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BUDGETARY, ADMINISTRATIVE AND FINANCIAL MATTERS

Loan to Governments for accommodation of field personnel

Note by the Administrator

Summary

The assignment of significant numbers of expatriate project personnel is being hampered in many countries by the acute shortage, or sometimes non-availability, of housing. This problem has become a serious constraint to UNDP programme activities. The most practical remedy to the problem is to find ways and means of financing the construction of housing units for UNDP-financed personnel based on amortization over such reasonable periods as 10 to 15 years. The Administrator recommends that a reserve of up to \$25 million be set up for this purpose on the terms and conditions stated in the paper, and that he be authorized to explore other means of financing the construction of housing for UNDP-financed personnel along the lines indicated.

Introduction

1. In most developing countries, external assistance, both capital and technical, is an important ingredient in development. The effective utilization of such assistance, especially technical assistance which involves inter alia the assignment of significant numbers of expatriate project personnel, is being hampered in many countries by the acute shortage, or sometimes non-availability, of housing accommodation for such personnel.
2. In the case of the programmes of UNDP's predecessor organizations, the agreements with governments provided that the Government would assist in finding suitable housing accommodation for international personnel assigned to the country.

While in most countries no insurmountable difficulties arose in the early years, significant problems began to emerge in the sixties in a small number of countries and the Economic and Social Council, in 1964, authorized the Technical Assistance Board, (TAB) as an exceptional measure when no other practical remedies were available, to adopt such solutions which might involve underwriting the costs of providing experts with housing. Since then, the subject has been discussed by the Governing Council on several occasions and was last reviewed at the fifteenth session in January 1973. The Council was unanimous in recognizing the importance of having adequate housing available to help in the speedy delivery of the UNDP programme and expressed its appreciation of the Administrator's efforts in resolving this difficult and complex problem.

Nature of the problem

3. In recent years the problem has become more wide-spread and acute in a larger number of countries primarily because the demand for housing has far outstripped supply. The nature of the situation and of the difficulties in it shows a number of variations; so do the solutions which have been attempted:

A. Limited housing continues to be available but because of excessive demand, rentals are very high, even exorbitant. In a continuing situation of this type, the high rents will continue.

Type of solutions tried: If most personnel have to pay high rents, these rents form the basis of the Post Adjustment calculation. Where the majority pay broadly one level of rent for older houses and new housing is prohibitive, the lower rental level is the basis of the Post Adjustment, but a rental subsidy system has been established to assist the minority paying the very high rents.

B. At a given point in time, some housing is available but demand is expected to grow steeply and an acute shortage is imminent.

Type of solutions tried: Long-term leases by UNDP on the available housing, often with advance payment of rentals, and subsequent subletting to experts.

C. Housing is practically not available, with any limited new construction already committed to prospective tenants.

Type of solutions tried: The main thrust of a solution in these cases has been to bring about new construction earmarked for UNDP use, in one of several ways:

(1) For some projects located in remote areas, provision for housing had been included in the equipment component of UNDP project budgets; governments are less inclined to follow this approach under the IPF system: in any event, this would not deal with the more general problem in major cities.

(2) Private entrepreneurs are encouraged to invest and build for UNDP on the basis of a guaranteed lease for a stated number of years at rentals agreed in advance; in practically all such cases, advance payment of rentals for two, three or even up to five years has been necessary. This approach has not proved

feasible in any significant number of countries and is becoming increasingly impractical as most private investors seek to recoup their investments in three to five years giving rise to exorbitant rental levels.

(3) UNDP has provided loans, at interest, to governments to finance, usually but not always, only the external costs of construction. The authority for entering into such loan arrangements is contained in UNDP Financial Regulation 5.2 which provides that "within limits and under terms established by the Governing Council, investments may be made in the form of participation in development loans by international or regional development banks or in loans to assist governments in the construction of housing for experts". Such loans have so far been granted at 3 1/2 per cent interest per annum and normally with repayment schedules of 10 to 15 years with a grace period of up to three years while the houses are under construction. In addition, a service charge of 1 per cent to cover administrative costs has been added. Repayment would be through rentals collected on the housing. While loans were made to 11 governments totalling approximately \$5 million up to the end of 1975 (see Annex), a temporary suspension of all further loan requests was forced by the financial constraints on UNDP which arose in 1975-1976. All pending requests from Governments have been held in abeyance since 1976.

(4) In a number of countries the difficult housing situation is further compounded by the inadequacy of hotel facilities, often leading to undue deferral of programme and project-related missions and short-term experts. In four countries of this type, UNDP has organized guest house operations ranging from provision of simple accommodation only, to the provision of full board and lodging in leased premises, in each case against appropriate charges to the user.

4. Acute shortage or non-availability of housing has become a serious constraint to UNDP programme activities in an increasing number of countries, now close to 25, particularly in Africa and even more so in the least developed countries. There are certain other countries where the limited housing that becomes available from time to time is offered for rent at exorbitant rental levels which, ultimately through high post adjustments or rental subsidies, cause an undue drain of UNDP funds. In a number of countries, the difficulties mentioned above are compounded by the fact that the planned increase in the level of activities of the United Nations Development system will correspondingly raise the system's needs for housing.

5. In this connexion it should be noted that, especially in the poorer countries, if any limited urban housing that may be available is taken up at relatively high rents by UNDP-financed personnel, it would only make the housing shortage that much more critical for meeting important national and local needs. The construction of additional housing has therefore to be faced not only in places where no housing is available but sometimes even in locations where some limited housing may be available but at exorbitant rentals. At the same time, to call on the governments concerned, with their very limited resources, to invest sparse government funds in construction of new housing for UNDP-financed personnel would only divert such funds from more urgent development purposes.

Proposed solution

6. The most practical remedy in such situations therefore is to find ways and means of financing, based on amortization over such reasonable periods as 10 to 15 years, construction of housing units for UNDP-financed personnel. While certain other means of financing (e.g., investments from other United Nations-related sources, perhaps with a UNDP guarantee ^{1/}) could be explored, the most direct avenue open to UNDP is to continue and modestly expand the scheme for UNDP loans to governments for this purpose.

7. In order for the UNDP to consider the granting of a housing loan to a Government, a formal request from the Government is required. In considering the request, the UNDP will normally use the following criteria:

(i) Acute shortage of housing, determined on the basis of the Resident Representative's assessment of current and prospective availability of housing and current and projected needs of UNDP programmes; any construction proposal would have to be limited to a number safely within the projected needs;

(ii) Exorbitant costs of available housing or rentals excessively disproportionate to the cost and quality of the accommodation;

(iii) Sub-standard quality of available housing and especially lack of such essential services as water, electricity, sanitation, etc.; (this would be an additional criterion);

(iv) Financial capacity of the government: housing loans would not normally be considered in the case of governments which could be expected to finance construction themselves;

(v) Other supplementary criteria: any special security problems because of the location and dispersion of available housing; difficulties and unreliability of housing contracts with risks of sudden increase of rentals and unilateral abrogation of arrangement by landlord.

Terms and modalities of UNDP housing loans

8. The granting of a housing loan is governed by a standard UNDP housing loan arrangement which is signed jointly by the Government authority concerned and the UNDP. These arrangements, UNDP undertakes to provide the financing at agreed stages of development of the construction project up to a certain agreed level based on the project outline and its costing. The Government on its side agrees to provide serviced building sites, preferably exempt from property and house taxes, and to adhere to a repayment schedule established by the UNDP over a given number of years. The repayments, which cover the principal as well as the interest and the service charge on the loan, come from rents paid by the personnel occupying the houses. The title to the land and the construction remain with the Government from the outset, while usufruct of the housing units, at appropriate rentals, will remain entirely

^{1/} See paragraphs 16 to 18 below.

with the UNDP as long as it or any of the United Nations agencies operates in the country.

9. Rents for the housing accommodation are calculated in accordance with the repayment schedules established by the UNDP to which are added costs for maintenance and repairs. It is proposed that future loan agreements should provide that rentals would be paid in the first instance into a Trust Fund which would be administered by the Resident Representative and nominees appointed by the Government. The terms of the trust would require that a first charge on its funds would be the payment of interest and sinking fund which are due by the housing authority, and thereafter that appropriate provisions be made for maintenance, insurance and other relevant charges. Any surplus would be accumulated and used to tide over any periods when houses may be vacant and rentals not collected.

10. All rental payments would be in convertible currency; arrangements could also be made, where feasible, to have the rental amounts deducted at source by the employing Agency and remitted to the Trust Account. The Resident Representative should be free to remit such funds as are needed to meet the external obligations in respect of the housing loans.

11. The UNDP field offices concerned operate separate accounts for all housing projects and are normally responsible for collecting rents and remitting the proceeds to the Government authority concerned or, in the future, to the Trust Fund mentioned above. In addition, some UNDP offices have become increasingly involved in assisting Government authorities in the actual administration, including maintenance activities of the housing project. The UNDP office normally controls the allocation of housing accommodation, usually through a local housing committee.

12. Originally, UNDP's loan arrangements were intended to provide for supplies which needed to be imported and thus required foreign exchange. With the increasing financial constraints locally in many countries, particularly in view of non-availability of private investments for housing purposes, UNDP has had to provide for total financing.

13. There are basically two ways in which the UNDP housing loan can be used to provide the necessary housing facilities in a given country:

(a) A local undertaking through contractors available for construction work in which case normally traditional construction methods and materials are utilized. This may be extended to include also non-local construction companies operating in the country. In both these cases UNDP has been very little involved in the undertaking and consequently is without any control over the execution of the project. In some cases, major delays and related complications have been experienced. In future UNDP will seek arrangements under which the utilization of the loan proceeds and related construction work would be handled under the authority of a government entity which includes the participation of the Resident Representative.

(b) Execution of a housing loan through importation of pre-constructed housing units, including equipment and furniture. In this particular case, local

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entrepreneurs will undertake certain parts of the execution of the project. It appears that pre-constructed housing is increasingly being utilized in various parts of the world resulting generally in lower cost per constructed unit, guarantee of speedy delivery which can be controlled and very good quality due to the advances of recent years in construction technology. In such cases, UNDP is able to assist the Government in negotiating the best possible product for the lowest cost. In certain countries where UNDP is experiencing housing problems, pre-constructed housing is already being supplied by other foreign and bilateral organizations.

Magnitude and source of funds required

14. In addition to some \$3 million of currently outstanding loans, UNDP has at present under review requests for housing loans for accommodation of UNDP-financed field personnel from more than 10 countries, most of them least developed countries. It appears that it would be highly desirable, after full evaluation, to grant most of these loans. However, in view of the Governing Council decision that the operational reserve will be fully funded and maintained at all times in liquid assets, ^{2/} the Administrator is of the opinion that a separate reserve would need to be created for the financing of such housing loans. It is the Administrator's intention to make the loans on the same terms as previously, except for an increase in the interest rate of 5 per cent which more accurately reflects current concessionary rates of interest. A service charge of 1 per cent of the total loan will be charged to cover various costs incurred by UNDP in the handling of the loan. This is consistent with UNDP's present practice.

15. Accordingly, the Administrator recommends that a reserve of up to \$25 million be set up for financing accommodation for UNDP-financed field personnel on the terms and conditions stated above. This amount would include about \$3 million of currently outstanding housing loans which would be deemed to have been made out of the proposed reserve. This should be sufficient to meet the requests presently in the pipeline or anticipated, and to ensure that the reserve, in the form of a revolving fund, could accommodate additional requests thereafter for the financing of accommodation loans out of repayments. The Reserve for Loans to Governments for the accommodation of UNDP field personnel would be maintained under the provision of Financial Regulation 3.2 which provides, *inter alia*, that "...separate accounts shall be maintained for: (c) Any other reserve which the Governing Council may approve."

16. Reference has been made in paragraphs above to the possibility of exploring certain other means of financing of housing construction: for example, investments from other United Nations-related sources which may be interested in long-term, fixed-income investments. Such arrangements would have to assure the safety, profitability, liquidity and convertibility of the investment. Modalities similar to those described above would meet most of these requirements. In addition, it may be necessary for UNDP to guarantee the investment and, in order to assure liquidity, to undertake to purchase the whole or part of any outstanding amounts of the investment should the investing source be in need of cash. The interest rate would also have to be comparable to the yield normally obtained by the investing source

^{2/} See Official Records of the Economic and Social Council, 1978,
Supplement No. 13 (E/1978/53/Rev.1), Chapter XX, decision 25/24.

on its fixed-income investments. As UNDP's own investment needs do not normally extend to long-term investments and as the effort should be to minimize any unavoidable long-term tie-up of UNDP funds, the Administrator suggests that he should be authorized to explore, on the basis outlined above, other possibilities of financing as well.

17. The possibility of a combination of a UNDP loan and financing from another source at a possibly higher rate of interest may also have to be considered in order to keep the resulting rental levels reasonable since total financing at the higher interest level could entail unduly high rental rates.

18. To the extent that UNDP is able to attract such other financing for housing construction, correspondingly less use will need to be made of the reserve recommended in paragraph 15.

Office accommodations

19. In a growing number of countries there are also difficulties for Governments in providing accommodation facilities for the UNDP office or in finding such accommodations at reasonable cost. One solution to this problem is for UNDP, in particularly difficult or costly situations, to finance the construction of office premises, either to be shared with other organizations or for UNDP use only, on the basis of recovering the UNDP share of construction costs so advanced by assessing an annual rent for the premises to be borne by the administrative budget of UNDP, thus amortizing the advance over a given number of years. This modality has so far been used in Guinea and Viet Nam (where the costs relate to renovation of an existing building) and is under negotiation in respect of the UNDP office in Nepal.

20. Subject to Governing Council agreement, the reserve for loans for accommodations might be used also for the provision of office premises where other means for obtaining proper facilities had been explored and exhausted. The Administrator consequently suggests that the reserve under discussion should be named "Reserve for Loans to Member Governments for Accommodations". However, with the additional facility of granting loans also for the construction of office premises the amount recommended for the reserve may prove insufficient. In the light of further experience with the reserve, the Administrator will report to a future session of the Council and may at that time recommend an appropriate increase in the reserve if necessary.

Recommendations

21. Based on the foregoing, the Administrator recommends that the Governing Council should:

(a) Take note of the steps already being taken by the Administrator, including the resumption of the housing loan programme in terms of Financial Regulation 5.2, to meet critical housing shortages impeding the timely and effective conduct of programme operations;

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- (b) Approve the establishment of a "Reserve for Loans to Member Governments for Accommodations", initially set at \$25 million, in respect of housing for field personnel and of office accommodations in appropriate instances; 3/
- (c) Authorize the Administrator to explore other means of financing construction of housing for UNDP-financed field personnel using paragraphs 16-17 of this document as a basis;
- (d) Requests the Administrator to inform the Council periodically of the progress and results of housing operations undertaken by UNDP in pursuance of this decision.

3/ As a corollary to this approval, it will also be necessary to make certain changes in financial regulations 3.5 and 9.2; these changes are set forth in document DP/388 entitled "Financial Regulations and Rules of the UNDP".

Status of Outstanding UNDP Housing
Loans As At 31/12/78

<u>Country</u>	<u>Agreement Signed</u>	<u>Total (including interest) US\$</u>	<u>Balance Due US\$</u>
Benin	Sept. 1974	565,364	436,945
Botswana	Dec. 1972	842,986	481,784
Burundi	Aug. 1973	371,426	269,946
Chad	Feb. 1968	238,765	Paid in full 9/78.
EAC (Arusha)*	May 1973	595,885	390,279
Lesotho	April 1973	816,404	505,500
Malawi (I)	Feb. 1973	336,053	202,723
Malawi (II)	Oct. 1973	241,982	156,191
Rwanda	May 1975	223,116	142,687
Swaziland	Dec. 1972	603,627	381,478
Tanzania	Dec. 1970	298,456	160,264
		5,134,064	3,127,797

* EAC dissolved in 1978. Awaiting arbitrator's decision on balance due.