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Criteria governing multilateral financing of housing  
 and human settlements

Report of the Secretary-General

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## I. BACKGROUND AND STUDY PROCEDURE

1. At its twenty-eighth session, the General Assembly reviewed a report of the Secretary-General on criteria governing multilateral financing of housing and human settlements (A/9163) which had been called for by the General Assembly under resolution 2998 (XXVII) of 15 December 1972. In reviewing the report, the General Assembly felt that further study should be made to develop new criteria governing lending and interest rates for programmes in housing and human settlements by international finance institutions. The Assembly, therefore, in its resolution 3130 (XXVIII) of 13 December 1973, requested the Secretary-General to undertake, as a matter of priority, a comprehensive analytical study which would provide new criteria governing lending and interest rates for housing and human settlements by international institutions. It also requested that the Secretary-General report to the General Assembly at its twenty-ninth session on the implementation of resolution 3130 (XXVIII).
2. In implementing resolution 3130 (XXVIII), the Secretary-General has appointed a senior consultant to assist the Secretariat in this endeavour. The final report will be completed for submission to the General Assembly at its thirtieth session.
3. The present report is intended to inform the General Assembly of the approach adopted by the Secretary-General in implementing resolution 3130 (XXVIII) and of the progress made as of September 1974. The General Assembly is invited to comment on this approach and to suggest possible additions to or modifications of the issues which have been posed for detailed analysis. These views will be most helpful in the completion of this task.
4. To facilitate the analysis of possible new criteria for international agencies to apply to housing and human settlements, the Under-Secretary-General for Economic and Social Affairs sent a letter, in May 1974, to the International Bank for Reconstruction and Development (IBRD) and the regional development banks requesting their co-operation in making the study, including further exposition of their loan criteria originally presented in the report of the Secretary-General (A/9163). These institutions were also asked for a statement which would explain in some detail how requests for loan or grant capital for housing and human settlement projects are processed. (The text of the letter is contained in annex I.)
5. The African Development Bank (AfDB) and the Asian Development Bank (AsDB) sent brief replies indicating that so far they have not directly extended their activities to cover the field of housing and human settlements; both, however, expressed interest in discussing the matter with the consultant. AsDB indicated that it was already considering entry into this field, making the study by the Secretary-General particularly timely. The Caribbean Development Bank replied that loans for housing and human settlements may be made on favourable terms from its Special Funds Resources, and that it takes account of the income groups to be served. While it does not anticipate making any new policy changes to favour housing and human settlements, its staff will be available for further discussion with the consultant.

6. Fairly extensive written responses to the letter of the Under-Secretary-General have been received so far from IBRD and the Inter-American Development Bank (IADB). IBRD said in a letter dated 6 June 1974 that its policies on loans for housing and human settlements were still essentially the same as presented in the Secretary-General's report to the General Assembly at its twenty-eighth session (A/9163). But the letter also indicated that social factors were now receiving increased emphasis. (The text of the IBRD letter is given in annex II.) A discussion of how these factors are being applied, with new or modified criteria, to one type of human settlements project is contained in "Sites and services projects", an internal IBRD document dated 12 April 1974. In evaluating potential sites and services projects, IBRD recommends that its analysts consider not just the traditional financial criteria but also non-monetary or social benefits from "expenditures on community services such as schools and health dispensaries included in the project", i.e., "the effectiveness of the project in meeting accepted social needs at a reasonable cost". In addition, "the provision of employment is usually one of the main objectives" of these projects. "The analysis could be further extended to consider secondary employment creation, e.g. in the building materials industries. Adequate information for such an analysis /however/ generally does not exist."

7. IADB also indicated that it is giving considerable weight to a variety of social factors, as well as to traditional economic criteria, in its consideration of requests for assistance to housing and human settlements. It noted: "Most projects approved by the Bank in the areas of housing, sewerage disposal systems, potable water, urban roads and in some cases projects for electric energy, markets, and slaughterhouses, are financed through the Fund for Special Operations. Although these projects are not treated preferentially within the Fund for Special Operations, the regular terms and conditions for the Fund are preferential in themselves, depending upon the developmental status of the country." (The full text of the IADB letter is contained in annex III.)

8. During the course of the study, it is planned to visit officials of IBRD, the regional development banks, the United Nations economic commissions and a number of Government agencies for detailed discussion of the issues presented in section II below.

9. Discussions have already been held with the Economic and Social Commission for Asia and the Pacific (ESCAP), 1/ AsDB, and Government housing agencies in Japan and the Philippines. The discussions at ESCAP in Bangkok were concerned mainly with the loan criteria of international agencies. ESCAP officials stressed the importance of obtaining a significant level of domestic participation in any housing and human settlements project involving international assistance, as well as the broader need for an over-all domestic policy regarding urban development. Other issues considered were the priority attached to clearing or upgrading slum settlements, the limited capacity of low-income households to pay for housing, and the need for special approaches in rural areas.

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1/ Formerly called the Economic Commission for Asia and the Far East

10. At AsDB in the Philippines, the discussions centred on the reasons underlying the Bank's historical policy of avoiding direct involvement in the housing and human settlements sector, the factors now prompting the Bank to reconsider this policy, and alternative strategies for developing a new loan programme in this area. Bank officials expressed the view that the Secretary-General's study was most opportune from their standpoint and should greatly facilitate their entry into the housing and human settlements sector.

11. In order to make the visits to Asia, Africa and Latin America as productive as possible, and in order to solicit information and suggestions from many people around the world who cannot be interviewed personally within the available budget, a wide variety of relevant issues have been identified. These issues, which are summarized in section II, form the principal basis for the continuing work on resolution 3130 (XXVIII). The General Assembly's views on the scope and content of these issues would help to direct this work so as to achieve the aims and objectives of the resolution.

II. ISSUES TO BE ANALYSED IN THE IMPLEMENTATION OF  
GENERAL ASSEMBLY RESOLUTION 3130 (XXVIII)

12. With regard to new criteria for financial assistance for housing and human settlements, the analysis carried out by the Secretary-General so far has determined that a large number of specific issues need to be investigated in order to formulate recommendations which are both potentially effective and likely to be implemented. The issues are raised, at least indirectly if not directly, by General Assembly resolutions 2998 (XXVII), 2999 (XXVII) of 15 December 1972 and 3130 (XXVIII). In resolution 2998 (XXVII), the General Assembly recommended "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 ... give high priority to requests from Governments for assistance in housing and human settlements".

13. Referring specifically to IBRD, the General Assembly, in resolution 2998 (XXVII), recommended (a) that the Bank should provide funds on terms and conditions which fully reflect the unique nature and characteristics of housing and related investments; (b) that in establishing criteria for eligibility for loans under more favourable terms and conditions, the Bank 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; and (c) that as a matter of priority the Bank, in agreement with requesting Governments, should implement its stated policy of providing seed capital loans on favourable terms, taking into account the recommendations in (b) above for the establishment of domestic financial institutions and organizations to mobilize and allocate capital for housing and related investments.

14. In resolution 3130 (XXVIII), the General Assembly broadened these recommendations to cover other international institutions besides IBRD. It called for "new criteria governing lending and interest rates for housing and human settlements by international institutions", and recommended "that any new criteria should also be applicable in principle to any institution or arrangement emanating from resolution 2999 (XXVII) or from any other action by the General Assembly regarding the financing of housing and human settlements".

15. The establishment of useful new criteria to guide international agencies must avoid being so detailed as to ignore variations in relevant conditions in different countries or at different times. On the other hand the criteria should not be so general as to be operationally without content. The objective of the Secretary-General, in making this study, is to establish guiding principles that have clear operational implications while allowing flexibility in implementation. Full scope must be allowed, furthermore, for trade-offs between various desired features of projects, since it cannot be expected that many projects will be desirable in every respect.

16. The following sections present in summary form the specific issues which are to be studied in depth and on which the Secretary-General's recommendations will be based.

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A. Volume, terms and conditions of loans

17. The central issue with which this study is concerned is how to obtain both a greater volume of loans for housing and human settlements by international agencies and more liberal terms for these loans. In deciding on the volume, terms and conditions for loans and other forms of assistance, international lending agencies generally have considered two broad areas - the potential contribution of a proposed project to the borrowing country's economic development and the country's ability to repay the loan, with sufficient interest to cover the lending agencies' own costs of raising capital and administering the loans. Typically the agencies have looked mainly at a project's ability to increase the country's export earnings or to reduce its expenses for imports, thereby improving its balance of payments and its ability to repay the loan in a hard currency.

18. Several lending agencies, however, have recognized that many developing countries will need many years of basic investments in infrastructure and labour training before they will be able to improve their balance of payments significantly. At present, a limited proportion of funds made available by the international agencies is provided on favourable terms, that is, at interest rates well below the market rate (or with no interest charge) and with longer grace periods and repayment periods than are allowed for conventional loans. But this volume is insufficient even for the needs of those countries now considered eligible - generally those whose credit worthiness does not allow borrowings at or near market rates. Furthermore, if a country is not eligible for the one and only combination of concessionary terms which several of the agencies make available, then it usually must accept the conventional terms in their entirety.

19. It must be recognized, of course, that it will not be easy for the international agencies to increase the volume of loans for housing and human settlements or to make such loans on more favourable terms than they do at present. To increase the volume of loans they must either reduce the volume made to the other sectors, which are also of great importance for economic and social development, or increase the total volume available for all the sectors. While the latter possibility is greatly to be desired, the agencies are limited in their ability to do so by themselves. For the most part, they can do so only by borrowing in the world money markets and paying competitive rates of interest, which are too high to be passed on to many of the developing countries. It is to be hoped that the present study will encourage the richer countries to make available a greater volume of loan funds on concessionary terms which the international agencies can use in substantial measure for housing and human settlements projects. But whether or not any substantial increase in funds is made available on concessionary terms to the international agencies, the agencies, together with the Governments of the borrowing countries, should explore ways of getting additional leverage from the volume of funds currently available.

20. As an example, countries which do not quite qualify for the current combination of favourable terms might be allowed to borrow part of their needs on favourable terms and the other part on the regular terms, obtaining an average in between the two extremes now offered. As another approach, a programme has been proposed for one developing country whereby the Government, with financial assistance from

international agencies, would buy undeveloped land on the fringe of the urban areas, provide the services needed for residential and other uses, and then sell the land - earning for itself much of the profit from land development that now goes to private speculators. The profits would be used to pay the debt service on a new bond issue, the proceeds of which would be lent as seed capital for new or expanded housing finance institutions, such as co-operatives and savings and loan associations. A variety of other combinations of financing techniques are being explored in the study and will be discussed in the final report.

21. Among the specific questions on the volume and terms of loans for housing and human settlements, for which the study is seeking further information, are the following:

(1) How should the interest rates charged by international agencies be determined? Can the agencies reduce rates without curtailing the volume of available funds? Should the agencies attempt to make interest rates as low as possible, or the volume of assistance as large as possible?

(2) Under what circumstances is it useful or appropriate for international agencies to provide assistance in the form of loan guarantees rather than loans?

(3) In what ways should the volume, terms or conditions of international assistance be affected by the balance of payments and debt-servicing capacity of the recipient country?

(4) Should international agencies support and/or participate in projects designed to increase the flow of private capital to the housing and human settlements sector, such as mortgage insurance, secondary mortgage markets, interest rate subsidies, guaranteed mortgage bonds and the like?

### B. Socio-economic issues

22. Before the international agencies raise the priority now given to loans for housing and human settlements, it will be necessary to provide them with persuasive evidence of the useful role which a greater volume of loans and more favourable terms for this sector can play in a country's development. Previous studies by the United Nations have identified several specific aspects of housing and human settlements which seem particularly appropriate for financial and technical assistance by international agencies. These include the following subjects:

(1) Assistance to national Governments "to undertake the analytical, evaluative and preparatory work necessary" for the successful implementation of any programmes of institutional development in this field;

(2) Help in establishing and supporting national savings and credit institutions and increased assistance to the building materials and construction industries;

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(3) The establishment and support of "land development corporations which would acquire, develop and sell or lease land for appropriate urban uses".

(4) Research in the "economics of urban development and the economic and social role of urban centres in the process of national development" training programmes should include both urban economics and municipal and housing finance";

(5) Technical assistance dealing with financial and "non-financial aspects of housing, building and planning which lead to proposals for further investment";

(6) Alleviation of "the shortage of trained management and operational staff ... in the field of finance" for housing and human settlements;

(7) Provision of "a regional secondary market system for mortgages and other housing related securities"; and

(8) The essential import components of projects in the housing and human settlements sector. 2/

23. This study is examining these and other related aspects of housing and human settlements to determine the conditions, or stages, of development in which increased support for each of the aspects is most important. The related socio-economic issues are summarized below in four groups: (1) indirect effects of investments in housing and human settlements; (2) rural-urban migration and the growth of cities and squatter settlements; (3) government institutions and administration; and (4) the distribution of benefits among the population.

#### 1. Indirect effects of investments in housing and human settlements

24. The potential benefits of international assistance in the foregoing areas to a country's socio-economic development are much the same as the benefits from locally financed investments in housing and human settlements. As discussed in previous studies by the United Nations, other agencies and individual scholars, these include not only the direct benefits to the occupants of new or improved housing and human settlements and the direct employment of construction workers, but also a wide variety of indirect benefits, some of which are not easily measured in economic terms. These include (a) on-the-job upgrading of the construction workers' skills and training of new entrepreneurs for the construction industry; (b) improvement of the occupants' health, physical productivity and ability to study at home; (c) mobilization of saving by individual households; and (d) development of new technologies appropriate to the local conditions. The direct and indirect benefits of investments in housing and human settlements are considered so important by one country - Colombia - that it has made the housing sector one of the three pillars of its economic development programme, along with agriculture and exports. A few important aspects of some of the indirect benefits are as follows.

25. The residential construction industry generally has a high ratio of employment to capital and thus can provide work with a relatively small input of scarce capital. It furnishes the most readily available jobs for rural migrants to cities and offers opportunities for the acquisition of skills which form the

2/ See Proposals for Action on Finance for Housing, Building and Planning (United Nations publication, Sales No.: E.73.IV.4), part one.

basis for increased income and improved levels of living. Residential building can call on the vast under-utilized human resources, which are typical of low-income countries, and can employ them at minimal social cost, because there are so few alternative uses for them. This is true especially if a deliberate effort is made to use labour-intensive techniques involving a maximum of unskilled or semi-skilled workers. It is a common observation that many newcomers to the cities in developing nations are forced into fringe activities, or even illegal ones, which do not lead to stable occupations paying higher wages with more experience and which contribute little to sustained economic growth or may even be antisocial. In contrast, employment in housing construction provides opportunities for newcomers to the labour force to learn work discipline and to develop new skills. The learning process is even more effective if on-site training is combined with systematic off-site instruction. Construction work also can help develop building entrepreneurs and skilled construction managers, as it has traditionally in the more advanced nations.

26. Measures to increase housing production, especially the building of moderately priced homes, may serve to foster consumer savings which otherwise would not occur. Thus, they may help to promote the disciplined, systematic thrift that is required for capital formation, an important condition for economic development. People of moderate income in developing nations where the saving habit is not yet firmly established are more likely to forgo current consumption if they are encouraged to save for a specific objective - what the Germans call Zwecksparen. Home ownership (which may also take the form of condominium or co-operative ownership) seems to rank very high among consumers' savings goals. Several developing nations, notably in Latin America, have already adopted saving-for-housing programmes, mainly through the establishment of savings and loan associations. This experience confirms the expectation that the encouragement of thrift for the express purpose of home ownership tends to generate new savings, at least in part.

27. New savings generated by housing programmes may take several forms. First, housing projects of the "self-help" type, usually designed for low-income households, typically involve direct labour inputs in the construction and improvement of dwellings ("sweat equity"). Such savings involve direct investment in housing capital. Secondly, households with access to housing loans will save in financial form to accumulate the down payment required to qualify for a loan, and later they will save on a regular and sustained basis to repay the loan. This type of savings is most likely to generate a savings habit that will not be discarded when the immediate objective of repaying the home loan is achieved. Thirdly, to the extent that better housing is associated with higher productivity, it will lead to higher incomes and greater savings capacity. These possibilities suggest that while new savings associated with housing programmes are directed in the short run to investment in dwelling units, over the long run such programmes may expand the volume of savings available for other types of capital investment, thus facilitating the general development process.

28. New dwellings in most developing countries can be built with a minimum of imported materials and equipment. Hence, expanded construction need not make

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sizable inroads into the balance of payments while many other investments in physical capital do. Although installations for water supply and waste disposal may require large imports in countries where domestic steel mills or clay product industries do not exist, the production of pipes is a relatively simple, easily organized process; a technology can be developed in many cases that would use local materials.

29. In order to determine the conditions in which investments by international agencies can generate the greatest direct and indirect benefits, the study is investigating the following questions:

(1) How should international agencies assessing proposed projects in the area of housing and human settlements estimate social rates of return for those projects as a guide to allocating funds? What types of social benefits and costs are most important and how can they be measured for use in guiding loan policy?

(2) What sorts of projects can most effectively employ labour that would otherwise be unemployed? What sorts of policies as to project implementation will maximize the net employment impact of the project?

(3) To what extent should priority be given to projects that would generate new knowledge regarding techniques of construction or of community-building?

(4) What sorts of policies will maximize the new savings provided by occupants of new residential projects? To what degree can the creation of new financial institutions or the modification of existing ones help to increase these savings, as opposed to diverting existing savings from other uses? How should the effectiveness of new financial institutions be measured?

## 2. Rural-urban migration and the growth of cities and squatter settlements

30. Developing countries typically experience not only a high rate of population growth, but also a vast redistribution of people. Usually there is a massive movement from the country or small towns to the cities, often to one or a few large urban areas. This movement represents a "pull" to the places where the job opportunities associated with economic growth are concentrated, as well as a "push" resulting from under-employment in rural regions. Urban growth caused by migration is reinforced by the natural increase of city populations which typically is almost as high as the extremely high natural increase in rural areas. Rapid urbanization may lead to poor or makeshift housing, lack of sanitation, inadequate transportation and insufficient schooling facilities; to little or no planning of the locations of housing, jobs, and public facilities; and to social tensions and other problems that slow the pace of economic development by retarding growth of labour productivity.

31. According to all available evidence, most if not all developing countries have been unable to produce adequate housing in sufficient quantity to keep pace with total or with urban population growth, nor are they adequately geared to meeting the needs of prospective growth. The enormous increase of squatter settlements in

the cities and on their fringes is a telling indicator of this condition. Squatter settlements and slums now provide shelter of sorts for one third to one half of the population in most urban areas of the developing world.

32. The disciplined work force required for expansion of industrial, commercial and tourist-serving activities does not develop in an environment where parasitic diseases are endemic, where transportation is unreliable, where new city dwellers tend to be disoriented, and where workers do not possess the rudiments of basic education. Hence, investment in housing and urban infrastructure may be needed to optimize the total social return on other investments, including both economic and non-economic benefits and costs.

33. In view of this situation, the study is seeking additional information on the following questions:

- (1) How can countries requesting international funds be assisted in developing their national programmes to influence the growth and location of human settlements?
- (2) To what extent should priority be given to (a) projects that are part of an integrated programme of urban development; (b) projects that are essential to industrial or agricultural development; and (c) projects that forestall or prevent unplanned slum or squatter settlements?

### 3. Government institutions and administration

34. In the past, some internationally assisted projects have been conceived and implemented mainly by the international agencies involved, with limited participation by the Governments. In recent years, however, increasing emphasis has been placed on direct participation by the Governments in both the development and the operation of internationally-financed projects. The international lending agencies should, and to some extent already do, consider whether an applicant for assistance has an institutional structure and administrative procedures that will allow the project to be successfully carried out and how well the country's existing institutions have carried out previous projects and served the population groups they were intended to serve. It is not at all obvious, however, what the appropriate course of action for an international agency should be when a proposed project appears highly promising in itself but the country requesting aid does not have the institutional or organizational framework needed to implement it effectively, including operation and maintenance of the completed project.

35. A number of new or modified types of institutions for the financing and development of housing and human settlements have been developed both by national Governments alone and by international agencies in co-operation with some Governments. There are a number of questions concerning these new or modified institutions which the study deems especially important to answer in order to provide guidance and encouragement for additional investments by the international agencies. Such questions include, inter alia:

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- (1) How can international agencies ensure the optimum degree of participation by the borrowing country both in construction projects and in the development of new institutions?
- (2) What are appropriate allocation devices for the selection of occupants for assisted projects?
- (3) Does provision of seed capital to financial institutions promoting savings and home ownership tend to have a greater effect on domestic savings accumulation and house construction, per dollar of assistance, than direct support of construction projects?
- (4) How can private and co-operative financial institutions, such as savings and loan associations and savings banks, complement governmental direct lending agencies (housing banks)? What is the most effective way in which central Government finance agencies can promote and support institutions specializing in the financing of housing and human settlements projects? How can the effects of severe inflation be dealt with, both by international lending agencies and by national Governments?
- (5) To what extent should priority be given to projects that generate new knowledge regarding institution-building?

#### 4. Distribution of benefits among the population

36. The issues cited in the previous three sections are mainly related to the concept of efficiency, that is, to obtaining the greatest total benefits, net of costs, from whatever level of investment is made in housing and human settlements. But they do not directly address the issue of how these benefits should be distributed among the different segments of the population. This broad issue includes a number of subsidiary issues regarding subsidies, standards and preferences.

37. Loans by international agencies for housing and human settlements can be used, by granting them on favourable terms, as a means of redistributing income from wealthy countries to poor ones and, within any country, as a means of increasing the share of national income received by lower-income families. Loans for other economic sectors such as industry, agriculture, long-distance transport, etc., can also serve to redistribute income between countries, and between families within countries. But loans for housing and human settlements are particularly appropriate for this purpose, since they can be directed to specific locations and, through regulation of costs and physical standards, can be directed to the desired income groups.

38. Subsidized housing represents an indirect but useful method of modifying the highly unequal income distribution in most developing nations. Income disparities may be narrowed by various direct means such as more progressive income taxes and/or increased welfare payments to the poor. However, income redistribution through subsidized housing has some positive effects in the early stages of economic development that are not obtained through money transfers. Better housing is a

visible and direct demonstration of potential consumer benefits from economic growth at a stage of development when such benefits are not always apparent. Improved housing can therefore act as a spur to greater effort, raise people's motivation, and foster a spirit of pride, especially if it involves home ownership.

39. The major problem with a significant subsidy programme is, of course, how to obtain the subsidy funds. A related problem is the choice of the physical standards, or quality, for the various elements of the projects. The main issues are, who should choose the standards and how high should the standards be, recognizing that higher standards almost always imply higher costs. In typical government-assisted housing projects, in both the developing and the developed countries, relatively high standards have been recommended by professional planners and moderately high standards have been achieved by the housing development agencies. But the costs have been so high that low-income families could not afford the necessary rents unless the housing was heavily subsidized. In many countries, both developing and developed, the Governments have not been willing or able to provide the massive subsidies that would be needed to finance "good" or even "adequate" housing for most of the low-income families. Typically, a few low-income families receive large housing subsidies while the majority receive little or nothing.

40. In recent years, this planning and development procedure has begun to change in two related ways. First, some planners are making efforts to base their recommendations for standards more on direct observation of, and interviews with, the population groups to whom the standards are supposed to apply. Since most professional planners come from relatively wealthy backgrounds, their own ideas about what is required for adequate housing often has not reflected some of the major concerns of their "client" population. Secondly, the high cost of "good" housing and the inequity of having enough of it for only a small share of the low-income families have led politicians and planners to look instead for ways to provide "minimal" housing services to as many people as possible. These ways now include a wide variety of self-help housing programmes and the so-called "site and service" programmes, under which housing sites are made available with basic water and sanitation services to a large number of families who are allowed to build almost any kind of temporary housing on the site. From the experiences observed in many squatter settlements, it is expected that most of the families will gradually improve their houses, by various combinations of self-help and contract construction, until they are adequate or even "good" by middle class standards. The key to their motivation is the assurance that the sites have at least the minimal services and the families will be allowed to remain on these sites and receive the benefits of whatever they build. Simultaneously, the Government may gradually increase the number and quality of services provided - electricity, paving, refuse collection, and community facilities, such as clinics, schools, etc. - as more government revenues become available.

41. The study is investigating the following issues in this area of income levels, subsidies, standards and preferences:

- (1) How can international assistance in the area of housing and human settlements be directed towards the lower-income households of

developing countries? Is it appropriate to allow programme participation by higher-income households if this can result in greater benefit, through discretionary pricing, to lower-income households?

- (2) How should the physical standard and monetary cost of housing provided in assisted projects be determined? Should this standard be related to the total housing resources available in the country; to the total number of households requiring assistance; to current local standards?
- (3) Within the constraints imposed by the need for some degree of standardization of design, for production efficiency, for meeting public health requirements and the like, how can project planning most effectively incorporate the real preferences of potential occupants?

### III. FINAL REPORT

42. In the final report, the issues presented in section II above will be analysed in considerable detail, based on analysis of the discussions with international agencies and national housing finance institutions and of the written replies to the questionnaire and on any additional material deemed necessary by the Secretary-General. The final report will be prepared for submission to the General Assembly at its thirtieth session. It will contain an analysis of current policies and criteria of the international agencies and recommendations of new criteria which the Secretary-General finds worthy of adoption by the international agencies. The report will present the case for giving higher priority to investments in housing and human settlements and will describe and analyse the policies that have actually been followed by the agencies. Since the involvement of the international agencies in the financing of housing and human settlements has been limited to date, the scope of the analysis of past and present criteria will be quite broad, to cover general institutional policies that may have implications for their involvement (or lack of involvement) in financing housing and human settlements. The report will cover lending policies of the agencies - in areas other than housing and human settlements - that may be relevant in determining the policies that might be adopted if the scope of activity were broadened into the housing and human settlements area.



ANNEX I

Letter dated 17 May 1974 from the Under-Secretary-General for Economic and Social Affairs to the International Bank for Reconstruction and Development, the Inter-American Development Bank, the African Development Bank, the Asian Development Bank, the Caribbean Development Bank and the Central American Bank for Economic Integration

At its last session the General Assembly reviewed a report prepared by the Secretary-General entitled "Criteria governing multilateral financing of housing and human settlements". That report had been prepared in connexion with General Assembly resolution 2998 (XXVII) and contained a summary of information on the lending policies and practices of international organizations in this field. This was based on information supplied in response to my letter of 3 April 1973. A copy of that letter and report (A/9163) are attached for your information.

On reviewing the report, the General Assembly came to the conclusion that it did not deal sufficiently with the criteria governing loan policy and interest rates and showed "no evidence of the identification or establishment of new criteria ...". The Assembly then adopted a new resolution on this subject 3130 (XXVIII) which is also enclosed. In this resolution, the General Assembly calls upon the Secretary-General to undertake as a matter of priority a comprehensive study "which would provide new criteria governing lending and interest rates for housing and human settlements by international institutions".

The resolution, when taken together with the Assembly's discussion on it, clearly calls for some recommendations from the Secretary-General on new criteria for international lending in this field. Since this would be a futile exercise if undertaken without the co-operation of the institutes concerned, I would very much wish to have the benefit of your thoughts on this point.

We are proceeding with the study and to assist us in this undertaking we have engaged a consultant: Professor Jack Guttentag of the University of Pennsylvania. In the course of this work, Professor Guttentag and his associates will be making personal visits to each of the international finance institutions. Your co-operation and assistance in facilitating this part of the research would be greatly appreciated.

In the meantime, it would be helpful if your organization could begin to prepare additional information which responds to the objectives of General Assembly resolution 3130 (XXVIII). For example, if you feel that your loan criteria were not adequately covered in document A/9163, it would be helpful if you could provide a short statement which explains in some detail exactly how loan or grant capital is made available for housing and human settlement projects. This might include responses to such questions as:

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1. Are they treated as any other loan request or do they receive any special consideration with respect to interest rates, repayment term or other costs of borrowing?
2. How do you determine what percentage of your available resources should be allocated to this sector?
3. What economic and social factors are taken into account when evaluating a loan or grant request for projects in this field?
4. In view of the increasing interest of developing countries on the issue of improving housing and the physical environment of human settlements, do you foresee any changes in your present policies and lending criteria?
5. For what purposes do you believe external capital can be most effectively used to improve housing and human settlements in developing countries?

It would be greatly appreciated if we could have an early reply to these questions together with any other comments you might wish to make regarding the present and future criteria governing lending activity in this field. I would suggest for this purpose a target date of 15 June 1974. Once we have your initial replies in hand we can prepare a more specific framework on which to proceed. In the interest of time it would be helpful if you could indicate in your reply a person or office with whom we can communicate directly on specific points.

(Signed) Philippe DE SEYNES  
Under-Secretary-General  
Department of Economic and Social Affairs

ANNEX II

Letter dated 6 June 1974 from the Director, International Relations  
Department, International Bank for Reconstruction and Development/  
International Development Association to the Under-Secretary-General  
for Economic and Social Affairs

I refer to your letter of 17 May 1974 (Ref: SO 144 (47)) to Mr. McNamara regarding the Secretary-General's study on criteria governing multilateral financing of housing and human settlements.

We will gladly see Professor Guttentag. I suggest that he give us some advance notice of his visit so that we can make the necessary arrangements to make it a fruitful one.

In our letter of 1 June 1973 to you, we referred in some detail to the Bank Group's activities related to human settlements. We wish to add only that since that letter was written the Bank Group has continued to give attention to projects in this field. The following are some examples of such projects.

An \$11 million Bank loan and a \$7 million IDA credit to Tunisia will help to support preparation of a long-term plan for the future development of Tunis and to meet immediate needs for public transport; in Iran, a \$42 million Bank loan will strengthen public transport; and a \$35 million IDA credit is to help the rehabilitation of Calcutta, including the provision of water supply, sewerage and drainage, roads and traffic improvement, garbage disposal, environmental hygiene and housing.

In Jamaica, a \$15 million Bank loan will assist a project designed to bring self-help housing and essential community services to lower income groups; 6,000 lots at different locations will be provided with individual water, sewerage and power linkages, and families will receive technical advice in building their dwellings; existing squatter settlements will be up-graded by bringing basic utilities and community facilities to a total of 2,750 households. In Brazil, the construction or improvement of water and sewerage facilities in about 31 cities will be assisted by a \$36 million Bank loan. In the United Republic of Tanzania, a proposed IDA credit of \$8.5 million will help finance a sites and services project which will include new sites, squatter improvements, community facilities and house construction loans.

In your letter of 17 May 1974, you ask five questions about the Bank's policy concerning the financing of housing and human settlements. The material on Bank policy contained in document A/9163 (annex II, pp. 16 and 17) should be read in conjunction with the following answers to the questions you have now put to us:

1. Housing and human settlements projects are treated in the same way as projects in other sectors. The criteria to which reference is made in the first paragraph of the section on policy (A/9163, annex II, pp. 16 and 17) still apply. The Bank representatives at the sessions of the General Assembly in 1972 and 1973 explained in some detail the Bank policies in these respects.

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2. We do not set aside a percentage of our resources for this or any other specific sector. The Bank lends on the basis of the needs of a particular country at a particular time. IDA credits to countries eligible for IDA financing are, of course, limited by the availability of IDA's resources.

3. In considering financing for projects in the fields of housing and human settlements, we take into account the priority of the projects within the context of the country's economic and social development and its development plans. The factors considered include, in addition to cost-benefit relationships, the population affected, poverty, availability of resources, etc., those to which reference is made in operative paragraph 3 of General Assembly resolution 2998 (XXVII), i.e., levels of employment, rates of urban growth, population density, and the general condition of the housing stock in the developing countries. The attached document, "Sites and services projects", will indicate the type of factors taken into account.

4. As to policies, we believe the Bank's approach in this field to be both flexible and innovative and that it is in fact responding to the increasing interest of developing countries in human settlements. This is exemplified by the "Sites and services" projects, described in the document mentioned above, which the Bank has been financing over the last two years or so and of which the most recent examples are an IDA credit to the United Republic of Tanzania and a Bank loan to Jamaica.

It has, however, to be borne in mind that requirements for financing in those fields are staggering and that investments do not have a built-in repayment potential in the way of import savings. For most countries, to incur foreign debt to cover more than a small portion of their housing requirements would rapidly result in increasing their already serious external debt service problems. The constraints on the Bank's efforts to deal with the critical world-wide shortage of adequate shelter have led it to concentrate on low-cost, labour-intensive solutions involving mobilization of local resources.

As to lending criteria, the terms of Bank loans, in so far as concerns interest, are uniform regardless of the project or of the sector involved. However, flexibility is possible in respect of repayment schedules and periods of grace. For each sector and project, these terms are determined by taking into account the particular project characteristics and this, of course, applies fully to housing and human settlements projects. All IDA credits are made available on standard terms.

It is well to note that the terms of Bank loans and IDA credits do not automatically determine the terms of lending to the ultimate borrower. They are only one of the factors taken into account by the Governments and intermediary institutions to which the loans and credits are made and through which they are channelled. Among the other relevant considerations are the prevailing interest rates in the local market, the need to maintain the financial viability of local lending agencies and the Government's position on the question of whether and to what extent housing should be subsidized.

Thus, although there is uniformity in the charges made by the Bank and IDA, the cost to the ultimate borrower varies from country to country.

5. As indicated above, it is illusory to pretend that any present or foreseeable amount of international aid can provide more than a small portion of the resources required to meet even the minimum housing the other human settlement needs for the increasing populations in the less developed countries. In these circumstances, we believe that external capital can best be used in the financing of innovative projects with a clear demonstration effect and with emphasis on urban infrastructure rather than on housing construction proper. International seed capital for institutions to mobilize domestic resources can have some impact and the International Finance Corporation has indicated its willingness to provide such capital.

The above are initial reactions to the questions you have raised. We will be glad to discuss these matters further with Dr. Guttentag at his convenience.

You asked that we provide you with the name of a staff member with whom you can communicate directly on specific points. Such communications should be addressed to Mr. Harold B. Dunkerley, Senior Adviser of the Bank's Transportation and Urban Projects Department.

(Signed) Michael L. HOFFMAN  
Director  
International Relations Department

ANNEX III

Letter dated 7 August 1974 from the President of the Inter-American  
Development Bank to the Under-Secretary-General for Economic and  
Social Affairs

I am writing this letter in response to your request of 20 May 1974 for comments on the recent UNEP study, "Criteria governing multilateral financing of housing and human settlements" (A/9163). Please accept my apologies for the delay in responding. However, given the importance which the Bank places on matters relating to urban development, I felt it was necessary to undertake some staff consultation before formulating my response.

With respect to your request for collaboration in the research being done by Dr. Jack Guttentag of the University of Pennsylvania, please inform Dr. Guttentag that the facilities of the Bank are at his disposal. I would recommend that he contact Mr. Alfred Wolf, Program Advisor in my office. Mr. Wolf can make the necessary arrangement to enable Dr. Guttentag to meet the staff members of the Bank concerned with the various aspects of urban development.

Turning to the balance of your request, I would like to preface the more specific comments with my view, reflected in recent public statements I have made on this subject, that the broad range of problems related to human settlements within the region should be treated with serious consideration by the Bank. We are prepared to approach this matter in the future, as we have in the past, with an innovative spirit and we are determined to act in such a way so that our co-operation will have an important significance within the efforts that have been made in Latin America to achieve an orderly and rational growth of the cities.

More specifically, I have enclosed a copy of the Inter-American Development Bank policy on urban development. Although the text of the policy is self-explanatory, allow me to point out a few of the more salient elements of that policy.

Although housing, or what is referred to in the above-mentioned UNEP study as "centres of living", is an important element of the urban development problem, the emphasis of the Bank's policy is to consider the multiplicity of development needs within the urban space. As stated in the Bank policy document on urban development, investments in these fields by the Bank will be made wherever possible as components of integrated urban development plans rather than as isolated or project-oriented activities. Despite the problems which have been encountered in making this policy a reality, the Bank feels that it will be more beneficial to identify and resolve the basic causes for deficient urban development rather than simply treating the most visible and superficial manifestations of those problems.

In carrying out this policy, it is clear, as was also pointed out in the UNEP study, that the external co-operation in the field of urban development from agencies such as the Bank is necessarily residual in relation to the effort which the individual countries will need to make. External co-operation cannot finance even a small part of the existing demand in this area. Therefore, to achieve the maximum impact, the assistance of the Bank must be given on the basis of selective criteria with the following objectives in mind:

(a) The demonstration effect should be the highest possible so that the experience can be useful in other applications for other areas;

(b) The project should be catalytic in mobilizing both internal and external resources from other institutions. The mobilization of internal resources is especially important given the relatively low component of imported goods and services needed for most urban development programmes. In this respect the Inter-American Development Bank has already had some experience through our technical co-operation programme in assisting member Governments to mobilize national resources for the purpose of urban development. One such programme for Brazil is described in detail in the text of my speech at the Urban Development Symposium in Rio de Janeiro last year (see page 12 of text attached).

In addition to assisting financial institutions I would also like to point out that the Bank policy on urban development is strongly oriented toward improving and strengthening local and national institutions responsible for planning and administering urban development and assisting the member countries to incorporate into national plans the priority requirements of urban centres. Furthermore, the Bank's external assistance can be used for technical as well as socio-economic research needed to elaborate the methodologies and technical criteria to be used in preparing and evaluating the urban development plans and investment programmes. Given the dimensions of the task and the limited resources available for urban development, preferential attention will be given to the creation of new institutions and improvement of existing ones as well as the training of personnel specialized in activities related to urban development. To the extent that the member countries are capable of bringing about integrated urban development studies, a flow of investment programmes and projects will be established and there will undoubtedly be a need for external assistance. The Bank is prepared to consider these programmes not only for the purpose of a possible loan from the Inter-American Development Bank but also to advise the countries on the mobilization of resources from other sources.

Turning now to the UNEP study on criteria for financing of urban development projects mentioned above, I would like to bring to your attention the following comments:

(a) The document places very little emphasis on housing and human settlements problems of rural areas. In this respect, it should be mentioned that the Inter-American Development Bank has financed numerous projects, generally related to agricultural development, which contain important elements related to housing, sanitation, potable water, and other such services in rural areas. Considering

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the difficulties of separating out such elements within the entire loan, it is not possible to put this effort in quantitative terms. However, this type of service represents a significant portion of the total Bank loan portfolio, especially in recent years, as more integrated rural development projects have been approved by the Bank.

(b) The report does not mention adequately the assistance given to the member countries by the Bank in the area of basic industries directly related to construction. The Bank has approved specific loans for projects such as cement plants and prefabrication plants for house construction as well as global loans for which significant proportions have been used in construction and construction-related industries.

(c) Table 1 on page 5 of the report indicates that the annual "Total assistance for human settlements" approved by the Bank during the period 1968-1972 was 10 per cent of its total loan portfolio. However, this figure takes into consideration only direct assistance for urban water and sewerage disposal systems and housing and credit institutions which finance housing. The figure does not consider the urban development aspects of projects for urban transportation, telecommunications, electric energy, health, education, industry, and marketing. All of these sectors comprise the elements of an integrated urban development programme.

In reference to the five specific questions which you mentioned in your letter of 20 May 1974, I would like to offer the following response:

1. Most projects approved by the Bank in the areas of housing, sewerage disposal systems, potable water, urban roads and in some cases projects for electric energy, markets, and slaughterhouses, are financed through the Fund for Special Operations. Although these projects are not treated preferentially within the Fund for Special Operations, the regular terms and conditions for the Fund are preferential in themselves, depending upon the developmental status of the country. Attached you will find a copy of the most recent staff memorandum which outlines the terms and conditions of Fund loans for the various groups of countries.

2. With respect to the amount of funds assigned for urban development, the Bank does not have an a priori system for allocating funds by sector, although the Bank has been using an informal formula for development goals by sector in which urban development, as such, was to have received 7 per cent of the total lending for the period 1972-1974. However, considering the multi-sectoral approach to urban development which the Bank has taken, it is difficult to determine if that particular goal is meaningful as a separate sectoral lending goal. During the period 1 January 1961-30 June 1974 about 6.2 per cent of total lending (net of cancellations) has been for housing and urban development and about 9.2 per cent of lending during that period has been for urban water and sewerage disposal projects. However, to determine the total investments by this institution for improvements in the urban space,



or to determine if investments for urban development have increased or decreased, as noted above, some portion of lending in power, transportation, agriculture, communications, health and education would have to be added to the above figures.

3. Within the normal socio-economic criteria which the Bank applied in the evaluation of loan projects, the Bank has been applying several special criteria to housing and urban development projects which are as follows:

(a) The priorities for urban development should be established on the basis of the needs of the population to be served as well as the technical criteria of an adequate urban development plan.

(b) The influence of the design and location of the project on cultural traditions and customs, on the physical environment, and on the availability of raw material should be determined.

(c) The capacity of the beneficiary to pay the mortgage and/or other charges as well as their desire to do so should be considered.

(d) Maximum priority should be assigned to those programmes which have as an immediate objective a direct impact on the lowest income sector of the urban population.

4. The response of this question has already been covered in the first part of my letter. However, let me reiterate that the problems generated by human settlements as well as their impact on the environment are the consequence of numerous causes which affect the entire urban structure. Important among these causes are unemployment and under-employment and deficiencies in urban administration and financing. For this reason, within the present policy of the Bank, increasing emphasis will be placed on the generation of employment and the improvement of planning administration and integrated financing programmes. In this respect, projects in all sectors which affect the urban space will be given such consideration, not only those mentioned in the UNEP report.

5. It is obvious that the external assistance for urban development represents only a small portion of the total requirements in Latin America. Therefore, the available capital could be used effectively in some of the following ways:

(a) Whenever the project affects the structure of employment, the opportunities for employment should be increased to the highest possible level given the availability of capital;

(b) Seed capital should be provided for the improvement of existing financial institutions and, if appropriate, the creation of new ones;

(c) Technical co-operation should be used for the improvement of planning, as well as administrative and institutional procedures and arrangements which affect the urban space.

I hope that the above comments will be useful in the review of the UNEP study. Of course, the urban development staff of the Bank will be available to review these comments with Dr. Guttentag when he visits the Bank.

Please let me know if you require any further assistance.

(Signed) Antonio ORTIZ MENA

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