HS/174/89E
ISBN 92-1-131094-6

FINANCING HUMAN SETTLEMENTS DEVELOPMENT AND MANAGEMENT IN DEVELOPING COUNTRIES:

A COMPARATIVE OVERVIEW OF CASE STUDIES

United Nations Centre for Human Settlements (Habitat)

Nairobi, 1990

FOREWORD

A key component of the Global Strategy for Shelter to the Year 2000 is the financing of human settlements. The Strategy acknowledges that for the shelter sector to operate to the optimum, there is need to channel an appropriate level of resources into it in line with an enlightened understanding of its role in the development of the national economy. An important component of shelter strategy therefore should be to devise mechanisms by which an adequate and steady flow of long-term financial resources from both the public and the private (household) sectors could be mobilized and channelled into human settlements development in general and shelter development in particular. It is recognized that some countries already have shelter finance mechanisms in place. Examining these systems and mechanisms permits fuller appreciation of their strengths and weaknesses and thereby provides insights into ways of improving or strengthening existing mechanisms and instruments.

This report reviews and analyses existing strategies and mechanisms for financing shelter and human settlements programmes in a selected number of countries, and evaluates their efficiency and effectiveness, identifying the strengths and weaknesses in the systems. Three basic conditions are required for the effective functioning of the financial system - economic stability, a real return on financial investments, and confidence in the security and stability of financial institutions. In this connection, and as part of the general requirement for strengthening shelter finance systems and institutions, the report recommends, among other things, integration of the institutional shelter finance system into the national finance and capital markets.

The overall objective of this report is to bring about improvements in the functioning and management of shelter and human settlements finance institutions by introducing changes in current policy approaches and instruments on the subject. This forms part of the current United Nations Centre for Human Settlements (Habitat) programme of institution building and strengthening, through the promotion of modifications of and changes from out moded systems to innovative and updated mechanisms in the development and management of human settlements. In this light, it is hoped that the experiences and ideas reflected in this report will serve as a catalyst to and provide a framework for governments and the relevant institutions to begin to take a new look at their traditional mechanisms of managing and regulating the operations of their housing finance systems and institutions, and to begin considering alternative and more productive instruments for developing flexible and adaptable policy responses, based on a more sensitive understanding of contemporary financial markets.

Arcot Ramachandran
Under-Secretary-General
Executive Director

Table of contents

INTRODUCTION

The Global Strategy for Shelter to the Year 2000 envisages that for the shelter sector to operate to the optimum there is a need to channel an appropriate level of resources into the sector in line with an enlightened understanding of its role in the development of the national economy. Shelter finance, as a key input into shelter production and as a natural entry point into policy-making for the human settlements sector, is of pivotal importance. A key component of a shelter strategy, therefore, is human settlements finance. Governments have a clear obligation to ensure that appropriate environments and mechanisms are created and put in place for the effective mobilization of funds and their investment in human settlements development and management. The fundamental feature of the "enabling" strategy for shelter is, after all, the creation, on the part of the public sector, of incentives and facilitating measures so that other actors can take action to a greater degree to provide shelter and the associated infrastruction. Strategies for financing investments in human settlements in general and shelter in particular, have to address the central issue of mobilizing a steady flow of long-term finance for the sector. Regardless of the level of external capital flows to the sector, the Global Strategy envisages that much of the efforts should be concentrated on the mobilization of domestic financial resources.

Anticipating this problem, the Commission on Human Settlements, in its resolution 10/16 of 16 April 1987 entitled "Raising the funds needed to ensure the effectiveness of national action to solve the housing problems of the homeless up to the year 2000", requested the Executive Director of the United Nations Centre for Human Settlements (Habitat):

> "to draw up a report of the financial constraints and needs of the developing countries and possible solutions for obtaining the funds required to attain the human settlements aims and goals set by the Commission."

This resolution reflected the concern of the Commission that the lack of adequate financial resources would prove to be the main constraint to the goal of shelter for all by the year 2000.

In response to that resolution, a report[1] was submitted to the Commission at its twelfth session summarizing the trends and future prospects for the mobilization of finance for shelter and infrastructure, given the anticipated trends in the world economy. The report also explored possible options for improving the mobilization and flow of funds to human settlements activities, and for improving the effective application and productivity of the resources and mechanisms and instruments already available to the human settlements sector.

This publication, in further pursuit of the Commission's concern to explore and identify more financial sources for mobilization, undertakes, by the use of national case studies, to review and analyse how national human settlements programmes are currently financed, the adequacy or otherwise of the existing mechanisms, weak links in the chain, and the constraints to improve performance and productivity. It is by examining the existing sources and mechanisms that the situation could be more fully appreciated and the strengths and weaknesses identified. This then provides a stronger knowledge base from which to seek and devise any innovative improvements on or ways to strengthen the existing mechanisms or instruments, or to devise new mechanisms or instruments if found more appropriate. It is also against the backdrop of the current situation that any future progress can best be discussed.

Cross-national and cross-regional comparisons are attempted with a view to sharing the experiences of one country or region with others, in the hope that useful lessons might be learnt and applied for improved performance and productivity.

The purpose of this exercise is, therefore, to identify successful strategies employed by countries to mobilize increased financial resources for the human settlements sector and to target such funds for lending to the sector, particularly to the low-income segment. The Global Strategy for Shelter to the Year 2000 espouses a shift in policy direction in the human settlements sector, from a policy situation of government being a direct developer and provider of shelter and infrastructure to low- and moderate-income households, to one in which government acts to enable the private sector to produce a greater part of the needs in this sector. The role of the private sector in

1/ "Financing of shelter and infrastructure" (HS/C/12/4).

mobilizing financial resources for this difficult task is also part of this review.

In the first section of the report, country case studies are reviewed and analysed. Case studies are presented on countries representing:

Africa	- Kenya, Nigeria, the United Republic of Tanzania
Asia	- India, Pakistan, Sri Lanka, Thailand
Latin America	- Brazil, Colombia.

Each country case study is summarized by bringing out (where the information is available) such salient points as:

(a) The scope of the human settlements sector as perceived by the given case country;

(b) The sources of public sector financing for human settlements programmes (and from what levels of government (central, subnational or local));

(c) Proportion of governmental revenue that goes to the human settlements sector (as defined);

(d) Sources and contributions of the private sector to financing human settlements development and management;

(e) Problems and constraints in the financing or its mobilizing for human settlements development and management programmes in the case country;

(f) Possible innovative measures or mechanisms to improve and increase financial resources for human settlements development and management.

The second section of the report undertakes an overview of the case studies presented, making cross-national and cross- regional comparisons, identifying particular strengths in some country, regional and institutional systems. Possible benefits of experiences to be derived from this overview are identified and suggested measures to effect improvements are outlined by way of conclusions. Improving or increasing financial resources for this sector may require some reforms in the national financial sector as a whole, which would make the sector more efficient and probably reduce implicit subsidies. Such reforms would obviously be of interest to the country's monetary authorities, including economic planners, and would thereby expand the political support for reform.

The country case studies used in this analysis were commissioned by the United Nations Centre for Human Settlements (Habitat) from experts in the various countries. The reports were supplemented with information and data already existing in-house in the Centre as well as from some other published sources. By size of sample, the number of case studies presented seems small compared with the number of developing countries. This is intentional and was meant to ensure manageability as well as to keep this volume to a reasonable size. The countries represented, however, given their sizes in their regional settings, are fairly representative of their regions and therefore of the developing world.

The concluding section outlines suggestions to improve the mobilization and channelling of increased financial resources to human settlements development and management, based on the lessons drawn from the case studies. In this endeavour, both the public and private sectors have immense roles to play.

Before turning to the case studies, it is useful to comment briefly on the definition, or scope, of "human settlements". The term "human settlements" has frequently been defined with reference to shelter-related activities, encompassing the following: housing; urban and community development; provision or improvement of basic services and facilities (such as water supply, sanitation, solid-waste removal, and roads and transport); essential resources for housing construction (such as land, building materials and finance); and activities aimed at strengthening the capacity of housing and infrastructure agencies at the national, subnational and local levels. For the purpose of this report, "finance for human settlements development and management" may be seen as including all financial resources invested in the following items and activities:

(a) Housing (both urban and rural);

(b) Housing-related infrastructure (including water supply, sanitation, waste disposal, roads and transport);

(c) Land (for housing and related infrastructure);

(d) Building materials;

(e) Settlement planning, development and management (encompassing all the above aspects).

I. REVIEW OF CASE STUDIES

A. Africa

Case study 1. Kenya

(a) The scope of the human settlements sector as perceived by Kenya

Judging from the various plan and other official documents of the Government of Kenya, the human settlements sector may be regarded as being made up of the activities located in the Ministries of Lands and Housing, and of Local Government and Physical Planning. At the core of these activities are the formulation and implementation of policies on land, physical planning and housing. These key activities are the responsibility of the Lands Department, the Physical Planning Department and the National Housing Corporation, respectively. Also included within the scope of human settlements are physical infrastructure services - although these are provided by other agencies - in particular urban water supply and sanitation (Ministry of Water Development and Local Government Authorities), rural sanitation (Ministry of Health and, to some extent, Ministry of Environment and Natural Resources) and electricity (Kenya Power and Lighting Company). Also connected with human settlements development is resource- based industrial development, in the context of a defined urban settlements hierarchy, which ranks among the priority national development policies of the Kenya Government. So far, the perception of human settlements in Kenya seems to have been mostly oriented towards urban areas.

(b) Public sector sources of financing for human settlements

Public sources of financing for human settlements may be divided into two levels,

Table 1. Kenya, source of finance by housing types (1983) (Percentage distribution)

Market sector	Source of finance[a]									Total
	A	B	C	D	E	F	G	H	I	
Private individuals	30.5	8.1	4.2	1.9	4.4	22.8	10.2	7.1	10.8	100.0
Private developers	21.9	16.3	21.7	0.3	19.4	4.5	4.7	5.3	5.4	100.0
Tenant purchase	1.1	5.8	25.9	-	1.1	6.9	1.1	5.2	52.9	100.0
Site and service	22.9	2.4	8.4	-	1.2	37.4	6.0	6.0	15.7	100.0
Other	19.6	2.3	26.2	1.9	0.2	9.6	2.3	3.7	34.2	100.0
Total	26.1	6.6	11.9	1.7	3.8	18.3	7.3	6.0	18.1	100.0

a/ Sources of finance:
A - Commercial banks
B - Housing Finance Company of Kenya
C - National Housing Corporation
D - Insurance companies
E - Other financial institutions
F - Co-operatives
G - Employers
H - Relatives
I - Other

Source: Government of Kenya, *National Development Plan 1989-1993* (Nairobi, 1988).

Table 2. Kenya, gross domestic product and gross fixed capital formation in housing, 1976-1983 (£K millions)

	1976	1977	1978	1979	1980	1981	1982	1983
Gross domestic product (GDP)	1 450	1 854	2 050	2 272	2 632	3 039	3 399	3 809
Gross fixed capital formation (GFCF) total	290	390	514	540	622	725	668	749
GFCF as percentage of GDP	20.0	21.0	25.1	23.8	23.6	23.6	19.6	19.7
GFCF in dwellings: traditional	23	27	33	40	44	51	54	63
Modern	16	22	37	53	62	69	71	53
Total	39	49	70	93	106	120	125	116
GFCF in housing as percentage of GDP	2.7	2.6	3.4	4.1	4.0	3.9	3.7	3.0

Source: Central Bureau of Statistics, Government of Kenya

namely, central government and local government. The Central Government derives its income from taxes and external assistance sources, and channels it into the human settlements sector through the Ministry of Lands and Housing (principally for investment in low-cost housing) and other ministries responsible for the related human settlements infrastructure components. In addition to taxes and external aid, the Central Government also derives revenue from three other domestic sources (used principally for deficit financing), namely, short-term treasury bills, treasury bonds and government stocks. The Central Government, through the National Housing Corporation, is mainly concerned with the provision of low-cost housing for the low-income groups. Table 1 shows the different sources of housing finance for the year 1983. The National Housing Corporation, the Central Government's main housing investment channel, contributed 11.9 per cent of total investment.

Local authorities derive their income for recurrent expenditure on human settlements infrastructure and services, from: service charges on water, sewerage, refuse collection etc.; rates (a percentage of unimproved site value); agricultural cess; and the recently introduced tourists' activity charges and general service charges. Capital expenditure on human settlements infrastructure is financed from loans, principally from the Local Government Loans Authority, as well as from central government grants issued through the National Housing Corporation. Local authorities can raise loans from commercial banks or issue stock to raise funds. The latter method has been used by Nairobi City only, the last stock issue of which, amounting to some £K2 million at 8.5 per cent interest and for a 15 year term, was in 1978. Individual buyers accounted for less than 20 per cent of the issue, while the rest was subscribed by parastatal organizations, in particular the National Social Security Fund, the Post Office Savings Bank and the Kenya National Insurance Fund. Local authorities can only issue stock when the Central Government is not in the market for funds.

(c) Proportion of governmental revenue given to human settlement development and management activities

Table 2 shows Kenya's gross domestic product (GDP) and gross fixed capital formation (GFCF) trends between 1976 and 1983. Total investment (GFCF) in all economic sectors combined ranged from 19.7 to 25.1 per cent and the proportion invested in housing varied from 2.7 to 4.1 per cent of GDP, a level which

Table 3. Kenya, recorded production of dwellings by the public and formal private sectors compared with the formation of new urban households (1976-1982)

	1976	1977	1978	1979	1980	1981	1982	Total 1976-1982 (percentage)
National Housing Corporation houses	317	916	1 544	4 085	3 527	2 755	2 928	36.0
Sites and services	1 128	355	1 077	2 389	2 454	2 719	2 550	28.4
Ministry of Works Housing and Physical Planning	254	106	359	156	482	471	49	4.2
Other public sector	1 068	193	257	221	481	206	443	6.4
Private sector	791	742	835	2 716	2 065	1 918	2 083	25.0
Total	3 558	2 312	4 072	9 567	9 009	8 069	8 053	100.0
Estimated number of new households	23 700	25 600	27 600	29 800	32 100	34 700	37 400	
New dwelling units as percentage of new households	15.0	9.0	14.7	32.1	28.0	23.3	21.5	20.5

Source: Government of Kenya, *National Development Plan 1989-1993* (Nairobi, 1988).

compares favourably with that of other countries in the region. Table 3 gives recorded figures on the production of housing units by the public and formal private sectors from 1976 to 1982. The public sector, as shown in the table, has contributed 75 per cent of the total over the period 1976-1982. As is shown in table 1, the National Housing Corporation contributed 11.9 per cent of all investment in urban housing in 1983. These figures do not, however, tell the whole story, as investment in infrastructure (physical and social) by both central and local government is not included due to lack of suitably disaggregated data.

(d) The contribution of the private sector to financing human settlement programmes

The formal private sector in Kenya has tended to concentrate on urban medium- to high-cost housing, while the informal private sector has concentrated on low-cost housing. In rural areas, housing is the individual responsibility of the household itself without any organized assistance from the formal sector (either public or private).

Kenya has a much wider range of financial institutions than have other countries in the region. With specific reference to human settlements financing, there are five financial institutions licensed under the Banking Act of Kenya which specialize in housing finance, 30 building societies (although most of these are quite young), and seven insurance companies with life funds some of which are invested in housing. As shown in table 1, the formal private sector accounted for approximately 69.8 per cent of all formal housing finance in 1983 - the formal private sector here including commercial banks, the Housing Finance Company of Kenya, insurance companies and other institutions such as building societies, co-operatives and employers. In physical terms, the formal private sector was responsible for 25 per cent of all formal urban dwellings constructed between 1976 and 1982, as is shown in table 3.

Between 1977 and 1983, the formal (public and private) and the informal sectors combined produced an estimated annual average of 40,000 new dwellings and of this total, it is estimated that the informal sector (regarded here as part of the private sector) accounted for between 63 per cent and 82 per cent (depending on the size definition of a dwelling unit.[2]

2/ Government of Kenya, *International Year of Shelter for the Homeless* (Nairobi, Ministry of Works, Housing and Physical Planning, 1987).

(e) Problems and constraints in financing human settlements development and management in Kenya

The problems and constraints confronting the financing of human settlements development in Kenya are of three types. First, there are contextual problems reflecting the magnitude of human settlements-related needs, in particular shelter. Secondly, there are problems characterizing public revenues, particularly at the local government level, which affect the quantity of resources directed towards human settlements development. The third category of problems are those related to private sector financial institutions.

In 1988, Kenya's total population was estimated to be 22.7 million, of which 18.7 million was rural and 4 million urban. It is projected that by 1993 the rural population will have increased by 2.9 million to 21.6 million, and that the urban population will have increased by 1.6 million to 5.6 million. Translated into shelter needs, the projected urban population growth will require an average of 60,630 new housing units per annum, of which 38,000 will be for new households only. The current rate of housing production, which is 40,000 units per year, falls far short of the needs figure - by an annual deficit of 33 per cent.[3] Clearly, this situation requires a substantial injection of financial resources into the human settlements development sector.

With respect to local authority finances, most of which are used for human settlements development, the first problem is that local authorities are not getting the maximum benefit from rates, the backbone of local-government finances in other countries. In Kenya, the rates levy is calculated as a percentage of the unimproved site value of land, that is excluding the value of building and service developments. As far back as the 1970s, the World Bank commented on this system in that it unfairly benefited owners of property with larger structures, such as hotels or office buildings. As a result of this criticism, the Nairobi City Council adopted (in 1987) a differential rate between residential and commercial property by granting a blanket reduction on residential land. The second problem is that urban local authorities are owed large amounts of money in rates and service charge arrears. A third problem is that local authority-owned and -managed rental housing carries rents determined on a historical cost basis, with the consequence that the rents are often very much lower than open market rents on comparable units. Finally, the revenue base of local authorities was adversely affected when graduated personal tax (GPT), school fees and capital gains tax were eliminated (although the later was partly compensated for by an increase in stamp duty) and when the responsibility for primary school teachers' salaries and essential drugs at health centres was shifted to local authorities.

The first problem characterizing formal private sector housing finance is that Kenya has too many financial institutions - 55 non-bank financial institutions, 24 commercial banks, 30 building societies and 38 life and general insurance companies. This makes housing finance institutions vulnerable, as they have to compete for funds with many other institutions. As already pointed out, many of the building societies are relatively young. Some of them are only building societies' in name, as they are a front for separately registered property development companies which are completely funded by the building societies'. Eight such new building societies' have so far been placed under receivership, a shocking experience for savers and borrowers alike. Yet there are, some well-established housing finance institutions such as the Housing Finance Company of Kenya Ltd., Savings and Loan Kenya Ltd., and the East African Building Society. A second problem is that a large proportion of funds currently held by housing finance institutions tends to be of a short-term nature. Typical savings accounts have seven days' notice and deposit accounts have maturities varying from seven days to three years, yet these institutions have to commit funds on mortgages with maturities of up to 20 years. A third problem is that housing finance institutions consider the present statutory interest rate of 18 per cent (on monthly reducing balance) on 15-20-year mortgages too low. Given that substantial portions of their funds are borrowed commercially at 15 per cent interest or more - in addition to savers' deposits which are currently attracting 14 per cent interest per annum - the permitted spread (difference between cost of money to the institution and interest on money loaned out by the institution) is inadequate to permit viable operations. In consequence, a variety of application fees are charged to borrowers, thereby restricting access to mortgage finance to middle- and high-income households. The final problem, partly connected with the last, has to do with the numerous constraints which together have the effect of limiting accessibility - for low-income households in particular - to housing finance. These include: (a) the high administrative cost of small loans; (b) the fact that sites-and-services and expandable core housing is generally not regarded as providing sufficient collateral; (c) the assumption

3/ *Ibid.*

(generally inaccurate and biased) that the loan-repayment default rate is higher among low-income households; (d) use of the rule of thumb of 25 per cent gross income as the maximum permissible mortgage repayment (whereas low-income households, who often have other "hidden" sources of income in addition to official sources, are often able and willing to pay more than 25 per cent towards a mortgage); and (e) the rather conservative practice of limiting loan repayment periods to around 18 years.

(f) Possible innovative measures and mechanisms to improve and increase financial resources for human settlements development and management

Innovative measures to increase financial resources for human settlements development in Kenya can be categorized into public sector policies (at both central-and local-government levels), on the one hand, and formal private sector policies, on the other. Many of these measures have either been recently initiated or are still under discussion.

At the central-government level, the following measures are relevant.

(a) Introduction of medium-term and variable-interest housing development bonds (HDBs), which may be easier to sell, compared with the present fixed price HDBs which exist in large denominations and have some tax incentives;

(b) Diversification of the National Social Security Fund's portfolio into low-cost housing;

(c) The introduction of a building or housing levy, comparable to the existing catering and training levies;

(d) The installation of road toll stations (by either central-or local-government authorities) in order to generate revenues for the development and maintenance of roads and bridges;

(e) The introduction of more effective cost-sharing policies with respect to such services as health, education, water supply, agriculture and transport.

Measures to improve the financial position and management capacity of local authorities could include:

(a) Review of procedures relating to financial planning, programming and budgeting;

(b) Wider coverage of agricultural cess and service charges in order to expand the revenue base of local authorities;

(c) Strengthening the capacity of local authorities to collect service charges(and other revenues) and to review them on a regular basis in order to take account of rising costs of provision;

(d) Permitting local authorities to raise revenue from tourist activities;

(e) Reorganization of the Local Government Loans Authority into a Municipal Development Bank which has authority to mobilize financial resources through the commercial banks, non-banking financial institutions and financial intermediation in the money and capital markets.

Measures for the mobilization of funds from the formal private sector include the following:

(a) The creation of a secondary mortgage market. A secondary market in residential mortgages is a network that connects mortgage originators who lend money to home buyers and investors who buy mortgage loans from the former. Investors usually pay the mortgage originators a fee to continue servicing the loan. By selling loans that they have originated, lenders can recycle the funds in order to make new loans. In Kenya, investors in the secondary mortgage market are likely to be trust funds, life funds, general insurance companies and banks.

(b) In order for a secondary mortgage market to be created, there would have to be standardization of documentation on mortgage deeds, loan assessment procedures, valuations and qualification criteria.

(c) In general terms, it would be necessary to remove the current bias towards short-term credit by strengthening the capital market in general, and the Nairobi Stock Exchange in particular. An initiative has already been taken through the creation of the Capital Markets Development Advisory Council, the task of which is to work out modalities for the creation of a proposed Capital Markets Development Authority which will, in turn, oversee the development of capital markets in the country as a whole.

Case study 2. Nigeria

(a) Scope of the human settlements sector

The scope of the human settlements sector in Nigeria has expanded and contracted over time with different régimes of government and National Development Plan periods, as well as with the state of health of the national economy. At one time (1962-1968) it was perceived as town and country planning matters and programmed as such. During the 1970-1974 plan, its scope embraced housing and town and country planning. At some time, human settlement was conceived and programmed as the regional development sector.

Since the 1975 1980 National Development Plan period, the human settlement sector in Nigeria's official programming has expanded to encompass:

(a) Physical planning and layout otherwise known as town and country planning;

(b) Shelter production and the development of associated financial institutions;

(c) Infrastructure - particularly in-settlements infrastructure (roads, drainage systems, electrification, waste disposal systems etc.);

(d) Community services - including civic and recreational systems/activities;

(e) Rural and urban development and management activities.

Off and on, between 1975 and the present, water supply and environmental management have been included in human settlements programming but currently these constitute separate areas of other activities. Changes of scope are continually taking place, but shelter and in-settlement infrastructure and services remain the core of official human settlements programming in the country

(b) Sources of financing human settlements programmes

Finance for human settlements development and management in Nigeria comes from various public and private sources. Nigeria, being structurally and constitutionally a federation, each level of government - Federal (Central), state, and local, have their respective roles and responsibilities (at least in theory) in the financing of development and management of human settlements, among other sectors. In the private sector too, both the formal and the informal categories have made significant contributions to the financing of human settlements development and management.

(c) Distribution of roles and responsibilities between the public and private sectors

It is relevant to examine the financing of human settlements development and management in the broader context of the distribution of roles and responsibilities between the public and private sectors. The division of these roles and responsibilities cannot however be watertight. Five broad areas of responsibilities may be discerned, namely

Table 4. Nigeria, distribution of settlement development responsibilities: urban centres

Responsibility	Policy, planning and programme articulation	Financing	Implementation/ production	Institutional development and management	Research training and information
Settlement development sector: Shelter	1	3	3	3	1
Infrastructure: Roads/stormwater drainage	1	1	1	1	1
Water supply	1	1	1	1	1
Power supply	1	1	1	1	1
Waste disposal	1	3	3	1	1
Community and social services	1	3	3	3	1

Key: 1 = Predominance by the public sector
2 = Predominance by the private sector
3 = Joint public-private sector responsibility

Table 5. Nigeria, distribution of settlement development responsibilities: rural settlements

Responsibilities	Policy, planning, programme articulation	Financing	Implementation/ production	Institutional development and management	Research, training and information
Settlement development sector:					
Shelter	1	2	2	0	1
Infrastructure:					
Roads/stormwater drainage	3	2	2	1	0
Water supply	3	3	3	1	1
Power supply	1	3	3	1	1
Waste disposal	0	2	2	0	0
Community and social services	3	3	3	3	1

Key: 1 = Predominace by the public sector
2 = Predominance by the private sector
3 = Joint public-private sector participation

(a) Policy, planning and programme articulation;
(b) Financing;
(c) Institutional development;
(d) Research, training and information.

It is also pertinent to examine these roles and responsibilities in urban and rural contexts so as to get a better appreciation of the situation in Nigeria. Table 4 and 5 give a relative indication (though not magnitude) of the roles and responsibilities of the public and private sectors in urban and rural contexts in the realm of human settlements.

Table 4 indicates that for the shelter provision component, the public sector predominates with regards to the policy , planning and programme articulation areas, as well as in research, training and information. The public and private sectors have joint responsibility and both participate significantly in the areas of financing and implementation. The public sector predominates in the infrastructure development field, while the private sector dominates in community and social services development. In the rural areas (see table 5), the private sector predominates in shelter financing and production, as well as in infrastructure development, including waste disposal. There is partnership, though, between the public and private sectors in some aspects of infrastructure like water supply and in the provision of some community and social services.

(d) Financing

Nigerian Government revenues are mobilized principally from petroleum, oil and related sources; customs and exercise; and other miscellaneous sources including external loans and grants, company income tax, and miscellaneous fees, rents and charges. In the 1988 and 1989 period, the proportion of receipts from these revenue sources were as follows:

Revenue source	1988	1989
Petroleum, oil and related revenues	76.0	77.0
Customs and excise	12.9	12.1
Other (external loans and grants, company income tax, fees, rents and charges)	12.0	12.0

Source: Government of the Federal Republic of Nigeria, *Approved Budget for the 1989 Fiscal Year* (Lagos, 1988), p. 3.

Revenues are mobilized in the private sector from personal, individual or family savings and by commercial and merchant banks and insurance companies. The actual volume of financial resources generated by these sources is not known with certainty but it is, by all indications, enormous. This is reflected in the nature and volume of investments in the shelter component of human settlements, especially by private individuals and family groups.

The financing of human settlements development and management in Nigeria could be examined under two broad headings - the contribution of public sector financing and the contribution of private sector financing.

In the area of public sector financing, it has earlier been noted that Nigeria is structurally and constitutionally a federation, with national (Federal), state and local levels of government. Functionally or operationally, however, as a result of the nature of the Government, the country is run as a highly centralized structure. The import of this for this discussion is that the collection and distribution of national revenues is highly centralized at the Federal (national) level. About 80 per cent of Federal government revenue is realized from petroleum oil and Federal revenue is shared in the ratio of 55:35:10 among the Federal, state and local levels of government. Over 90 per cent of both the capital (development) and recurrent revenues of both the state and local governments thus comes from the Centre. In the public sector, therefore, most finance for human settlements as for other sectors, come from the Federal Government.

Federal budgetary allocations to human settlements have progressively been increasing over the last decade (see table 6) from under 2 per cent of total capital allocations to all sectors in the 1970-1974 period to about 8.0 per cent in the 1975-1980 period and to almost 11 per cent in the 1981-1985 period. These, however, are budgetary allocations which often may be much higher that what is actually disbursed for the programmed activities. Actual Federal expenditure on human settlements over the 1979-1985 period is shown in table 7. Table 8 shows human settlements investment over the 1986-89 period by the Federal Government.

The mode of public financing and implementation of human settlements activities is by allocation of the funds to the responsible ministry - Ministry of Works and Housing, for most activities in the sector. Construction and the maintenance of infrastructure, funding of the relevant parastatal institutions are the responsibility of the Federal and/or state housing authorities and the Federal Mortgage Bank. All these bodies are used as vehicles for the implementation of national human settlement programmes and for mobilization of resources for that purpose. The allocation to the human settlements ministries and agencies were N84.4 million in 1988 and N23.1 million in 1989, reflecting the decline in government revenues as a result of the down-turn in the national economy.

The Federal Mortgage Bank which started operation in 1977 mobilizes deposits from individual savers towards shelter lending. Its savings deposits rose from N21.4 million in 1979 to 113.2 million in 1984. With its equity capital of N150.0 million and limited savings deposits, it can hardly meet 10 per cent of the mortgage loan demands made on it, and needs

Table 6. Nigeria, public sector capital allocations to selected sectors in national development plans
(N thousands)

Sector	Plan period					
	1970-1974	(Percentage)	1975-1980	(Percentage)	1981-85	(Percentage)
Agriculture	204 564	(10.5)	1 645 852	(5.0)	5 434 188	(7.7)
Health	107 622	(5.2)	759 928	(2.3)	3 043 885	(4.3)
Education	277 786	(13.5)	2 463 822	(7.5)	7 703 079	(11.0)
Manufacturing (industry)	172 138	(8.4)	5 315 871	(16.2)	7 811 952	(11.1)
Town and country planning, and housing (human settlements)	38 150	(1.9)	2 592 297	(7.9)	7 598 944	(10.8)
National total (all sectors)	2 050 738		32 854 616		70 276 255	

Sources: Extracted from Government of the Federal Republic of Nigeria, *National Development Plans 1970-74, 1975-80,* and *1981-85.*

Table 7. Nigeria, Federal Government actual expenditures: 1979-1988
(Niara)

Years	Housing	Town and Country Planning	Total
1979/80	68 111 725.00	14 153 151.00	82 264 876.00
1 April-31 December 1980	308 180 759.00	20 206 210.00	328 386 969.00
1981	421 806 926.00	30 191 354.00	451 998 280.00
1982	221 851 432.00	18 671 791.00	240 523 223.00
1983	128 488 319.00	13 562 176.00	142 050 495.00
1984	20 902 094.00	3 714 637.00	24 616 731.00
1985	11 208 247.00	6 407 680.36	17 615 927.36
1986	-	-	-
1987	8 421 133.00	1 312 617.00	9 733 750.00
1988 (only part of the year)	3 731 788.00	228 105.00	3 959 893.00

Source: The Budget Department, The Presidency, Lagos

Table 8. Human settlements programmes: financial investments by the Federal Government of Nigeria
(Niara millions)

Programme	1986	1987	1988	1989[a]
Sites-and-services	2	1.2	12	23.5
Rural development	900	500	98.3	107.1
Infrastructure Development Fund (IDF)	-	278	0.5	2.4
Integrated regional development	-	-	0.4	1
Urban renewal and slum upgrading	0.5	-	6	3
Total	902.5	779.2	112.8	137.0

Source: Urban and Regional Development Division, Federal Ministry of Works and Housing, Lagos, Nigeria.
a/ 1989 appropriation

to increase its capital base. Up to 1985 it had been able to grant only 8874 mortgage loans valued at N442.6 million.

In recent years (beginning 1986), the Federal Government has created an *ad hoc* agency, the Directorate of Food, Roads and Rural Infrastructures (DFRRI), to develop and upgrade rural infrastructure roads, water supplies, electrification, housing and the rural industrialization generally. The Federal Government allocated N500 million in 1986 and a further N500 million in 1987 for the implementation of this programme. The source of funds for this programme was the revenues generated from the 50 per cent reduction on subsidies on petroleum products effected in 1986.

A few sources of revenue mobilization such as property and other rates, fines and fees are collected at the local-government level and do not enter the national revenue calculations. For various reasons, however, the amounts realized from these sources by the local governments are very negligible and sometimes do not even pay for the cost of collection.

In addition to government budgetary allocations, the other source of financing for human settlements development programmes in Nigeria are external loans - principally from the World Bank.

Such loans have been very significant in the past decade and have been used to finance:

(a) Large-scale country-wide sites-and-services schemes;

(b) Urban renewal and upgrading schemes and programmes;

(c) Infrastructure development.

The fund for this last item is currently known as the Infrastructure Development Fund (IDF) and started in 1985 with a $US69.5 million loan-package from the World Bank. IDF is designed to assist state and local governments get long-term credit to enable them to identify, appraise and finance priority urban infrastructure projects such as intra-city roads, potable water supplies, electricity and stormwater drainage and the like.

(d) The contribution of the private sector to financing human settlements development and management

In spite of the massive investment in human settlements development by the public sector in the past decade and half, the bulk of investments in human settlements in Nigeria is made by the private sector - both the formal and, particularly, the informal private sector. This is especially so with respect to the shelter and community services component of human settlements development. Private savings by individuals, families and other groups finance between 70 per cent and 80 per cent by volume of all shelter construction in Nigeria. Table 9 is a summary of the relative distribution of sources of funds for shelter construction. Personal and family savings have historically been the most important source of funds for investments in the shelter component of human settlements development.

In the informal private sector still, the contributions of community or town associations or unions to financing human settlements development, particularly rural human settlements, is remarkable. These communities invest heavily (through community levies and voluntary contributions) in the development of community and social service facilities (viz., civic centres, schools, markets, medical clinics, maternity homes and hospitals), as well as of some basic utilities infrastructure like pipe-borne water, electric power supplies and access roads.

In recent years, the formal private sector has contributed in modest proportions to financing human settlements development. Commercial and merchant banks as well as insurance companies have made loans to human settlement investments projects. Commercial and merchant banks have given an average of 7 to 8 per cent of their annual loan commitments to real estate and construction activities. The insurance companies (there were 88 in Nigeria as of 1986), collectively, had a total investment in real estate mortgages and loans of N134 million in 1984 and N180 million in 1986. This accounted for a little less than 20 per cent of their investments portfolio, but these were largely loans for commercial real estate developments.

(e) Problems and constraints in human settlements financing

One of the problems constraining financing for human settlement development, particularly in the public sector, is that it is not yet a priority sector in the Government's scheme of priorities. It is important enough to get some budgetary and other government funding when there is an abundance of funds, but at the very first signs of resource shortage, human settlements is one of the first candidates for resources cutting and eventually a victim of the austerity measures put in place. With the onset of Nigeria's current economic distress, the Federal Government

Table 9. Nigeria, sources of funds for building houses (percentages)

Source	Size of towns					
	Large		Medium		Small	
Self	73.7		79.4		84.0	
Relatives	7.5	89.0	8.2	93.2	7.5	97.1
Friends	1.3		1.6		0.8	
Inheritance	6.5		4.0		4.8	
Co-operatives	1.9	4.2	0.3	1.8	0.3	1.3
Building societies	2.3		1.5		1.0	
Money lenders	2.0	6.8	0.6	5.0	0.5	1.6
Commercial banks	4.8		4.4		1.1	

has, for example, excluded housing and human settlement from the "preferred sector" of the economy, a categorization that attracts credit and resource flow to the sectors so-designated. The implication of the exclusion from the "preferred sector" has been to deny human settlements-related institutions, such as the Federal Mortgage Bank of Nigeria, access to soft loans through the Central Bank of Nigeria and from the Federal Government itself. In addition, budgetary funds for such sectors are drastically reduced.

Over-centralization of authority is also, in several respects, a constraint on the mobilization of greater financial resources for human settlements development. Not only are the lower levels of government - the state and local government levels - and particularly the local government levels, not allowed leverages for initiatives in this regard, but are actually prevented from exploiting several rich potential sources of revenue mobilization from and for human settlement development and management.

For various socio-political reasons, the Federal Government and state governments have prevented local urban governments from fully exploiting the potentials of the property rate as a source of revenue as well as such other sources as fees and user- charges.

The general lack of confidence by the populace in public institutions, and more so in public financial institutions, is a serious constraint on mobilizing funds for human settlements development, as for development in other sectors. This lack of confidence is reflected in the relatively low fund mobilization rate of the Federal Mortgage Bank over the years. Most Nigerians keep their money at home because of the difficulties and intricacies of bank transactions particularly when depositors seek to withdraw from the deposits. Thus a large reservoir of savings remains outside the banking system. This low confidence is further perpetuated by the Bank's lending tendency by which 90 per cent of its mortgage loans (the interest rates of which are highly subsidized by the Government) goes to the middle-to-upper income group, while a majority of the savers are in the low-income category.

The outcome of all this is that housing finance institutions in Nigeria are weak and consequently are not able to mobilize all the funds that are potentially available.

(f) Improving the flow of finance to human settlements development

A precondition for improving the flow of finance to human settlement development is an improvement in the general macro- economic climate. Currently the country is in a very bad macro- economic situation and, as earlier noted, in such situations, human settlements becomes one of the first victims of resource austerity. To improve both public and private financing for human settlements development, therefore, the general economic conditions and economic management of the country must improve. Such improvements would encourage other sectors of society, particularly the private informal sector, to save and thereby mobilize more funds for investments. Such an improvement also strengthens the financial institutions including those serving the human settlements sector, i.e., the mortgage banks. How this is brought about and its effectiveness is a question by the national leadership and competent national economic management.

Given a good macro-economic climate, Nigeria has abundant potential for generating financial resources for human settlements development, if only there is a real political will not only to decentralize but also to devolve a good measure of revenue-generation powers to the local-government level. In the interest of efficiency and productivity, there is a dire need for decentralization of the currently highly centralized system of administration and management. The property rate potential alone, if it could be even only 50 per cent exploited, would yield tremendous financial resources for human settlements development and management. Several other potential financial sources - various fines, fees and charges and betterment levies - are similarly constrained by directives from higher level governments.

There is also need to evolve measures and practices to strengthen mortgage finance institutions by integrating them into the national finance system, channeling more funds to them and instituting policies and measures that restore a degree of public confidence in them. A higher degree of confidence in these and related institutions are likely to attract more funds to them from the private informal sector at the least.

Development of strong and stable financial institutions, particularly mortgage finance institutions which have people's confidence, is very necessary for the development of human settlements investments finance in the country. It is such institutions that could more effectively harness individual savings toward human settlements development.

Case study 3. United Republic of Tanzania

(a) Scope of the human settlements sector as officially perceived in the United Republic of Tanzania

The United Republic of Tanzania is one of the few African countries which has a clear and geographically comprehensive human settlements development policy. This policy, which encompasses both urban and rural areas, is made up of a number of basic components, namely; housing, land, physical and social infrastructure, villagization and industrial development decentralization.

The housing and land components of the policy are the responsibilities of the Ministry of Local Government, Community Development, Co-operatives and Marketing, on the one hand, and the Lands Ministry (ARDHI), on the other. These two ministries are in charge of the provision of public housing and land management, - from policy-making, through detailed planning, to financing and implementation.

The United Republic of Tanzania has put a lot of emphasis on the provision of basic physical and social infrastructure, particularly water supply, sanitation, education and health facilities. In the context of the basic needs approach and the villagization programme, particularly after the Arusha Declaration in 1967, the goal has been to make these facilities accessible to all citizens in both urban and rural areas. Special attention has been paid to rural areas, partly because the majority of the population (more than 80 per cent) live there, and partly because of the comparatively very poor level of the provision of basic needs and services inherited from the colonial era. In addition, former President Nyerere's human-centered approach logically demanded that greater attention be paid to rural areas.

An important component of the Tanzanian human settlements development policy is the implementation of a balanced urban settlements hierarchy. This has consisted of measures designed to slow down the growth of the largest city, Dar-es-Salaam; the decision to move the national capital city to Dodoma; and the encouragement of growth in nine regional urban centres or growth centres. The growth centres are Morogoro, Dodoma and Tabora, on the railway line from Dar-es-Salaam in the east to the west; Arusha, Moshi and Mwanza, in the north of the country; Mbeya, to the south-west; and the coastal towns of Tanga, to the north, and Mtwara, to the south. The Small Industries Development Organization (SIDO), which is attached to the Ministry of Industry, is considered as one of the key instruments for industrial decentralization to the nine regional growth centres and other small- and medium-sized urban centres, particularly through the provision of industrial estates.

(b) Sources (public) of financing for human settlements programmes and levels of government sources

The national Government's budget is made up of finances from both internal sources (taxes) and external sources (aid grants and loans). The latter represents a significant component, as 30 per cent of total recurrent costs and 50 per cent of development or capital investment costs originate from external loans and aid grants.

Financial resources for human settlements development are principally channelled through the Ministry of Local Government, Community Development, Co-operatives and Marketing, particularly through its Housing Division which controls the key human settlements development agencies. The Housing Division is in charge of the national sites-and-services and squatter-upgrading programmes which, through aid money mainly, affects a very large proportion of the urban poor.

The first of the agencies controlled by the Housing Division is the National Housing Corporation, which was established in 1962. This provides finances for human settlements development through a number of its functions, namely: (a) lending or granting of money to local authorities for approved housing schemes; (b) making, or guaranteeing, loans to individuals and corporate bodies for purposes of land acquisition and building development; and (c) constructing houses and other buildings itself, the houses being geared towards low- and middle-income households.

The second organization under the Housing Division is the office of the Registrar of Buildings. This was established in 1971 for the following purposes: (a) to manage buildings acquired by the Central Government under the 1971 Acquisition of Buildings Act (that is, buildings worth TSh100,000 and above which were not wholly owner-occupied); and (b) to construct residential, office and commercial buildings, with the residential buildings being aimed at a clièntele largely different from that of the National Housing Corporation, that is medium- to high-income households.

The third agency under the Housing Division, which constitutes the largest public source and the only financial institution specializing in housing finance, is the Tanzania Housing Bank (THB). It was established in 1972 by an Act of

Parliament. It started operations in January 1973, having succeeded the Permanent Housing Finance Company of Tanzania. Its principal functions are: (a) to mobilize local savings and external sources of finance; (b) to give loans for house development to individuals and organizations and also to provide related technical assistance; and (c) to deal in real estate nationwide. THB mobilizes funds from savings and deposit accounts, in addition to share capital, reserves and surpluses, treasury grants and long-term loans. The Bank does not have debentures or housing bonds. THB builds houses through its wholly owned subsidiary, The Tanzania Housing Bank Estates Company Ltd., and sells them to parastatals and individuals. In addition, THB administers the Workers and Farmers Housing Development Fund (WFHDF). The Fund was created by a levy of 2 per cent of the wage bill paid by employers with 10 or more employees. WFHDF concentrates on giving low-cost loans to farmers and low-income urban workers at low interest rates for house construction and improvement.

The other level at which public funds are provided for human settlements development are the regional- and local-government levels. The latter has now taken over many of the functions of regional government since the reintroduction of elected local authorities, or councils. The councils' responsibilities encompass overall welfare of the local areas, including land use planning, shelter, water supply, sanitation, roads, primary education and health. During the decentralization period (1974-1978), virtually all of the finances for local services and investment came directly from Treasury, as Local Authorities had been abolished. Since the reconstitution of local authorities, a variety of local revenue sources have been granted. Table 10 shows the main sources of local revenue for all urban councils. Virtually all the income from local sources is used for recurrent expenditure, with the Central Government and aid donors funding almost all local capital investment. The Central Government still provides large grants for key services such as primary education, health and roads and, in general terms, local authorities are still financially heavily dependent on the Central Government.

Table 10. United Republic of Tanzania, main sources of revenue of urban councils from local taxes for 1985/86

Type of taxes	Amount in Tanzanian shillings	Percentage
Development levy	246 690 000	55.23
Rates on dwellings	73 244 400	16.40
Trading licences	60 915	0.01
Market dues	29 923 900	6.70
Others	96 713 900	21.65
Total	446 633 115	

Source: S.A. Salim (Prime Minister), Budget speech, June 1985.

(c) Proportion of government revenue given to human settlements development and management activities

There are no readily available figures indicating the proportion of public revenues given to human settlements development and management activities. It is known, however, that in the early 1980s, the public sector was annually financing less than 10 per cent of the total formal urban housing output. The public sector's contribution has largely been through the national urban sites-and-services and squatter-upgrading programmes. Table 11 shows the total output of the two phases of the programmes, 1974-1978 and 1978-1981, respectively. As with projects elsewhere, the public sectors' involvement is mainly limited to the provision of physical infrastructure and services, with the beneficiaries using a variety of sources, mostly informal, to finance house construction.

(d) Contribution of the private sector to financing human settlements programmes

There are no formal private sector finance institutions involved in the financing of human settlements development in the United Republic of Tanzania. However, THB, which is a parastatal, does perform the function of mobilizing financial resources from the private sector (including individuals) through savings and deposit accounts.

Self-help is an important aspect of the national development approach and makes a very significant contribution to housing production. It is estimated that more than 90 per cent of the annual housing output is financed by informal private sources, principally private savings and private loans from relatives, from employees and from savings and credit cooperatives. Thus the majority of families live in houses provided by the informal private sector, either as owner-occupier or private rented housing. Because of the economic

Table 11. United Republic of Tanzania, national sites-and-services project, IDA-financed sites-and-services and squatter-upgrading projects

Location	First project		Second project	
	Serviced plots	Houses in upgrading areas	Surveyed plots	Houses in upgrading areas
Dar-es-Salaam	6 182	7 600	14 150	9 138
Mwanza	1 900	-	-	-
Mbeya	850	1 200	-	-
Iringa	-	-	1 770	1 088
Morogoro	-	-	810	2 069
Tabora	-	-	1 330	732
Total	8 932	8 800	18 985	15 811

Source: Tanzania: Second National Sites and Services Project (Washington, D.C., World Bank), annex 1, table 3.

recovery programme launched in 1986, and the consequent availability of building materials, private sector construction activity has rapidly picked up, with registered small-scale construction firms increasing from 284 in 1985 to 362 in 1986, and to 406 in 1987.

(e) Problems and constraints in financing human settlements development and management programmes

The problems characterizing the financing of human settlements development and management may, for discussion purposes, be divided into four categories: national demographic and macro-economic problems, which together indicate the magnitude of human settlements needs and the extent of the available economic space for manoeuver; problems related to specific human settlements policies; problems related to local authority finances; and problems characterizing financial institutions.

The national population was estimated in 1988 to be 22 million, of whom 86 per cent was rural and 14 per cent urban. In spite of policies aimed at decelerating urban growth, particularly of the primate city of Dar-es-Salaam, the present rate of urbanization is high and is estimated to be 8.3 per cent per annum, compared with the national population growth rate of 3.5 per cent. The effect of the high rate of urbanization is the creation of immense pressures in terms of urban shelter-related needs. These pressures have been worsened by many macro-economic problems which have greatly limited the capacity of the economy as a whole to respond more effectively to human settlements needs. The macro-economic problems include:

(a) The declining prices of agricultural commodities over the last two decades which have hit the economy hard, resulting in a mounting debt servicing ratio. The low level of economic performance is reflected in an estimated GNP per capita of $US290 in 1988, which places the country in the category of least developed nations;

(b) The public sector budget relies heavily on external loans and grants, it being estimated that external sources of financing account for 30 per cent of total recurrent costs and 57 per cent of capital and investment costs;

(c) The country has been experiencing a rapid rate of inflation, put at 29.9 per cent in June 1987. However, increases in the cost of building materials have tended to be above the general level of inflation. For example, between 1986 and 1987, the cost of steel increased by 48.2 per cent, that of plywood by 36.2 per cent and that of chipboard by 34.9 per cent. Another example is provided by cement. The price of a 50-kg bag of cement went up from TSh18 at the beginning of 1977 to TSh36 at the end of 1977, and then to TSh54 in 1981 and TSh650 in mid-1989 - altogether a 36-fold increase in a period of 12 years;

(d) Because of the heavy dependence of local authorities on the Central Government, during and after the decentralization period (1972-1978), the quality of urban services and the magnitude of the investment in human settlements have been very closely tied to and determined by the fortunes of the national economy as a whole.

Two specific human settlements policies adopted by the Government in the 1960s and 1970s have adversely affected the financing of human settlements development and management programmes:

(a) The nationalization of buildings in 1971 had the effort of destroying the private sectors' confidence with respect to investment in buildings and other human settlements-related areas. However, since the recent launching of liberalization policies, some previously nationalized buildings are being returned to their owners;

(b) The Rent Restriction Act of 1962 (safeguarded by the Rent Tribunal) imposed an upper limit on annual rent payable of 14 per cent of the total market cost of construction of the dwelling unit/building. The application of this restriction has generally failed to take account of changes in interest rates and therefore, increases in payments to THB; of the temporal appreciation in the value of buildings; and of inflation and the consequent rise in cost of repairs and maintenance of buildings. The results of all this have been a reduction in the rate of construction of housing, particularly rental housing, and general neglect of repairs and maintenance by landlords in an attempt to make the renting of housing viable.

Financial problems that have characterized local authorities are:

(a) The abolition of elected and autonomous local authorities during the decentralization period (1972-1978) resulted in a severe depletion of financial resources at the local level and quickly led to the deterioration of urban infrastructure and services, particularly roads, water supply, sewerage, refuse and garbage collection and disposal, fire protection and malaria control;

(b) The decentralization period was characterized by widespread flouting of urban bye-laws and building regulations. As a result of the attitudes which developed during this period, local authorities have found it difficult to enforce bye-laws and, more important in the context of this discussion, to collect revenues;

(c) In general terms, there has probably been an over- emphasis on rural development to the neglect of urban settlements. This was particularly so during the decentralization period and the massive drive towards villagization towards the end of the 1970s. The present physical infrastructure rehabilitation effort, which is part of the recently adopted economic recovery programme, is meant to reverse the effects of the last decade.

Some of the problems related to financial institutions in are:

(a) There is only one institution specializing in housing finance, the Tanzania Housing Bank;

(b) There is no stock exchange or similar institution in the country, and THB has no debentures or housing bonds;

(c) Other finance institutions, such as the Co-perative and Rural Development Bank, the National Bank of Commerce, the Tanzania Investment Bank and the National Provident Fund, are not legally allowed to lend money to individuals and institutions for house construction or improvement, nor are they allowed to finance or build houses for sale to the public or other institutions.

(d) The interest rate on THB loans has increased from 3.5 per cent in 1962 to 9.5 per cent in 1977, 11 per cent in 1981 and 29 per cent in mid-1989. The effect of this rise in interest rates has been to push formal housing finance out of the reach of many people. However, this trend has been a relection of the general state of the national economy, particularly the rate of inflation.

(f) Possible innovative measures and mechanisms to improve and increase financial resources for human settlements development and management

The following measures may be considered with a view to increasing the flow of resources into the human settlements sector:

(a) In addition to THB, other financial institutions, could be legally permitted to extend their activities into human settlements development. For example, the Co-operative and Rural Development Bank, which places emphasis on the financing of rural development projects, could also undertake the financing of rural housing schemes, as improved rural housing should be seen as an integral part of rural development. The National Bank of Commerce could also extend its lending into housing and services development;

(b) As in many other countries, insurance companies and pension funds could be mobilised to finance housing for their members. The National Provident Fund (a pension fund which covers almost all workers apart from civil servants), the National Insurance Corporation of Tanzania and the Government Pension Fund (the largest of all pension funds) could have a proportion of their considerable funds devoted to house construction and other human settlements development projects. The Parastatal Pension Fund (established in July 1978 under the National Insurance Corporation) could also be used for the same purpose;

(c) Carefully worked out user charges, particularly in education and health, which are, in fact, being currently considered, could go some way in improving the financial position of local authorities and of public revenues in general;

(d) The restoration of confidence in the private sector in general, and in the building sector in particular, which has been initiated with the launching of the economic recovery programme in June 1986, could be accelerated through further denationalization of buildings.

(e) All parastatals could be encouraged to build houses for their workers;

(f) The present policy of encouraging the development and use of local building materials, for example burnt clay bricks, with the help of the Small Industries Development Organization, could be pursued even more vigorously. This should help to bring the cost of building materials within the reach of the majority of low-income groups.

B. Asia

Case study 4. India

In 1988/89, the Government of India adopted three public policy initiatives which collectively provide a framework for the development of human settlements, namely: the formal adoption of a National Housing Policy Document; the publication of the final report of the National Commission on Urbanization; and the creation of a National Housing Bank, a wholly-owned subsidiary of the Reserve Bank of India. The fundamental policy objective is to

> "... create an enabling environment by eliminating constraints and developing an efficient and accessible system for the delivery of inputs to maximize housing efforts." [3]

As pointed out by the Chairman of the Housing Development Finance Corporation (HDFC), the "... creation of the National Housing Bank symbolizes the importance placed..." by the Government of India "... on the emerging housing finance network and its future growth." [4]

(a) Major sources of housing development finance

Formal institutional finance for home purchasing is still in its infancy in India. Recognizing this fact, the Central Government of India has recently embarked on a programme of strengthening formal housing finance institutions, beginning with the creation of the National Housing Bank. The existing major housing finance institutions and other sources of finance for shelter developed are described below, starting with the National Housing Bank.

The National Housing Bank was created during the course of the 1988/89 financial year. It is meant to be the principal agency for the promotion of housing finance institutions throughout the country and is expected to provide financial and other support to these institutions. From its apex position, the National Housing Bank is expected to ensure the orderly growth and functioning of the entire housing finance system in India. As one of its first measures, it has announced the home loan account scheme (HLA scheme). The HLA scheme is envisaged as an instrument to mobilize additional resources from the public, by encouraging them to save specifically for housing. The scheme, the launching date of which was given as 1 July 1989, is to be implemented in co operation with commercial banks and may be extended to other housing finance institutions.

The Life Insurance Corporation of India (LIC) finances housing schemes, through loans, in accordance with government priorities. It provides loans to different state agencies, to co-operative housing societies and to individuals. By March 1982, its total contribution to housing development amounted to $US1.3 billion in loans.[5]

Recently, LIC has also made a major entry into direct household mortgage loan origination.

The General Insurance Corporation of India (GIC) provides funds to state governments and public sector undertakings for housing projects. By the end of 1981, GIC had provided about $US100 million for housing development. Like LIC, GIC has also recently started direct home loan originations through a subsidiary company.

The co-operative housing sector is made up of two tiers consisting of apex co-operative housing societies at the top and a large number of primary co-operative housing societies at the bottom. In 1984, there were altogether 18 apex cooperative housing societies and more than 34,000 primary cooperative housing catering to more than 2.1 million people. Co-operative housing societies derive their funds mainly from LIC and the Housing and Urban Development Corporation (HUDCO). By June 1982, apex co-operative housing societies had sanctioned loans exceeding $US700 million for completion of about 480 000 dwellings.

The Housing and Urban Development Corporation was set up in 1970 as a Government-owned company to directly undertake or finance:

(a) Housing and urban development programmes;

(b) Development of new or satellite towns;

(c) Development of building-materials industries;

(d) Consultancy assistance for projects within India and abroad.

Table 12 shows HUDCO's financial sources and its total resources as at 31 December 1982.

Projects supported by HUDCO include urban and rural housing, sites-and-services schemes, squatter upgrading, employee housing,

3/ Housing Development Finance Corporation, *Twelfth Annual Report: 1988-89* (Bombay, 1989), p.7.

4/ *Ibid.*

5/ P.S.A. Sundaram and G. Ahuja, "Housing policy and financial frameworks in India", *Habitat International*, vol. 8 (1984), No. 1, p. 79.

Table 12. India, HUDCO financial resources, 31 December 1982 ($US millions)

Source/type of funds	Amount
No-cost funds:	
Equity	59
Internally-generated resources	62
Low-cost funds:	
Government guaranteed bonds (debentures)	183
Costlier funds:	
Unsecured bonds	11
Borrowing from LIC or GIC	150
Total	463

Source: P.S.A. Sundaram and G. Ahuja, "Housing policy and financial frameworks in India", *Habitat International*, vol. 8 (1984), No. 1, p. 85.

co-operative housing, private housing, urban development schemes, building-materials manufacturing projects and commercial projects. Loans are advanced to housing agencies, development authorities etc., on terms which include all inclusive cost ceilings, graded scale of loan assistance, differential interest rates and differential repayment periods. By December 1982, HUDCO had sanctioned 2231 schemes which would help to house about 8 million people in 467 cities. The cost of projects that it financed exceeded $US1.7 million, of which $US1.13 million had been committed by 1984. About 55 per cent of HUDCO's resources are directed to low-income households (those earning below Rs 600 per month), while about 25 per cent of the resources are for middle-income housing (Rs 601-1500 per month).

The Housing Development Finance Corporation (HDFC) started operations during the 1977/78 financial year. It is the only major organization in the private sector which provides loans for new residential housing to individuals, groups, co-operative societies and companies. HDFC had 19 branches throughout India by mid-1989, and, in addition, a wholly-owned subsidiary company, HDFC Developers Limited, responsible for the direct implementation of HDFC's residential and commercial accommodation projects. In partnership with other financial institutions, HDFC also co-promotes four companies operating in the development of human settlements namely, Gujarat Rural Housing Finance Corporation Limited, Housing Promotion and Finance Corporation Limited, Can Fin Homes Limited, and Infrastructure Leasing and Financial Services Limited. Its principal sources of finance are: share capital; reserves and surplus; bonds; home savings plan deposits; domestic loans from Army Group Insurance Fund, LIC, GIC and its subsidiaries, the Industrial Credit and Investment Corporation of India and Unit Trust of India; and external loans from the United States Agency for International Development (USAID) Housing Guarantee Program, World Bank and International Finance Corporation. Table 13 illustrates the percentage composition of HDFC's shareholders. HDFC approved 27,645 loans in 1984/85, 40,848 loans in 1985/86, 46,023 loans in 1986/87, 55,156 loans in 1987/88 and 49,682 loans in 1988/89 - altogether a total of 302,872 loans over the five-year period 1984/85- 1988/89. In 1988/89, HDFC approved loans totalling $US200 million and made loan disbursements amounting to $US153 million. During the same year, the composition of its loan approvals was: 71 per cent for individual home ownership and 29 per cent to corporate and institutional sectors and short-term finance developers.[6] HDFC has a "Home Savings Plan" whereby potential housing loan beneficiaries are required to save at least 30 per cent of the intended loan amount over a two year period before applying for the loan. The maximum loan repayment period is 15 years. Home Savings Plan accounts are increasing very fast and in 1988/89 alone went up by 5400 (or 140 per cent).

Other housing finance sources, for which there are no readily available figures, include

Table 13. India, composition of HDFC shareholders (Percentage)

Category of shareholder	Shares held
Companies	38.34
Individuals	26.19
Financial institutions	19.39
Banks	8.98
Insurance companies	4.80
Others	2.50

Source: Housing Development Finance Corporation, *Twelfth Annual Report 1988/89* (Bombay, 1989), p. 5.

6/ Housing Development Finance Corporation, *op.cit.*

Table 14. India, sources of housing finance: formal and informal
(Percentage)

Source	1970/71	1980/81	1982/83
Formal housing finance:			
Government budgetary allocations	47.98	6.90	7.97
General financial institutions	4.05	5.69	6.91
Specialized housing finance institutions	3.32	7.40	7.71
Informal housing finance	1 44.65	80.01	77.41

Source: V.D. Lall, "Housing finance in India" (September 1984).

Table 15. India, patterns of investment in housing
(Percentage)

Plan period	Investment in housing as percentage of total investment in economy	Public sector contribution	Private sector contribution
First	34.2	21.7	78.3
Second	19.3	23.0	77.0
Third	14.9	27.4	72.6
Fourth	12.4	22.3	77.7
Fifth	9.8	22.5	77.5
Sixth	7.5	11.5	88.5

Source: National Building Organization, *Handbook of Housing Statistics* (Delhi, 1980), quoted in S. Gopalan, "Policies and strategies for mobilization of savings for investment in shelter", presented at the National Workshop on Housing Finance, India Institute of Public Administration, New Delhi, 4-5 March 1986, p. 12.

central and state government housing loans for government employees, commercial banks (nationalized) and informal sector sources. In the absence of a mature and widely accessible formal institutional finance sector, the informal housing finance sector is the principal source for the vast majority of Indian people. It is estimated that 77.4 per cent of the total resources annually invested in the housing sector come from informal sources[7] (see table 14). Informal sources include: (a) self-generated resources such as such as cash savings, bank deposits and savings in kind (building materials); (b) disposal of personal assets such as jewellery, land and agricultural property; and (c) borrowings from friends, relatives and informal money lenders. Informal money lenders supply short- to medium-term credit, with notional rates of interest ranging from 15 to 36 per cent, or even higher.[8]

Table 15 shows, for each five-year plan period, the percentage of total investment in the economy taken up by housing, the proportion of total investment contributed by the public sector, and the proportion of total investment in housing contributed by the private sector. As is shown in the table, the percentage of total investment devoted to housing has declined significantly, from 34.2 per cent during the first plan period to 7.5 per cent during the sixth plan period. At the same time, the proportion of

7/ P.S.A. Sundaram, "An institutional framework for housing finance in India", *Habitat International*, vol. 12 (1988), No. 4, p. 25.

8/ *Ibid.*

investment in housing accounted for by the private sector has fluctuated between 72.6 per cent and 88.5 per cent.

(b) Main constraints in financing housing development

For convenience, the constraints in financing of housing development in India may be divided into three categories: problems which reflect the magnitude of the task that has to be achieved; problems to do with the affordability of existing formal housing finance; cost recovery and other assorted problems. These are summarized below.

(i) Housing needs and financial implications

India is the second most populous and seventh largest country in the world. The 1981 population census put the total national population at just over 680 million and it is estimated that the 1 billion mark will have been crossed by the year 2000. Of the current total population, 78 per cent resides in rural areas, containing about 600,000 villages, while the remaining 22 peer cent lives in about 3245 urban settlements.[9] Of the 159.7 million people residing in urban areas in 1981, an estimated 42 million resided in only 12 urban settlements, Bombay, Calcutta, Madras, Delhi, Hyderabad, Bangalore, Lucknow, Nagpur, Jaipur, Ahmedabad, Pune and Kanpur. About 33 million people in the whole of urban India live in slum conditions - about 20 per cent of the total urban population - and the proportion is higher in large cities like Bombay and Calcutta. It has been estimated that the gap between demand and supply for housing in the country was around 24.3 million in 1985 and that the figure could go up to 36.9 million by the turn of the century. The average annual addition to the housing stock is about 1.5 million units. If the goal of shelter for all by the year 2000 is to be realized, 4.5 million dwelling units per year would have to be built.[10] A Working Group appointed by the Planning Commission has indicated that investment in housing has to be increased from $US13 billion to $US37 billion over the next four five-year national development plan periods if an acceptable level of provision is to be realized. It is then clear that India's housing finance system faces a task of immense proportions.

(ii) Affordability of existing formal finance sources

As already pointed out, there hardly existed anything approaching an organized housing finance system in India until a few years ago and, for this reason, institutionally mobilized financial flows into housing constitute a very small proportion of existing needs. In addition, it has been estimated that the cheapest public housing cannot be afforded by about 60 per cent of the population of most cities.

The house price to household income ratio in India on average is 6.25 - well above the third world average of about 5.25 - indicating that housing remains expensive, limiting the affordability of market related housing finance.[11]

In addition, input costs of housing development, especially land, are extremely high in India, particularly in the large cities. Consequently, housing for the poor has to be confined to areas where land is either government-owned or publicly acquired for the purpose. This tends to limit major private sector initiatives in low-income housing.[12]

(iii) Cost-recovery problems

In many Indian cities, public housing tenants are running huge arrears. For example, analysis of the recovery position of the various kinds of loans given by the Kerala State Housing Board has revealed the following pattern. In the case of loans to higher income groups, the loan recovery rate is 60 to 70 per cent, while it is 50 to 60 per cent for middle-income groups, 30 to 40 per cent for low-income groups and only 25 per cent for the economically weaker sections.[13] Poor loan recovery has been partly blamed on two factors. First, long delays in construction tend to cause a great variance between initial estimated cost and final cost of housing units, thereby pushing many units away from the affordable to the unaffordable categories. Secondly, in the past, government has been

> "... a welfare oriented agency doling out grants to people. The grant syndrome is so much inbuilt in the minds of the people that they do not expect to pay".[14]

(iv) Other problems

The housing-delivery system in India tends to be characterized by relatively small-scale builders rather than large-scale construction

---

9/ P.S.A. Sundaram and G. Ahuja, *loc. cit., p.75.*

10/ S. Gopalan, "Policies and strategies for mobilization of savings for investment in shelter", paper presented at the National Workshop on Housing Finance, Indian Institute of Public Administration, New Delhi, 4-5 March 1986, p. 2.

11/ Housing Development Finance Corporation, *op. cit.,p.8.*

12/ *Ibid.*

13/ S. Gopalan, "Administration and other problems in effecting cost recovery under public housing schemes", paper presented at the National Workshop on Housing Finance, Indian Institute of Public Administration, New Delhi, 4-5 March 1984, p. 5.

14/ *Ibid.*, p. 8.

companies. This removes the benefits that might be derived from economies of scale, modular construction and industrialized techniques. This situation is partly a result of the non-availability of large tracts of urban land for large-scale residential housing development.

While the group housing concept is espoused by virtually all state governments, some of them do not, ironically, legally recognize individual ownership of flats or apartments in group housing, making it difficult for members to obtain mortgage loans.

(c) Possible innovative measures and mechanisms for improving the flow of financial resources into shelter development

The measures and mechanisms outlined below are meant to help stimulate the private sector into providing more financial resources for housing, improve loan recovery rates and generally encourage the generation of more institutional and accessible financial resources for shelter. Many of the suggested measures are interrelated and some of them have already been suggested by a high-level working group appointed by the Government of India to examine ways and means of stimulating private housing development.[15] Indeed, some of these measures and mechanisms have already been initiated in the last few years, and where this is the case, a brief indication of the initiatives already taken is made.

The creation of a specialized housing finance institution with a three-tier organization (at the national, state and local levels) could help to mobilize more savings and to originate more housing loans. Because of the paucity of institutional housing finance in India, any measures designed to expand the savings and loan origination process through a wider institutional network would be welcome. The specialized housing finance institution would also be able to operate in the capital market in order to mobilize additional resources. A start has been made with the creation, during the 1988/89 financial year, of the National Housing Bank, which immediately announced its intention to include the commercial banking system in the direct loan origination process through some 55,000 branches throughout the country. If this materializes as planned, it would indeed constitute a significant advance. There have also recently been some initiatives by some commercial banks to create housing finance subsidiaries, either jointly with existing housing finance institutions or on their own,[16] all of which are very welcome developments.

15/ P.S.A. Sundaram, *loc. cit.*, p. 88.

16/ Housing Development Finance Corporation, *op. cit.*

The provision of some fiscal incentives with respect to savings, investments and transactions related to shelter development would be useful. Such measures might include: tax exemption on earnings from investments in housing finance institutions and loan-linked deposits; capital gains tax exemption on the sale of urban land for housing development; and reduction of stamp duty and registration charges on the sale of land and houses.

Greater recirculation of available financial resources could be attained through the introduction of refinancing systems, such as a secondary mortgage market, and also through the introduction of mortgage insurance. The streamlining of conveyancing and foreclosure instruments would also help in facilitating the house financing process.

The promotion of the use of provident fund accumulations and group insurance contributions for the construction of houses, for members and for general disposal, would help in attracting more financial resources into the human settlements sector.

It would be helpful to incorporate appropriate provisions in the Rent Control Act to ensure that rents not only cover the cost of maintenance and repairs but that they ensure adequate return on investment as well. This would encourage the private sector to produce more rental housing.

The Apartment Ownership Act could be modified to ensure that flats or apartments owned by individuals are mortgageable and transferable.

The adoption of low-cost housing designs and use of locally available building materials should be encouraged in order to make housing units more affordable, particularly for the low-income groups. Some significant work is already being done by the Housing and Urban Development Corporation (HUDCO), involving the use of bamboo-reinforced mud walls and of composite burnt or sun-dried bricks.

Because of the very high cost of land in large cities, government (central, state and local) should endeavour to acquire large tracts of land to be made available, on favourable terms, to private sector developers and co-operative housing groups for large scale development of low-cost housing. In fact, any measures designed to increase the supply of land for low-cost housing would be welcome as there is a great need to improve the affordability of urban housing, particularly for the low-income groups.

A wider use of loan-linked savings schemes should be encouraged. The Housing Development Finance Corporation (HDFC) has already initiated a scheme of this nature which, as pointed out earlier, is proving to be very popular. The newly created National Housing Bank has already announced a "Home Loan Account Scheme", to be implemented nationwide through commercial banks.

Also to be encouraged is the increased use of loan repayment methods designed to help young borrowers who have a good projected career path. HDFC, for example, has introduced a number of schemes: the "Step-Up Repayment Facility" (SURF); the "Telescopic Loan Plan" (TLP); and the "Short-Term Bridging Loan" (STBL) scheme. These have helped younger borrowers, whose payment capacity at the time of availing themselves of a loan is not very high, to obtain larger loans with lower repayment instalments in the initial years.[17]

Greater efforts should be directed towards linking housing development and employment generation. If housing development is designed to increase employment levels, then greater employment will result in increased incomes and increased incomes in greater savings, which can then be ploughed back into shelter development through an enhanced capacity to consume or pay for shelter and related services. The integration of housing programmes with other income-generating programmes would also ensure the ability of households to pay back housing loans.

Finally, a number of mechanisms may be employed in order to improve the efficiency of cost and loan recovery. These include:

(a) The decentralization of loan recollection points through the use of the very widespread primary co-operative banks (as tried in Kerala State) and village level functionaries of the State Revenue Department (who could be given a small percentage of the loan collection as an incentive);

(b) The collection of loan instalments on a seasonal basis, particularly in the case of rural loan beneficiaries who depend on seasonal occupations such as agriculture and fishing;

(c) The channelling of loan repayment through the organizations which the loan beneficiaries deal with occupationally, such as the coir co-operatives (where coir workers purchase raw materials and sell their finished products), fishermen's co-operatives and handloom co-operatives.

17/ *Ibid.*

Case study 5. Pakistan

(a) Scope of the human settlements sector as perceived in Pakistan

In the context of government budgeting in Pakistan, the sector which constitutes the core of human settlements is the physical planning and housing sector. The sector covers the following: housing, physical infrastructure, including water supply, sewerage, local roads, electricity and gas; and land for all these activities. The sector also includes services such as refuse collection and disposal and fire protection.

Outside this core of human settlements activities are related social infrastructure facilities and activities such as health, education, recreation and commerce/shopping. These facilities are financed through sectors other than the physical planning and housing sector.

A third category of activities which, although not directly part of the human settlements definition, are closely connected with human settlements development are: (a) agriculture, which competes for rural land and provides the main economic base for rural human settlements; (b) industry and commerce, which compete for land and provide part of the economic base for urban settlements; and (c) transport (road, rail and air), which is itself a land-use activity, linking together human settlements.

(b) The sources of financing for human settlements programmes (from different levels of government)

Within the public sector, revenues are principally derived within the public sector, revenues are principally derived from taxes (direct and indirect) and user charges. At each level of government, revenues are provided as follows.

(a) Federal Government: Revenues, derived from taxes, are allocated to different sectors of the economy, following the general provision of five-year national development plans. Allocations for the core activities of the human settlements sector are made through the two divisions of the Ministry of Housing and Works, the Planning and Development Division and the Environment and Urban Affairs Division. Other allocations which feed into human settlements development are made through the Ministry of Defence (which controls and manages the development of all cantonments), the Ministry of Industry (which includes a Commerce Division), the Ministry of Health, the Ministry of Education and the Ministry of Local Government and Rural Development.

(b) Provincial government: Pakistan has four provinces, Punjab, Sind, North-West Frontier (NWFP) and Baluchistan. Provincial revenues are derived from taxes and fees (33 different sources which are also shared with local authorities) and grants from the Central Government. The provincial level is made up of institutions similar, or parallel, to those at the federal level, the difference being that these institutions are more implementation-oriented at the provincial level. Of particular importance here are the Housing, Physical Planning and Environmental Planning Department and the Public Health Engineering Department, through which most of the human settlements development funds are channeled.

(c) Local government (urban and district councils): Table 16 shows the revenue sources of urban and rural councils in Pakistan. The main revenue sources are taxes, tolls, fees, rates, cesses, remunerative/income-generating projects and grants from the Central Government. Local authorities perform the usual human settlements functions of land-use planning, development control and the provision and maintenance of both physical and social infrastructure and services.

There are also semi-autonomous organizations which provide finance for human settlements development programmes, and the principal ones are as follows:

(a) Development authorities, which are upgraded improvement trusts the and whose functions of which are broadly similar to those of local authorities;

(b) Improvement trusts, the functions of which include the servicing of development sites, the construction of new housing and urban renewal and beautification;

(c) Cantonment boards, which are in charge of the planning, development and management of military cantonments lying at the periphery of towns and cities.

(d) The Housing Building Finance Corporation, which provides assistance for house building. Its revenue sources include term deposits, loans from the State Bank of Pakistan (on a profit/loss sharing basis), loans from the Federal Government, debentures and bonds issued to insurance companies and banks (with Federal Government guarantee) and recovery of outstanding loans;

(e) Nationalized commercial banks (five out of the total of 22 commercial banks) which have a wide network of branches and over 15 million

Table 16. Pakistan, structure of urban and rural councils revenues
(revenue in PRs millions and percentages in parentheses)

Source	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
			(a) Urban councils			
Taxes, tolls, fees, rates and cesses.	1264.0	1683.0	1894.5	2192.3	2775.1	3096.6
	(88.21)	(90.20)	(85.40)	(84.80)	(86.46)	(86.83)
Remunerative projects	19.6	38.7	42.4	45.9	31.4	57.8
	(1.37)	(2.07)	(1.91)	(1.77)	(0.98)	(1.62)
Grants	72.0	69.9	88.7	86.6	120.6	77.9
	(5.02)	(3.74)	(4.00)	(3.35)	(3.77)	(2.19)
Others	77.4	74.4	192.8	260.2	282.3	334.0
	(5.40)	(3.99)	(8.69)	(10.08)	(8.79)	(9.36)
Total	1433.6	1866.0	2218.3	2585.0	3209.5	3566.3
	(100)	(100)	(100)	(100)	(100)	(100)
			(b) Rural councils			
Taxes, tolls, fees, rates and cesses	155.8	271.3	433.3	522.7	607.0	677.2
	(69.73)	(77.14)	(69.65)	(72.10)	(62.55)	(72.48)
Rumunerative projects	2.0	6.6	3.7	13.9	18.2	7.5
	(1.03)	(1.89)	(0.60)	(1.91)	(1.88)	(0.80)
Grants	10.8	70.7	136.7	119.6	195.8	143.0
	(4.85)	(20.08)	(21.97)	(16.49)	(20.18)	(15.30)
Others	54.5	3.1	48.4	68.9	149.3	106.7
	(24.39)	(0.89)	(7.78)	(9.50)	(15.39)	(11.42)
Total	223.4	351.8	622.1	725.0	970.3	934.4
	(100)	(100)	(100)	(100)	(100)	(100)
Grand total (a + b)	1657.0	2217.8	2840.4	3310.0	4179.7	4600.6

Source: Muhammad Shakir Ahmed, "Local government in Pakistan - a short working paper", Islamabad, Government of Pakistan, (Ministry of Local Government and Rural Development,1986).

personal accounts. These provide housing credit, predominantly for middle-income groups;

(i) Employer financing, which covers both the public and private sectors. Through this method, employees are provided allowances, loans and advances (often generously) for house building.

(c) Proportion of government revenue directed to human settlements development and management activities

Table 17 shows the overall composition of development expenditure in Pakistan over the last three decades. As shown in the table, the proportion of development expenditure devoted to the physical planning and housing sector has declined from 10.38 per cent of total development expenditure during the 1955-1960 five-year plan period to 5.34 per cent during the 1983-1988 plan period. However, the percentage of development expenditure accounted for by both physical and social infrastructure combined has steadily increased, as shown in table 17.

(d) Contribution of the private sector to financing of human settlements programmes

Private finance in Pakistan is mostly invested in house building, while public funds are mostly invested in infrastructure and slum upgrading. Table 18 shows the total public and private

Table 17. Pakistan, composition of development expenditure
(Percentages)

Sector	First Plan (1955-1960)	Second Plan (1960-1965)	Third Plan (1965-1970)	Non-Plan period (1970-1980)	Fifth Plan (1978-1983)	Sixth Plan allocatioon (1983-1988)
Water	19.93	43.34	34.18	16.96	1029	11 07
Energy	12.48	12.19	13.33	18.32	25 34	40.17
Transport and communication	22.21	15.04	19.09	20.72	22.98	19.83
Physical planning and housing	10.38	9.02	5.29	7.53	5.87	5 34
Education and labour	4.77	4.37	4.26	4.56	3.68	6.84
Health	1.56	1.64	2.13	3.15	2 99	4.48
Population welfare programme		0.08	1.10	1.09	0.39	0.79
Percentage of total development expenditure						
Physical infrastructure	65.0	79.6	70.89	63.53	64.48	76.41
Social infrastructure	6.33	6.1	7.49	8.80	7.06	12.11
Total infrastructure	71.33	85.7	79.38	72.33	71.54	88.52

Source: Asian Development Bank, *Pakistan Urban Sector Profile* (Manila, 1985).

sector financial outlays in the physical planning and housing sector, plus all the other sectors (for comparative purposes), since 1970. As shown in the table, private sector contribution has risen steadily from 60 per cent during the 1970-1978 period, to 68 per cent during the 1978-1983 period and to a projected 74 per cent during the 1983-1988 period. Contributing to this growth of the private sector's participation has been the increase in the construction of private housing due to the inflow of remittances from Pakistanis working abroad, real estate being a popular investment area.

(e) Problems and constraints in financing human settlements development and management programmes in Pakistan

The problems and constraints which characterize the financing of human settlements development and management programmes in Pakistan may be divided into three separate categories: those reflecting the magnitude of human settlements problems, in terms of needs and demand for shelter and related settlement services and facilities; macro-economic problems, which contextually determine the overall effectiveness of human settlements financing mechanisms; and problems specific to human settlements finances.

(i) Extent and magnitude of shelter needs and demand.

The current total population of Pakistan is estimated to be 107 million, of which 31 million is urban. It is estimated that the total population will have grown to 150 million by the year 2003 and by that time urban areas will account for 58 million, representing an increase of 27 million on the present urban population. At present, more than 50 per cent of Pakistan's urban population is concentrated in the three primate cities of Karachi, Lahore and Faisalabad and it is these primate cities that are likely to account for much of the projected increase in urban population. Clearly, with a doubling of the urban population every 10 years, the staggering implication is that almost another urban Pakistan will have to be built during the next 14

Table 18. Pakistan, Public and private sectors financial outlays from 1970 onwards by sector

Sector	Non-plan period (1970-1978)			Fifth plan period (1978-1983)			Sixth plan allocation (1983-1988) (Original Plan)			Shares[a] Non-plan period	Fifth Plan period	Sixth Plan allocation
	Public	Private	Total	Public	Private	Total	Public	Private	Total			
Agriculture and water	19 310	8 090	27 400	30 630	14 220	44 850	47 450	45 470	92 920	23	20	18
	(70)	(30)	(100)	(68)	(32)	(100)	(51)	(49)	(100)			
Energy	13 841	-	13 841	38 830	-	38 830	116 500	-	116 500	12	12	12
	(100)		(100)	(100)		(100)	(100)		(100)			
Industry	11 294	11 990	23 284	25 400	20 190	45 590	20 500	61 910	82 410	20	20	16
	(49)	(51)	(100)	(56)	(44)	(100)	(25)	(75)	(100)			
Minerals	492	220	712	400	260	660	5 750	1 100	6 850	1	-	1
	(69)	(31)	(100)	(61)	(39)	(100)	(84)	(16)	(100)			
Transport and com-munications	15 563	7 570	23 223	35 210	9 150	44 360	57 520	26 000	83 520	20	20	17
	(67)	(33)	(100)	(79)	(21)	(100)	(69)	(31)	(100)			
Physical planning and housing	5 687	8 380	14 067	9 000	19 000	28 000	15 500	43 650	59 150	12	12	12
	(40)	(60)	(100)	(32)	(68)	(100)	(26)	(74)	(100)			
Others (education, labour and health etc.)	9 267	5 580	14 847	13 140	10 590	23 730	41 780	21 870	63 650	13	10	13
	(62)	(38)	(100)	(55)	(45)	(100)	(66)	(34)	(100)			
Total	75 544	41 830	117 374	152 610	73 410	226 020	305 000	200 000	505 000	100	100	100
	(64)	(36)	(100)	(68)	(32)	(100)	(60)	(40)	(100)			

a/ Column totals may not add up to 100 due to rounding.

Source: Government of Pakistan, Planning Commission, *The Sixth Five Year Plan* (original version) (Islamabad, n.d.)

years. This is the daunting challenge which Pakistan's finance system has to face.

The annual requirement for shelter, consequent upon population increase alone, is currently put at 240,000 rural units and 175,000 urban units. The present provision rate only caters for 40 per cent of this total annual requirement. Thus the magnitude of shelter needs is going to be compounded with each new year, unless significant financial resources are channeled into the development and management of human settlements.

(ii) Macro-economic problems

Pakistan has experienced a steady decline in the proportion of GNP devoted to investment spending, from 15.8 per cent in 1969/70 to 12.6 per cent in 1982/3. This has largely been a result of a sharp decline in private fixed investment, from 7.3 per cent of GNP in 1969/70 to 3.8 per cent in 1982/83. This decline has affected all sectors of the economy, including human settlements.

In 1988/89, national savings stood at 12.3 per cent of GNP, having declined from 13.3 per cent in 1987/88. Pakistan's level of national savings is very low, compared with 21 per cent in India, 24 per cent in Indonesia, 19 per cent in Philippines, 25 per cent in Thailand and 22 per cent in Turkey. A combination of factors has been blamed for this state of affairs, including conspicuous private consumption, rising public expenditure, and stagnating public revenue realization (particularly from taxes).

Budgetary deficits have continued to rise at both federal and provincial levels and the consolidated figure for these two levels of government stood at 9 per cent of GNP in 1988/89.

National foreign exchange reserves and remittances from Pakistanis working abroad have also been declining, contributing to the general economic hardship. By the end of the 1988/89 financial year, foreign exchange reserves had dwindled to a balance equivalent to two weeks' imports. From a peak of $US2.8 billion in 1982/83, remittances from Pakistani workers abroad had declined to $US2 billion by 1987/88.

Rising inflation and continuing devaluation of the Pakistan rupee have also adversely affected the performance of all sectors of the economy, including human settlements. While in 1982 the exchange rate stood at $US1.00 = PRs9.90, it had fallen to $US1.00 = PRs21.15 by 1989, representing a 114 per cent devaluation.

Finally, Pakistan is experiencing large scale unemployment and its economic hardships have in recent years also been aggravated by the mounting expenses on over 3 million Afghan refugees.

(iii) Problems specific to human settlement finances

As already pointed out earlier, Pakistan as a whole is experiencing immense problems of tax evasion, estimated to amount to anything between PRs20 billion and PRs40 billion annually. This has contributed to stagnation in public revenue realization, particularly at the levels of government involved in the implementation of human settlements development programmes, namely, the provincial and local government levels.

With respect to the provincial and local levels, a specific problem is inefficient taxation of urban immovable property, the backbone of municipal finances. Problems with this tax include: lack of assessment of rental values for long periods of time (tax is levied on gross annual rental value, (GARV) of the property/land, less 10 per cent for maintenance); an inefficient and inequitable assessment of GARV based on notional value, guided by comparative valuations, and very much depending on the discretion of the assessing official; large differentials, sometimes as high as 1:10, between owner-occupied and rented properties, resulting in low yield - given that about 85 per cent of urban properties are owner occupied; and the fact that the property tax is not levied in all towns and cities.

Another problem in the public sector is the very high degree of financial centralization, with 90 per cent of total public revenues accruing to the Federal Government and only 7 per cent, and 3 per cent to provincial and local governments respectively.

A very significant (though sensitive) problem is the exemption of agriculture from income tax. Rich land-owners have immensely benefited from this situation. The present exemption has also encouraged tax evasion, with incomes from other taxable sectors being declared as agricultural income.

As already pointed out, the proportion of the national budget allocated to the physical planning and housing sector has been on the decline when, in fact, it should have been on the increase, given the very high level of shelter demand and needs highlighted earlier.

With respect to the private sector, the first problem is that there is a large amount of (sometimes ill-gotten) money circulating in the informal sector which has not been properly harnessed.

The second problem with Pakistan's private sector, partly linked to the problem above, is the absence of traditional financial institutions, such as building societies, capable of harnessing financial resources countrywide to the benefit of human settlements development.

Finally, another problem relates to the untapped potential of the capital market (stocks and capital issues). In fact, the amount of capital issues sanctioned by the Controller of Capital Issues has sharply declined in recent years.

(f) Possible innovative measures and mechanisms to improve and increase financial resources for human settlements development and management

Possible innovative measures in Pakistan may be divided into three broad categories: first, those measures designed to increase public revenues, that is tax reforms at the different levels of government; secondly, those measures aimed at the creation of new sources of public revenue; and, thirdly, measures designed to mobilize and organize private sector finance effectively. While this categorization is convenient for discussion purposes, the proposed measures do frequently overlap and are not mutually exclusive. For example, public sector institutions (such as a national bank) may constitute the channels for the mobilization of private money from both the formal and the informal sectors.

(i) Tax reforms at different levels of government

At the federal level, the following general measures may be employed in order to increase tax realization:

(a) An outreach approach, involving the implementation of rigorous surveys and an effective information system aimed at enlarging the total number of taxpayers could be pursued. This has already been initiated by the Federal Finance Ministry and is likely to go some way to reducing the level of tax evasion;

(b) Narrowing the gap between direct and indirect taxation to about 50:50, from the present 18:82 ratio, is likely to be more equitable and to bring in more revenues.

At the provincial level, the following tax reforms may be considered:

(a) Effective realization of the capital gains tax could be ensured through the introduction of a roster or register of property transactions and of frequent market surveys aimed at establishing yardsticks on land and property values, in order to ensure realistic value declarations;

(b) The tax on professions and callings could be tightened in order to take account of a wide variety of occupations (mainly self-employed) which have emerged in recent years.

At the local-government level, the following reform measures may be considered:

(a) For purposes of equity and greater realization, a more selective enhancement of rates on luxury and foreign imported goods with respect to octroi could be considered. (Octroi is a tax on import of goods and animals for consumption, use or sale.);

(b) A series of improvements with respect to taxation of urban immovable property could be implemented. These are as follows:

(i) Frequent reassement of land and properties on the basis of current market values. Apart from increasing taxes to a more realistic level, this reassessment will also constitute the basis for more effective realization of capital gains tax and determination of user charges;

(ii) Introduction of a more systematic approach to property valuation (to enable the above frequent reassessment) through model schedules prepared on a points system by delineating various zones of property, taking into account locational details, size of plot, frontage, type of road along the frontage, quality of services, year of construction (with an allowance for annual depreciation) and mode of construction, including type of material and current condition

(iii) Gradual enhancement of tax charges, following reassessment - gradual in order to avert the public protest likely to result from sudden steep increases;

(iv) Levying of the property tax in all municipalities;

(v) Inclusion of federal and provincial government buildings which are currently exempted from property tax;

(vi) Reduction of the percentage of property tax retained by the provincial governments, from the present 15 per cent to a level just enough to cover collection charges incurred at the provincial level, with the rest being decentralized to local authorities;

(c) The currently rising budget deficit at the local-government level could be significantly reduced or eliminated if a policy of full cost recovery (both capital and operating costs) were to be adopted with respect to user service charges and rates;

(d) Part of the entertainment tax, as well as toll tax on bridges, collected at the provincial level could be returned to the municipalities from which they are collected, thereby further enhancing financial decentralization;

(e) Tax and rates arrears could be improved through, for example, the granting of legal powers to the administrative heads of municipalities for cancellation of leases of occupants found in persistent violation of tenancy agreements. This should go some way in recovering the current huge arrears;

(f) Fines realized by courts on account of offences under local government laws could be paid to the relevant local authorities in order to improve their financial position.

The measures proposed above should be accompanied by improvements in financial management, particularly within local authorities and special development agencies, including: the integration of financial planning with physical/spatial development planning through, for example, the concept of medium-term "capital improvement programming"; and improving the professional qualifications of officials employed in finance departments.

(ii) Creation of new sources of public revenues

The floating, by government, of housing and infrastructure tax-free bonds, without any scrutiny of the sources of finance, could help in tapping finances from the informal sector.

The floating, by provincial governments and development agencies, of "Modaraba certificates" could help in mobilizing financial resources for housing and infrastructure development and would also encourage the participation of private companies in urban and rural development. "Modaraba" is an Islamic concept of banking which means purchase of participation term certificates on an interest-free and risk-bearing basis, with the return on the savings of members or certificate bearers being derived from investing in financially sound projects, capital appreciation and long-term growth.

Another additional source which could be considered is the investment of insurance money by the State Life Insurance Corporation in the Human Settlements Fund (proposed below), particularly for short- and long-term financing of housing and infrastructure projects. The Corporation currently has a vast potential of resources and a significant proportion of its investment portfolio could be used for this purpose.

Finally, the establishment of a Human Settlements Fund could be considered. The fund would draw its finances from floating shares in the open market/sale of equities, proceeds from estate duty, capital gains tax, gift tax, and insurance money as proposed above.

(iii) Mobilization and organization of private sector finance

A number of measures designed to put together an incentives package for private sector investment could be considered. These could include the following:

(a) Investment, by individuals and the private sector, in the Human Settlements Fund should be free of scrutiny, in terms of the source of finances. This measure could attract substantial financial resources from the private sector;

(b) Proceeds from all investments in the Human Settlement Fund by Pakistanis working abroad could be made repatriable in foreign currency in order to further attract finance from this source;

(c) Present fiscal incentives relating to income, customs, imports, exports and tax holidays could be oriented towards investment in human settlements development, particularly in manufacturing of building materials, house construction and slum upgrading and urban renewal;

(d) Development agencies could make special provision for incentives in their development schemes through the offer of sites at marginally discounted prices for large scale housing, industrial and commercial development projects;

(e) All mortgages against institutional housing and infrastructure loans could be exempted from stamp duty;

(f) Property tax holidays could also be granted for reconstructed buildings for an appropriate initial period. This would, in the short-term, encourage urban renewal and, in the long-term, increase the yield from property tax.

The final set of measures which could be considered revolve around the creation of institutional facilities and mechanisms for private financing. Among possible measures are:

(a) The establishment of a Human Settlements Credit Advisory Committee. The Committee would be chaired by the State Bank of Pakistan and would represent key federal and provincial ministries, as well as other concerned agencies. The Committee could be charged with: assessing long-term and short-term requirements of credit for human settlements; supervising and monitoring the flow and efficient utilization of credit for human settlements development, in line with defined priorities and targets; devising ways and means of strengthening the flow and recovery of credit and suggesting measures for the efficient functioning of the credit institutions on a continuing basis;

(b) The creation of a National Settlements Development Bank, as a public shareholding company and autonomous corporate body. The Bank's functions would be: to promote housing and infrastructure development; to administer the national Human Settlements Fund (proposed earlier); to encourage savings from all possible sources (both formal and informal); to initiate the formation and regulate the operations of savings and mutual guarantee associations (proposed below), co-operative societies, and home savings institutions in both rural and urban areas; and to grant loans and credit facilities to development agencies and private developers for housing, infrastructure and other urban and rural settlements development projects.

(c) Finally, the establishment of savings and mutual guarantee associations. Through a network of permanent branches and mobile units, the associations would: extend banking facilities for low-income groups; provide small loans with short amortization periods and low mark-up for human settlements development activities; and provide support to the government- sponsored settlements development programmes, through community organization for mutual self-help in house construction and infrastructure development.

Case study 6. Sri Lanka

This case study on Sri Lanka is to some extent different from the others in that it focuses specifically on housing finance institutions. The financing of other components of human settlements, such as physical infrastructure and services, as well as central- and local-government budget contributions in financing human settlements, are not covered. In spite of the rather narrow coverage, it is believed that Sri Lanka's experience in the financing of housing contains some useful lessons, and it is for that reason that this case study has been included.

(a) Sources of housing development finance

The main formal sources of housing finance in Sri Lanka could be regarded as falling in the domain of the public sector. However, some of these sources are actually jointly owned with the private sector. In addition, many of the finance institutions, which are either owned or sponsored by the public sector, do mobilize their resources from individuals in the community and, to that extent, may be seen as closely intertwined with the private sector. For these reasons, no attempt is made to provide a strict categorization of Sri Lanka's financial institutions as either public or private, although, wherever possible, the structure of ownership and sources of funds are pointed out.

The State Mortgage and Investment Bank (SMIB) started operations in January 1979, having been formed out of an amalgamation of the former State Mortgage Bank and the Agricultural and Industrial Credit Corporation. It was further reorganized in October 1982 with the objective of making it a specialized housing bank. Its sources of funds are exclusively public: government share capital, debentures (sold to State institutions), loans from the Government or Treasury, reserves, miscellaneous loans and deposits and profit. During the five-year period 1979-1984, SMIB made a total of 7856 housing loans, most of them between SLRs25,000 and SLRs100,000. Its interest on housing loans ranges from 10 per cent to 22 per cent, depending on the following considerations: whether the loan is for a new house or an old house (the rate is slightly higher on old houses); whether the loan is for improvement/renovation; the size of the house; and the size of the loan required.

The Housing Development Finance Corporation (HDFC) was established in December 1983. It is a private company, organized under the sponsorship of the Government's National Housing Development Authority (NHDA). It is owned by 14 separate institutions, 4 in the private sector and 10 in the public sector. Its main source of funds is a loan of SLRs45 million from NHDA at a below market rate of 7 per cent. There are also subscriptions from members who undertake to make regular contributions up to 20 per cent of the sum they intend to borrow. The HDFC rates of interest range from 11 to 20 per cent, depending on the size of loan as well as the level of income of the applicant. Purchase of an old house incurs an additional 2 per cent on the interest rate. By July 1985, HDFC had approved a total of 133 loans, its first loan having been made in November 1984.

Commercial banks in Sri Lanka may be classified as State-owned local banks, privately-owned local banks and branches of foreign banks. Only State-owned local banks make a contribution to housing finance and, even then, it is only a modest contribution.

The Bank of Ceylon is the largest of the State-owned banks and has 653 branches throughout the country. It provided to give housing loans until 1982 when credit limitations caused it to change policy.

The Peoples Bank was established in 1961 and is jointly owned by the Government and co-operative societies. It is more involved in the housing sector and has two types of housing loan, the normal loan and the investment savings account loan (ISA). Over the 1979-1983 five year period, the Peoples Bank made about 11,000 normal loans for construction of new houses and about 66,000 normal loans for home expansion and repairs. About 55 per cent of these loans were below SLRs10,000. The ISA loan is a form of contract saving where participants save for five years and earn an interest at 10 per cent. After two years of satisfactory savings, an application can be made for a housing loan at 18 per cent interest rate. The maximum permissible loan is SLRs150,000.

Co-operative rural banks are subsidiaries of the multi- purpose co-operative societies, which are registered and supervised by the Department of Co-operatives. They are partly owned by the Peoples Bank, which provides advisory and consultancy services and helps new banks to get started. There are 900 co-operative rural banks throughout the country, with about 1.8 million deposit accounts. By 1985, co-operative rural banks had made a total of 26,500 housing loans, that is 43 per cent of the total number of loans made, and 53 per cent of the total value/volume of loans made. The loans have mostly been for the upgrading of rural homes.

Thrift and credit co-operative societies (TCCSs) belong to a different branch of the co-operative movement and do, in fact, have a very long history. They began in 1912, rose in number from 13 in 1913 to 3784 in 1963, after which they declined to 1298 in 1978 and thereafter began picking up again to 2116 in 1984. Of the 2116 TCCSs in 1984, 620 were of limited liability while 1496 were unlimited organizations. In 1985, total membership of all TCCSs was about 160,000. The size of membership of each society is relatively small, 40 to 60, with only a few as large as 150. TCCSs rely on funds collected locally from their members. Two types of funds are raised: first, the share capital of members, which constitutes ownership and, secondly, deposits from members and non-members. Deposit and loan interest rates are comparable with those of other financial institutions, that is around 12 per cent and 16 per cent, respectively. Details of the housing loans made are not available, although it is known that housing loans are categorized with "industrial loans", which constitute around 51 per cent of the total number of loans made. Housing loans are likely to be small, short-term and mostly for repairs and improvements. Very few TCCSs exist in urban areas and the few which do are workplace-based and not residential locality based, making them less suitable for purposes of mobilizing housing finance.

The National Housing Commission (NHC), which administers the National Housing Fund, has stopped providing housing finance since 1980. Until that date it provided housing loans secured on mortgage and repayable over 25 years. By the time it stopped making loans, 50,000 loans had been made. Until 1980, NHC also used to build houses and flats for sale on hire-purchase terms over 25 years; 15000 houses and 2500 flats are being sold on these terms.

The formal sector financial institutions are estimated to be contributing only about 10 per cent of the annual investment needed to achieve minimum housing needs. The rest of the financial investment in housing, about 90 per cent, comes from the informal sector. Table 19 shows the estimated distribution of sources of informal housing loans in Sri Lanka, according to one recent study. The table which refers specifically to loan sources, does not give the most important informal source of housing finance, that is personal savings from current income, either in cash or in kind (building materials).

Table 19. Sources of housing loans in Sri Lanka

Source of loan	Percentage
Friends	46
Relatives	31
Money lenders	9
Financial institutions	14

Source: D. Weerapana and S. Rajalingen, Country background paper for a regional seminar on financing low-income housing (n.d.).

Apart from those outlined above, there are also numerous savings instituions which, though not involved in housing, constitute a vast potential source of housing finance. These include: the National Savings Bank, one of the largest of the savings, institutions, operating through 53 national branches, 357 post offices, 3600 sub post offices and three mobile units with a staggering total number of separate accounts of about 8 million in a country of 15 million people; the Employees Provident Fund (EPF); the Employees Trust Fund (ETF); the National Insurance Corporation; and the Insurance Corporation of Ceylon.

(b) Main problems and constraints characterizing Sri Lanka's system of housing finance

The problems facing Sri Lanka's system of housing finance are of three types: first, the magnitude of the investment needed; secondly, problems relating to the nature and activities of the country's savings institutions; and thirdly, cost recovery problems.

(i) Magnitude of investment required

In 1985, Sri Lanka's total population was estimated to be 15 million people, of whom 70 per cent were rural, 19 per cent urban and 11 per cent estate. Estates, such as tea producing estates, have both rural and urban characteristics - agricultural production and industrial processing. Between 1976 and 1985, the average annual rate of urbanization was 2.1 per cent, compared with a national population growth rate of 1.22 per cent per annum over the same period. While, in comparison with other developing nations, Sri Lanka's urbanization and national population growth rates are low, housing needs, as shown below, are quite significant.

Table 20 shows estimates of total housing needs and investment requirements in Sri Lanka for selected years. As shown in the table,

Table 20. Sri Lanka, housing needs and required investment for selected years

	1988	1993	1998	2003
	A. Number of households (thousands)			
Target households	215.4	240.7	248.8	236.7
Requiring subsidy	(98.60)	(118.60)	(121.90)	(113.20)
Non-target households	3.6	4.4	5.0	33.3
Total	219.0	245.1	253.8	270.0
	B. Investment needed (SLRs millions)			
Target group	4 358.6	5 608.0	6 833.4	6 056.9
Subsidy	1 077.2	1 142.6	1 552.2	1 623.4
Non-target group	596.2	843.8	1 137.5	3 266.7
Total	6 032.0	7 664.4	9 524.1	10 947.0

Source: D. Mason and R. Struyk, "Housing needs and probable investments in Sri Lanka" (July 1984)

the total number of housing units needed, as well as the total investment and the amount of necessary subsidy, are quite formidable. For 1988, as an example, the subsidy required averages SLRs10,922 per household, and totals SLRs1077.2 million - 18 per cent to total investment required in that year (at 1983 prices).

The quality of the existing housing stock also indicates a very significant need for improvement. In 1985, only 43 per cent of the total housing stock was permanent, with the rest (57 per cent) being semi-permanent, or improvised; 63 per cent had only two or less rooms; 10 per cent had indoor piped water; and only 5 per cent had exclusive or shared flush toilets.

(ii) Problems relating to savings institutions

The first problem is that Sri Lanka currently has no major formal financial institutions which directly connect people's savings with loans for housing, equivalent to British building societies or American savings-and-loans associations.

Connected to the above problem is the constraint that most of the major savings institutions collecting voluntary and compulsory contributions from ordinary citizens invest these resources almost exclusively with Government-or State-owned institutions. The consequence is that there is a large and increasing volume of funds collected from ordinary people that is not available for housing loans. The main savings institutions currently not involved in housing finance have already been pointed out.

Finally, as already pointed out, TCCs, which have thrived so much in rural areas, exist in very few numbers within urban areas. This is likely to be a result of the less closely knit nature of urban society.

(iii) Cost-recovery problems

Until the early 1980s a lot of public housing was provided with indiscriminate levels of subsidy, and loans were given without serious effort being made for their recovery. However, government policy has recently changed in favour of making loans only to those who can pay back (taking into account the appropriate subsidy level) and enforcement of full cost recovery. In spite of this policy change, recent experience with housing loans recovery is still disappointing. For example, the United States. Save the Children Federation Housing Scheme at Kirillapone has experienced a default rate on loans of 39 per cent, even though these loans were given at a very low interest rate of 3 per cent. Experience from another housing programme, that by Redd Barna, has also been bad, with only 20 per cent of the volume of loans being paid back - in spite of the fact that about 80 per cent of borrowers are considered capable of paying back. The Hundred Thousand Houses Programme (1977-1983) attributes its poor rate of loan repayment to long-standing habits and attitudes towards government subsidy and the traditional role of Government in Sri Lanka. However, the level of loan repayment seems to be improving and in the Million Houses Programme the amounts of loan payback expressed as a percentage of total due rose, from 42.76 per cent in January

1985 to 54.39 per cent in June 1985. However, the objective of full cost recovery is still remote.

In addition, the system of using low-income households to guarantee each others' loans is not a very effective way of ensuring full cost/loan recovery. Only a small number are, strictly, able to take such a responsibility. There are some reports suggesting that guarantors have been offered bribes as inducement to provide surety. Comparatively, it is likely that loan recovery would be higher in a system where the title deed is used as collateral, although a problem in Sri Lanka is the fact that the processing of title deeds can currently take more than two years.

(c) Possible innovative measures and mechanisms for improving and increasing financial resources for housing

The following measures and mechanisms, some of which have already been considered in Sri Lanka, may improve the flow of financial resources into housing.

The introduction of an interest subsidy scheme, such as the one considered in the Wanathamulla Pilot Project of the Million Houses Programme, may increase the flow of money into housing. The underlying principle of the scheme is that the Government, through NHDA, will deposit with the Peoples Bank (a commercial bank), on fixed terms, a sum sufficient to earn interest (at the current rate) which will subsidize the interest charged to the borrower down to the chosen rate for the size of loan that is taken. The deposited funds are used to make part of the loan, with the balance being made up by the bank's own funds. A typical calculation is as follows:

(a) Assuming a loan of SLRs10,000, lending rate of 18 per cent and subsidized rate of 12 per cent, the adjustment to be paid to the Bank is 6 per cent on SLRs10,000, or SLRs600 per annum.

(b) The sum NHDA needs to invest (at fixed deposit rate of 15 per cent) to produce SLRs600 per annum is SLRs4000.

(c) The housing loan is made up of SLRs400 from the sum invested by NHDA and SLRs6000 from the Bank, making a total of SLRs10,000.

The interest subsidy scheme has the advantage of making use of exiting financial institutions, particularly commercial banks, and the initial sum deposited by NHDA will be returned (minus interest).

Recent fluncluations in general lending rates in Sri Lanka suggest that the introduction of variable interest rates on housing loans would be desirable. Of historical, and international, interest are the British building societies which have always used variable rates on mortgages and, for that reason, had few problems with the steep increase of interest rates in the 1970s. American loans and savings-associations, with traditionally fixed rates, were unable to raise enough funds (mostly short-term) to enable them to service their long term loans. While it may be argued that a variable interest rate is unfair to the borrower, there are two possible adjustments to a rate increase which could be employed (there would be no objection to a rate decrease). The first adjustment is that the term of loan could be extended so that the monthly repayments remain the same; the current term of 15 years in Sri Lanka is short by international standards. Secondly, the borrowers could be given some time, for example six months or one year, before the new rates come into effect, in which to adjust their financial circumstances.

The two specialist housing finance instituions, SMIB and HDFC, could be encouraged to take long-term loans and sell debentures more widely in order to increase their available resources. Possible sources of funds are EPF/ETF and the National Savings Bank which, as pointed out earlier, are currently not involved in the financing of housing development.

Both SMIB and HDFC could greatly extend both the scope and location of their operations, subject to the availability of more funds as suggested in the preceding paragraph. Since the opening of branch offices is costly, an extension of activity through nominated agencies would be a good intermediate step.

The operation of schemes where the borrowers first save a proportion of the loan could be further encouraged. A scheme of this nature is already in operation within HDFC whereby borrowers are required to save 20 per cent of the total loan.

Encouragement could be given to EPF and ETF, which have shown some interest in diversifying their portfolios, to move into housing through the purchase of debentures in SMIB and HDFC at interest rates that would make affordable loans possible.

As in other countries, both EPF and ETF could make housing loans to their members against the security of members' deposits in the funds. The loan interest rate could be pegged at 1 per cent above the rate paid on the deposit. Some concessions for members could also be negotiated, such as priority consideration in cases of shortage of housing finance and an increased proportion of loan-to-house value.

Alternatively, both EPF and ETF could themselves acquire land, subdivide it and put in services. Plots could be allocated to fund members. The process could be continued to include actual house construction before disposal to members. Members' deposits would be used as security for repayment and if a single deposit was not big enough, several fund members could collectively pledge their deposits. This, in fact, would be a good way of involving the private sector in low-income housing, particularly sites-and-services schemes.

Case study 7. Thailand

In the mid-1980s the Government of Thailand adopted a national housing policy which outlines broad areas of attention and action to be taken. Among the areas of attention emphasized was that of housing finance, particularly long-term finance which, until 1984, had been neglected especially by commercial banks. The creation of the Housing Council - in addition to the National Economic and Social Development Board (NESDB) which formulates broad urbanization policy - is yet another manifestation of the consolidation of human settlements policy in Thailand. As a result of these policy developments and favourable liquidity levels among the financial institutions, there have been some very positive changes in the housing finance situation in recent years.

(a) Main sources of housing finance

The Government Housing Bank (GHB) was set up in 1952 to assist home buyers with long-term financing. In recent years, GHB has emphasized domestic short-term savings deposits and variable mortgage rates as the answer to the provision of long- term housing finance for home buyers. In 1984, after much criticism from other finance institutions, GHB initiated a new savings deposit scheme with higher interest rates than the uniform rates of the commercial banks. This was a big departure from tradition, but resulted in a significant increase in the inflow of funds. GHB has also had some success with the sale of housing bonds. Table 21 illustrates GHB's actual lending operations from 1983 to 1987 and projected operations for the period 1988 to 1993.

The National Housing Authority (NHA) was set up in 1973 as the Government's principal agency for the provision of housing for low- and middle-income groups. It is responsible for housing policy formulation, construction management and finance. NHA's emphasis has been changing over the years, from completion of conventional dwelling units (houses and flats) to sites-and- service programmes and slum and squatter-settlement upgrading. More activity, although still a relatively small proportion of the total, is now being directed towards secondary cities. While in the past NHA constructed both rental and hire-purchase housing, rental units are gradually being phased out. In the

Table 21. Thailand, Government Housing Bank lending operations 1983-1993
(millions of baht)

	Additional lending			Outstanding lending (less repayments)		
	Total	Developer	Home	Total	Developer	Home
Actual						
1983	871	-	871	9 160	2 727	6 433
1984	1 758	292	1 466	9 947	3 019	6 928
1985	2 102	398	1 704	11 262	3 417	7 845
1986	2 179	157	2 022	11 890	3 574	8 316
1987	2 661	176	2 485	12 691	3 750	8 941
1988[a]	4 009	94	3 915[b]	14 041	3 844	10 197
1989[a]	3 600	-	3 600	15 552	3 844	11 708
1990[a]	4 200	-	4 200	17 348	3 844	13 504
1991[a]	4 800	-	4 800	19 379	3 844	15 535
1992[a]	5 400	-	5 400	21 601	3 844	17 757
1993[a]	6 000	-	6 000	23 982	3 844	20 138

Notes:
a/ Projections
b/ This is a projection based on actual data from the period January-June 1988 of Baht 2,415 million.

Source: K. Patpongpibul, "Development of housing finance systems in Thailand", *Interlink*, vol. 8, No. 4, December 1988, p. 20.

mid-1980s, NHA's average output was 7000 housing units annually;[18] most of these units being for below-median income groups. To a considerable extent, NHA raises its own capital finance and is responsible for lending to hire-purchasers, as well as granting loans for building materials.

Table 22 shows the distribution, in December 1980, of outstanding house purchase loans among the different formal institutions involved in housing finance. As shown in the table, the largest private sector contribution is from the commercial banks. Commercial banks do, in fact, dominate the formal financial sector. There are altogether 16 local commercial banks with extensive networks totaling 1558 branches in 1982, plus 14 branches of foreign banks. Other private sector participants in housing finance include finance companies, credit financiers, life insurance companies and the Bangkok Co-operative Housing Society. Finance companies have expanded rapidly over the last two decades - their combined assets are estimated to have expanded by 90 times between 1970 and 1982.[19]

Table 22. Thailand, outstanding housing loans by formal institution
(December 1980)

Institution	Share of loans (percentage)
Government Housing Bank	33.0
Commercial banks	32.0
National Housing Authority	12.0
Finance companies	8.0
Credit financiers	7.5
Life insurance companies	3.0
Bangkok Co-operative Housing Society	3.0
Government Savings Bank	1.5
Total	100.0

Private sector's total share = 53.5 per cent
Public sector's total share = 46.5 per cent

Source: S. Tanphiphat, "Human settlements development: financing for shelter", *Interlink*, vol. 5, No. 1, March 1985, p. 16

Altogether, commercial banks, finance and securities companies absorbed some 84 per cent of the country total savings in 1981 which amounted to Baht283 billion or $US12.3 billion. According to a 1981 estimate, about 50 per cent of total financial resources invested in housing annually come from the formal sector.[20] The total invested in housing by the formal sector constituted only 1 per cent of the national GDP in 1980, while total private savings amounted to 20 per cent of GDP. As shown at the bottom of table 22, the private sector contributed 53.5 per cent of the total amount invested in housing by formal sector institutions, while the public sector contributed the remaining 46.5 per cent.

(b) Problems and constraints in financing shelter development

In 1986, Thailand had a total population of 52.5 million people, of whom 10 million (about 19.1 per cent) lived in urban areas. Around 1980, the national population growth rate was estimated to be 2.5 per cent per annum and projections anticipated a fall to 1.5 per cent per annum by 1986. While the rate of rural-to-urban migration is not very high at present, much of Thailand's urban population is concentrated in one area, the Bangkok metropolitan area. In 1986, the metropolitan area, which is made up of Bangkok itself and five adjacent towns, accommodated 6.8 million people, or 68 per cent of the country's total urban population.[21] In fact, Bangkok is almost 50 times the size of the second largest city, Chieng Mai, and accounts for about 40 per cent of the national GDP. Some of the consequences of this excessive concentration of the urban population are land scarcity and high prices. Between 1983 and 1985, the public sector provided only an estimated one fifth of the total national demand for housing units and, as a result of this inadequate supply, the Bangkok metropolitan area had a total of 418 slum and squatter settlements in 1985.[22] In addition, only 3.2 million of Bangkok's 5.3 million people had access to piped water in 1982.[23] In rural areas, the main problem is the inadequacy of infrastructure and services such as water supply, drainage and sanitation. Thus, while Thailand's housing finance system has made considerable advances over the last few years, the magnitude of financial resources still required for shelter development is immense.

Only 1 per cent of the country's GDP was

18/ P. Simapichaicheth, "Innovative approaches to housing finance: the case of Thailand", *Interlink*, vol. 5, No. 1, March 1985, p. 13

19/ *Ibid.*

20/ S. Tanphiphat, "Human settlements development: financing for shelter", *Interlink*, vol. 5, No. 1, March 1985, p. 16.

21/ K. Patpongpibul, "Development of housing finance systems in Thailand", *Interlink*, vol. 8, No. 4, December 1988, p. 17.

22/ P. Buranasiri, "Bangkok and its problems: the planner's role", *Interlink*, vol. 5, No. 1, March 1985, p. 20.

23/ *Ibid.*, p. 19.

invested in housing in 1980, while total private savings amounted to 20 per cent of GDP. Clearly, this is a disproportionally small investment in a sector as important as shelter, particularly given the comparatively high level of domestic savings.

This problem is partly explained by the fact that, apart from the GHB, there has been no development of a wide network of savings institutions geared particularly towards investment in housing or human settlements (e.g., building societies). The result has been that most of the savings have been channeled towards sectors other than housing.

Connected to the above problem is also the fact that neither the commercial banks (which are the dominant financial institutions) nor NHA are specialist housing finance institutions and neither is entirely happy with the extent of its involvement in housing finance. NHA, for example, has frequently been urged (and has expressed its interest in doing so) to hand over its house finance lending operations to GHB and to concentrate on housing policy formulation and direct implementation/construction.[24] In fact, the dominant private sector financial institutions have tended to prefer commercial and other short-term lendings such as trade financing and industrial loans which, in 1981, accounted respectively for 33 per cent and 25 per cent of all loans made by commercial banks. In contrast, housing loans accounted for only 2.7 per cent and 7.1 per cent of all loans made by commercial banks and finance companies, respectively.[25]

Current national housing policy has been predominantly concerned with public sector provision and has not considered the role that could be played by the private sector. Partly as a result of this, private sector housing provision has tended to cater only for the middle- and high-income groups.

Finally, until recently, property valuation as a profession was virtually unknown in Thailand, a sign of immaturity in the property development system.

(c) Possible innovative measures and mechanisms to improve and increase financial resources for shelter development

Possible measures and mechanisms that could improve the flow of financial resources into shelter and general human settlements development include the following.

GHB could be developed into a truly nationwide organization with extensive branch networks. This would make GHB less reliant on borrowed funds through an enhancement of deposit takings. It would also make for more convenience for borrowers making repayments. GHB has had some success with the sale of housing bonds. Tax free, guaranteed 5- or 10-year bonds at attractive rates of interest should be further encouraged. To increase their marketability, the housing bonds could be made acceptable securities for the reserves of insurance companies and other financial institutions.

There could be more systematic encouragement of lending schemes for home buyers that are linked to savings, that is savings-for-loan schemes. These could be very effective in the mobilization of domestic savings through the strong motivation of home buyers. They are also a very good way of directly linking savings with housing investment and generally channeling a greater proportion of domestic savings into investment in shelter.

Another mechanism for enhancing the mobilization of domestic resources and directly linking savings with investment in housing would be through the promotion of housing co-operatives, particularly at the primary level.

Existing funds of a long-term nature could also be tapped for housing. These include the various forms of capital reserves and foundation and trust funds of corporate business. Some of the resources of the recently established provident funds (established since 1985) could also be increasingly channeled towards housing. Incentive packages would have to be developed and a channel for the funds established. A suitable channel would be a strengthened GHB.

There could also be a more active promotion of the short- term component of housing finance in order to attain a stable output by property developers and construction companies. This would be in recognition of the many economic benefits of the construction industry, in particular its high multiplier effects and employment generation capacity. This would also entail recognition of housing as a tool for injecting activity into the domestic economy, as opposed to being regarded predominantly as a consumption item.

Finally, further improvements in technical procedures and standards relating to property transactions should be encouraged, particularly with regard to property valuation. In 1986, GHB, in co-operation with the Lands Department and institutions of higher education, took an initiative by establishing a national association of property valuers, the Thai Valuers Association. Strengthening of this association, possibly jointly with other member countries of the Association of South-East Asian Nations, would greatly benefit the human settlements sector in Thailand.

24/ P. Simapichaicheth, *loc. cit.*, p. 13.
25/ S. Tanphiphat, *loc. cit.*, p.15.

C. Latin America

Case study 8. Brazil

(a) Scope of the human settlements sector in official programming

In Brazil, human settlements is perceived of in official programming as largely urban development - consisting of housing and basic sanitation facilities (including water, sewerage, drainage and solid waste disposal). The National Housing Bank, lately (1986) transferred to the Caixa Economica Federal (CEF), is one of the strongest institutions in the human settlements sector and the focus of financing investments in that sector.

(b) Financing human settlement investments

(i) Division of responsibilities among governmental levels

An understanding of the division of responsibilities among the various levels of government would put the resources and mechanisms for financing human settlements development in context and aid its fuller appreciation.

The New Brazilian Constitution (adopted in October 1988) has significantly altered the institutional landscape by further decentralizing responsibilities and resources from the Central (national) Government to sub-national governments. It increased the fiscal resources of sub-national governments by transferring taxing powers and increasing automatic transfers to them. Details of this are still being worked out at the national and sub-national levels. Yet even before this new Constitution, Brazil had been considered one of the more fiscally decentralized of the developing countries, using the criteria of total government spending done at the sub-national level and the percentage of total revenue that is "own-source". As noted by the World Bank,

> "the share of state and local governments in total government spending reveals their importance as providers of public services. The extent to which they are self- financing indicates their fiscal autonomy, because outside financing may come with conditions that limit local discretion in the use of funds."[26]

In 1984, for example, states and municipalities which were state capitals or in metropolitan regions (135 out of over 4000 municipalities) spent a total of almost $US4.0 billion on housing, urban development, basic sanitation and environmental protection. Of this, over $US1.8 billion was for fixed-capital investment much of which went for street paving. Nevertheless, among the list of joint responsibilities of the three levels of government is the promotion of housing and basic sanitation programmes, or human settlements.

(ii) Public sector financing for human settlements

Public sector financing of human settlements in Brazil comes from two main sources; namely:

(a) Direct government budgetary allocations;

(b) Borrowing from financial and savings institutions.

Public sector investment in human settlement development is financed from the budgets of the three levels of government - Federal, state and municipal. Each of these levels of government spends heavily on housing and basic sanitation - which constitutes the main subject of human settlements in Brazil. Direct budgetary allocation, however, constitutes less than 10 per cent of funding for the human settlements sector (see table 23).

Human settlements investments are also financed by borrowings from:

(a) Time-on-Work-Guarantee Fund (FGTS). This fund was created in 1966. Its financial resources are mobilized by the mechanism which requires employers to deposit 8 per cent of the total value of the salary of each employee into an account for each employee. As of December 1986, this fund had accumulated deposits amounting to $US10 billion.

(b) Social Investment Fund (Finsocial) mobilizes its funds from a 0.5 per cent tax on the gross revenue of firms. It is used to finance several innovative social programmes, including a wide variety of programmes in the human settlements sector.

(c) The Brazilian Savings and Loan System (SBPE). This is comprised of a number of savings and loan associations in the public sector (Caixa Economica Federal (CEF); Caixas Economica Estaduais (CEE)), and in the private sector (Stock Savings and Loans (SCIs).

Table 24 shows the evolution of SBPE as well as the other sources of resources for the SFH - principally FGTS. SBPE finances higher-income housing with resources held in savings accounts in thrift institutions of SBPE.

26/ World Bank, *World Development Report 1988* (Washington, D.C., 1988), p. 157.

Table 23. Brazil, Consolidated Federal expenditures on housing, urban development, sanitation and other social programmes 1980-1986

(in $US millions of (1984 value) and percentage of total social programmes)

Type of programme source of funding	1980	1981	1982	1983	1984	1985	1986
Grand total for all social programmes	21 067.8(100)	21 410.2(100)	22 723.2(100)	20 862.1(100)	16 568.6(100)	19 408.8(100)	22 441.8(100.0)
Total housing, urban development and sanitation:	3 289.2(15.6)	2 924.4(13.7)	2 963.6(13.0)	2 239.2(10.7)	1 335.7(8.1)	1 675.6(8.6)	1 481.5(6.6)
Treasury:	181.0(0.9%)	195.9(0.9)	273.0(1.2)	205.7(1.0)	177.5(1.1)	292.0(1.5)	480.4(2.1)
Ordinary or ear-marked[a]	181.0.(0.9)	195.9(0.9)	198.0(0.9)	119.3(0.6)	164.1(1.0)	145.7(0.8)	480.4(2.1)
FINSOCIAL[b]	0.0(0.0)	0.0(0.0)	75.0(0.3)	86.4(0.4)	13.4(0.1)	146.4(0.8)	0.0(0.0)
BNH	3 108.2(14.8)	2 728.5(12.7)	2 690.6(11.8)	2 033.4(9.7)	1 158,1(7.0)	1 383.5(7.1)	1 001.1(4.5)
Housing and urban development	2 559.4(12.1)	2 002.8(9.4)	2 106.7(9.3)	1 629.7(7.8)	959.3(5.8)	954.5(4.9)	842.0(3.8)
Treasury	65.1(0.3)	80.6(0.4)	153.1(0.7)	135.8(0.7)	109.2(0.7)	224.3(1.2)	364.3(1.6)
Ordinary or ear-marked[a]	65.1(0.3)	80.6(0.4)	78.2(0.3)	49.4(0.2)	95.8(0.6)	77.9(0.4)	364.3(1.6)
FINSOCIAL[b]	0.0(0.0)	0.0(0.0)	75.0(0.3)	86.4(0.4)	13.4(0.1)	146.4(0.8)	0.0(0.0)
BNH	2 494.3(11.8)	1 922.2(9.0)	1 953.6(8.6)	1 493.9(7.2)	850.0(5.1)	730.2(3.8)	477.7(2.1)
Sanitation:	729.8(3.5)	921.6(4.3)	856.9(3.8)	609.4(2.9)	376.4(2.3)	721.1(3.7)	639.5(2.8)
Treasury:	115.9(0.6)	115.3(0.5)	119.8(0.5)	69.9(0.3)	68.3(0.4)	67.7(0.3)	116.1(0.5)
Ordinary or ear-marked[a]	115.9(0.6)	115.3(0.5)	119.8(0.5)	69.9(0.3)	68.3(0.4)	67.7(0.3)	116.1(0.5)
FINSOCIAL[b]	0.0(0.0)	0.0(0.0)	0.0(0.0)	0.0(0.0)	0.0(0.0)	0.0(0.0)	0.0(0.0)
BNH	613.9(2.9)	806.3(3.8)	737.1(3.2)	539.5(2.6)	308.1(1.9)	653.3(3.4)	523.4(2.3)
Total for other social programmes[c]	17 778.6(84.4)	18 485.8(86.3)	19 759.6(87.0)	18 623.0(89.3)	15 233.0(91.9)	17 733.2(91.4)	20 960.3(93.4)

Source: Original data from World Bank, *Brazil: Public Spending on Social Programmes, Issues and Options* (Washington, D.C., 1988).

Notes:

a/ Includes FINSOCIAL resources allocated to sectoral magisteries.

b/ Resources allocated to the ministries through BNDES.

c/ Comprises: food and nutrition; health; education and culture; labour; social security and benefits.

Table 24. Brazil, Total resources available to the housing finance system by source
($US billions in 1984 and relative percentages)[a]

	Total	Savings accounts	FGTS	All other [b]
1972	8.0(100.0)	2.2(26.9)	4.1(51.6)	1.7(21.5)
1975	17.4(100.0)	7.9(45.5)	7.0(37.9)	2.5(14.6)
1980	27.3(100.0)	15.4(56.4)	9.9(36.3)	2.0(7.4)
1984	30.6(100.0)	19.2(62.6)	9.6(31.3)	1.9(6.1)

Source: BNH, DIPLAC.

Notes:
a/ Relative percentages in parentheses.
b/ Includes FINSOCIAL, housing bonds, and external loans.

The total savings in SBPE grew from $US2.2 billion in 1972 to over $US19.2 billion in 1984, i.e., eighthfold. The growth started to drop as a result of the economic crisis of the 1980s. One reason for this was that the Government started to "play" with the index used for monetary correction. The consequence was that the real interest rate was made negative, by up to 50 per cent per year, and then savers looked elsewhere to place their money. This was particularly the case for the target savers. The fact that 10 per cent of all accounts were responsible for 85 per cent of all savings explains the fast decline of the indexed passbook savings accounts.

Table 23 shows the relative importance of expenditures by the Federal Government by source of funds via both direct budgetary allocations and from forced savings (FGTS and Finsocial). The table shows that total expenditures on housing, urban development and sanitation (i.e., human settlements) dropped considerably (indeed by half) from about $US3.3 billion in 1980 to about $US1.5 billion in 1986. Human settlements expenditure also dropped as a percentage of total social expenditure from 15.6 per cent in 1980 to 6.6 per cent in 1986. It is pertinent to note here that in Brazil, human settlements is treated as a component of the social programmes and is treated and budgeted for as such. Other components of social programmes are food and nutrition, health, education and culture, labour and social security benefits, which together take upwards of 85 per cent of the social sector investments.

The National Housing Bank (BNH) (since reorganized as CEF), is by far the most important source of funds for human settlements investment. Initially, its main source of funds was the grant of about $US1.0 million by the Government, a 1 per cent payroll tax; 4 per cent compulsory savings by landlords from rent income and also direct budgetary contributions. As these sources proved inadequate they were subsequently replaced by the Time-on-the-job Guarantee Fund (FGTS) which required employers to deposit 8 per cent of the value of an employee's total payroll into an account with the employee's name. Nevertheless, while the total contribution from direct government budgetary resources increased 2.6 times over the period 1980/1986, that from BNH dropped to less than a third of what it had been in 1980. Thus there was a significant increase in direct government budgetary contribution to human settlements investment over this period.[27] Even then, in 1986, about 67.5 per cent of total national human settlements investment ($US1 billion) was funded by BNH/CEF, using FGTS funds. BNH/CEF is the main provider of financing for low-cost housing for low-income families (i.e., social-interest housing).

Brazil is a highly decentralized country and so there are in addition to the national-level investment, substantial investments at the sub-national levels (state and local/municipal governments). Total investment at these levels (municipalities) was about $US7.6 billion in 1984. It is also worthy of note that funds from this source financed water connections for over 1 million households each year or 20 per cent of all connections in the north-east of Brazil from 1970-1980. It similarly financed about 8 per cent of all sewerage connections each year in that region over the same period. Overall figures for 1984 indicate that 65 to 80 per cent of public expenditures for urban development

27/ Implementation of the New Constitution (1988) is expected to eliminate direct budgetary spending on human settlements development at the national level.

(including housing and sanitation) were made at the municipal level, about 7 to 10 per cent at the state level, and 13 to 20 per cent at the federal level.

(c) Private sector contributions to financing human settlements investments

In spite of the massive involvement of government at all levels, and in spite of massive presence and availability of institutional finance sources, about 60 per cent and above of total shelter output in Brazil is privately financed. The strategies and mechanisms for this mode of financing may vary among income groups but the preponderance of investments in human settlements is financed by the private sector - formal and informal. Much of the low-income shelter is produced by the informal private sector in what are known as favelas or loteamentos populares. And yet, there is no "credit window" for the informal sector in the financial institutions. Quantitative financial data on these informal private sector resources for investment in human settlements are hard to compute reliably. The magnitude as measured by quantitative output of shelter units is, however, undoubtedly enormous and accounts at the very least for over half of all shelter output.

The private formal sector (companies, institutions and middle- to high-income individuals) utilize the resources of the Sistema Financeiro de Habitacao (SFH) (Housing Finance System), in financing investments in human settlements. The system is comprised of the BNH/CEF - which uses the compulsory savings from FGTS - and SBPE which receives voluntary savings mostly through indexed passbook savings accounts. The magnitude of resources mobilized through these mechanisms is reflected in table 24 and constitutes a substantial reservoir of resources for loans with which to finance human settlements development and management by both public and private sector investors.

(d) Problems and constraints

Brazil has a relatively highly developed institutional finance system that could be made use of to maximize mobilization of financial resources for human settlements development, in addition to those that are mobilized and invested in the (informal) private sector. The resources to be mobilized also seem to be generally available. A number of constraints seem, however, to limit the full exploitation of the existing possibilities.

The first of these is the macro-economic and political constraint posed by the prevailing economic and political crisis, manifested in a very high inflationary spiral that has further drastically reduced already low real household incomes and made these very unstable. This also affects institutions and government and have made savings and resources mobilization much more difficult. The very difficult macro-economic situation and the overwhelmingly heavy external debt that has been shouldered by Brazil (and indeed most other Latin American countries) in the last decade have impeded the growth of real incomes and thereby the generation of resources. Between 1979 and March 1989, for example, the general price index rose by over 56,000 per cent. One Cruzado Novo (the newest monetary unit) is worth one millionth of the monetary unit of February 1986 (the Cruzeiro) after three zeros were cut from the existing monetary unit in two of the successive economic stabilization plans. The real income of the population has plummeted; real interest rates have hit over 18 per cent per month, as inflation increases by over 30 per cent per month. The real value of the minimum salary dropped from $US76.00 in May 1985 to $US47.00 in October 1985. In June 1987 with the economic adjustment, the real value of minimum wage was $US48.00 and even with monthly adjustments, this dipped to $US35.00 in October 1987.

It is therefore apparent that the combination of macro- economic crisis, political transition problems, rising demographic trends and generally low income and poverty have posed serious constraints on individual, family, and institutional incomes and have consequently negatively affected savings and therefore reduced financial resources mobilization potential for human settlements development and management, among others.

The overlap of human settlements activities into several sectoral ministries and agencies makes effective coordination of investments more difficult and because of this very reason, it may be very difficult to pinpoint accurately and to analyse human settlements investments. In an attempt to deal with this problem, the National Urban Policy Commission (CNPU) was formed in 1974 with representatives from the Ministries of Planning, Finance, Interior, Industry, and Commerce, the National Housing Bank, and the Brazilian Urban Transport Company (EBTU) to deal with the co-ordination of the activities of these different entities in urban areas.

The difficulty in obtaining any consensus or real co- ordination through CPNU promoted the formation of the Ministry of Urban Development and Environment (MDU) which included EBTU in 1985. Recently, MDU was abolished and its activities distributed back to the respective sectoral ministries (e.g., urban transport to the Ministry of Transport; housing to the Ministry of Interior, etc).

Such overlaps and the institutional instability militate against consolidation of resources mobilization efforts for human settlements development.

There has been too frequent and haphazard changes in Brazil in institutions that deal with human settlements and these changes have not always meant progress or been of benefit to either the institutions or to human settlements. Between 1966 and 1986 for example, the National Housing Bank (BNH), an innovative institution that has been copied by a number of other countries in Latin America, was the strongest human settlement finance institution in the country. In 1986, this institution was abolished and its functions transferred to the Caixa Economica Federal (CEF), an institution that had been until then not noted either for its efficiency or for its social orientation. CEF was soon after transferred from the Ministry of Finance to the Ministry of Urban Development (to which BNH formerly had been subordinated) which was supposed to administer housing, basic sanitation and urban transport (human settlements). After three subsequent reorganizations and three ministers in three years, this Ministry was abolished and CEF again transferred back to the Ministry of Finance, while the other functions were spread among a number of ministries: basic sanitation went to the Ministry of Health; urban transport to the Ministry of Transport, and urban policy to the Ministry of Interior (where it had been previously).

This institutional instability is obviously not conducive to efficient initiation, co-ordination and implementation of policies and programmes, including the mobilization of financial resources for human settlements investments.

Although Brazil has, on the surface, a highly decentralized system of responsibilities to the sub-national levels (state and local governments), often the higher level of government denies the lower level the rights to the resources and powers to discharge such responsibilities effectively. The municipality of Rio de Janeiro, for example was to take over control of public transport as mandated by the Constitution. The state government, while agreeing to cede this responsibility to the local (municipal) government, refused it the money collected from traffic fines. Several such examples abound, particularly in the setting of rates, assessment, collection and use of property and other rates by lower-level governments. Higher-level governments do not allow lower level governments leverage for initiatives in the mobilization and allocation of financial and other resources to development, including human settlements development.

(e) Measures to improve mobilization of resources for investment in human settlement development

Improving the mobilization of financial resources for investment in human settlements development and management, as for other sectors, should be predicated on improvements in the overall national macro-economic climate. This latter is dependent not only on more efficient national economic management but also on the world economic situation. Improving the national macro-economic situation has implications for personal, family and institutional, including governmental incomes, and therefrom on savings which could be mobilized personally or institutionally for human settlements development. National efforts should therefore be geared to improving the national macro-economic situation. Governments at all levels - Federal, state and local - should try to make more budgetary resources available for human settlements investment.

Measures should also be initiated and sustained to strengthen financial institutions, particularly human settlements-related finance institutions like SFH and CEF. This could be done, in the first instance, by ensuring the continued stability of these institutions and, secondly, by channeling more resources to them and broadening the base of their resources through designation of more categories of taxes or employee deductions to them, as well as channeling appropriate proportions of insurance and social security funds to them.

There is great potential in property rate revenue in Brazil if it is efficiently assessed and collected at economically meaningful rate levels. It is assumed that property rate revenue would be used at the local (municipal) levels to improve overall human settlements conditions. The administration of this rate, however, is currently not only inefficient because many buildings are not included in the cadastre and because municipal governments often fail to bill those that are, but also unfair because the fiscal values relative to market values tend to be much lower for units of higher value making the relative property tax rate quite regressive.

Strategies should therefore be evolved to improve property rate collection and returns therefrom by keeping costs of collection low relative to returns (cost-effectiveness), improving the cadastre, and more particularly focusing efforts on the discovery of new construction and changes in building use, which are expected to produce the highest increases in assessed values, and of course, collecting these rates or taxes at the most cost-effective level often at the local (municipal) levels.

A greater emphasis on cost recovery could be worth trying. The problem however may be that increased charges and simultaneous betterment levies on power, water, sewage and solid waste disposal, transport and other municipal services, would create serious problems of affordability even for lower-middle-income families. A better thought-out approach to this should be explored, probably through cross-subsidies and a more progressive tariff structure which makes higher income earners pay a larger share of the expenses.

Finally, it has been noted that implementation of the New Brazilian Constitution is expected to eliminate direct budgetary allocations to human settlements development at the national level. While decentralization and devolution of responsibilities and resources is a good idea and is commendable, total absence of budgetary allocations to the sector at the national level would not be in the spirit of the new scale of priorities which seeks a national recognition of the basic and pivotal importance of the human settlements sector in overall national development. While the shelter and in-settlement infrastructure and services components of human settlements ought to be left to the lower level of government and the private sector, there is need for direct budgetary provisions from the Federal Government for trunk infrastructure and for grants-in-aid to appropriate public goods and priority aspects of human settlements developments, which are of significance at the national level.

Case study 9. Colombia

(a) Scope of human settlements sector as perceived in Colombia

Although there is no specific official definition of or delimitation a human settlements sector in Colombia, official documents do frequently refer to a core of activities which may be construed as constituting the human settlements sector. These activities or components include land, infrastructure and housing. Construction, including housing and infrastructures has been one of the four priority sectors in Colombia's national development planning since 1972 (others are the external sector; the industrial sector; and the agrarian sector). To this core (land, infrastructure and housing) component may be added the organizational and management aspects of human settlements, that is local government. The National Planning Department has overall responsibility for policy issues, while the more specific responsibilities are dispersed across six different Central Government ministries, namely, Development, Finance, Health, Government, Public Works and Transport. Thus the human settlements sector, broadly conceived, is not assigned to any single ministry. In addition to Central Government ministries, there are also numerous decentralized agencies responsible for the implementation of specific components of human settlements. Because the majority of Colombia's population is urban, human settlements policy has tended to concern itself with predominantly urban issues.

Colombia has a uniquely high level of services and shelter. There is little evidence of a quantitative housing or shelter deficit, in spite of the relatively high rates of urban population growth of the 1970s and early 1980s. With regard to services, among the approximately 20 million persons living in urban areas, 85 per cent have access to piped water and 69 per cent had access to sewerage connections in 1985. This high coverage is found in both small and large cities: 97 per cent of Bogotá's housholds have water and sewerage connections; rates in excess of 85 per cent for both water and sewerage can be found in Cali, Medellín, Neiva, Chiquinquirá, Rio Negro, Pasto, Popayán, and Ibagué. With few exceptions, water coverage rarely falls below 70 per cent though sewer networks are still poorly developed in many secondary cities (Aguachica, Codazzi, Magangué, Monteria, Sabanalarga and Tumaco). Electricity has practically become universal in most urban areas: 93.5 per cent of the population had access to the service in urban areas compared with 18.2 per cent in the rural sector. For cities such as Bogotá and Cali, it appears that areas where overall infrastructure coverage is high also provide good levels of service to peripheral developments that originated as unauthorized subdivisions with negligible levels of infrastructure. Very few districts in these cities have water or sewerage coverage levels that fall below 85 per cent and electrical power levels are uniformly above 95 per cent. The financing of this high level of services and infrastructure is therefore of immense interest.

(b) Public sources of financing for human settlements programmes

The public sector finances the predominant part of basic trunk infrastructure and services in Colombia, through a chain of public corporation and agencies. Much of these are through budgetary allocations. Colombia has three levels of government, central, departmental and municipal/local. At the national level, financing for human settlements is channeled through a number of specialized finance and implementation institutions and through transfers to departmental and locals level of government. At the local level, finance for human settlements is channeled through a number of decentralized, semi-autonomous agencies.

The Central Government controls as many as 109 decentralized agencies the responsibilities of which cover social welfare, regional development, education etc.

The Territorial Credit Institute (Instituto de Credito Territorial (ICT) is responsible to the Ministry of Development and is charged with the provision of low-income housing. Between 1983 and 1988, ICT financed about 20 per cent (200, 000) of the total formal sector housing units produced during that period, using about 15 per cent of the sector's financial resources. Its housing units can be afforded by only the highest five deciles of the urban income distribution.

Central Mortgage Bank (Banco Central Hipotecario (BCH) is centrally owned but privately chartered, so that it falls half- way between the public and private sectors. It was created to mobilize savings and is structured as a private bank in order to enable it to compete in the financial markets. Between 1983 and 1988, BCH financed about 15 per cent (150,000) of the total number of formal sector housing units produced during that period, using about 18 per cent of the formal sector's financial resources. Its mortgages can be afforded by only the top two or three deciles of the urban income distribution - this excludes lending for sites-and-services and core-housing programmes financed through its infrastructure fund.

The Urban Development Fund (Fondo Financiero de Desarrollo Urbano (FFDU) is administered by BCH and does, in fact, represent a growing proportion of BCH's credit. It was established in 1968 and in 1985 absorbed the former National Municipal Development Institution (INSFOPLA) which used to have responsibility for water and sanitation. FFDU co-ordinates, supervises and finances sector activities in water, sewerage, solid-waste disposal, slaughterhouses and markets in towns with a population of over 2500. It depends heavily on Central Government subsidies for both long-term debt servicing and operations.

The National Savings Fund (Fondo Nacional del Ahorro (FNA) is responsible to the Ministry of Development. It finances new housing exclusively for public employees using the public sector's severance payment funds. It does not provide houses directly (through own building or using contractors), but finances purchases, on mortgage, of new complete housing units through other intermediaries such as ICT, BCH, or CAVs (see below). Between 1983 and 1988, FNA financed about 7 per cent (70,000) of the formal sector's housing units production, with about 5 per cent of the sector's financial resources.

The Popular Integration Secretariat (SIP) is attached to the President's Office and is not, strictly, a housing finance institution. It is, however, involved in co-ordinating a programme of shelter-and-community upgrading in poverty areas of 23 intermediate cities, partly financed from a World Bank loan. The programme involves the construction of about 5000 new housing units and the upgrading of about 10,000 units.

The Central Housing Co-ordinating Unit (Unidad Central de Vivienda) was created in 1988, with some advice from the United Nations Centre for Human Settlements (Habitat), within the Ministry of Development in an attempt to co-ordinate the numerous and sectorally dispersed agencies of the human settlements sector, and shelter and infrastructure institutions in particular. It has no financial authority as such, but has some planning and co-ordinating functions, although its relationship with the National Planning Department (Departmento Nacional de Planecion, (DNP) has yet to be outlined.

Municipal/local authorities are, jointly with FFDU, responsible for the provision of infrastructure and services. They are also responsible for the provision of some housing. They perform both these functions through specialized, semi- autonomous decentralized agencies. In comparison with other Latin American countries, Colombian municipalities have a large degree of authority to generate their own revenues. The main local sources of revenue are value-added tax (which was transferred to municipalities in 1986), property tax, sales (industry and commerce), a variety of fees and licences and betterment/valorization levy. Table 25 shows a summary distribution of municipal revenues projected for the 1987-1990 period. As shown in the table, the larger urban and municipal authorities are relatively

Table 25. Colombia, actual and projected municipal revenues for human settlements programmes, 1987-1990
(percentages)

Item	Total	Municipalities		
		Large[a]	Medium[b]	Small[c]
Taxes	20.5	23.0	20.5	17.5
Non-tax revenue[d]	31.0	57.0	45.0	33.5
Transfers[e]	22.0	7.0	18.0	32.0
Capital account	18.5	13.0	16.5	17.0

Source: DNP, *Report on Municipal Finances* (Bogotá, 1988).

Notes:
a/ Bogotá, Medellin, Cali and Barranquilla.
b/ Cities over 100,000 population.
c/ Towns with less than 100,000 inhabitants.
d/ Mainly user charges, betterment levies and tariffs.
e/ From Central Government: Fiscal transfer, Value Added Tax, etc.

Table 26. Proportion of illegal and legal housing developments in major cities in Colombia (1972-1981)

City	Increase of housing units	Relative proportion	
		Legal	Illegal[a]
Bogotá	215 200	57.5	42.5
Medellín	53 900	60.1	39.9
Cali	41 100	86.8	13.2
Barranquilla	34 400	87.8	12.2
Subtotal	345 000	64.5	35.5
Total country	453 900	55.8	44.2

a/ Unauthorized or without building permit.

Source: Centro Nacional de Estudios de la Construcción, 1988.

self-financing, with the proportion of Central Government transfers being as low as 7 per cent. In the case of the smaller authorities, however, this proportion rises to 32 per cent.

There are basically two types of specialized agency at the local level responsible for housing and infrastructure/services, respectively.

Cajas de vivienda popular (municipal housing institutes) are responsible to their municipal governments. They have traditionally financed small, subsidized programmes of new low- income housing. So far they have played a minor, but growing, role in housing production, especially in the larger cities. Between 1983 and 1988, *cajas* produced about 3 per cent (30,000) of the total formal housing units output during that period, using about 1 per cent of the sector's financial resources. Their future levels of production are likely to increase as a result of local government decentralization policy.

Local and regional *empresas* or enterprises are decentralized and semi-autonomous organizations the principal role of which is to manage directly local water and sewerage systems. Some are also in charge of the management of other infrastructure facilities such as telephones, electricity, public lighting and solid waste disposal. The existence of these decentralized and financially autonomous agencies represents a major difference in the structure of local government between Colombia and most of the countries considered in the other case studies.

Since 1972, national development plans in Colombia have included the construction sector, particularly housing construction, as one of the four priority sectors. The public sector as a whole is responsible for about 30 per cent of total investment in human settlements. In 1989 for example, the public sector's contribution was $US60 million out of the total of $US200 million estimated to have been invested in human settlements development.

(c) Contribution of the private sector to the financing of human settlements development

The private sector is responsible for about 70 per cent of the formal sector's investment in human settlements and in 1989 contributed $US140 million out of a total investment of $US200 million. The private sector housing finance system accounts for about 30 per cent of all savings in Colombia. The private sector does not directly participate in the financing of infrastructure, although it contributes significantly through user charges, valorization levies and other specific taxes.

Most of the private sector's contribution is through the *Corporaciones de Ahorro Vivienda* (CAVs), of which there are 10 altogether. CAVs were introduced in 1972 in order to mobilize savings and to finance new housing construction. CAVs are supervised by the Superitendencia Bancaria and their deposit and lending terms are determined by the Junta Monetaria (Monetary Board)). CAVs hold about 4 million individual deposit accounts, amounting to about $US2.7 billion since their creation. A key aspect of CAVs is the savings system called UPAC (*Unidad de poder adquisitivo constante* - constant purchasing power unit system), a constant value, inflation-indexed savings scheme. Between 1983 and 1988, CAVs contributed about 22 per cent (220,000) of the total formal sector's production of housing units.

In Many Colombian urban areas, the informal private sector contributes between 30 per cent and 40 per cent of the total housing units produced each year. Table 26 shows the proportion of so-called "illegal" housing to total housing units built between 1972 and 1981. As shown in the table, the national average proportion of new "illegal" dwellings was 44.2 per cent.

(d) Problems and constraints in financing human settlements development and management programmes in Colombia

At present, Colombia has an urban housing stock of about 4 million units, housing a population of about 22 million urban dwellers. To this housing stock are being added about 140,000 units each year, a growth rate approximately in line with the urban population growth of 3 per cent per annum. Thus there is little evidence of an overall quantitative deficit in housing in Colombian towns and cities. It has now been recognized that the real challenge of the remaining years of this century will not be keeping pace with accelerated urbanization, but improving existing housing stock and services. Table 27 shows Colombia's low-income housing targets for the period 1987-1990 and illustrates the relative importance of rehabilitation and betterment or improvement. In spite of this observation, the magnitude of investment required is still formidable, as is shown in the table below.

The remaining constraints and problems can be divided into two categories: those characterizing Central Government controlled, or related, institutions; and those characterizing local-government and local-level implementation agencies.

Regarding Central Government-controlled and related institutions, the following are some of the major problems that have been identified in recent studies:

(a) Public housing developments in the 1980s have been closely identified with middle-income housing. As already indicated, BCH mortgages can be afforded by only the top two or three deciles of the the urban income distribution and ICT housing units by the top five deciles only;

(b) Partly connected with the above problem, public housing agencies have generally neglected the possibilities presented by the development of sites-and-services and have done relatively little building of minimum or core-housing units;

(c) There has also been a general neglect of cost recovery. At present, about 230,000 families are well behind with their monthly housing payments - most of these hold ICT, BCH and CAV loans. This situation has been partly blamed on the "no down-payment policy" adopted through the enactment of National Decree 2928 of 1982. The decree established that serviced plots valued at up to 175 UPACS and shelter valued at up to 1000 UPACS had to be 100 per cent financed, with no down-payment by the purchaser. Because housing units have been handed over to purchasers with no initial financial effort on their part, there has been no strong incentive to pay back loans;

(d) There are also some financial management problems within the public sector agencies. Most of these have to do with unreliable cost accounting, poor collection records, negative interest rates; resistance to the use of inflation corrected instruments (such as the UPAC system adopted in the private sector); large administrative overheads; uneconomical land purchases; and uncompetitive bidding resulting from lengthy bureaucratic procedures and delayed payments to private contractors;

Table 27. Colombia, human settlements plan for low-income groups (1987-1990)

Type of investment	Number of units	Unit cost ($US)[a]	Total expenditure ($US millions)
Betterment	915 000	1 265	1 157.5
Sites-and-services	358 000	3 165	1 133.0
Barrio rehabilitation	89 000	1 898	177.0
Total	1 362 000		2 467.5

a/ $US at 1989 value ($US1 = $Col.395).

Source: DNP, 1988.

(e) Land purchased by ICT and the *cajas* has often been made available to beneficiaries at historic costs not adjusted for inflation, entailing loss of revenue on the part of the financing institutions;

(f) Contractors often inflate construction bills to public housing agencies to protect themselves against payment delays;

(g) Excluding local authorities, there are about 40 different institutions responsible for different aspects of human settlements development and management - planning, financing, operation and maintenance of infrastructure, and so on. Because of this proliferation of agencies, institutional co-ordination is generally difficult;

(h) Rent controls have generally had the effect of reducing the rate of supply of rental housing and not the intended effect of keeping rents low.

Regarding local-level problem, the following have been identified:

(a) The finances of most small- and medium-size cities have not kept up with inflation, although the large cities have generally fared well;

(b) Perhaps the most serious problem with municipal finance at present is management, in particular control of expenditures, as opposed to the potential availability of revenues. At present, not more than one city in five has produced audited accounts during the last two years (1987 and 1988), a basic symptom of poor financial management. Other problems are related to corruption, particularly ghost payrolls and misdirection of funds and materials. Such problems remain undetected for long periods of time due to inefficient accounting systems;

(c) Related to the problem above is also the fact that there are insufficient technical skills, at the local authority level, in capital planning and budgeting; operation and maintenance, in particular, have not been adequately catered for in capital investment planning;

(d) Although there have been some significant improvements during the last few years, taxation realization by local authorities has generally been low. A city which realizes more than 50 per cent of its property tax, for example, would probably be above average;

(e) Most of the large cities, such as Barranquilla, suffer from fragmentation into several municipal jurisdictions. Only Bogotá, the capital, has the status of a special district which incorporates into one jurisdiction the entire metropolitan area, thereby providing a consolidated planning and budgetary framework;

(f) Finally, there are problems of co-ordination between the decentralized agencies and municipal management, as well as among the decentralized agencies themselves. A frequent inter- agency problem is pricing policy and transfer of surpluses from one area of operation to another.

(e) Possible innovative measures and mechanisms to improve and increase financial resources for human settlements development and management

The following are some of the measures which could improve the flow of financial resources into human settlements development and management, as well as improve efficiency in the utilization of existing finances.

(a) Because the age of explosive urban growth has passed in Colombia, concerted effort should now be directed towards upgrading, renewal and conservation, by both the public and private sectors;

(b) A greater proportion of the housing output of publicly subsidized agencies should be geared towards the lowest four deciles of the urban income distribution. This could be done by setting targets clearly derived from the structure of demand and payment capacity of households, rather than from pre-determined minimum standards and designs;

(c) The rationalization and streamlining of the functions of the 40 or so institutions involved in human settlements development (excluding local authorities) is necessary. Central Government has indicated its intention to conduct an in-depth study, as a way of initiating institutional co-ordination, but this has yet to take place;

(d) Between 1983 and 1985, a number of emergency decrees on taxation were passed. These had the effect of increasing the elasticity of property taxes by tying property values to changes in the consumer price index, and also increasing the coverage of sales tax. Over three years, property tax revenues increased by 120 to 130 per cent per year on average and sales tax by as much as 160 per cent. This is a welcome innovative measure the continued application of which is to be urged;

(e) Updating of the cadastre and property valuations could help to further improve property tax realization. Law 14 of 1983 authorized the National Cadastre Office (IGAC) to set up a new methodology for property valuation using the concept of homogeneous zones in urban and rural areas. The method is intended to speed up the compilation and updating process of municipal cadastres and was incorporated in the assessment process in 1984. A number of the larger and better organized cities could assume the responsibility for maintaining their cadastres between valuations, with IGAC concentrating on technical assistance and supervisory tasks. This arrangement would improve municipalities' tax collection efficiency;

(f) Finally, technical assistance and training for municipal staff would be desirable, particularly in the following areas: medium to long-term capital investment planning; measurement of service levels and quality of service, as well as tariff and cost-recovery policies for appropriate municipal services; and budget and accounting procedures for identifying the cost of service operation and maintenance.

II. OVERVIEW

The foregoing case studies have sought to enquire into the sources and mechanisms for mobilizing financial resources for investment into human settlements development and management, with a view to learning from and improving upon such sources and mechanisms. The cornerstone in ensuring the maximum contribution of the human settlements sector to national economic development is the establishment of a viable and stable human settlements finance system capable of mobilizing both public- and private (household)-sector savings for channeling into human settlements development.

In reviewing these case studies however, one notes the varying contents and scope of the subject of human settlements among the countries studied and in no country is the sector definitively circumscribed. In Brazil's official programming, for example, "human settlements" is taken to be urban development, consisting mainly of housing and basic sanitation facilities. In Colombia, it encompasses activities related to land, infrastructure and housing. In Kenya, it is composed of shelter (housing), land and building materials. In Nigeria, the scope of human settlements includes physical planning layout (site-planning and development), sewerage, drainage and sanitation, as well as housing (shelter). The scope also changes from time to time even within countries. It is also noted that with the exception of India, Nigeria and the United Republic of Tanzania, rural settlements are not considered in the national human settlements policies and strategies of the countries studied. The import of these variations in the content and scope of the subject is that it becomes more difficult to identify and classify the financing of developments in the area, particularly with regards to public sector budgetary allocations to various sectors. There are so many sectoral overlaps in the subject of human settlements because it encompasses every aspect of human need and desire. Human settlements after all, are a kind of "melting pot" where the activities of most other vertical sectors (industry, transport, health, housing, education, water supply, power, telecommunications etc.) come together and overlap and therefore they represent a key horizontal cross-section of most other sectoral investment activities. An analysis of financing of human settlements development would inevitably therefore have to be viewed as only a part of the whole picture of financing the development and quality of human settlements. The overlap of several human settlements activities into other sectors may not after all therefore be a disadvantage, in the sense that on the aggregate, human settlements matters may end up getting more resources invested in them than would have been the case otherwise.

Nevertheless, an appreciation of how countries mobilize financing for direct investment in human settlements, as conceived by their national policies and priorities and ways to improve on existing mechanisms, is of interest to national governments and their agencies, as well as to external aid organizations and the foregoing case studies have given some insights into the potentials, prospects and problems of realizing the envisaged objectives.

A. Features of human settlements financing systems in the case countries

In the review of the case studies, the following features stand out.

The public sector, with direct budgetary allocations, finances most of the infrastructure (particularly trunk infrastructure - within and between settlements) and services components of human settlements. The private sector (formal and informal) however contributes to the financing of infrastructure through the payment of user charges, valorization and betterment levies etc.

The private sector (formal and informal) finances most (80 to 90 per cent) of the shelter component of human settlements. The informal component of this sector, through and with financial resources mobilized from personal and family savings, loans and grants from friends or other private sources, finances 70 to 80 per cent of the shelter output of the private sector. In India, over 77 per cent of the total resources invested in the housing component come from informal sources. In Nigeria, Sri Lanka, Thailand and the United Republic of Tanzania, this figure is above 90 per cent. This sector accounts for about 63 to 82 per cent of shelter output in Kenya.

With the exception of finance mobilization by mortgage-finance and housing-finance or related institutions, mobilization of public revenues is generally done without particular attachment to sectors. That is to say, revenues are generally mobilized at governmental levels not at sectoral levels. It is after the revenues have been mobilized that Governments allocate financial resources to sectors on the basis of their (Governments') perceived scheme of sectoral priorities. There is, therefore, generally no mobilization or organization of public sector finance for human settlements development outside this normal governmental budgetary process. Revenues are raised on human settlements, such as from property rating, property taxes, betterment levies, and other related fees, but such revenues are not necessarily directly reinvested in human settlements development or management but rather put into the general coffers of the given level of government for allocation among sectors. In contrast, financial resources mobilized by and through housing-finance or related institutions are largely devoted to lending for housing and related human settlements development.

Institutional finance for human settlements development (housing or mortgage finance) is still very weakly developed in the countries, though to varying degrees. The institutions suffer from so much continual, rapid and sometimes haphazard institutional flux that they are denied the institutional strength that comes and grows with stability. The example of the National Housing Bank (BNH) and the Caixa Economica Federal (CEF) of Brazil illustrates this constraint. So also does the history of the Federal Mortgage Bank of Nigeria.

Institutionalized and formal housing finance is still relatively new in several of the countries - India, Nigeria, Sri Lanka and the United Republic of Tanzania - but is growing fast. Consequent on this fact, among others, institutionally mobilized financial flows into shelter constitute a very small proportion of current demands.

Related to this, in most of the countries, the mechanisms and the emphasis on resource mobilization for human settlements development is concentrated on and directed at the shelter component of the sector. Most of the countries still see shelter (housing) as the core of human settlements and finance for human settlements is taken as finance for housing. This is reflected in the fact that most of the financial institutions created to mobilize funds for human settlements development are designated as housing banks or mortgage banks, or savings and loans institution, and are mandated to grant loans or mortgages for housing developments or purchases. This should not be surprising, considering the earlier point made to the effect that, in and between settlements, sector infrastructure and services are usually largely financed from governmental budgetary allocations to the human settlements and the related sectors of transport, health, education, industry etc.

In most of the countries, although serious efforts are being made to establish and strengthen human settlements (housing) finance institutions, these latter are not strongly integrated into the overall national finance and capital-market systems. Rather, they are kept apart and insulated with various protective regulations, subsidized schemes and operating conditions, such as specification for housing finance institutions to use stipulated nominal interest rates that are often below inflation rates, market rates or the real cost of capital. Owing to the fact that these housing finance institutions are kept separate from the national capital market through public policies which attempt to keep savings and mortgage lending rates below capital market rates, housing finance institutions are kept on the margin of the capital market and they are largely uncompetitive and at a disadvantage in savings mobilization. One of the results of this is that housing finance institutions provide a very small proportion of housing finance in many of the developing countries. There has been little, if any, tapping of insurance company funds or pension funds for use by mortgage companies. A large reservoir of private sector (including the informal private sector) funds remain untapped because of inadequate and ineffective policies and strategies on the mobilization of such potential resources in private hands.

A fairly common feature of the countries reviewed is the inefficient taxation of urban immovable property (land and buildings). Land and property valuation systems, where they exist at all, are usually inefficient and assessments are often not up-to-date. Although cost-recovery policies and strategies are being introduced in most of the countries, service charges for urban services are either not properly worked out to reflect the cost of individual services or they are inequitably applied.

Generally, the low- to lower-middle income groups in many of these countries find formal (especially private sector) financial sources to be beyond their reach. They are usually excluded by a number of factors, including their widely believed potential for high loan repayment default rates, the complaints by institutions against the costs of administering small loans, the practice of applying uniform rates of interest across the board irrespective of the socio-economic status of the borrower

(India and Sri Lanka are exceptions in this respect); and the use of empirically invalid rule-of-thumb affordability criteria.

B. Cross-national and cross-regional comparisons

In practically all the countries covered by the case studies, human settlements investments are largely financed through: (a) public sector budgetary allocations, the magnitude of which varies across the countries; (b) loans from financial institutions which may consist of housing- or mortgage-finance institutions (which are usually parastatals) and commercial banks (which are usually largely in the private commercial sector); and (c) private individual or family savings.

The nature and scope of public sector financing of human settlements development through the budgetary allocation process is fairly similar across countries, consisting of allocations to the responsible ministry of funds for capital and recurrent costs of capital project development and maintenance of trunk and within-settlements infrastructures and services. Sometimes such allocations also include funds for institution-building, maintenance and strengthening within the sector. Often, this also involves allocation of funds for direct construction of shelter units under government housing programmes.

With regard to institutional housing finance, Latin American countries seem the most strongly institutionalized, from the point of the variety of institutions or mobilization schemes, the volume and value of finances mobilized by such institutions, and the network of the institutions. The financial resources mobilized by Brazil's housing finance institutions, for example, grew from $US8 billion in 1972 to $US17 billion in 1975 to $US27 billion in 1980 and to over $US30 billion in 1984. A similar trend is observed for Colombia where public sector and formal housing finance institutions finance about 60 per cent of all shelter output, and loans from these institutions reach a wider spread and cross-section of the population for use in shelter development. In contract with most other countries, the system of valorization or betterment levies seem better and more productively developed in Colombia. As a consequence of this productive development of a betterment levy system, a wide range of urban authorities in Colombia seems to be relatively self- financing unlike in many other developing countries. There is also a significant use of semi-autonomous agencies for infrastructure and services development and maintenance. The sum total of this is that much more shelter development is achieved and, as in a country like Colombia, it is said that there is hardly any absolute shelter shortage. The experience of Colombia deserves study and possibly replication by other countries in the developing world.

In the Asian region, housing finance institutions are more recent compared with the Latin American scene, but are growing fast. India, Thailand and Sri Lanka have housing finance institutions which though relatively young in years, have made remarkable impacts on human settlements development. In India, the Housing and Urban Development Corporation Limited (HUDCO), the largest national finance institution in the sector (the resources of which amounted to $US463.0 million as of December 1982), as well as such other institutions as the Life Insurance Corporation (LIC), the General Insurance Corporation (GIC) and the Housing Development Finance Corporation (HDFC) have made remarkable impacts on institutional housing finance development in particular, and human settlements development in general within the country. The institutions and impacts continue to grow. Similar trends are discernible in Thailand where the Government Housing Bank (GHB) is playing a key apex role for housing finance institutions. In Pakistan, remittances from Pakistanis working abroad are highly significant and much of these remittances tend to be invested in housing and related human settlements projects. Similar phemonena also exist for India and Sri Lanka.

Sri Lanka has an extensive system of savings institutions composed of commercial banks, co-operative rural banks, and thrift and credit co-operative societies - although there are hardly any such institutions existing specifically for countries where some of the financial institutions use variable interest rates to discriminate against investments in old houses and to encourage investments in new ones - the rationale being to increase the overall housing stock by encouraging construction of new housing units.

Thailand is one country where it could be said that housing finance is fairly relatively integrated with the overall national financial sector. Thai commercial banks are significantly involved in lending for home buyers - accounting for about 31 per cent of all formal lending. In many other developing countries, in contrast, the involvement of commercial banks in mortgage lending is either minimal or non-existent. Base rates are not fixed in Thailand, thus allowing greater competition for deposit takings or savings among financial institutions. This has encouraged the development of innovative mortgage loan packages.

In Africa, housing finance institutions are developing, though they are still at the relatively early stages, and their contributions to human settlements development still remain insignificant. In this region however, Kenya seems to have relatively developed housing finance institutions both in the parastatal and in the private sectors, and has a comparatively wider range of financial institutions, including building societies. Attempts are also currently being made at strengthening the capital market and the Nairobi Stock Exchange in particular, and the impact of these on the availability and supply of finance for human settlements investment will be interesting to monitor.

The United Republic of Tanzania is one of the few countries with a geographically comprehensive human settlements development policy which has paid serious attention to rural settlements. The country's experiences of nationalization of buildings in 1971, followed by denationalization after a decade and half of deterioration in the shelter sector as a consequence of this policy measure is interesting and instructive, but there are virtually no formal private sector housing finance institutions. The Tanzania Housing Bank (THB), which is a Government housing bank, is the only housing finance institution. A Workers and Farmers Housing Development Fund, created through a 2 per cent levy on the wage bill paid by employers with 10 or more employees is one of the mechanisms for mobilizing the financial resources of the Bank. In Nigeria where there is great potential for institutional housing finance mobilization, the sources and channels of such mobilization are not effectively organized and a seeming general lack of confidence in public institutions militates against the greater mobilization of savings by the apex Federal Mortgage Bank and other intermediaries.

C. Innovative policy instruments: the benefits of cross-national experiences

From the case studies presented, it is seen that the financing of various aspects of human settlements development is undertaken at various levels of government - central provincial/state and local levels, and by the private sector (formal and informal). The financial resources for these investments come from normal government budgetary allocations, from financial institutions in the parastatal and private sectors (including mainly housing-finance or related financial institutions and commercial banks), and from private individual and household savings, as well as from co-operative societies in some places.

In the existing constitutional and institutional framework of most developing countries, significant financing for human settlements development, as for other sectoral developments, will continue to come from general public revenues through normal government budgetary allocations. This source usually finances trunk and within-settlements infrastructure and services development and maintenance. The greater public revenue generated, therefore, the greater the public investments in this sector, depending on the sectoral development priorities of governments at any given period. Government too, is a very efficient generator of long-term funds, and in the developing countries as reflected in these case studies, with relatively young, weak and immature financial markets, only governments or their agencies are, in the main, able to mobilize long-term finance in the sense that only they can bear the interest-rate risks over a long period. There is need, therefore, for concerned agencies and groups to continue to impress on governments the relevance and importance of the human settlements sector in the overall socio-economic development process, so that it could be given fairly high priority attention in development resources allocation. Such programmes as those of the International Year of Shelter for the Homeless (1987) and of the Global Strategy for Shelter to the Year 2000 serve to achieve such sensitization.

The strengthening of financial institutions in this sector (Mortgage- and housing-finance institutions) would improve the mobilization of financial resources and thereby increase the amount of revenues available for investment in human settlements development. This strengthening could take several forms - ensuring the stability of these institutions by avoiding too frequent changes in them, channeling more resources to them, and broadening the base of their resources mobilization through designation of more employee deduction schemes to them, as well as channeling some insurance and social security funds to them. This could be done as "shots in the arm" without necessarily impairing their freedom and ability to compete for savings mobilization in the national financial market. The financial institutions themselves should be able to attract public confidence by ensuring security of funds entrusted to them, offering adequate rewards or compensation for the use of the funds either in the form of interest or in provision of financial services (with the rate of interest promising real returns above inflation); and ensuring access to credit by households.

Human settlements finance in these countries is characterized by a special circuit operating in isolation from broader markets, and generally with interest rates at below the market level. Mobilizing more financial resources for human settlements development requires some reforms in the human settlements (housing) finance system as currently operated to make the system more efficient. In this respect, there is a dire need to integrate institutional housing finance systems into the national finance system for better efficiency and effectiveness in the attraction and mobilization of financial resources. Most human settlements finance experts and economists view the mobilization of resources through the financial system as being critical to the development of a strong human settlements sector, and believe that it is essential to integrate human settlements finance into the national capital market. If human settlements finance is kept separate through public policies and regulations which attempt to keep savings and lending rates for aspects of human settlements development below capital market rates (e.g. specifying the use of nominal interest rates below inflation rates or the real cost of capital), the financial sector becomes less efficient because capital cannot be shifted to where the highest return is possible, thus keeping human settlement finance institutions on the margin of capital markets[28], and consequently at a disadvantage in the competition for mobilization of financial resources. The extent to which the housing finance system is integrated with the rest of the economy is likely to depend on government controls and subsidies. Governments should promote and support the integration of housing finance institutions and their operation into the national capital market by allowing them to compete for savings mobilization at competitive (market) interest rates, limiting subsidies and targeting them more directly to the low-income groups, thus ensuring viable human settlements finance institutions which attract and retain public confidence by delivering efficient financial services, responding actively to demand and developing links to the informal financial markets. Integration of housing finance into the overall national capital market is, therefore, imperative if the former is to gain more strength.

28/ Alfred Van Huyck, "Housing finance in developing countries", *Interlink*, vol. 8, No. 1, March 1988, p. 3.

There are still enormous financial potential in developing countries from insurance company funds, pension and provident funds and trust funds, as well as potential revenues from the sale of bonds etc., that still remain largely untapped which could with appropriate mechanisms and incentive processes be harnessed for human settlements development. Introduction and institution of the operation and use of housing and infrastructure bonds in the context of the strengthening of the capital markets is an innovative measure which should be tried. This has been done with some success in some countries such as Thailand. It could help this process and enhance the harnessing of informal sector finance to reduce or remove scrutiny of the sources of informal finance used to purchase housing and infrastructure bonds. Encouragement of co-operative housing societies, especially at the primary level, and thrift and credit groups (such as are now common in Sri Lanka) would be another effective way of mobilizing resources from the population for human settlements development.

Greater use of savings-and-loans schemes could also be a powerful tool for financial institutions to mobilize more financial resources from individuals and the community. Such schemes, which are already being tried in some countries, such as India and Sri Lanka, have the advantage that they ensure the channeling of large proportions of private domestic savings towards shelter and other aspects of human settlements development.

Sustained conscious efforts should be directed at strengthening property valuation and taxation systems, as well as the capacity of local authorities to implement cost conscious service charges. This would go a long way towards improving the financial status of local authorities. This would, in turn, lead to enhancing their capacity to provide and maintain settlements infrastructure and services.

Improvements in the mobilization of financial resources for investment in human settlements development and management, as for developments in other sectors, is of course predicated on improvements in the overall national macro-economic climate. Virtually all the case countries, and many others, have experienced and are experiencing very high rates of inflation ranging from hundreds of percentage points in Nigeria to thousands of percentage points in Brazil and other Latin America countries. Most are heavily laden with crippling external debts and have, at the same time, experienced massive devaluation of their domestic currencies. These factors, among others, have had the effect of not only wiping out personal and household savings accumulated over the years and making current and future such savings almost impossible, but have also escalated the prices of all inputs into human settlements development and to that extent retarded such developments. In an adversely period, economic human settlements becomes one of the first victims of public sector resources austerity. To improve both public and private financing for human settlements developments, therefore, the general economic conditions and economic management of countries must improve. Such improvements would encourage other sectors of the economy, particularly the private informal sector to save and thereby mobilize more funds for human settlements investments. Such macro-economic improvements would also strengthen the financial institutions, including those serving the human settlements sector, e.g., the mortgage banks. Improvement of national macro-economic situation has positive ramifications, therefore, for personal, household and institutional, including governmental incomes, and on savings potential. How improvements in the national macro-economic condition is brought about depends to a large extent on competent national economic leadership and management as well as on the state of the world economy as a whole.

In the absence of corrective measures, high rates of inflation tend to benefit borrowers and to disadvantage investors. This is exacerbated by fixed interest rates on housing loans. Thus, in general, the effect of inflation has been to discourage long-term investment in housing, particularly in countries where rates of inflation have persistently remained higher than interest rates. A mechanism which has been applied extensively in Latin America to address the problem of inflation is the use of monetary correction measures. This involves the indexing of both investments and loans with respect to housing in line with changes in the national consumer price index. This is envisaged to counteract the effects of inflation by ensuring the maintenance of the purchasing power, or value of savings deposited with housing finance institutions. Examples of countries that have applied monetary correction measures with respect to housing finance include Colombia, through the "constant purchasing power unit" (UPAC) system, as well as Chile, through the "development units" system, and Brazil.[29] While these systems of monetary correction and indexing may at first sight appear sophisticated and complicated to some other regions of the developing world, their possibilities may be worth exploring in the face of unabating inflationary trends.

29/ R.J. Sandilands, *Monetary Correction and Housing Finance in Colombia, Brazil and Chile* (Westmead, Gower, 1980).

III. CONCLUSION

The common theme uniting the case studies is the focus upon financial institutions, especially human settlements (housing) finance institutions as mechanisms for mobilizing finances for human settlements development and management. The message that emerges is that governments should begin to take a new look at the hitherto traditional ways of sponsoring and regulating the operation of housing finance institutions and also begin to consider alternative and more positive and productive ways of developing a flexible and adaptable policy response based upon a more sensitive understanding of contemporary financial markets. Towards this end, human settlements finance mechanisms would have to be integrated into the national finance system. A continuous flow of funds into the shelter sector requires that shelter-financing institutions mobilize funds on the same terms and conditions as other intermediaries in the financial market. Integrating shelter finance into the national finance system is critical to the enhancing of the capability of the human settlements sector to draw on domestic resources and, thus, meet human settlements development and management needs effectively.[30]

It is clear that the issue of financing is crucial to the process of human settlements development. This raises the question of the appropriate mix of public and private contributions to financing investments in the sector. An obvious inadequency of financial resources exists in relation to the scale of urban problems currently being experienced in many developing countries, and without the effective harnessing of full public and private resources and skills, it is unlikely that the required effective action can be taken to resolve the human settlements problems that accumulate as the process of urban growth continues in most developing countries.

30/ United Nations Centre for Human Settlements (Habitat), "Financing of shelter and infrastructure" (HS/C/12/4).