both immediate and structural issues. The injection of funds to reactivate a sluggish shelter sector, create jobs and provide needed foreign exchange must be accompanied by institutional changes to increase the absorptive capacity of the urban sector. The following criteria have been selected to identify country specific programs.

- **Programs must be highly visible in order to defuse ill- feelings generated by the military intervention.**
- **Their beneficial effects on the local economy must be rapid to respond effectively to Crisis induced problems.**
- **Their immediate impact must be significant and their longer term objectives should address structural issues.**

Program Strategy.

A.I.D.'s Office of Housing and Urban Programs has a long history of activity in the region. Its lending and technical assistance programs have focused on infrastructure upgrading and extension, support for housing finance, and the decentralization of urban services and shelter delivery systems. The Office can respond promptly and effectively to the challenges facing the urban sector in the affected countries.

Short Term Activities

1. Accelerated disbursement of Housing Guaranty programs already authorized for countries in the region.
2. Reprogramming of up to \$50 million of FY '91 HG authority to support a regional housing and urban infrastructure program for countries eligible to borrow HG funds.
3. Development and funding of a regional technical assistance and training program to improve managerial skills in local governments.

In addition, the U.S government should press for international action to ensure that the bank deposits and back wages of expatriate workers are reimbursed promptly by Iraq and Kuwait. Estimated by their respective governments at four billion dollars for Jordanians and ten billion dollars for Egyptians, their repatriation will provide badly needed investment capital.

Medium Term Activities

1. Seek significantly greater resources as part of a Supplemental Appropriation for the Gulf region.
2. Promote the creation of a Gulf funded Facility for Housing and Urban Programs to provide grant and loan guarantees through banks operating in the region. This would both increase the pool of international commercial credit available for housing and urban projects and help overcome income disparities within the region.
3. Establish a Gulf funded Institute to encourage innovative approaches to urban management, land development, the financing of urban projects and to sponsor technical assistance and training.

New approaches must continue to emphasize strengthening the capacities of institutions responsible for urban land management and the provision of infrastructure and municipal services. The current economic crisis entails that priorities be set with a view to maximize the multiplier effect of public investment. Most importantly, it must be explicitly recognized that the new urban dynamics which will emerge from the shifts in labor flows have yet to coalesce and will undoubtedly require a restructuring of policies and programs in the urban sector. Responses formulated at this time must provide a framework with the necessary flexibility to allow for successive adjustments to occur.

Proposed Intervention Strategies in Selected Countries

This approach underlies the strategies proposed for a number of affected countries in the region. The programs presented for the three countries below are intended to be illustrative of the kind of immediate interventions that could be undertaken.

Jordan

The Crisis in the Gulf has caused more than 100,000 households to return to Jordan unexpectedly, greatly exacerbating overcrowded housing situations. The sudden densification of urban neighborhoods has placed a heavy burden on local governments to increase service levels. Should the returnees remain, more than five times the current annual number of new housing units will be needed. Housing units will have to be built in a short time and using less than half of the financial resources normally available from remittances and savings.

Three related programs are proposed to help improve this situation. All are suitable for the rapid disbursement of Housing Guaranty funds to experienced local implementing agencies and support A.I.D.'s basic objectives in shelter and urban development.

1. Quickly disburse authorized HG-004 Housing Support Program funds to encourage private sector provision of affordable housing.
2. Provide guarantees for the Islamic Bank's small-scale loan program for core units and the expansion of existing residential buildings.
3. Provide municipalities with infrastructure financing through the Cities and Villages Development Bank and encourage the servicing of areas where land values are accessible to low and moderate income families in the greater Amman Region.

Morocco

The uncertainties created by the Gulf Crisis are already affecting the housing sector which provides employment to nearly 300,000 persons. Its support is therefore expected to have a positive effect in alleviating short term impacts. The accelerated disbursement of authorized Housing Guarantee Loans should be supplemented by increased investment in urban infrastructure.

1. Promptly disburse \$15 million to support the activities of the Agence nationale de lutte contre l'habitat insalubre (ANHI) and accelerate disbursement of remaining funds in loan authorizations.
2. A supplementary authorization of \$70 million, complemented by a \$5 million accompanying grant would be sought to support infrastructure investments.

These programs will increase the funding available for the construction of primary infrastructure in urban areas, service existing fringe settlements, and open up opportunities for private sector production of housing. The \$5 million grant will finance technical assistance and training to improve the land management capabilities of local governments.

Turkey

The Gulf Crisis has aggravated the economic strains of reverse migration from Europe and is threatening to undermine recent economic achievements. The provision of A.I.D. loan guarantees will help Turkey mitigate short term effects and address longer term structural issues in the urban sector.

To allow for rapid disbursement, urban projects already identified by the State Planning Organization will serve as the core of a large scale effort to improve urban management. A pilot program in the municipality of Ankara will establish procedures to legalize squatter areas. It will help initiate a nation wide municipal program for urban land management and the regularization of informal settlements.

The rapidly growing Southeastern Anatolia Region has been the focus of massive development efforts throughout the 1980s, with a population increase of nearly 5 million expected over the next fifteen years. Resources of the Office of Housing will support programs to assist national and local authorities develop urban strategies, upgrade poorly serviced areas, regularize land ownership and strengthen municipal technical and managerial capabilities.

I. Regional Impacts of the Gulf Crisis

Billions of dollars will soon be expended to repair war devastated zones in the Near East and compensate countries which suffered financial losses as a result of the Crisis. Yet, the economic repercussions of the Gulf Crisis transcend the loss of trade and tourism revenue or the higher energy costs experienced in the second half of 1990. The massive displacement of some two million expatriate workers since August 1990 has been largely ignored, and is affecting adversely all labor exporting countries, from the Philippines to Morocco. The sudden and unexpected loss of about \$10 billion of foreign exchange contributions has increased recessionary forces and is threatening the collapse of the weaker economies. An estimated additional million workers are still in Iraq and Kuwait, but their ability to remain is uncertain and will depend on the evolving political picture in the Gulf. Their forced repatriation will aggravate further an already critical situation. Government reported losses for 1990 in Egypt, Jordan and Turkey are shown in Table 1.

**Table 1. Financial Losses Resulting from the Gulf Crisis, 1990
(millions of US dollars)**

	Jordan	Egypt	Turkey
Decrease in exports	280	800	320
Increase in imports	220	500	—
Petroleum transit trade	—	200	200
Other cross-border trade	120	—	100
Tourism	230	500	1,000
Contractor fees	—	400	100
Workers' remittances	350	1,000	20
Aid from Gulf countries	185	—	—
Debt payment forfeiture	170	—	130
Refugee emergency relief	30	200	100
Oil cost impact	180	—	1,000
Emergency budget	NA	NA	285
TOTAL	1,765	3,600	3,255
% of GDP	40%	10%	5%
% of labor force abroad	40%	30%	5%

Sources: Government estimates reported in Egyptian, Jordanian and Turkish press.

The world wide economic recession had already led to budget cuts, currency devaluation and double digit inflation in many countries, including Jordan, Morocco, Tunisia and Egypt. Jordan was particularly hard hit and devaluated its dinar by 45% between 1988 and 1991 with inflation running at an estimated annual rate of 25%. To meet the emergency expenditures generated by the Gulf Crisis, governments cut sharply on capital spending and reallocated funds to cover the widening

deficits in current accounts. The sudden reduction in expected foreign exchange earnings prompted a further currency devaluation in Egypt, where the LE to dollar exchange rate went from 2.75 in July 1990 to 3.35 in February 1991.

Through their remittances, expatriate workers support large segments of the urban population (and rural populations too, at least in the case of Egypt and Yemen). They sustain the thriving informal housing sector that meets the shelter needs of limited income groups. Furthermore, saturated domestic labor markets cannot absorb the returnees while their reabsorption into the international labor market will be affected by both political factors and the skill profile of the displaced labor. Indeed, it is in the urban sector that the most intractable problems of the Gulf Crisis are emerging.

**Table 2 - Estimated Labor Displacement
from Kuwait and Iraq, December 1990**

<u>Expatriate worker's nationality</u>	<u>Country of employment</u>	
	<u>Kuwait</u>	<u>Iraq</u>
Egyptians	100,000	800,000
Jordanians	100,000	100,000
Turks	2,500	4,000
Moroccans	6,000	30,000
Tunisians	1,500	2,000

Source: Governments' estimates.

The effects of the Gulf Crisis on the region's countries can be divided into two types: problems which are basically transitory in nature; and structural problems which will impede their economic development over the medium and longer term.

Countries affected in the short-term. In Algeria, Morocco, Tunisia, and Turkey, the trade embargo, rising energy costs, and depressed tourism receipts have caused temporary economic dislocations that should begin to smooth out over the coming months. Increasing the flow of funds to these countries will help them overcome their short-term problems. In the longer term, increasing the efficiency of their housing sector will strengthen their economy.

Countries affected in both the short- and long-term. In Egypt, Jordan and Yemen, as well as in Pakistan, India, Bangladesh and the Philippines, the large number of expatriate workers displaced primarily from Iraq and Kuwait and, to a lesser extent Saudi Arabia and the Emirates, has created a crisis. In some cases, 20% to 30% of the country's labor force have lost their jobs and their savings and their plight is compounded by uncertainty over future employment prospects. The return of some two million workers, perhaps a third of whom were accompanied by dependents, has created

an immediate heavy economic burden. None of these countries is able to resolve it on its own. In the longer term, these countries will find it difficult to absorb returnees into the domestic economy. Moreover, some countries will have difficulty in finding alternative host overseas labor markets: in the case of Jordan, mainly for political reasons; in the Egyptian case, mainly because the bulk of returning Egyptian workers are unskilled laborers.

Regional cooperation, or the lack of it, will determine the rate of reabsorption of displaced skilled and unskilled labor. In the case of Egypt, the reconstruction of Kuwait could absorb 10% to 20% of the displaced labor. Nevertheless, in the long term, Kuwait, Saudi Arabia and the United Arab Emirates lack the absorptive capacity for the estimated 2.2 million Egyptians who worked in Iraq prior to the Crisis. At the height of their development programs in the 1975-80 period, these countries employed a total of 1.5 to 2.0 million expatriates of all nationalities. Regardless of the extent to which the oil producing countries of the Gulf manage to reduce their dependency on imported labor, the political aftermath of the Crisis is likely to alter the mix of nationalities found in the region's labor importing countries.

In recent years, the labor importing countries have actively enforced policies designed to strictly control the number and mix of migrant workers within their borders. It is expected that the post-Crisis period will witness a renewed effort to:

- Reduce reliance on a long term base of expatriate labor from any one Arab country;
- Accelerate the shift to high technology labor saving solutions;
- Increase controls on the labor market and reduce the presence of dependents; and
- Increase the use of contracted suppliers of manpower in lower skilled occupations through package deals and enclave contracts, a policy that tends to favor East Asians.

The evolving political picture in the Gulf region will determine the number of displaced Arab expatriates who will be able to return to their former jobs. Domestic policies in the oil exporting countries will shape the character of labor flows in the reconstruction and post reconstruction periods through the award of contracts and work permits to selected nationalities and occupational categories. For example, the continued presence of Jordanians in Saudi Arabia and the Emirates is clearly threatened at this time; it is also unclear whether the one million Egyptians still in Iraq will be allowed or willing to remain there.

It is expected that hundreds of thousands of displacees may not be able to return in the near future; neither can they be absorbed easily in the depressed economies and saturated labor markets (both formal and informal) of their home countries. The implications for Egypt and Jordan are disastrous as unemployment rates have already reached 25% to 30%. The mismatch between the skill profile of returning workers and potential manpower requirements in the economies of these two countries is a structural problem for which there is no short term solution and it will take time for the international labor markets to adjust to this major dislocation. In the mean time, several labor

exporting countries, including Jordan and Egypt will experience severe economic and social problems. The politically destabilizing factor of rising urban unemployment is aggravated by the displaceds' loss of personal income and of savings accumulated over years of employment abroad. **The U.S government should press for international action to ensure that the bank deposits and back wages of expatriate workers are reimbursed promptly by Iraq and Kuwait.** Estimated by their respective governments at four billion dollars for Jordanians and ten billion dollars for Egyptians, the repatriation of these funds will provide badly needed investment capital.

II. Impacts of the Gulf Crisis on the Urban Sector.

Countries affected by the Gulf Crisis have been relying increasingly on urban employment to absorb the bulk of new entrants in the labor force, an ever expanding pool sustained by young populations, rising labor force participation rates, and unabated migration from rural areas. The proportion of the GDP generated by the urban sector has risen rapidly in the 60's and 70's and reached 75% in the 1980's. In recent years, international migration alleviated urban unemployment by siphoning large numbers of workers whose skills and qualifications did not meet the manpower requirements of the domestic labor market. The loss of this safety valve is bound to create severe structural problems in the urban sector while the sudden return of displaced persons from the Gulf is creating a crisis of massive proportion.

Without income or capital, families displaced by the Gulf Crisis have sought accommodations with relatives, mostly in the cities. Rural areas were hardly affected except in Egypt and Yemen, where a large proportion of the labor employed abroad consists of unskilled agricultural workers whose sudden return has depressed rural wages. For the first time since independence, the urban population in the labor exporting countries affected by the Gulf Crisis will have to sustain the combined effects of declining real incomes and the phasing out of government price support for basic commodities, housing, and public services. The combination of economic depression and worsening living conditions will create severe hardships and seriously degrade the already precarious conditions of the urban poor.

This massive influx of displaced families is affecting the structure of urban areas; it is already evidenced by an increased demand for housing and the overcrowding of existing accommodations. In the longer term, the returnees' loss of the savings they might have used to start a new life and procure shelter, will exacerbate an already tight housing market. The prompt return of their savings and back wages by the governments of Iraq and Kuwait will ease this capital shortage.

The suddenness of the Crisis elicited largely inadequate emergency measures from central authorities. Its magnified longer term impacts, particularly in the urban sector, will devolve upon decentralized municipal structures, ill-prepared to cope with problems of such dimension. The ongoing inability of governments to meet urgent requirements and the prospects of further economic retrenchment do not leave much hope of sustained central support to affected localities. Repercussions will be felt throughout the national economies as the shelter sector, including its informal component, cannot meet the needs of households lacking seed capital. The economic recession of the late 80's had already caused a noticeable slowdown in informal building activities in Egypt, Jordan, and North Africa, whose impacts reverberated throughout the regional economy.

During the 1975-1985 boom, housing, fueled by foreign remittances, accounted for an increasing share of gross capital formation, that reached a high of 40% in Jordan. The general pattern of small scale urban developments and incremental housing construction provided

employment for large numbers of unskilled workers, thereby absorbing large segments of the unemployable labor surplus among rural migrants and the urban poor. In the informal sector, semi-skilled manpower replaced more expensive skilled workers, in short supply on the domestic labor market. The sudden interruption of remittances has brought building activities to a halt. The informal housing market will have to undergo a restructuring of its operations in order to adapt to conditions of increased demand, lower levels of affordability, and shrinking household capital resources.

Concurrently, the combination of debt burdens, budget deficits, down rated credit worthiness and inflationary monetary policies created shortages of investment capital, particularly foreign exchange. This led to the curtailment of public investment in the expansion and maintenance of urban infrastructure. The deepening economic recession since the mid 80's accelerated the deterioration of existing systems, undermining the development of the urban sector. The current crisis will further aggravate an already critical situation.

Egypt. The case of Egypt is particularly complex. Workers displaced from Kuwait are professional, technical, and skilled salaried employees; 80% of the workers returning from Iraq are unskilled laborers working in the construction and agricultural sector. Only 5% are qualified professionals and technicians and the remainder are semi-skilled manual workers. Even though less than half of the Egyptians working in Iraq had actually come back to Egypt by the start of the hostilities, their return has caused major strains in the domestic labor market. Should the political and economic situation in the post war period lead to further displacement, returning workers would represent over 50% of the total work force in low skill occupations. The urban sector cannot absorb a flow of this magnitude without a massive infusion of capital from abroad. The government estimates that every educated returning worker will cost the state \$3,000 to absorb within the framework of its highly inefficient public sector. This is not an economically viable approach and will only accelerate the impending collapse of the economy. Short of restructuring, which needs a longer time horizon, emergency measures are needed to improve the absorptive capacity and functional efficiency of the urban sector.

Jordan. The majority of displaced Jordanians were originally urban workers engaged in managerial, professional, technical, and skilled clerical and sales occupations. They are now unemployed and lodging with relatives, primarily in Amman and its immediate vicinity. Shortages of water, increased traffic congestion, and an overload of community services, particularly schools, are immediate problems to be addressed. Longer term issues relate to the necessity to develop a capacity within the urban sector to accommodate an additional 100,000 households on a permanent basis. It is no small task in the context of a collapsing economy.

Turkey. The number of Turks displaced by the Gulf Crisis is small but consists mostly of professionals and technicians with little or no prospect of finding employment in a saturated domestic labor market. A decade of reverse migrations involving workers displaced by labor policies adopted in Germany and other European countries, as well as the migration of ethnic Turk refugees

from Eastern Europe has burdened the domestic labor market with over 250,000 workers which the economy is unable to absorb.

An Urban Sector Intervention Strategy.

Limited capital requirements, flexible labor needs, and a pervasively low productivity allows the informal housing sector to maximize labor absorption capacity with little impact on output. Despite their modest income generation potential, informal activities offer the only prospect of gainful employment at a time of severe economic hardship, particularly in countries with large surpluses of unskilled labor, such as Egypt and Yemen. An intervention policy targeted on the shelter sector will have several immediate positive effects:

- **Provide an immediate input of badly needed foreign currency;**
- **Lower the social tensions which housing shortages invariably create; and**
- **Create employment for returning unskilled laborers in order to allow them to start supporting their families.**

Investment in urban infrastructure is urgently needed: it provides the necessary support for the development of formal and informal economic activities. Despite their small scale of operation, the micro-enterprises which typically develop in mixed lower and middle income communities offer a range of employment opportunities to a labor pool lacking the skills and mobility needed to compete in the tight and highly organized international labor market. The multiplier effect of investment in urban infrastructure is generally two to three times higher than direct investment in housing construction. It ranges between three and six, depending on type and location of improvements, city size, and country. Urban infrastructure provides the most effective vehicle for the mobilization of private resources in the shelter sector. The greater the importance attached to housing as a commodity and as an investment, the higher the leverage ratios achieved. In Jordan's limited income communities, recorded ratios are on the order of 1:4.

A Framework for Urban Programs. The accelerated urbanization that is a common characteristic of all countries in the region has created a range of problems that antedate the Gulf Crisis. Fueled by remittances from expatriate workers, the informal sector has assumed the dominant role in housing construction as households view the acquisition of a home not only as shelter but as the only safe way to invest savings in national economies with uncertain futures. The resulting proliferation of new construction on the urban fringe and the densification of older areas has created deep structural problems:

- **Structural deficiencies arising from inadequate housing credit financing mechanisms;**

- A rising proportion of dwelling units lacking safe drinking water, sanitary sewage, and community facilities and services;
- The deterioration of the existing urban infrastructure through overload and a lack of funding for operations and maintenance;
- Deficiencies in the infrastructure needed to support economic activities as well as housing; and
- A lack of liquidity and an inability to access credit to finance small business enterprises.

These structural problems have been exacerbated by the Gulf Crisis. The shelter needs of displaced households returning, for the most part, without resources may be met, in the short term, by family and friends but their reinsertion into their home country economy and their eventual access to their own housing is, at best, problematic unless a concerted effort is made to

coordinate housing assistance programs with the creation of employment for that portion of the displaced population that will not be able to return to the Gulf for either political or economic reasons.

Assistance provided to the shelter sector is an effective way to address both short and longer term impacts of the Crisis, as housing plays a large role in both the formal and informal economies. Housing can act as a strong motivating force for savings and is focused on the domestic side of the economy, utilizing mainly domestic material inputs and labor. Removing constraints which prevent the shelter sector from operating effectively can accelerate the creation of a more efficient and resilient economy.

The uncertainties that presently underlie the future of the countries affected most by the Gulf Crisis as well as the need for a rational utilization of assistance provided in an emergency situation require that investment programs address **both** immediate and structural issues.

Programs must therefore combine solutions to the relocation of displaced households with interventions addressing the underlying structural issue in the shelter sector as well as problems of urban poverty.

The injection of funds to reactivate a sluggish shelter sector, create jobs and provide needed foreign exchange must be accompanied by:

- Institutional adjustments to increase the absorptive capacity of the shelter sector; and

Develop the managerial and financial capabilities of local governments to deal with crises and provide efficient urban management.

Proposed Short and Medium Term A.I.D. Interventions

A.I.D.'s Office of Housing and Urban Programs has a long history of programs in the region which address such issues. Both capital and technical assistance programs have focused on infrastructure upgrading and extension, the expansion of serviced land sites, support for housing finance programs, and decentralization of urban and shelter service delivery. In the HG programs private sector investment generated amounts to ten to fifteen times the HG financing in construction activities for micro enterprise builders and developers. APRE/H has developed a network of competent public and private local institutions involved in such activities and has a history of experience with regional institutions designing procedures and criteria for effective lending.

Short Term Activities

- (1) The accelerated disbursement of Housing Guaranty programs already authorized for countries in the region. This could be done by amending existing agreements to provide for advances or the relaxation of policy conditionality.
- (2) The reprogramming of up to \$50 million of FY '91 HG authority to support a regional housing and urban infrastructure program for countries eligible to borrow HG funds.

Medium Term Activities

1. **Gulf HG Program:** Significantly greater resources should be sought as part of a Supplemental Appropriation for the region. This would require exemption from the statutory provisions of Section 223j, to facilitate cooperation with other donors and to permit investment in mixed income communities. Finances would be used to promote:

- serviced land and housing construction;
- upgrading and extension of urban infrastructure;
- grant-funded urban technical assistance and training programs; and
- reconstruction and repair.

Criteria to be developed to determine eligible capital assistance programs should reflect the need for accelerated program design and implementation. Both policy-based and project-based lending programs would be considered. Technical assistance and training requirements would be identified to assure speed of implementation and address major policy and institutional constraints in the shelter and urban sector.

Debt service capabilities would be reviewed in accordance with HG procedures and back up guaranties should be sought from the Gulf States to minimize risk. AID resources should be thought of as representing the U.S. participation in the regional housing and urban investment program described below.

2. Establish of a Gulf-funded Facility for Housing and Urban Programs: A major Gulf-funded financing facility should be established to overcome income disparities within the region and respond to the housing and urban investment needs of the "have-not" countries. Created with A.I.D. technical assistance, it could eventually become a window in the proposed Middle East Reconstruction and Development Bank and allow the oil-rich states, with AID assistance, to channel loan guarantees, credits and grants to the housing and urban sectors in the less fortunate countries. Funds guaranteed by one or more Gulf countries would be raised on the international market and, as in the case of A.I.D.'s HG program, would be useful only to credit worthy countries. There will be a need for blended credit on more concessionary terms and, in a few instances, grants for emergency programs, to ensure financing for all countries in the region.

Strict lending and program-appraisal guidelines will be needed to assure that resources flow without political manipulation. A.I.D. would help in setting up these guideline and implementation procedures. Eligible programs would include:

- housing and infrastructure to supplement those proposed for a Supplemental Appropriation; and
- urban transport, which cannot be funded under the present HG program.

The establishment of Gulf Fund for Housing and Urban Programs will be an important test of the long-term commitment and willingness of the Gulf states to resolving the urban and shelter problems of the region.

3. Establish a line of credit through banks operating in the region: Gulf state governments should be encouraged to establish their own loan guarantee programs that would encourage international banks operating in the region to finance limited income housing and urban projects. This would alleviate the disparities that are fundamental to the instability in the region and help offset criticism that Arab banks invest only in luxury projects. A.I.D. could provide the governments with the technical assistance necessary to establish sound program criteria.

4. Fund regional technical assistance and training: Many of the technical assistance and training needs are common to the countries of the region and would be managed more efficiently as a regional program. Urban land management, municipal finance, housing finance, infrastructure and municipal services, and environmental protection are inadequate. A.I.D.'s Office of Housing and Urban Programs should sponsor partnerships

between institutions in the U.S. and the region to design and organize training programs sensitive to the cultural and institutional characteristics of the region's countries.

5. Create a Gulf-funded Housing and Urban Development Institute: The definition of innovative approaches to urban management, land development and the financing of urban projects would be encouraged by establishing a regional Institute specializing in these issues. It would provide technical support for lower income housing financing and urban development to the proposed Gulf Bank (item 2, above) and serve as a focus for international collaboration.

A separate memorandum details the structure and resources aspect for A.I.D. program management.

Criteria for the Selection of Intervention Programs.

Various country specific conditions will determine the exact nature of proposed programs: the economic scale of short and longer term impacts, structural issues, and institutional aspects. Yet, in all cases, three underlying criteria should be utilized:

- **Programs must be highly visible in order to defuse ill-feelings generated in the region by the military intervention;**
- **Their beneficial effects on the local economy must be rapid in order to respond effectively to Crisis induced problems; and**
- **Their immediate impact must be significant and their longer term effects must address structural problems.**

These criteria can be translated into the following operational guidelines.

1. Visibility of intervention.

- 1.1 Help alleviate urgent needs and immediate problems at the local level.
- 1.2 Address the needs of the groups most affected by the Gulf Crisis.
- 1.3 Promote employment generation directly through the increased activity of the shelter sector and/or indirectly through the provision of support infrastructure.
- 1.4 Maximize the use of local consultants and contractors to generate employment.

2. Impact of intervention.

- 2.1 Influence the domestic structure of urban investments to maximize their multiplier effect.
- 2.2 Generate tangible results that can become part of or tie into wider programs with a policy link.
- 2.3 Stress the policy linkages between the provision of shelter and employment in order to broaden their impact.
- 2.4 Affect the reformulation of land policies to create mechanisms for both urban expansion and retrofitting.
- 2.5 Encourage the creation of credit mechanisms aimed at small scale economic activities and developers.

3. Speed of intervention.

- 3.1 Simplify allocation and disbursement procedures.
- 3.2 Utilize existing public agencies and NGOs with a proven track record.
- 3.3 Use USAID leverage to achieve a complementary combination of agency expertise while avoiding multiple agency responsibility in any one delivery channel.
- 3.4 Identify relevant existing or proposed programs for supplementary or priority funding.
- 3.5 Ascertain the feasibility of funding and implementation without major amendments of current laws in host countries.
- 3.6 Minimize reliance on scarce local counterpart funds.

New approaches must continue to emphasize strengthening the capacities of institutions responsible for urban land management and the provision of infrastructure and other services. The current economic crisis entails that priorities be set with a view to maximize the multiplier effect of public investment. Most importantly, it must be explicitly recognized that the new urban dynamics which will emerge from the shifts in labor flows have yet to coalesce and will undoubtedly require a restructuring of policies and programs in the urban sector. Responses formulated at this time must provide a framework with the necessary flexibility to allow for successive adjustments to occur.

This approach is illustrated in the strategies proposed for selected countries that are presented in the last section of this report.

III. Proposed Strategies for Intervention in Selected Countries

JORDAN

Fueled by growing levels of remittances from some 350,000 Jordanians working abroad (approximately 40% of the country's work force) Jordan's economy expanded rapidly in the 1970's and early 1980's. Remittances stimulated both increases in consumption as well as substantial investments in housing. Donor aid provided budget support for both current expenditures and Jordan's ambitious development programs.

Since the mid-1980's however, the outlook for Jordan's economy had become increasingly gloomy as expatriate worker remittances dropped from an annual value of approximately \$1.2 billion in 1986 to just over \$600 million in 1989 while Arab grants-in-aid decreased from roughly \$ 1.3 billion in 1980 to \$588 million in 1987. This decline brought about a severe shortage in foreign exchange and the rescheduling of Jordan's external debt in 1989. Depressed regional economic conditions and the continued low world commodity prices for the country's mineral exports affected Jordan's external sector, which represented roughly 38% of GNP. As a result, the GDP annual rate of growth did not exceed 3% after 1983, and there was a substantial rise in unemployment in the face of labor force increases of 4-5% per year. The war in the Gulf has dramatically exacerbated all of these negative conditions and placed any recovery in the Jordanian economy in extreme jeopardy.

Impact of the Gulf Crisis. The Jordanian economy's strong linkages to the neighboring oil exporting countries that provided the main markets for Jordan's exports and skilled labor and constituted the main source of foreign grants has made it particularly vulnerable. In recent years, trade with Iraq and Kuwait accounted for 70% of all exports of manufactured goods and agricultural products and its loss is having a dramatic effect on private sector development, nascent small scale enterprises that is reflected in rocketing unemployment. Jordan's total financial losses from the Gulf crisis, including lost remittances from workers, transit traffic income, tourism receipts, exports and grants are expected to reach almost \$1.2 billion in 1990 and then double to \$2.4 billion in 1991.

It is estimated that remittance losses of \$200 million were incurred during the last five months of 1990 due to the total loss of remittances from Kuwait and a decline of 50% in remittances from other countries in the region. This loss in remittances is expected to grow to \$500 million in 1991. The return of Jordanian workers to neighboring countries and the recovery of remittances is expected to be slow and may never reach pre-Crisis levels as a result of the political reaction to Jordanian and Palestinian attitudes toward the resolution of the Crisis. The need to absorb expatriate workers and their dependents poses a formidable challenge as the dramatic decrease in remittances will have a devastating effect on the housing sector which traditionally, has benefitted most from these transfers.

Prior to the Gulf crisis, unemployment in Jordan was concentrated among secondary and higher education graduates. This was due to the slowdown in economic growth in the region, reduced employment opportunities for Jordanians to work abroad and increased outputs from the

educational system. The first influx of returnees from the Gulf doubled the number of unemployed to over 200,000 and raised the unemployment rate from 16% to 30% of the work force. The skill structure of this returnee population is similar to those already unemployed and will serve only to worsen the labor supply/demand imbalance for this well qualified segment of the population. As a result, it will be extremely difficult to absorb returnees into productive sectors of the economy as private sector confidence, already low, will decline even further.

In addition, some 750,000 refugees from Iraq and Kuwait have passed through Jordan on their way home at a cost to Jordan's own resources of \$50 million. Some of these refugees also may remain in Jordan for some time and continue to need services.

Proposed Programs in the Urban Sector. Interventions should address **immediate and longer term** issues, both of which are characterized by a sharp increase in demand for urban services with a potentially negative impact on the urban environment. The return of expatriate workers has already sorely taxed the entire urban infrastructure and service delivery systems and is expected to continue to do so in the foreseeable future:

- Housing overcrowding, which already affects some 30% of the urban population, can be expected to worsen considerably;
- Pressures on housing delivery systems to provide affordable housing for low and middle income families, will increase dramatically in order to include returning families, many of whom have lost both their livelihood and savings; and
- Urban services will have to meet the needs of a population that has suddenly increased by 10%. The first wave of returnees, for example, added 42,000 children to the local school systems.

Longer term issues in the housing sector include:

- Institutional impediments to public sector coordination;
- Regulatory constraints on land development which affect the affordability of building plots; and
- Constraints on housing finance.

A.I.D. should therefore concentrate on programs that ensure that immediate interventions in the urban sector have long term benefits. The extent of the economic crisis faced by Jordan demands that the contribution of the shelter sector to the national economy be exploited to the fullest extent possible. Making Housing Guarantee Assistance available in a timely manner will not only alleviate Jordan's impending urban crisis but provide the government with badly needed foreign currency. The following programmatic activities are therefore proposed.

1. Serviced land. The immediate disbursement of the full amount currently authorized under the HG-004 Housing Policy Support program (as well as advancing the remaining

balance of approximately \$4 million) will allow the Shelter Unit of the Ministry of Public Works and Housing to provide loans for smaller sized plots needed to construct housing for returnees. In addition, the approval of the Project Paper for a \$50 million program should lead to the authorization and disbursement of a second tranche of \$25 million. Low profile management of HG-004 can be carried out by a local hire in the USAID Mission, aided by local consultants and the Shelter Unit.

2. Support the funding of building material loans. As of 1990, the Islamic Bank had made more than 10,000 loans, valued at roughly \$50 million, for the purchase of building materials to build, extend or renovate houses. With an effective interest rate varying between 8% and 11% and guarantors rather than mortgages required as collateral, this program's beneficiaries have been primarily lower income families living outside the Greater Amman area. The provision of Housing Guaranty funds to this existing program would provide foreign exchange to the Jordanian Government as well as allow the Islamic Bank to expand its housing lending activities to lower- and moderate income groups. The proposed loan would work in the traditional manner: The Central Bank would deposit the Jordanian Dinars equivalent to the foreign exchange provided into an investment account specifically established for the Islamic Bank. Program management would be carried out by occasional visits by RHUDO/NENA staff.

3. Infrastructure improvements. Additional Housing Guaranty funds for municipal development should be made available to the Cities and Villages Development Bank (CVDB) that provides loans to municipalities for the provision of basic urban infrastructure and services. Given the gravity of the impending urban crisis in Jordan, this program should include the costs of primary as well as secondary and tertiary infrastructure for sanitation systems and roads; solid waste collection; and the costs of maintenance and repair of existing infrastructure networks under municipal responsibility, and so on. The CVDB is institutionally capable of absorbing and managing additional Housing Guaranty funds. It has been well managed and benefitted from USAID training and its experience in working with the World Bank on common projects.

The CVDB should pay special attention to the infrastructure financing needs of the Ruseifa Municipality. The municipality needs to provide infrastructure in large areas of existing informal housing where a program to regularize informal plot development has been going on for several years and residents have shown some willingness to pay for infrastructure and services. It also needs to plan and develop remaining vacant land, the major source of urban land currently affordable to low and moderate income families for housing in Greater Amman.

MOROCCO

With an estimated 1988 population of 24 million, Morocco has been urbanizing rapidly and over 48% of its population now lives in urban areas. In spite of a major shift toward industrializa-

tion during the past ten years, agriculture remains the single determinant of its economic health. Other major contributors to Morocco's economy are its growing tourism sector and remittances from its emigrant workers: 500,000 to 700,000 Moroccans work overseas, mainly in France.

An average real GDP growth of 6.5 percent a year from 1967 to 1977 was followed by a series of external shocks and a cycle of drought, intensified by the costs of the war in the Western Sahara. The recession revealed weaknesses in economic policies and structures. Since the mid 1970s, Morocco has depended on foreign loans to cover the budget and current account deficits, and the situation became critical when the debt service ratio reached 32.7 % in 1980 and 43.2 % in 1982. The Government was forced to reschedule its foreign debt and undertake austerity measures which included the reduction of public expenditures by 20%, of consumer subsidies, and the liberalization of foreign trade. Real growth fell to 2.3% in 1983 and 2.1% in 1984 and rose again to 6.3% in 1985, largely as a result of the fall in the cost of energy and cereal imports.

The second half of the decade showed significant improvement in GDP growth which averaged 4.9%. After registering 10% growth in 1988, the economy slowed in 1989 because of higher prices for food and oil imports, lower worker remittances, and a trade dispute with India over phosphoric acid prices. Also affecting the growth were a rise in inflation from 2.3% in 1988 to 3.1% in 1989, and a deteriorating external balance caused by widening visible deficits. Servicing the US\$22 billion foreign debt, high unemployment, and the country's vulnerability to external forces will be major economic issues in the 1990's.

Impact of the Gulf Crisis. The impact of the Gulf Crisis on Morocco's economy has consisted primarily of:

- A sharp reduction in hard currency earnings resulting from the drop in tourism, which are currently estimated at about \$100 million;
- Higher oil import costs, as alternative sources had to be found for Iraqi and Kuwaiti oil which had accounted for 60% of Moroccan imports; and
- A less significant reduction in expatriate workers' remittances, as Iraq and Kuwait have traditionally played a secondary role as employment centers for Moroccan workers.

Although losses for 1990 and balance of payment difficulties have been offset by special transfers from Gulf countries, it is not known whether Morocco will receive additional transfers in 1991. The trade balance and current accounts are expected to experience a rising deficit.

Even though of a lesser magnitude than in Jordan or Turkey, these impacts have still been significant insofar as they have affected domestic employment opportunities in a country which has had difficulties, for many years, in creating jobs for a rapidly growing work force. Furthermore, the uncertainties created by these disruptions are already having a secondary effect on the housing sector which plays a key role in the country's economy because of its large share in gross capital formation,

its impact on employment generation, and its value for both households and investors as a safe haven for savings in an uncertain economic environment.

Program Opportunities in the Urban Sector. The current annual housing demand of about 165,000 dwelling units has been estimated to provide employment to nearly 300,000 persons and to have a multiplier effect of about 1.3 on the Moroccan economy. Its support is therefore expected to have a positive effect in alleviating the short term impacts of the Gulf Crisis. It is therefore recommended that the accelerated disbursement of authorized Housing Guarantee Loans be supplemented by increased investment in urban infrastructure.

1. Accelerated disbursement. Currently authorized loans consist of \$25 million for the Tetuan project and \$20 million to support the slum clearance and sites and services activities of the Agence nationale de lutte contre l'habitat insalubre (ANHI). To date, only \$8.5 million have been disbursed in Tetuan. An additional \$15 million can be disbursed immediately as ANHI has already met procedural conditions. The remaining \$21.5 million can be disbursed on a priority basis, following amendments to existing project agreements.

2. Supplementary Authorizations. If new authorizations are to be made, they should support infrastructure investments. The Office of Housing's Moroccan mission has prepared a concept paper for a \$70 million infrastructure Housing Guarantee Loan and a \$5 million accompanying grant should be followed by disbursement before the end of the fiscal year.

The loan to the Fonds d'équipement communal (FEC) is intended to increase its lending pool to eligible municipalities and public utility companies to finance the construction of primary infrastructure in urban areas. In addition to servicing existing urban fringe settlements, the expansion of FEC activities will reduce the proliferation of unserved areas and encourage a greater participation of the formal sector in the production of housing.

The \$5 million grant will finance technical assistance and training targeted to improving the performance of local governments in land management and property registration.

TURKEY

After a period of rapid inflation and debt service difficulties in the late 1970s and early 1980s, Turkey's structural adjustment strategy has achieved considerable success in reorienting its economy toward a market driven system. With a population of about 55 million and a 1989 GNP per capita of \$1,438 its economic growth has averaged over 5% per annum in the 1983-88 period. A downturn in mid-1988 led to a drop in growth and inflation rose to 70% at the end of 1988. It stabilized in 1989 and dropped to 55% in 1990. While the economic program is far from complete, particularly in regard to inflation, Turkey has reasonable prospect of moving into the 1990's with an improved macroeconomic framework and lower relative debt burden.

Turkey continues to urbanize rapidly and nearly 50% of the total population is classified as urban, with 42% of the urban population residing in the four largest cities – Istanbul, Ankara, Izmir and Adana. Urban growth is expected to continue at an annual rate of 3.4% through 2000, when urban population will exceed 45 million.

Impact of the Gulf Crisis. Adverse effects of the Gulf crisis have been both direct and indirect with estimates ranging from \$4 to \$6 billion. As a result of the economic sanctions imposed on Iraq, Turkish losses include:

- \$1 million per day in pipeline fees;
- revenues from exports to Iraq and Kuwait;
- revenues associated with considerable highway transit trade between the Persian Gulf region and Europe; and
- workers' remittances and revenues to contractors with business in the Gulf.

Other negative effects include the increased price of crude oil, substantial declines in tourism revenue and the expenses of providing for refugees in transit from Iraq and Kuwait.

The negative external shocks of increased crude oil prices have exerted inflationary pressures in the domestic economy. To mitigate such impacts, and maintain growth and stability achieved through structural adjustment, the government has taken the following measures:

- increased the value added tax from 3 to 5 percent;
- increased import duty rates by 15 percent;
- transferred 70 percent (\$350 million) of the revenues from the privatization of public sector enterprises to the consolidated budget; and
- transferred \$175 million from the Mass Housing Administration to the consolidated budget.

A total of \$4.2 billion in Gulf Crisis assistance has been committed to Turkey by allied countries. A grant was made by the Saudi Arabian government to compensate Turkish Petroleum, a state-owned enterprise, for the loss of revenues from the oil pipeline. The United States has also responded to a long standing request by Turkey to reduced trade barriers for Turkish exports.

Proposed Programs in the Urban Sector. Potential programs should be considered in relation to the priorities established in Turkey's most recent development plan. The Sixth Five-Year Development Plan for 1990-94 includes the following investment policies:

- the share of private sector investment in total fixed capital investments will be increased with priority given to improving the competitiveness of export oriented manufacturing industries with high foreign exchange earnings potential;

- public investments will be directed toward social and economic infrastructure investments; and
- other types of public investments will be undertaken only in Priority Development Areas, to reduce regional disparities.

The following areas for the use of Housing Guarantee Resources have been identified:

1. The legalization of informal and squatter areas. The management of urban expansion is hindered by the absence of effective procedures to regularize informal and squatter settlements. Existing legislation has established cumbersome procedures and unrealistically high standards. They either required land acquisition by the municipality or overlooked land tenure issues altogether. Identified as a priority activity by the State Planning Organization, a pilot project in Ankara would serve as a core to a broader, country-wide effort to address the problem of urban squatters. It would allow for rapid disbursement while simultaneously developing an institutional structure to initiate a country-wide program of improved urban management, land titling and the legalization of informal settlements.

2. Municipal Management for the Southeastern Anatolia Region. An eight province area bordering Iraq, Syria and Iran, the Southeastern Anatolia Region has been the focus of a massive development effort since the early 1980's. Designated a Priority Area of Development, the keystone of its development is the construction of a series of dams on the Tigris and Euphrates Rivers to develop irrigated agriculture and generate power.

The region's population has grown by 17% since 1985 (from 4.40 to 5.16 million) and is expected to reach 10 million by 2005. The influx of population in the medium sized cities of the region has strained municipal infrastructure, shelter and municipal management capacities. An important element of this ambitious regional development program will be to strengthen municipal capacity to manage urban growth and develop coherent programs to mitigate the negative effects of rapid urbanization. Office of Housing interventions would support programs to:

- Assist national and local authorities in the development of regional and municipal programs for urban expansion that encourage private sector initiatives;
- Develop upgrading strategies for poorly serviced areas;
- Regularize land ownership; and
- Strengthen municipal technical and managerial capabilities.