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UNITED NATIONS ENVIRONMENT PROGRAMME

Criteria governing multilateral financing of housing
and human settlements

Report of the Secretary-General

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I. INTRODUCTION

1. During the course of its review of the report of the United Nations Conference on the Human Environment, held in Stockholm, the General Assembly adopted resolutions 2998 (XXVII) and 2999 (XXVII) dealing with the subject of finance for housing and human settlements in developing countries. The two resolutions are closely related in their over-all objective, which is to increase the mobilization and flow of investment to housing and human settlements. They differ, however, in the suggested approach towards the achievement of this objective. General Assembly resolution 2999 (XXVII), which calls for a report to be submitted to it at its twenty-ninth session, is ultimately concerned with the creation of domestic institutions for the mobilization of capital for this sector and envisages an international fund or financial institution to assist in this effort through the provision of seed capital and technical assistance.

2. General Assembly resolution 2998 (XXVII), while also concerned with this long-range objective, recommends that, in the interim period, international assistance agencies should "give high priority to requests from governments for assistance agencies in housing and human settlements". In the resolution, the Assembly

"1. Recommends that all development assistance agencies such as the United Nations Development Programme and the International Bank for Reconstruction and Development should in their development assistance activities also give high priority to requests from Governments for assistance in housing and human settlements;

"2. Recommends that, in its lending policies in this sector, the International Bank for Reconstruction and Development should provide funds on terms and conditions which fully reflect the unique nature and characteristics of housing and related investments;

"3. Recommends that in establishing criteria for eligibility for loans under more favourable terms and conditions the International Bank for Reconstruction and Development should take into account, in addition to economic and monetary criteria, such critical socio-economic factors as levels of unemployment, rates of urban growth, population density, and the general condition of the housing stock in the developing countries;

"4. Further recommends that as a matter of priority the International Bank for Reconstruction and Development, in agreement with requesting Governments, should implement its stated policy of providing seed capital loans on favourable terms, taking into account the recommendations in paragraph 3 above, for the establishment of domestic financial institutions and organizations to mobilize and allocate capital for housing and related investments;

"5. Requests the Secretary-General to report to the General Assembly at its twenty-eighth session on the implementation of the present resolution."

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3. In complying with this request, the Secretariat contacted seven multilateral agencies which provide financial and/or technical assistance to developing countries. 1/ All of the agencies contacted replied and relevant excerpts from these replies are included in annex II below.

4. As table 1 shows, only two of these international agencies provide a significant amount of capital for this sector. Others provide either a modest amount of financial assistance or confine their activities to technical assistance. In the following paragraphs an attempt is made to summarize the main points in these reports as they relate to the recommendations in the report itself. The summary is in ascending order of importance of lending activity or other assistance by the international organization.

1/ See annex 1 below for the text of the circular letter and the agencies to which it was sent. No attempt was made to contact bilateral assistance agencies. Although several Governments and other organizations do provide assistance for this sector, the total is considerably less than that from multilateral sources. Additional information on bilateral (and multilateral) assistance is available in the report of the Secretary-General on "Technical co-operation in housing, building and planning, funds expended for international programmes, 1970-1971 (E/C.6/130)".

Table 1
Annual international multilateral assistance in the
field of human settlements
(in thousands of United States dollars)

| Multilateral assistance agencies | (I) | (II) | | (III) | | (IV) | | (V) | | Interest rates on loans |
|--|---|---|---|--|----|--|---|--|---|-------------------------|
| | Total annual assistance to all sectors a/ | Total assistance for human settlements b/ | | Assistance for urban water and sewer systems | | Assistance for direct house building, or to housing finance institutions | | Total technical assistance for human settlements | | |
| | \$ | \$ | % | \$ | % | \$ | % | \$ | % | |
| International Bank for Reconstruction and Development (IBRD) | 2,080,000 | 164,000 c/ | 8 | 67,400 | 3 | 28,000 d/ | 1 | - | - | 0 to 7 1/4 |
| United Nations system | 163,934 | 34,980 | 22 | n.a. | - | n.a. | - | | | - |
| Inter-American Development Bank (IDB) | 588,000 | 58,930 | 10 | 34,800 | 6 | 23,830 | 4 | 300 | - | 3 to 4 |
| Caribbean Development Bank (CDB) | n.a. | (15,300) | | - | - | (15,300) e/ | - | - | - | 6 to 8 |
| Organization of American States (OAS) | n.a. | 878 | | - | | - | - | 878 | - | - |
| Asian Development Bank (ADB) | 200,000 | | No breakdown available, but almost exclusively unrelated. | | | | | | | |
| African Development Bank (DBA) | 10,812 | 6,192 | 56 | 6,192 | 56 | - | - | - | | - |
| OECD | 2,400 | 67 | 3 | - | - | - | - | 67 | 3 | - |
| Central American Bank for Economic Integration (CABEI) | 55,400 f/ | 3,300 | 6 | - | - | 3,300 | 6 | - | - | 6 to 9.25 |

a/ Average annual outlays for 1968-1972, or average for several recent years where data is not available for five years. Includes loans, grants and technical assistance.

b/ Sum of (III), (IV), (V), and other urban related assistance such as urban transportation, communications, power etc.

c/ It includes expenditures for urban power and urban residential telecommunications. The Bank's assistance to other sectors related to human settlements is not included owing to the lack of data on the breakdown within the sectoral expenditures for transportation, and development finance companies.

d/ Senegal sites and services project, June 1972 and Managua reconstruction project, May 1973.

e/ Lending in 1972 only.

f/ Expended during the fiscal year 1970-1971.

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II. SUMMARY OF ACTIVITIES OF INTERNATIONAL AGENCIES

A. Agencies providing only technical assistance

5. The Organization for Economic Co-operation and Development (OECD), the Organization of American States (OAS), the United Nations and its specialized agencies provide only technical and/or pre-investment assistance in this field. The United Nations system is by far the most important with annual outlays for this sector of between \$15 and \$20 million. When World Food Programme expenditures are added, the total exceeds \$50 million.

6. The United Nations expenditures under the regular budget (Headquarters, the regional economic commissions, the Office of Technical Co-operation and the United Nations Economic and Social Office at Beirut as well as extrabudgetary expenditures show a constant increase from 1966 to 1971 as shown below:

Table 2

Trends in funds expended by the United Nations system
for housing, building and planning
(In thousands of US dollars)

| <u>Source of funds</u> | <u>1966-1967</u> | <u>1968-1969</u> | <u>1970-1971</u> |
|--|------------------|------------------|------------------|
| United Nations Headquarters, regional economic commissions, technical co-operation and United Nations Economic and Social Office at Beirut | 3,164 | 3,558 | 4,504 |
| UNDP and special-purpose trust funds | 3,912 | 5,757 | 8,214 |
| United Nations agencies (WHO, FAO and the ILO) | 12,192 | 15,608 | 2,915 |
| Total | 19,268 | 24,923 | 15,633 |
| World Food Programme | n.a. | 60,148 | 40,705 |
| Total | 19,268 | 85,071 | 56,330 |

Source: See "Technical co-operation in housing, building and planning, funds expended for international programmes, 1970-1971" (E/C.6/130, table 1).

7. The reduction from \$15.6 million of specialized agency expenditures in the biennium 1968-1969 to \$2.9 million in 1970-1971 is due to a change in the classification of over \$11 million in FAO expenditures in timber development. The human settlement component of the World Food Programme assistance is primarily in the form of housing (mostly rural), public works and self-help community development

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schemes. The programme provides food assistance to help in carrying out development projects and to meet emergency needs. The breakdown of project expenditures and the time span over which projects are implemented does not allow detailed analysis of trends in these expenditures.

B. Regional development banks

8. Within the regional development banks category, the Caribbean Development Bank (CDB), the Central American Bank for Economic Integration (CABEI) and the Inter-American Development Bank (IDB) provide the most significant level of assistance in the housing and human settlements sector. It should also be noted that a percentage of the loans of the African Development Bank (DBA) also extend in a general way to this sector, although through its loans for water and sewerage system. No provision is made directly for housing or housing-related institutions or infrastructure.

9. Similarly the Asian Development Bank also provides some assistance for general urban purposes, but none directly for housing or settlements. The Caribbean Development Bank, on the other hand, allocates a part of its over-all lending to this sector, all of which is directed to housing and housing-related institutions, although this is a small percentage of its over-all lending activities.

10. The Inter-American Development Bank is the most active of all the regional banks both in over-all activity and in assistance to housing and human settlements. The IDB has been active in this field since the early 1960s and has provided approximately \$60 million annually for this sector, of which \$23.8 million go directly for housing and housing-related activities.

C. International Bank for Reconstruction and Development

11. The International Bank for Reconstruction and Development is the largest source of multilateral development assistance to developing countries and, as shown in table 1, provides over \$2,000 million in total assistance to all sectors, 4.5 per cent or \$912 million is for general assistance in human settlements. 1.4 per cent or \$28 million is specifically for assistance for housing or housing-related activities. ^{2/} Although roughly 80 per cent of all lending to developing countries has been urban related, only recently have specific urbanization projects been undertaken.

D. Terms and conditions of assistance

12. Some of the development assistance provided by three of the international lending institutions is made on concessionary terms. These are IDA credits in the

^{2/} See annex II below for a more detailed summary of the activities of the International Bank for Reconstruction and Development in this field.

case of the World Bank Group, the Social Progress Trust Fund (SPTF) and subsequently the Fund for Special Operations (FSO) of IDB, and Special Fund of ADB. However, more than two thirds of the total lending of these three banks and all assistance provided by the other three regional banks carry 7 to 9 per cent interest rates with grace periods customarily of four to eight years and repayment terms ranging customarily from 20 to 30 years.

13. The World Bank's IDA credits constituted one third of the total bank lending in 1972 and are for a term of 50 years without interest, with a grace period of 10 years, after which 1 per cent of the credit is repayable annually for 10 years and 3 per cent annually for the remaining 30 years. Most of the IDB assistance to housing and human settlements over the last 12 years have been through funds on concessionary terms. These funds (SPTF and FSO) carry interest rates of 1.25 to 2.25 per cent and favourable terms with regard to the grace period and period of amortization (see annex I below for further details).

III. TRENDS IN INTERNATIONAL ASSISTANCE FOR HOUSING AND HUMAN SETTLEMENTS

14. Since all the responses did not provide data on expenditures over the five-year period under review, it is not possible to show expenditure trends for all organizations. However, there is sufficient information to show expenditure trends for some of the major agencies and, perhaps as important, trends in thinking by policy-makers in these international organizations.

A. Technical assistance agencies (United Nations system, OAS, OECD)

15. There has been a consistent increase in the United Nations expenditures in the field of assistance to human settlements since the mid-1960s, although assistance to this area is still a negligible proportion of the total United Nations assistance. UNDP technical assistance to human settlements averaged 1.45 per cent (\$14 million) of total assistance during the five-year period 1967-1971. It is anticipated that this figure will increase to 1.59 per cent (\$25 million) during the period 1972-1976. The low priority accorded to this field is also seen in the classification of expenditures in this area under the heading "Social security and other social services". The issue of creating a separate sector for human settlements is to be shortly taken up with UNDP.

16. The over-all trend observed in the assistance pattern of international agencies to human settlements is very clear in the type of projects financed through UNDP. Earlier individual UNDP projects were relatively small (with a UNDP contribution of less than \$100,000) and dealt with a particular facet of a problem, such as improving the quality of bricks, fighting termite infestation, short-term assistance in drafting legislation, preparation of housing policies and physical planning. The new pattern is towards projects that would integrate all relevant factors. Examples would include the working out of national urban development policies and strategies for regional economic, physical and social development. There has also

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been a shift from direct problem solution to the creation of institutionalized indigenous capacities of a durable nature.

B. Regional banks

17. The Asian and African Development Banks appear to be the least committed to assistance in this sector. Actual expenditures are low and are generally confined to water supply and sewage systems. Moreover, they do not acknowledge any clear policy for present or future programming of assistance for housing and human settlements. However, both ADB and DBA indicate that in the future they may be able to allocate a greater percentage of their loanable funds to housing and human settlements and to other social factors as well.

(ADB) "The Bank has no rigid policy regarding the provision of assistance for housing and human settlements. Projects are assessed on the basis of their technical, economic and financial viability in the light of the economy's requirements. However, in order to distribute the benefits of Bank activity more widely throughout economies, increasing attention is being paid to the social impact of Bank lending. This has made for greater attention on education and vocational training; water supply and sewage; rural credit and irrigation; small-scale fisheries; road networks to disperse economic activities and reduce urban congestion; electric power for both urban and rural areas etc." 3/

18. Given the adequate availability of financial resources in appropriate form, it is likely that Bank activity in these sectors would substantially increase in the future.

(DBA) "The African Development Fund, whose resources will be lend to member countries on concessionary terms, has now been established. It is our hope that, as soon as the Fund becomes operational, a more positive approach could be adopted by the Bank and that some of the resources could be made available to the development of housing and human settlements." 3/

19. The African Development Bank currently charges interest at a rate of 6 per cent plus a 1 per cent commission for its loans. The Asian Development Bank lends at a rate of 7.5 per cent with grace and maturity periods determined by project characteristics, e.g. infrastructure loans are normally amortized over a 20-to 25-year period.

20. Regional and subregional banks in Latin America and the Caribbean region have been much more active in this sector. Expenditures by the Central American Bank for Economic Integration (CABEI) have risen from less than \$1 million in 1968-1969 to nearly \$8 million in 1973. Since beginning its operations in 1967, CABEI has allocated \$23.2 million of its total funds to the housing sector. Its stated target group is the middle-income family, since it is required to lend at market

3/ See annex II below.

interest rates. Nevertheless, CABEI's emphasis on regional and national institutional development and the generation of local savings is consistent with the over-all aims of General Assembly resolution 2998 (XXVII).

21. The Caribbean Development Bank (CDB) is a recent addition to the complex of development banks in this region. Similar to CABEI, the CDB's emphasis has been to support the financing of housing for low- and middle-income groups through both direct lending and through secondary mortgage market operations. Since the total supply of funds for these purposes (\$15.3 million) were obtained on "soft" terms from the United States AID programme, it can relend funds on concessionary terms, for example, 4 per cent interest plus a 2 per cent fee for management and maintenance. The Caribbean Development Bank expects its secondary market operations to be self-financing and costs and charges are determined accordingly.

22. No major changes are expected in the scale of the subregional banks' assistance in the field of human settlements in the near future. However, the conception of the basic unit of assistance is undergoing significant changes. Increasingly, attention is shifting from assistance to a single building or block of flats to the financing of the development of a whole urban complex including community facilities and services. The CABEI, in relation to its future lending policy towards human settlements, states that it will encourage "development of specific projects called Model Communities, which will be characterized by self-sufficiency in their internal structure. They will include industrial, commercial, service and recreational areas as well as residential areas." The Bank statement continues that "... loans are not granted on concessionary terms to human settlements".

23. The Inter-American Development Bank was the first multilateral financing agency to direct capital resources to this sector and has remained the most important of the regional banks in terms of expenditure and impact. Its policy of assistance has also evolved over the years from project financing towards much greater emphasis on institution-building and comprehensive urban development. However, as table 3 shows, the trend in the actual volume, as well as relative percentage of funds allocated to this sector, has been downward in recent years.

24. There seem to be three basic reasons for the downward trend in loans for housing and urban development.

(a) The housing projects in most Latin American countries do not require more than 10 to 15 per cent of the total cost for imported goods. This decreases to 1 to 2 per cent in the more developed countries of the region. The decreasing and very low import component has influenced the Bank's lending, which has traditionally been mainly concerned with financing the import component of the projects. The Bank sees housing construction essentially as a function of the local institutions.

(b) The purposes for which Bank funds are used depends greatly on the priorities indicated by the member countries. There does not seem to be as much emphasis on socially-oriented projects in Latin America as there was in the early 1960s. This has influenced the Bank's assistance in the field.

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(c) A related factor (which in itself does not explain the decrease in assistance to human settlements, but does influence the fields of housing, and water and sewer systems) is the shift of emphasis from assistance only to housing, and water and sewer systems to financing of projects that also include public transportation, communications, and community facilities such as schools, clinics, libraries, etc.

Table 3
Breakdown of IDB lending activities
1961-67 and 1968-72
(In thousands of US dollars)

| | <u>Annual outlays for the</u> <u>period 1961-67 a/</u> | | <u>Annual outlays for the</u> <u>period 1968-72 a/</u> | |
|---|---|--------------------------------------|---|--------------------------------------|
| | <u>\$</u> | <u>Percentage</u> <u>of total</u> | <u>\$</u> | <u>Percentage</u> <u>of total</u> |
| Total Bank lending | 334,000 | 100 | 590,000 | 100 |
| Assistance for urban water and sewage systems | 50,000 | 15 | 34,800 | 6 |
| Assistance for urban housing (direct house construction as well as assistance to housing finance institutions) | 40,000 | 12 | 23,800 | 4 |

a/ The actual amounts are estimated by using the ratios provided by the Bank and, as such, they may be in error by up to 5 per cent.

C. International Bank for Reconstruction and Development

25. The world's leading international assistance agency, which has traditionally been concerned with the economic development sector, has recently addressed itself to the problems associated with urbanization, including housing and human settlements. Although the Bank has made loans for water and sewage systems over the years and for other urban-oriented activities as well, such as telecommunications, power and transport, it did not recognize "urbanization" as a separate sector until 1971. Direct assistance toward the provision of dwelling per se was first undertaken in 1972 and there are plans for substantial growth in this area in the future.

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Table 4

Breakdown of IBRD expenditures for the period 1968-1972
(In millions of US dollars)

| <u>Year</u> | <u>Total Bank lending a/</u> | <u>For urban water and sewage systems</u> | | <u>Loans for other urban related sectors</u> | | | |
|-------------|----------------------------------|---|--------------------------------|--|--------------------------------|---------------|--------------------------------|
| | | <u>\$</u> | <u>Percentage of total</u> | <u>Telecommunications</u> | | <u>Power</u> | |
| | | | | <u>Amount</u> | <u>Percentage of total</u> | <u>Amount</u> | <u>Percentage of total</u> |
| Fy 68 | 954.0 | 27.0 | 3.0 | n.a. | - | n.a. | - |
| Fy 69 | 1,754.0 | 29.6 | 1.6 | " | - | " | - |
| Fy 70 | 2,186.0 | 32.5 | 1.5 | " | - | " | - |
| Fy 71 | 2,505.0 | 183.2 | 6.1 | " | - | " | - |
| Fy 72 | 2,996.0 | 64.7 | 2.1 | " | - | " | - |
| Total | 10,395.0 | 337.0 | 3.2 | 108.0 | 10% | 212.7 | 20% |

a/ Lending for Fy 73 to 21 May totalling \$171.8 million.

26. The proportion of the assistance given to human settlements and the choice of the assistance areas within this field undoubtedly reflect the Bank's concern with "bankability" of projects. However, this is not the only factor that affects the pattern of lending. The lending policies of most general development agencies have shifted from strict sectoral projects to projects with multisectoral dimensions. This change is not as easily traced in the field of housing and human settlements owing to a basic and widespread lack of understanding of the complex phenomenon of urbanization.

27. This problem was recognized recently in a statement by the President of the International Bank for Reconstruction and Development, who referred to "the vast gaps in knowledge and understanding of these complex processes (of urbanization in developing countries) and relationships which have posed serious analytical problems; and the infancy of the 'state of the art' in urban analysis and development planning which itself has placed further constraints in dealing with urban problems". 4/

4/ Letter from Robert McNamara to the Honourable John Sparkman, Chairman, Committee on Banking and Currency, Subcommittee on Housing and Urban Affairs, United States Senate, Washington, D.C., 14 April 1971.

IV. CONCLUSIONS

28. Although the information on specific levels and types of multilateral assistance to the housing and human settlements sector is fragmentary and for the most part non-comparable, certain fundamental conclusions do emerge which help to define current attitudes and trends in international assistance. Perhaps the first point to bear in mind is that, despite the recently increased awareness on the part of larger international organizations and some increase in over-all assistance, the total amounts provided are relatively minor in relation to aid for other sectors and small indeed in relation to the levels of domestic investment in this sector in developing countries.

29. Moreover much of the assistance presently included under the human settlements category is designated for purposes which, while undoubtedly necessary and useful, for example, power, communications, transport, water and sewage systems, are largely designed to facilitate the functioning of urban areas as business or commercial centres rather than "human settlements" that is, centres of living. Very little assistance has been directed to the provision of housing, especially for low-income groups, and with the exception of the World Food Programme, practically no assistance has gone to housing or human settlements in rural areas.

30. A further point of considerable importance is the fact that much of the assistance for housing has been directed to the end product itself rather than to the essential "producer goods" of the housing industry.

31. This limited and rather uneven performance by international agencies is in many ways a reflection of the policies - or lack of them - in many developing countries themselves and, most significantly, of the thinking of development theorists during the past several decades. According to the accepted wisdom of the time, housing and related infrastructure were seen as a derivative benefit of general development which could and should be deferred to some future time when the surpluses earned through "more productive" investments would be available for social or welfare purposes.

32. Unhappily this theory did not take into account the dynamics of urbanization and related population movements which have led to massively increased demands for basic shelter and sanitary services in the expanding settlement centres. As in many similar situations in the past, harsh facts upset the most carefully laid plans, and development theorists and policy makers in both national Governments and international agencies have been attempting to reorder these plans and priorities to accommodate the inescapable pressures of urbanization.

33. While it is still too early to draw any definitive conclusions, it may be useful to set out some observations and suggestions based on the experience of the past several years of international assistance in this and other sectors.

I

34. As a rule, international and national efforts to deal with a development problem begin to make progress only when the problem has been officially recognized and categorized as a worthy objective of international attention. Once adopted as an "acceptable" objective, it can be institutionalized (Department of X is established) and financial resources budgeted. The most recent example of this process is the human environment.

35. It is of considerable interest to note in this connexion that, at the United Nations Conference on the Human Environment and at the first session of the Governing Council of the United Nations Environment Programme, human settlements emerged (quite unexpectedly to many) as a primary environmental concern of developing countries. It may not be inaccurate, therefore, to suggest that official recognition of human settlements as an important development sector may be at hand.

II

36. Since there was no accepted category under which this sector could be administered, it has generally been handled by many different interest groups each with different objectives. Space does not permit an extensive discussion of this point, but it is clear that the results of this fragmented responsibility have been inconsistent and even counter-productive. There are numerous examples of international agencies encouraging and assisting agricultural, industrial and transport policies which predictably exacerbate urban growth, population migrations and related demands for housing and urban infrastructure while the same agency at the same time is assisting Governments to plan decentralized growth and to finance the construction of housing and infrastructure for already overcrowded areas.

III

37. Again, owing to its unclear category, the components of this sector are at various times considered as social overhead, consumer durables and/or services or as important contributors to economic growth and social stability. The volume and terms of assistance will also vary depending on the point of view of the lender (and sometimes the borrower). Extensive studies already carried out by the United Nations and other international agencies indicate that, since the volume of international assistance is and will continue to be a very small proportion of total investment in this sector, it should be directed to those purposes which generate the highest productivity in terms of societal needs. As with other sectors, experience indicates that these would be the producer goods of the sector and not the end product or consumption items. The most important production activities in this sector are:

(a) Building materials, particularly the production, packaging and distribution of indigenous materials;

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(b) The construction industry - both labour utilizing and capital intensive;

(c) The financial, planning and administrative institutions.

38. International capital applied to these areas have consistently yielded greater long-term results than stop-gap measures to construct a limited number of dwelling units or to install directly various types of urban infrastructure.

IV

39. At this point it may be appropriate to recall General Assembly resolution 2999 (XXVII) mentioned at the outset, in which the Assembly endorsed in principle the establishment of an international fund or financial institution which would "provide seed capital and technical assistance for the effective mobilization of domestic resources for housing and the environmental improvement of human settlements".

40. The report called for by that resolution is now in preparation and will undoubtedly have an important bearing on the level and kind of international activity in this sector. Its emphasis on efforts to promote the mobilization of domestic resources through national institutions is consistent with the findings of recent international studies, including those of the United Nations Secretariat. ^{5/} The Assembly may wish to refer to the interim report to be issued under General Assembly resolution 2999 (XXVII) in its consideration of further steps under 2998 (XXVII).

41. Finally it must be borne in mind that, to a very large degree, the lending policies of international agencies reflect the relative priorities operative in the assistance-seeking countries. With some notable exceptions, very few Member States have as yet formulated national policies on human settlements. As a result, relative priorities for the sector as a whole and for its components remain unclear. A general lack of understanding of the interrelationships between levels of welfare, economic development, industrialization, and population distribution between human settlements of different types impedes the evolution of national policies and programmes and, consequently, the formulation of sound requests for international assistance for housing and other elements of human settlements. There already is a trend, in the multilateral agencies' policies, to encourage and assist participating countries to formulate more comprehensive policies and adapt long-sighted attitudes in dealing with the problems of human settlements - particularly with regard to urban growth and development. The encouragement of such indigenous institutionalized responses could have an impact far beyond that possible through international assistance for specific projects developed within a limited framework.

^{5/} See Proposals for Action on Finance for Housing, Building and Planning
Sales No.: E.73.IV.4.

ANNEX I

CIRCULAR LETTER SENT TO INTERNATIONAL FINANCIAL AGENCIES a/

3 April 1973

Dear Sir,

I have the honour to draw your attention to resolution 2998 (XXVII) of the General Assembly, which requests, inter alia, that development assistance agencies give high priority to requests for assistance in housing and human settlements. A copy of the resolution is attached for your reference.

The resolution also requests the Secretary-General to report on the implementation of the resolution. This report is to be submitted to the General Assembly at its twenty-eighth session which begins in September 1973. In order to fulfil his obligations under the terms of the resolution, the Secretary-General would appreciate your assistance in providing information on the following questions.

1. Does your organization now provide either technical or financial assistance for housing and human settlements? If so, indicate annual monetary outlays over the past five years. If available, also give expected outlays for 1973. In addition, please indicate the amount as a percentage of total assistance provided to developing countries.
2. Does your organization have an established policy or is it considering a policy regarding the provision of assistance for housing and human settlements? If so, please attach a statement summarizing the implications of that policy. Also indicate if possible whether the priority accorded to this sector is expected to increase in the near future.
3. If assistance is provided in the form of loans, please indicate the rates and terms on which the loans are provided and whether or not any loans are made available on concessionary terms.

For the purposes of this report, housing and human settlements can be considered to include: all residential construction; other construction taking place within a city or other human settlement which is for the general use of households. This would include for example: markets, parks, recreational areas

a/ This letter was circulated to the African Development Bank, the Asian Development Bank, the Caribbean Development Bank, the Central American Bank for Economic Integration, the Inter-American Development Bank, the Organization for Economic Co-operation and Development and the World Bank Group.

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and most public buildings. It would not include construction related to specific-purpose activities such as hospitals, schools and factories. It would also include public facilities and systems designed for use by household populations, e.g. urban roads and transport systems, water distribution, sewerage and electricity systems designed for household use.

Also to be included is assistance to institutions and systems which support and facilitate the planning, functioning and management of human settlements such as: financing institutions; special training, education and research facilities; land-use related operations; mapping; surveys; etc.

In order to meet the deadline for translation and reproduction prior to the opening of the twenty-eighth session of the General Assembly, I would be grateful if you could forward your reply by 1 June 1973.

Yours sincerely,

(Signed) Philippe de Seynes
Under-Secretary-General for
Economic and Social Affairs

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ANNEX II

EXCERPTS FROM REPLIES RECEIVED FROM INTERNATIONAL FINANCIAL AGENCIES

A. African Development Bank

/Original: English/

/11 May 1973/

The lending activities of the African Development Bank have generally been restricted to those viable projects, in the member countries, which can bear conventional rates of interest. This is because the funds available to the Bank are from its ordinary capital resources, which are currently lent out on conventional terms. For this reason, our lending programme has been limited to projects in the transportation, agricultural, industrial and public utilities sectors.

As a result of the large volume of capital required, the long-term and low-yield nature of investments, our direct activities in the housing construction sector, have been negligible. However, the Bank has been able to finance projects, which, although not directly related to specific housing programmes, do contribute to the development of housing estates. These include mostly projects involving electricity, water and sewage extension systems. All these loans were granted at interest rates of 6 per cent plus a statutory commission of 1 per cent.

The African Development Fund, whose resources will be lent to member countries on concessionary terms, has now been established. It is our hope that, as soon as the Fund becomes operational, a more positive approach could be adopted by the Bank and that some of the resources could be made available to the development of housing and human settlements.

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Bank financing of projects intended to help the development
of housing and human settlements

| Year | Country/Project | ADB commitment in units of account <u>a/</u> |
|---|--|---|
| <u>A. Water and sewerage extension projects</u> | | |
| December 1969 | <u>Sierra Leone</u> Guma Valley Water - extension of water supply in Freetown | 1,500,000 |
| August 1970 | <u>Uganda</u> Extension of water and sewerage systems in 22 urban centres | 3,000,000 |
| January 1972 | <u>Congo</u> Water supply in Brazzaville | 1,210,000 |
| January 1973 | <u>Liberia</u> Water extension in Monrovia | 950,000 |
| <u>B. Power extension systems</u> | | |
| July 1969 | <u>Liberia</u> Addition of gas turbine to the Monrovia power system | 1,350,000 |
| July 1972 | <u>Central African Republic</u> Extension to the Bangui power system | 1,000,000 |

a/ 1 unit of account = \$1.20635.

B. Asian Development Bank

/Original: English/
/25 May 1973/

The Asian Development Bank has not provided either technical or financial assistance for housing and human settlements, per se. Assistance for these purposes forms varying proportions of Bank lending for individual projects.

While Bank financial assistance for electric power and water supply is likely to have greater direct relevance to "housing and human settlements", the proportion is likely to be lower with transport and communications and even lower for other sectors. Technical assistance provided by the Bank is likely to show similar characteristics.

It would, therefore, not be possible to isolate the exact quantum of Bank assistance for "housing and human settlements".

From 1968 to April 1973, Bank financial assistance to specific economic sectors has been as follows:

| | In millions of US dollars | Percentage of total |
|--------------------------------|------------------------------|------------------------|
| Electric power | 280.7 | 28.2 |
| Water supply | 110.2 | 11.1 |
| Transport and communications | 234.8 | 23.6 |
| Agriculture | 127.5 | 12.8 |
| Industry and development banks | 236.2 | 23.7 |
| Education | 6.7 | 0.7 |
| | <u>996.1</u> | |

The Bank has no rigid policy regarding the provision of assistance for housing and human settlements. Projects are assessed on the basis of their technical, economic and financial viability in the light of the economy's requirements. However, in order to distribute the benefits of Bank activity more widely throughout economies, increasing attention is being paid to the social impact of Bank lending. This has made for greater attention on education and vocational training; water supply and sewage; rural credit and irrigation; small-scale fisheries; road networks to disperse economic activities and reduce urban congestion; electric power for both urban and rural areas.

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Given the adequate availability of financial resources in appropriate form, it is likely that Bank activity in these sectors would substantially increase in the future.

Bank lending from its ordinary capital resources is presently at an interest rate of 7.5 per cent per annum, with grace and maturity periods determined in the light of the project's characteristics. Water supply, electricity and transport development projects are normally amortized over 20-25 years.

Bank loans from the special funds (approximately 23 per cent of total bank lending up to 1973) are made at from 1.5 to 3.0 per cent per annum with appropriate grace and maturity periods. These concessionary loans have been largely made to the Bank's smaller or less-developed member countries; also, in some cases, for projects where the direct financial return is intangible.

C. Caribbean Development Bank

/Original: English/

/22 May 1973/

To date, the Caribbean Development Bank has not provided any appreciable technical or financial assistance for housing and human settlements. However, the Bank is presently implementing a project for the financing of low-income and middle-income home ownership in its less developed member States and territories.

The Bank's housing finance project is channelled in two forms:

(a) Through a primary market in which the Bank provides financial assistance to eligible public bodies for low income housing programmes, to supplement local contributions. \$US 6.3 million is available for this market utilizing United States Agency for International Development (USAID) development loans;

(b) Through a secondary market, in which the Bank operates as a reserve or "back up" for residential lenders through the purchase and sale of their mortgages. \$US 9 million is available for this market, utilizing USAID development loans, the Bank's own equity and USAID housing guarantee funds.

The various funds are used as follows:

(a) Primary market funds will be used for the development and construction of housing for families earning incomes of less than \$US 1,400 per annum. Loans will be used to cover the construction costs not in excess of \$US 2,800 per dwelling and will bear an interest of 4 per cent per annum, repayable over a 20-year period and will be guaranteed as to principal and interest by the local Government involved. In addition to the 4 per cent interest and amortization charge, there will also be a 2 per cent per annum fee, based on the \$US 2,800 loan, to cover management and maintenance.

(b) Secondary market fund will be utilized to purchase home mortgages or participations of 75 per cent to 85 per cent in home mortgages from co-operative banks, building and loan societies and other institutions initiating home mortgages. The proceeds will be used by the primary lenders to provide long-term financing for the construction of new housing for sale to families with a yearly income of \$US 1,200 to \$4,000.

The sales price of these units will generally range between \$US 5,000 and \$12,000. Down payments will not exceed 20 per cent of the sales price.

Mortgages purchased by the Bank from the banks and societies will normally have a primary yield of 8 per cent. The Bank expects to purchase these mortgages at a rate of about 6 per cent, leaving a 2 per cent spread to the primary lending institutions.

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(Unofficial translation)

D. Central American Bank for Economic Integration

Department of Housing Finance

Objectives

/Original: English/Spanish/

/29 May 1973/

The Regional Programme for the Financing of Housing has as its primary aim to promote and increase, in the countries of Central America, the construction of safe, livable and durable homes for middle-income groups through secondary mortgage financing. These are family groups whose level of income would permit them to acquire their homes if granted credit facilities at current rates of interest and long periods of amortization.

The Central American Bank for Economic Integration will be able to develop specific programmes in conjunction with State entities for the low-income sectors which need homes. The programme has the following objectives:

(a) To obtain a steady flow of resources for an indefinitely sustained system of financing through the mobilization of:

(i) Savings from the Central American area and abroad, principally through the issue of securities and sale of mortgages;

(ii) Public international and foreign funds;

(iii) Private capital or funds from abroad, principally through United States commercial banks, insurance companies and savings and loan associations;

(b) To promote the adoption of uniform laws, standards and documents for the development and financing of middle-income housing in the countries of Central America;

(c) To grant housing credit to existing financial institutions which mobilize savings and which grant direct mortgage credit for housing construction and stimulate the creation of new institutions of this kind;

(d) To increase the competence of institutions which grant credit for housing as well as builders and contractors in order to reduce the costs of financing and building homes;

(e) To promote the creation of a Central American market for building materials produced on the basis of standardized modules and thus contribute to the expansion and improvement of the Central American building industry;

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(f) To increase the levels of economic activity in the Central American countries and create employment opportunities;

(g) To strengthen, by all the above means, the interdependence and the integration of the countries of the area as well as Central American trade.

Financing

Resources

The Bank will use dollar resources from loans received and convert them into Central American currency in accordance with agreements concluded for this purpose between the Central Bank of the Government of each member country in whose currency funds are needed.

With the Central American currency generated as explained in the previous paragraph, the Bank will be able to grant participating institutions guaranteed mortgage financing on eligible homes or acquire mortgage shares or securities representing mortgage credit on eligible homes. The amount of such financing must not exceed the percentage of the balance of mortgage securities given to the Bank or the assessed value of the home, respectively, whichever sum is less. More specifically,

(a) In all cases, there must be a minimum savings contribution from the respective member country which supplements the Bank's share;

(b) The Bank will utilize its housing portfolio as a basis for obtaining additional resources in dollars or other currency by contracting for loans or the issue of bonds, preferably in foreign financial markets;

(c) The resources which the Bank might obtain in the manner described in (b) above will be used in accordance with the procedure established, subject to the conditions and standards specified by the Bank.

Interest and terms of payment

The interest rate that will be applied to housing finance operations will be determined by the cost of money in the international market, the security that would be necessary to obtain resources from abroad, plus a percentage to cover in total or in part the expenses of the Department for Housing Finance. The Bank will have as a general policy that of fixing a uniform rate of interest for all participating institutions.

Whatever changes may be made in the interest rate will not affect loans which have been subscribed or disbursed prior to the date on which the change is agreed.

Participating institutions will be authorized to charge up to 3 per cent

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per annum on its loans to cover operating expenses and to leave a margin of profit. When, in order to ensure against credit risk, the participating institution requires the user to take out insurance (similar to the United States Federal Housing Administration), its cost will be computed as if it were additional interest. In this case, the difference between the rate of interest that the participating institution pays to the Bank and that charged to the user of the loan cannot exceed 4 per cent.

(a) The Bank will establish limits for interest rates that the borrower can charge their clients, in accordance with the type of programme involved, as well as the maximum and minimum term of the credit;

(b) When for some reason the borrower does not withdraw the amounts agreed upon in the contract on the dates stipulated in same, a penalty of $\frac{3}{4}$ of 1 per cent per annum must be paid to the Bank, computed on said sums from the date on which withdrawal should have been made to the date when the actual withdrawal is made.

Outlays for housing

July 1967 to December 1973

1. Period July 1967-June 1972

Disbursements of funds to borrower institutions amounted to \$8,956,400.

2. Period July 1972-December 1973

From July 1972-May 1973, disbursements of funds to institutions amounted to \$6,438,900 and it is estimated that, for the month of December 1973, disbursements of funds to \$7,830,400 will be made.

3. This financial assistance has been channelled to Central American countries as follows:

| PERIOD | GUATEMALA | HONDURAS | NICARAGUA | COSTA RICA | TOTAL |
|------------|-----------|-----------|-----------|------------|------------|
| 1967-68 | 420,000 | 540,800 | 100,000 | 47,000 | 1,107,800 |
| 1968-69 | 232,200 | 355,200 | - | - | 587,400 |
| 1969-70 | - | 104,000 | - | - | 104,000 |
| 1970-71 | - | - | 1,629,000 | 170,600 | 1,799,800 |
| 1971-72 | - | 2,001,300 | 2,137,200 | 1,219,100 | 5,357,000 |
| 1972-73 | - | 2,201,200 | 569,865 | 3,667,800 | 6,438,900 |
| Jul/dic-73 | - | 1,656,200 | 1,477,735 | 4,698,500 | 7,830,400 |
| Total | 652,200 | 6,858,700 | 5,913,800 | 9,801,000 | 23,225,700 |

4. Financing of housing approved by the Bank during the period from 1963 to May 1973 rose to \$44,220,742, which had favourable effects on the economy and development of Central American countries.

Interest on and terms of loans

The terms of the housing programme of the Bank are designed for the middle-income stratum and loans are given for homes with a sales value, including developed land, ranging from \$3,000 to \$12,500 per unit.

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Financing is granted, under a system of mortgage purchase, to institutions engaged in the development of this activity in Central America and the rate of interest has varied from 6 per cent per annum, 8 per cent per annum to 9.25 per cent per annum, the present rate. Amortization is over 20 years and the other terms are those normally applicable to these operations.

The Bank is studying the possibility of diversifying its programmes with the aim of extending coverage to the lowest-income strata of the population too and to the upper-middle class, so as to have a range of systems which would contribute to alleviating in part the acute problem of the housing shortage in our developing countries.

Among the above-mentioned programmes are the following:

(a) Financing for the development of housing projects, providing the necessary working capital for urbanization and housing construction;

(b) Specific development of projects called "model communities", whose special characteristic is that they would be self-sufficient in their internal structure, since they are planned to include industrial, commercial, service, recreational and strictly residential areas;

(c) Special programmes for financing low-cost housing, lots with services, condominium apartments, commercial areas in developed projects etc.

The Bank has not granted loans on concessionary terms to date.

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E. Inter-American Development Bank

/Original: English/
/30 July 1973/

I. Technical and financial assistance

The Inter-American Development Bank has provided loans and technical assistance for housing and related amenities during the entire period of its existence.

During the period 1961-1972, the Bank lent \$402 million for housing and urban development. This amounted to 7.4 per cent of its over-all lending portfolio. During the same period, the Bank's lending for the improvement of water and sewage systems amounted to about \$523 million. For the five-year period from 1968 to 1972, lending for housing amounted to \$117.5 million, or 4 per cent of its total lending for this period. In addition, \$174 million, or 6 per cent of over-all lending, was invested in water and sewage facilities during these latter years.

The Bank also supports a technical assistance programme designed to aid its member countries in developing and improving urban development programmes, including housing and related amenities. During the 1961-1972 period, this amounted to \$3.7 million, of which \$3.1 million was reimbursable and \$0.6 million was non-reimbursable. This programme is not broken down statistically by years.

II. Bank policy

Large-scale international financing of housing and related fields had little precedent prior to 1961; activity in this area was generally a matter of domestic concern.

The Act of Bogota in 1960 and the Charter of Punta del Este in 1961, however, emphasized the need for the countries of the hemisphere, and the external financing agencies in their lending and technical assistance policies, to balance their investments in economically productive programmes with investments in social infrastructure in order to achieve more balanced growth in Latin America.

This hemispheric policy was reflected in the lending activities of the newly established Inter-American Development Bank and represented a departure from the traditional institutional lending policies. The Bank, using first the Social Progress Trust Fund and subsequently its own resources, began to provide substantial long-term funds at low-interest rates to help finance home construction programmes for families of low income through direct assistance to national housing agencies, the establishment and strengthening of savings and loan associations, co-operatives, and other institutions designed to mobilize personal savings and to promote self-help. At the same time, the Bank, as noted above, was promoting investments in urban water and sewage facilities and related municipal public works.

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By the late 1960s, the Bank had met its original goals of helping to establish housing institutions and construction programmes through its loan and technical assistance operations.

In 1969, the Bank reoriented its housing and urban development policy to provide financial and technical assistance in a broader range of fields of special importance to the growth of Latin America's cities. Greater emphasis was placed on integrated urban development programmes rather than on isolated or project-oriented activities. An example of this policy is the series of major loans extended recently by the Bank to Colombia to help finance a major urban impact development programme in Bogota. Proceeds of the loans will be used to carry out a programme in the eastern part of the city, which includes power, roads and social fields, such as housing, health and education. b/

III. Loan terms

Most of the \$402 million extended to the housing and urban development sector from 1961 to 1972, as well as several of the urban water and sewage loans, have been on concessional terms provided by the Social Progress Trust Fund and subsequently by the Fund for Special Operations. Strengthened emphasis has been placed during this period on granting soft loans to the relatively less developed countries for projects and programmes of a social nature and for projects directly benefiting low-income sectors. Current terms and conditions for lending from the Fund for Special Operations are contained in document AB-300-3 and a summary of document GN-870-5. These terms apply also to loans for water and sewage facilities in less developed countries. The terms of loans are determined separately for three groups of countries:

| | Grace period (years) | Period of amorti- zation (years) | Interest rates (including commitment fee) |
|-----------------------------|--|-------------------------------------|---|
| | <u>Maximum rates on periods possible</u> | | |
| More developed countries | 5 | 25 | 5% |
| Intermediate countries | 7 | 30 | 3% |
| Countries of limited market | 10 | 35 | 3% |

b/ The scope of the Bank's integrated development policy is contained in document GN-140-2, dated 17 July 1969.

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F. Organization for Economic Co-operation and Development

/Original: English/

/18 June 1973/

The Organization for Economic Co-operation and Development (OECD) implements a relatively small Technical Co-operative Programme for Greece, Portugal, Spain, Turkey and Yugoslavia costing some \$2.4 million per year. The Programme is primarily concerned with developing key government functions in areas of OECD competence.

The planning and management of urban areas is in process of becoming an increasingly important area of activity under the Programme because of:

- (a) Fast-growing urbanization in the five participating countries;
- (b) The complication of this process by planned emphasis on industrialization (with accompanying side effects) as the main motor of development;
- (c) Difficulties in mobilizing and allocating resources for tackling urban problems;
- (d) Inadequate administration;
- (e) Little implementation of plans;
- (f) The opportunity, through the OECD structure, to promote access to other member countries' experience in this field, and to search out solutions which might avoid some of the latter countries' less fortunate experience.

Under the Programme, projects are being developed in the areas listed above with the purpose of promoting awareness of the problems and appropriate financial, legal and human means to combat them. The relative importance of this field of activity will undoubtedly increase and OECD appreciates all contacts with the United Nations family in the interest of co-ordinating activities in those countries where there might be a risk of duplication.

To give an idea of OECD action, recent or current projects include:

- (a) Planning of greater Athens;
- (b) Planning of the Izmir metropolitan region;
- (c) Integrated transportation planning of the Izmir metropolitan region;
- (d) Planning of greater Belgrade;
- (e) Urban information systems in Slovenia and Bosnia;
- (f) Housing planning for the South Bank of the Tagus, Lisbon;

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- (g) Road-network, Lisbon;
- (h) Central market location, Lisbon;
- (i) Joint project (all five countries) on urban management notably training, information systems, organization structures.

The expenditure pattern was roughly as follows:

| | Expenditure on Urban management (french francs) | Percentage of total programme |
|------|---|-------------------------------------|
| 1969 | 141,000 | 1.3 |
| 1970 | 117,000 | 0.9 |
| 1971 | 33,000 | 0.3 |
| 1972 | 488,000 | 4.0 |
| 1973 | 870,000 | 7.0 |
| | <hr/> 1,649,000 | <hr/> 2.2 |

No loans are extended by OECD.

G. World Bank Group

/Original: English/
/1 June 1973/

Although the World Bank Group does not now provide financial or technical assistance specifically for residential construction, a large part of its lending operations has been urban-oriented and a fortiori related to human settlements. At the beginning of 1972, total urban-related lending, including interurban transportation and telecommunications, represented 79 per cent of total lending to developing countries. In absolute terms, World Bank Group lending for urban-related projects in developing countries amounted to \$13,610 million out of a total of \$17,300 million to those same countries. The former figure compares to a total of \$2,160 million lent to developed countries for urban related projects. Up-dated figures could be made available after the close of the current financial year on 30 June next.

More specifically, you may wish to note the following examples of the World Bank Group's action in assisting its member countries in the general field of housing and human settlements.

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A. Urbanization

Two credits have been made specifically to assist sites and services projects - namely, an \$8 million International Development Association (IDA) credit to Senegal and an \$8 million credit to Nicaragua, which is part of a \$20 million IDA credit for the reconstruction of Managua in Nicaragua.

The sites and services project in Senegal is the first in the World Bank Group's new urbanization programme. It will provide, over a five-year period, dwelling lots to accommodate over 150,000 persons in Dakar and Thies, the largest of the country's six regional capitals. The project includes provision and preparation of sites for self-help housing construction, provision of low-cost public facilities, such as roads, power distribution, water and sanitation systems, construction and equipment of schools and health centres, provision of sites for community development activities, and technical assistance. It is expected that this first project will have an important demonstration effect for other urban centres not only in Senegal, but elsewhere.

In the case of the IDA credit to Nicaragua, the usual sites and services approach was adapted to meet the local circumstances in which self-help methods of building had been used to a considerable degree previously, but with techniques and building materials largely responsible for the damage to housing during the earthquake. Intensive technical assistance will ensure that structural designs and building materials are earthquake resistant. This will serve as a pilot project to develop and foster improved self-help construction techniques, which should have widespread application elsewhere in Nicaragua.

In addition to the above, two other projects were approved in 1972. A \$2.3 million IDA credit for the urban development of Istanbul (Turkey) and a \$16 million IBRD loan to Malaysia for urban transport in Kuala Lumpur.

As for the future, 17 projects directly related to urbanization are under consideration in the World Bank Group at this time:

| | |
|-----------------------------|----------------------------------|
| Botswana | Francistown - sites and services |
| Brazil | Curitiba - urban transport |
| Brazil | São Paulo - urban roads |
| Colombia | Bogota - urban transport |
| El Salvador | Sites and services |
| India | Calcutta - urban development |
| Indonesia | Djakarta - sites and services |
| Iran | Teheran - urban transport |
| Jamaica | Kingston - sites and services |
| Kenya | Nairobi - sites and services |
| Republic of Korea | Secondary cities |
| Singapore | Mass transit |
| Thailand | Northeast - secondary cities |
| Tunisia | Tunis - urban transport |
| United Republic of Tanzania | Sites and services |
| Venezuela | Caracas - Metro |
| Zambia | Lusaka - sites and services |

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In the context of urban and human settlements the financing of water and sewage systems is one of the Bank's most active sectors. From the loans and credits approved in the last five years, the total volume of operations in the urban water and sewage field amounts to \$508.8 million in 31 separate projects. These projects are financed by IBRD loans.

B. Other sectors

In the examples above, all operations are clearly urban by their very nature. For a number of projects in other sectors, it is not simple to ascertain what component or what percentage is essentially urban or rural. For instance, in the field of telecommunications, the World Bank Group's lending over the last five years amounts to about \$500 million in some 27 projects, about 40 per cent of which has been provided through IDA. It is estimated that, out of about 1 million subscriber lines provided under these projects, some 900,000 have been in urban areas for an investment of approximately \$270 million. The provision of telecommunications facilities is geared to the needs of industry, business, administration, distribution, supply and development of tourism. For this reason, a considerable proportion of the investment in urban facilities falls in the business and administrative category. Residential facilities might, it is estimated, account for approximately 40 per cent of the urban investment or a total of \$108 million in the last five years.

Power is another sector in which the breakdown between urban and rural development is not easy to define with any degree of precision. Nevertheless, it may be said that 90 per cent of all operations in building up electrical power distribution networks is directed at urban areas. On that basis, it is possible to estimate that, in the 19 operations in 17 countries for which funds were allocated to the construction of power distribution facilities, a total sum of \$212.7 million over the last five years represent the contribution of the World Bank Group to the development of this particular sector of urban growth.

In connexion with financing institutions, the first specific investment proposal to support a housing finance institution was approved by IFC's Board on 15 May 1973. This was an investment of Col\$ 7.5 million (approximately \$US 325,000) in a savings and loan bank called "Corporación Colombiana de Ahorro y Vivienda (DAVIVIENDA)" in Colombia, whose objective will be to attract savings for investment in housing and related mortgages.

The International Finance Corporation has indicated its willingness to consider providing seed capital investments in housing finance institutions to a number of Governments and international institutions.

C. Policy

The Bank's policy in the provision of assistance for housing and human settlements has been set out in its Urbanization Sector Policy Paper, issued in

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June 1972. According to this document, the Bank's activities specifically directed to the complex of urbanization problems will be initially focused on a relatively small number of urban centres providing continuity of involvement over several years. The selection will contain large and smaller cities and cover relatively wealthy and poorer countries. Particular attention will be given to projects exerting a catalytic or dynamic influence on the pattern of urban growth. Extensive consultations with local authorities and experts on policies and the use of local consultants will necessarily take place, or at least, be fully considered.

The standard rate of IBRD loans has been 7 1/4 per cent since September 1970. The maturity of a loan and the length of the grace period are related to the characteristics of the particular project and to the prospective balance of payments situation of the borrowing country itself. For example the recent \$13.5 million IBRD loan to help finance the second stage of the Kuala Lumpur water supply project has a term of 20 years including five years' grace at the standard rate of 7 1/4 per cent. Another loan now under consideration in the same sector, but in a different member country, may have a term of 24 years including four years' grace at the standard rate of interest.

On the other hand, all IDA development credits are for a term of 50 years without interest with a grace period of 10 years, after which 1 per cent of the credit is repayable annually for 10 years and 3 per cent annually for the remaining 30 years.

The decision as to whether a given project is to be financed through an IBRD loan or an IDA credit is not related to the nature of the project itself, but to the borrowing country's creditworthiness. IDA funds are used to meet the development needs of the poorest countries among the World Bank Group's members, in particular those whose balance of payments projects do not justify their borrowing on conventional terms. It will be seen from the table listing water and sewage projects that the World Bank Group financing for these operations has taken the form in some cases of IBRD loans and in other cases of IDA credits. It is only quite recently that the World Bank Group decided to enter the field of urbanization directly. Experience in this sector, where the underlying difficulties are great and where project preparation is time-consuming and arduous, is scarce both outside and inside the Bank. The Bank's contribution to the solution of the housing problems or urban centres throughout the developing world can only be small. Therefore it is important that projects to be financed by the bank have maximum demonstration effect and serve fully to promote appropriate institution building. That is why, depending on the priorities which governments themselves will give to external financing in this sector - a sector where normally foreign currency costs are proportionally very low - it is the bank's intention to emphasize the importance of sites and services type projects which can best mobilize self-help, reach the poorer levels of population and stimulate savings and employment.