A Comprehensive Approach to the Formulation of Capital Projects in Developing Countries: Finance and Implementation. Case Study: Edendale, Kwazulu (Housing)

Trevor Paul Davis
A COMPREHENSIVE APPROACH TO THE FORMULATION OF CAPITAL
PROJECTS IN DEVELOPING COUNTRIES: FINANCE AND IMPLEMENTATION
CASE STUDY: EDENDALE, KWAZULU. (HOUSING PROJECT)

by

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INTRODUCTION

Over the past decade the approach to the formulation of capital projects in developing countries has gone through a rapid transformation.

During the same period, banks, government agencies and corporations have found increasingly easy access to the international financial markets and are increasingly enlisting the participation of private sector "management base" organizations in addressing specific capital project formulation in the overall attainment of economic development policy goals.

As a result the modern project manager in developing countries faces a more complex financial world with a greater variety of institutions, investment and off-shore opportunities to choose from in the project formulation process.

Over the past four years I have had the privilege of participating actively in the South African financial and economic development scene. This experience, combined with my participation in various projects in developing countries through a graduate course at the Massachusetts Institute of Technology, convinced me that there was a need to clarify and understand some of the "nuts and bolts" of capital project formulation in developing countries.

In most developing countries, a substantial proportion of the urban population lives and works in the informal sector and the quality of shelter and community facilities in such settlements represents the most tangible evidence of the potential market for housing finance institutions, and implementing agencies.

Formal sector institutions and local and national government agencies typically are slow to respond to the needs of these low income communities, partly because they lack the resources and partly because they have insufficient information.

Bridging the gap between the formal sector and the informal sector, between the modern and the traditional, between rich and poor, is one of the most significant tasks of development. It is also a task that demands new techniques and new institutional structures, not simply a transfer of the techniques and institutions of the industrialized world. Moreover, the development of new approaches and the adaptation of existing ones to bridge these gaps are as much a question of the will to do so as it is a question of the application of one technique or another.

Techniques such as those discussed in the following chapters may be adaptable to various country circumstances, but the basis for making such adaptations depends very critically on an understanding of the techniques and institutional patterns that exist and by further analyzing the techniques adopted in particular case studies.

The text together with case study examples support the model presented by means of the thesis project - Project Edendale: Republic of South Africa.
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A comprehensive approach to the formulation of capital projects in developing countries: finance and implementation.

Case study: Edendale, Kwazulu (housing)

by

Trevor Paul Davis

Submitted to the Department of Architecture on May 6, 1983 in partial fulfillment of the requirements for the Degree of Master of Science in Architecture Studies.

Abstract

This Thesis deals with capital project formulation in developing countries. The objective is to provide guidelines for the formulation of housing development projects, their implementation structures and financial plans in order to improve the project cycle.

This work has been divided into four sections. The sections are complementary, although each is addressed to a specific set of issues. The result of this Thesis is the formulation of a project proposal in the Republic of South Africa.

Chapter 1 Alternative Modes of Development Institutional Analyses and Case Examples

Discusses housing and settlement alternatives, and appropriate financing instruments most applicable to the modes. This section covers site and service development. Discussion concentrates on analysis of the principles behind the formulation of institutional capacity to mobilize savings in low income housing development.

Chapter 2 The Role of Housing in Economic Development

Discusses housing as a capital investment. This section encourages the development of a sound financial infrastructure in support of housing development in developing economies. The detailed discussion of the technical aspects relating to the creation of viable financial institutions in support of housing is discussed in Chapter 1.

Chapter 3 Financing and Implementation — The Project Cycle and Case Studies

Provides a detailed analysis of the policies, actions and plans of three agencies typically involved in the formulation of capital development projects. This section covers how these agencies carry out their activities. The identification, preparation, appraisal and supervision of projects for economic development, particularly low income housing projects in developing countries.
Chapter 4  Project Edendale — KwaZulu: Republic of South Africa provides a project proposal as formulated by the author using the guidelines set out in the preceding text as reference material and with the aid of data collected in the field survey in 1980. A project program formulation format, the results of the analyses of the case studies, forms the framework for the approach to the presentation of the model.

Chapter 5  Case Studies Provides references for the model presented in Chapter 4. This section covers: two existing case studies, a World Bank Project, and a project formulated by an independent group of consultants for a government agency; the analysis of the financial plan and implementation structures, evaluations, and recommendations.

APPENDIX A
• World Bank and International Development Association
• Project Work Financed by AID
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Bibliography

Thesis Supervisor: Horacio Caminos, Arq.
Title: Professor of Architecture
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I wish to extend my thanks and express my gratitude to my father Desmond Davis for his assistance in the field survey and case study, and to my friend, Safadin Niazmand.

I am also indebted to many people who directly or indirectly contributed to this study.

I here express my deep appreciation to Professor Donald Lessard, International Managerial Finance, Sloan School of Management, for his encouragement, and support and guidance.

I thank my parents and brother Ken Davis for their support and encouragement for which I am grateful.

Finally to my father, Chairman of the Board, TD Consulting Group International Limited, who gave me the encouragement, incentive and opportunity to further my career by attending this institution in the continuation of this study.

If there is a dedication to be made, however, it must be to all of those throughout the world who labor to make it possible for families of all nationalities, races, creed, colors and income levels to live in decent shelter.

Trevor Paul Davis
Cambridge
Massachusetts
May, 1983

The definition of low-income countries and middle-income countries varies widely depending on the purpose, issue and institution involved. The Author has used the World Bank, classification, which defined low-income countries generally as those developing countries which has an average per capita income below $400 in 1980. Middle-income countries as those developing countries with per capita income above this level.
The aggregation of management and implementation of capital for investment projects, is a central problem in development and stability of developing countries. The financial and implementing institutions - both private and public - that perform this function are key agencies in the process.

Developing countries in an effort to supplement their normally inefficient and underdeveloped financial institutions include the involvement of larger well developed financial institutions and implementing development agencies.

Project finance and implementation procedures throughout the world suffer from a lack of information about how systems in other countries operate, how they have resolved particular problems and generally what their experience has been over time.

This lack of information is a serious barrier to innovation in project finance and implementation procedures and a deterrent to the establishment of project finance and implementation systems where they have not yet been established.

Important project finance and implementation systems exist in most of the industrialized world and over the past twenty-five years formal project finance and implementation systems have emerged in many third world countries.

No official international bodies such as the International Monetary Fund, the United Nations or the World Bank, collect data separately or comprehensively on the developing world finance and implementation systems. Within these communities it is not yet possible to provide detailed statistical or operational information about all or even most Third World project finance and implementation systems on a current country by country basis.

Nevertheless there is much that can be said about the variety of techniques that are available for the achievement of similar objectives and about the common principles that successful housing finance and implementation systems observe. The discussion of these techniques when applied in Third World circumstances and the general principles of project formulation make up the main content of this thesis.

As is clear from the definition of a project, the complexity of project planning depends on the range of choices the project formulator faces regarding each of the basic characteristics of a project.

The choice may be limited by technical factors or by institutional constraints. In the case of housing in developing economies it is normally the latter that has the greatest bearing on project formulation.

Sometimes the choice among difficult projects is restricted by technical factors. For example, more than one site may need to be considered. In practice, technical restrictions alone should rarely reduce the project selection problem to a trivial back-of-the-envelope exercise.
Sometimes the problem of project selection is narrowed down by institutional restrictions, implicitly or explicitly expressed in the terms of reference of the project formulator; those may or may not represent legitimate noneconomic considerations. For example, the location of a project may be dictated by regional priorities that are given expression by the national policymakers. Most frequently, the policymakers may instruct the project formulator to come up with a project that can be implemented at once, even if postponement of the project to some future date may result in lower average cost of implementation. It may be assumed, however, that the policymaker could change his mind if the cost difference between project or program variants were substantial. It may be argued that one of the tasks of the project planner is to inform the policymaker of the cost implications of institutionally imposed restrictions on project selection.

A Systematic Approach to Project Formulation

The approach to project planning presented in this thesis permits the systematic screening of alternative project configurations and the selection of those which are superior to others relative to a given selection criterion.

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PROJECT FORMULATION ACTIVITY CHART

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CHAPTER 1  ALTERNATIVE MODES OF DEVELOPMENT – COMPATIBLE FINANCIAL INSTRUMENTS – INSTITUTIONAL ANALYSES – CASE EXAMPLES

INTRODUCTION

Governments in developing countries are encouraging the private sector to participate in the formulation of housing finance programs.

Due to the lack of one verifying concept on how to reduce risks attendant to the beneficiaries of indirect and social housing, the private financial sector has a very minimal impact on this area. Private banking institutions and insurance companies concentrate their resources for housing on the upper-income levels which are considered less financially risky. This situation gives greater responsibilities to the governments of developing countries in preparing financial programs for housing.

Governments in developing countries are realizing that sites and services is a viable approach worth considering in effectively spreading the benefits of housing to the low-income levels of the country. The advantages of sites and services has long been validated by social surveys as reflected in the tables of projects approved by AID and the World Bank (Chapter 3).

Today, money in housing is expensive, there is not enough of it being channelled into the housing sector and further in most developing countries there are no existing formal systems that effectively channel sources and other means of financing toward low-income housing.

The approach in this thesis recommends a partnership between government and the private sector in the formulations of viable housing finance programs. More innovative systems should be devised to replace traditional financial instruments and a better understanding gained of the principles of operation of housing finance institutions.

One of the principle constraints to development of site and service projects in developing countries has been the lack of compatible financial institutions in support of the alternative modes of development that may be achieved.

This chapter discusses the principles of housing finance as they relate to the creation of viable institutions in support of the mobilization of savings towards homeownership and the use of innovative financing instruments compatible with the mode of development site and service; how the use of these instruments make it possible to reduce levels of subsidization by governments bodies, and which could reduce further housing costs to a level where the average low-income family could afford to purchase a site and look forward to the progressive development on shelter.

GROWTH STRATEGY

The growth strategy of a newly established housing finance institution differs from that of a mature institution. It is generally inadvisable for a new institution to begin operations with a large variety of savings instruments and loan programs. Rather it should attempt to establish a base of earning assets in the
heart of the potential market. The earnings stream from this solid core of loans can then sustain the growth of net worth as the organization perfects its policies and procedures and initiates new programs to expand its market outward from this central core. (Chapter 5)

The danger inherent in this strategy is that management may become complacent and neglect to exert the dynamic energy required to capture the full potential of its market. This danger must be balanced against the danger of trying to do too many things at once in the early stages of an institution's development.

In establishing goals and objectives and defining realistic measures and standards of performance in the pursuit of these goals and objectives, management can and should specify growth targets in a general plan of action for market expansion. Although actual experience will require modifications in the plan over time, the act of preparing such a plan and its use by management in conjunction with the management information system in monitoring the performance of the institution can serve to establish a management style and pattern that guards against complacency.

Whatever organization form a infrastructure finance system takes in support of housing and infrastructure development, for example a national housing bank, no single aspect of its operations is more likely to determine its success or failure than its ability to mobilize savings. Housing finance institutions, are financial intermediaries. As such, they accept idle funds from one group of people in order to lend them to another group. Consequently, the extent of their lending operations is limited by the amount of idle funds, or savings, they can mobilize, directly or indirectly.

To attract savings, a financial intermediary must provide the holder of idle funds with three key elements:

- **Security:** The institution must be able to assure the holder of idle funds that those funds will be at least as safe and, under prescribed conditions, as accessible in the institution as they would be in the hands of the owner.

- **Reward:** The institution must also offer adequate compensation to the holder of idle funds for the use of those funds. Generally, this compensation takes the form of an interest payment, but it may also take the form of a payment in kind—the performance of financial services, for example, effecting payments to third parties.

- **Access to Credit:** With few exceptions, security and reward are insufficient inducements for successful savings mobilization across a broad
spectrum of the potential market. Because there are exceptions, however, some justification for regarding access to credit as a key element in savings mobilization should be offered.

The forerunners of modern housing finance institutions were, therefore, sensitive to household needs and circumstances because they were themselves organized and developed by households. As community-based organizations, they were able to establish an atmosphere of mutual trust and common purpose that served to mobilize the savings of the community to provide the basis for mortgage lending.

It is in this context of mutual trust and common purpose that access to credit constitutes an important feature of successful savings mobilization.

Modern housing finance institutions recognize the principle of institutional loyalty and actively seek to develop a broad deposit base for their lending activities.

Structuring a savings mobilization program, however, demands an understanding of the three basic motives for holding money balances.

**Transactions balances** are held primarily to bridge the gap between the receipt of income, and the need to effect purchases. Because of the purpose for which they are held, they are of very short maturity.

**Contingency balances** are held with indefinite maturity because the purposes for which they are held relate to expenditures which may occur at some undetermined time in the future.

**Investment balances** tend to be held by wealthier households, who enjoy a surplus of wealth and income beyond their immediate need for comfort and support of their accustomed style of living. These balances seek the highest secure rate of return.

The saving, or market divides between transactions balances, which gravitate toward commercial banks, contingency balances, which are the natural milieu of housing finance institutions, and investment balances, which tend to flow to the highest bidder and constitute a major source of funds for the broader capital market, which are not well developed in developing countries.

This segmentation of markets has a basis in the fundamental economic concept of specialization and division of labor. Briefly, this concept holds that economic efficiency is enhanced when economic entities (individuals, institutions and enterprises) specialize in those activities that each does best, or most efficiently.

**Commercial banks**, by tradition and by predominant function, exist to meet the financial needs of business enterprise. It is only recently, that commercial banks in developed countries have recognized that short-term consumer credit can be a lucrative adjunct to their customary lending activities and have adjusted their policies to render financial services to households of moderate means. In most developing countries, consumer credit has not yet reached a level that the small deposits of individual families and their limited short-term credit needs have been perceived by commercial banks as being worth the promotional effort and the
relatively high administration cost of originating and servicing small, short-term consumer loans. Furthermore, long-term lending of any kind including mortgage lending, is considered by most commercial banking establishments to be beyond the pale of their role and function in the financial system.

- **Savings banks and postal savings system**, which are common in some parts of the developing world, accept savings deposits from families of moderate means, but since many savings banks and a postal savings systems operate as extensions of the government, they address only the first two key elements identified above, they do not typically extend credit to their depositors, rather they generally channel those deposits toward financing the government's budget deficit.

- **Capital market institutions** tend to be facilitators of transactions rather than financial intermediaries. The stock in trade of bond dealers, investment bankers, and stock brokers is to provide their clients with the highest yield commensurate with the level of risk the client is prepared to accept.

Another type of capital market institution that can be especially important to housing finance systems does, however, operate in a manner similar to a financial intermediary. This class of institution is best typified by life insurance companies and pension or retirement funds.

If transactions balances flow principally to commercial banks, if investment balances seek the highest secure rate of return, and if household contingency balances are viewed as the primary source of savings capital for housing finance institutions, the question remains as to the most efficient set of financial instruments for mobilizing those balances.

All debt instruments are dimensioned around three related characteristics—liquidity (or marketability), maturity and yield. The shorter the maturity of an instrument, the higher its liquidity and the lower its yield. The holder of short-term securities sacrifices yield in order to gain liquidity. Conversely, the longer the maturity of a debt instrument, the less generally is its liquidity, and the greater, therefore, is its yield. In sacrificing liquidity and accepting greater potential risk, holders of long-term securities demand higher yields.

Given these principles, investment balances would tend to flow to longer maturities bearing higher yields and transaction balances and contingency balances would tend to flow to shorter maturities.

This tendency defines a special characteristic of housing finance institutions. The purchase or construction of a home represents an initial outlay that is quite large relative to the income stream that is at the disposal of the majority of households. To perform their economic function, housing finance institutions must, therefore, provide long-term credit.
APPROACH TO SAVINGS MOBILIZATION

Both the quantity and quality of low income urban housing are adversely affected by the inadequate availability of funds from financial institutions. Saving may be insufficiently encouraged, and whatever is saved may not be used to stimulate the housing industry. This however need not be the case.

In mobilizing the savings with which to provide long-term credit, housing finance institutions can employ, singly or in combination, four basic approaches:

1. Long-term bonds,
2. Contract savings plans,
3. Voluntary saving and

Long Term Bonds

Raising funds through long-term bond issues in order to finance long-term mortgages has the appeal of approximately matching maturities of the sources and uses of funds within the institution against the potential for illiquidity (and insolvency) in the event that liabilities mature and cannot be replaced before assets mature. Moreover, the institution can estimate its interest rate spreads, hence its profits, far more precisely when this approach is adopted because the relationship between interest expense and interest earnings is largely fixed assuming that borrowing and lending is conducted on roughly the same terms, i.e., fixed rates on both or floating rates on both.

The disadvantage of this most prudent approach is that capital markets in developing countries tend to be very narrow. The investment balances of individuals in developing countries tend to flow directly into equity positions, into the international capital market where hard currency issues are available, or into tangible forms of wealth—jewelry, precious metals, etc. Long-term debt issues denominated in local currency generally do not offer an attractive medium for the limited volume of investment balances available in most developing countries.

The same general conclusions must be reached regarding institutional investment balances, although the potential for tapping these funds is somewhat greater.

Contract Savings Plans

There are two basic forms of contract savings plans that are relevant to housing finance system operations.

1. Entering into a contract with an individual saver
2. Access to funds held by institutional investors.

In the first case, a contract between an individual saver and the financial institution provides that the saver agree to deposit a specified amount over an agreed upon period of time in exchange for the promise of a housing loan from the institution upon satisfaction of the terms of the savings contract. Typically the loan amount is some multiple of the amount of the savings contract. Upon completion of the savings contract, the individual is free to withdraw his accumulated savings, which are usually devoted to the downpayment on the house or the purchase of a building site. Although the saver can typically withdraw his funds prior to completion of
the contract, some form of penalty is invoked by the institution, for example, loss of part or all of the accumulated interest on the account. Some plans require regular installments while others do not.

The principal advantage to the financial institution employing a contract savings plan is the degree of control it can maintain over its lending operations. The contracts provide a relatively certain basis for calculating cash inflows and cash outflows and therefore eliminate much of the uncertainty in financial planning and portfolio management. Satisfactory completion of the savings contract entitles the saver to a mortgage loan. In a world of rapidly inflating building costs, however, he cannot be sure of the type or size of house that that loan will finance.

There are two other disadvantages of this contract savings approach if used by a housing finance institution as its exclusive means of savings mobilization. One is that a supplementary source of funds for supplying loans when they fall due is required. Contract savings plans are mathematically sound, but they depend to a significant if not critical extent on all savings contracts being completed in a timely fashion. The other disadvantage is that each savings account is explicitly tied to a mortgage loan. This rigidity of the pure contract savings systems precludes the mobilization of all the idle fund potentially available to a housing finance institutions.

The second type of contract savings is that employed by life insurance companies and pension funds, including government-sponsored social security trust funds. The purchase of a life insurance policy produces for the life

EXAMPLE CASE STUDIES — APPROACHES TO THE MOBILIZATION OF SAVINGS

* Nigeria — Contract Savings Plan

In its first World Bank-supported urban development project, the Federal Mortgage Bank of Nigeria (FMBN) is initiating loans for the construction and improvement of low-income housing. Part of this loan scheme is to be operated by the Bauchi Branch of the FMBN for the development of the new state capital of Bauchi Town (previously located in the Northeastern State).

The loan amounts will be between US$1,500 and $2,000, based upon household income and plot size. These amounts are considered adequate for shelter of 18 sq. meters, yet are far less than the cheapest loan previously available.

To be eligible for a loan under this scheme, potential participants must demonstrate their ability to pay by establishing savings accounts with the FMBN, starting not less than 10 months prior to the allocation of plots and the granting of loans. Each amount of plots and the granting of loans. Each month during this period, they must deposit an amount corresponding to the probable monthly charges they will face after the loans are granted. Their deposits can eventually be applied as downpayments for the plots, with the remainder to be recovered through monthly mortgage payments over 15 years.

While the effective rate of interest charged will be about 10%, this is substantially below the projected annual inflation rate of about 20%. Consequently, the interest rate may have to be periodically adjusted, but this is a common and acceptable practice in Nigeria.

EXAMPLE CASE STUDIES — APPROACHES TO THE MOBILIZATION OF SAVINGS

* South Korea

The Korean Housing Bank (KHB) utilizes a great variety of sources to accumulate funds, including:

(1) Contract savings accounts. As a part of its program of voluntary deposits, the KHB offers highly attractive 2, 3, and 5 year contract savings plan for low-income persons. These pay tax-exempt interest of between 25.8% and 33.2% annually. However, the accumulated interest, together with the proceeds of the account, are only available at the end of a certain period, during which a participant contracts to make regular deposits. For those desiring a housing loan, there is a special "Housing installment Savings Deposit," under which the participant contracts to make monthly payments to ensure eligibility for a housing loan.
insurance company a long-term, stable, and certain flow of premiums until the policy is paid up, cancelled, or paid by the company upon the occurrence of the event for which the policy was written. Likewise, pension funds receive long-term payment streams leading up to retirement of the individual beneficiary. These payment flows are contractual obligations and so are to be considered contractual saving. More important, they produce a flow of funds that is available for long-term investment.

Long-term home mortgages have most of the characteristics of the type of asset desired by life insurance companies and pension funds. These institutional investors usually prefer not to be involved in the origination and servicing of home mortgages, since they generally have other investment alternatives that bear similar yields with far less administrative cost.

On this basis, institutional investors become primarily important in the secondary mortgage market, where mortgage loans, mortgage participations, and mortgage-backed securities are bought and sold in relatively large blocks, rather than in the primary market, where individual mortgage loans are originated and serviced.

The secondary mortgage market can play an exceptionally important supporting role in a housing finance system based on contractual saving or voluntary savings.

(2) National Housing Bonds. Government-guarantee KHB debentures are available on the centralized capital market. However, the government also requires businesses and individuals to purchase low-yielding (6%) KHB bonds to be eligible for certain transactions such as title registration, building permits, and business licenses.

(3) Housing Lotteries. Proceeds from a national housing lottery provide low-cost loans to families of war dead and the homeless poor.

Insofar as the KHB is able to obtain low-cost or no-cost loans from the government, it makes funds from this source available at lower interest rates than funds source available at lower interest rates than funds from other sources, regardless of the income of the borrower or the nature of the property. However, the KHB subsidizes all loans to homeless borrowers.

Another source of funding has been USAID's Housing Guaranty loans, which has enabled Korea National Housing Corporation in recent years to reach income groups below the 50th percentile. These loans have been used since 1972 to help low-income borrower by making available long-term mortgage financing, repayable over 25 years at non-subsidized market rates. At the same time, financing has become available for small apartments which can be cheaply heated and maintained. Also helpful has been the government's willingness to absorb some of the costs resulting from currency devaluation and its introduction of graduated-rate mortgages under which initial payments are less than half of what they would be under conventional schemes, thereafter rising in conformity with expected income increases.

KHB is currently negotiating a $25 million Housing Guaranty (HG) with USAID to expand the KHB's role as the nation's principal housing finance institution and introduce a lending program suitable to the needs and financial capacity of lower income families. KHB will make construction financing long term mortgage financing and home improvement financing available through sub-loan agreements with private builders. Korea National Housing Corporation, local government entities and credit unions. In order to meet the needs of low-income families, all long-term financing to be made under this program will employ a graduated payment mortgage with a repayment period of not less than 20 years at an interest rate of 14% to 16.5% per annum. Home purchaser downpayments will range from 30-50%.

In case of home improvement, HB funds will finance up to 80% of the total cost of home improvement for a period up to 5 years at an interest rate of 14 to 16.5% per annum.
Voluntary Saving

Housing finance systems that feature voluntary saving employ two principal types of instruments—savings deposits that can be withdrawn either on demand or with short notice and time certificates of deposit that have specific maturities ranging from a few months to several years. Neither type of savings instrument is linked directly to a mortgage loan.

The most important advantage of this approach to savings mobilization is that it appeals to the broadest segment of the potential savings market—household contingency balances.

The most serious disadvantage is that it places the institution in jeopardy of net savings outflows. A housing finance institution's assets are concentrated in long-term mortgage loans which generate stable but slow cash flows, a significant savings outflow threatens the ability of the institution to pay its depositors unless it has strong secondary sources of liquidity, i.e., unless它可以 sell some of its mortgage loans in the secondary mortgage market or borrow against those mortgages through a central monetary authority or both possibility. The first is the use of time certificates of deposits, which have many of the characteristics of medium-term bonds. They have definite maturities and usually can be liquidated by the depositor price to maturity only by incurring substantial interest penalties.

The second protective element, which is the feature that truly distinguishes the voluntary saving approach from all others, is the recognition that contingency

EXAMPLE CASE STUDY – APPROACHES TO THE MOBILIZATION OF SAVINGS.

- El Salvador • Kenya • Chile – Variable Installment Mortgages.

In El Salvador’s Second Urban Development Project (1977), down-payments are made in the form of mutual-help labor which represents about 10% of the development cost. In Kenya’s First Urban Development Project (1975), low-income applicants could get loans on lots already serviced with toilet facilities and materials loans for two rooms. While a downpayment of US$56 was required of all participants, total lot development costs assigned to each resident could be repaid over 30 years. This long amortization period was intended to permit excessive financial strain. In addition, a grace period of five years on building materials loans was allowed to encourage faster building.

Under a recent USAID Housing Investment Guarantee (HIG) Program in Chile, a variable installment mortgage scheme was used to make basic housing available to qualified low and moderate income families. This scheme imposes an initial interest rate of 6%, which means that the average monthly payments are about 12% lower than under conventional arrangements. Every five years, this interest rate is adjusted so that during the final 12 years of the loan period (altogether 28 years), it is 12%. Over the full term, the effective rate of return is equivalent to that of a comparable conventional level-payment mortgage.

Another innovation is the graduated mortgage. The basic assumption underlying graduate mortgage schemes is that the income of participants will increase, enabling them to meet payments that gradually increase. Doubts about this assumption has so far caused such schemes to be rejected by El Salvador’s FSBVM. However, this mechanism is widely accepted by the National Housing Bank of Columbia (ICT). And El Salvador’s Social Fund for Housing, in which regularly employed wage-earners participate, has indicated a willingness to experiment with the idea, based on the statistical increase in minimum salary that has been observed and projected into the future. The Social Fund has also introduced an interest rate based on monthly salaries, ranging from 4% for the lowest-income workers to 9% for the highest.
balances are not necessarily short-term balances. They are balances with indefinite maturity. Bonding approaches and contract savings plans assume that any deposit that can be withdrawn will be withdrawn. Voluntary saving plans assume that, in general, a deposit will be withdrawn only if it becomes necessary for the depositor to do so.

Many housing finance systems employ all three types of savings mobilization approaches outlined above. The dominant system around the world is the voluntary saving approach, because it has the greatest appeal to the broadest segment of the savings market.

Compulsory Savings

Some developing countries employ special payroll taxes as a supplementary means of mobilizing savings for housing finance. Typically, employers are assessed a tax of, say, 1 percent of their gross payroll and the proceeds of this tax on to the consumers of their products in the form of higher prices, this approach may properly be considered compulsory, or "forced," saving.

The advantage of this approach is that it can mobilize relatively large amount of funds in a short period of time and, if continued, can provide a stable flow of resources to a housing finance institution.

The disadvantages, or potential inequities, in this approach are primarily that the tax becomes "regressive" in terms of its benefits. The tax is assumed to be borne by all rich and poor alike, but if long-term mortgage credit flows only to the middle-and upper-income groups, the ultimate effect will be a subsidy of the rich by the poor. For this reason, compulsory saving programs should

**EXAMPLE CASE STUDY — APPROACHES TO THE MOBILIZATION OF SAVINGS.**

**Columbia**

In Cartagena, work banks have been set up to make loans in the form of building materials and tools to residents of slum neighborhoods wishing to upgrade their dwellings but unable to qualify for credit on conventional terms. Even the unemployed are eligible for these loans, thereby encouraging them to work on neighborhood dwellings and thus earn an income. Those dependably repaying these types of loans can eventually get regular credit.

**Tanzania**

In its Second Work Bank-supported National Sites and Service's Project (1977), the Tanzania Housing Bank (THB) has decided to procure legally available materials and maintain adequate stocks at on-site depots. Borrowers are given a choice of taking their loans in cash or vouchers redeemable for specific quantities of cement, corrugated iron sheets, or other building materials. The price of these materials reflects the full cost of purchasing, maintaining, and transporting them.

**The Philippines**

A problem in Tanzania has been distrust on the part of low-income residents in dealing with a bank. This fear has been somewhat diminished in Manila, where potential borrowers of building materials or tools under a Freedom-to-Build Project are required to join small groups consisting of at least five household heads. Group members agree to help one-another in completing their houses and repaying their loans.

**Jamaica**

Jamaica's compulsory savings scheme, under the auspices of the National Housing Trust (NHT), is relatively new, having been established in 1976, but its history of innovation and problem solving is worth mentioning. The NHT derives its funds from worker and employer contributions amounting to 5% of the annual wage bill (2% from individuals and 3% from employers).

Originally, mandatory deposits carried interest at 6-7% and were repayable to individual workers after seven years and to employers after 25 years. Lending was to be on prevailing terms to developers and at 8-10% to individual contributors, but the repayment burden was not to exceed 20% of the borrower's income. The maximum
be carefully constructed to assure that the lending policy of the housing finance institution provides for low-income groups.

An alternative use of compulsory savings, particularly when this approach is employed as a supplementary rather than a primary source of funds, is in the financing of infrastructure—potable water and sanitary sewerage. Benefits from such facilities accrue generally to the entire population of an area and funding for such projects seems almost invariably to be in short supply. On this basis, compulsory savings might be more appropriately directed to ministries of public works or municipalities rather than to housing finance institutions.

Some countries also use compulsory bond purchases as a condition of building permit issue or the granting of a mortgage loan. Such approaches have a dual purpose—to discourage the construction of luxury housing and to provide a special fund for low-income housing or infrastructure. In this mode, the value of the required bond purchase is scaled to the cost of construction, such that for building permits above a certain level of construction cost, bonds equivalent to, say, 15 percent of the cost of construction cost level a bond purchase equivalent to only 1 percent of the construction costs below a certain level, no bond purchase is required as a precondition for issuance of a building permit or a mortgage loan.

PROGRAMMING TO PROMOTE SAVINGS MOBILIZATION

With the exception of compulsory saving, all of the alternative approaches to savings mobilization entail some form of savings promotion program.

amount which the NHT could lend was set at J $20,000 or four times the borrower's annual income, whichever was lower.

A number of difficulties were soon encountered under this scheme, preventing the NHT from lending as much as desired, particularly to low-income families. Consequently, the NHT is in the process of changing some of its operating procedures to make housing more affordable to the low-income population. Measures include:

1. Relaxing affordability criteria (from a 4:1 to a 10:1 house cost to income ratio) and abolishing the maximum loan limit. Greater flexibility is also to be introduced in regard to credit-worthiness and interest rates.

2. Improving arrangements for providing land title documentation so that people will tenures problems can be helped to overcome them.

3. Reducing the cost of borrowing, making the employers' contribution a nonrefundable tax and lowering the interest on the employees' contribution from 7% to 3%.

These innovations appear to have had a favorable effect on NHT's commitments and disbursements. Between December 1977 and August 1978, receivable long-term mortgages doubled, while interim financing jumped from J $1.3 million to J $53.2 million. By 1983, more than J $300 million is to be spent for the construction of 20,000 dwelling units affordable to almost two-thirds of the employed labor force.

EXAMPLE CASE STUDY — APPROACHES TO THE MOBILIZATION OF SAVINGS.

• Brazil — Compulsory Savings

Brazil has been a pioneer in the development of compulsory savings schemes, followed by Mexico, El Salvador, Jamaica, and the Philippines. Since 1967, employee's salaries into an Employment Guaranteed Fund (FTGS) that forms part of the social security system. The Brazilian National Bank (BNH) has been authorized to borrow from the FTGS at 3%, allowing it to extend loans at concessional rates to state and local low-income housing corporations (COHABS). The funds held are protected from inflation by an "index system," under which they are revalued every quarter based on the wholesale price index. BNH also collects voluntary savings from individuals who receive attractive interest rates. These voluntary savings are usually directed into housing downpayments.

BNH is the largest government banking institution in
The principal role of a savings promotion program is to inform families of the benefits that can accrue to them from establishing a financial relationship with a housing finance institution and to motivate them to establish such a relationship by opening a savings account. Developing promotional material that can be disseminated in places of employment, market places, and recreation areas as well as through mass media (newspapers, radio, television) requires a keen sense of the cultural milieu in which the institution operates and of the circumstances and aspirations of the group to whom the material is directed.

Each promotional program will, therefore, be somewhat unique. Most programs appeal to the family's desire for homeownership and stress the advantages of long-term mortgage credit in realizing this desire. But families and individuals have other needs and aspirations that should not be overlooked—education, marriage, acquiring household furnishings. A systemic saving program offers one means of achieving these objectives.

Savings promotion programs may offer other inducements to acquaint potential depositors with the institution. Lotteries are one device that has been used in many developing countries. Often the approach is to have a drawing each three to six months for holders of savings accounts, usually of a specified minimum balance, that have been opened at least two months prior to the drawing. The prizes are usually cash awards. Many of the new accounts will, of course, be closed after the drawing, but it is frequently the case that upwards of 25 percent of the new accounts attracted in this way remain with the institution.

Brazil dedicated to social development. The main task of BNH is to guide, regulate, and control the SFH, comprising Federal and State Savings and Loan Associations. Created in 1966, the Brazilian Savings and Loan system grew to become the fourth largest savings and loans system in the world, and by far the largest in Latin America, with total assets at the end of 1977 of US $14.5 billion equivalent, of which US $11.3 billion in 17.5 million individual savings accounts.

Thus, BNH directs the use of over US $26 billion, 70% of which is for housing, with the balance for sanitation and urban development. In recent years, and increasing attention has been paid to low-income housing, which now accounts for 26% of BNH investments, as against 19% and 14%, respectively, for middle- and upper-income housing. Since 1964, over 1,000,000 families have benefited from this scheme.

To further help low-income families, BNH has developed a complex series of cross-subsidization arrangements. Those participating in lower-income housing programs, particularly site and service ones, pay only 0-3% interest on the indexed principal (compared to 10% under certain higher southern states pay higher interest rates (8%) than residents of poor northeastern states (3%). Another encouragement to the poor is the "fiscal benefit," under which low-income beneficiaries of BNH housing programs receive a rebate equal on the average to 12% of their loan repayments each fiscal year. This rebate is given in the form of funds to COHABs, thereby improving their cash position, and in the form of credit to beneficiaries, thus reducing their repayment burden.
Another device that is employed is that of awarding premiums for new accounts and new deposits. New depositors who open accounts of a specified minimum amount or existing depositors who add a specified amount to their balance receive gifts which may range in value and appeal from ballpoint pens to transistor radios.

The cost of such promotional devices must, of course, be weighed very carefully against their benefits to the institution.

Savings promotion is an essential element of savings mobilization, but in order to mobilize and retain a major share of potential savings, a housing finance institution must not only provide security for the depositors' funds and access to long-term mortgage credit, it must also offer an "adequate" rate of return on its deposits.

What constitutes an "adequate" rate of return is determined by a combination of factors. These are, the rate of interest paid by other financial institutions on comparable deposits, the degree of competition for funds in the savings market, the actual or anticipated rate of inflation, and the effective demand for mortgage credit.

In many developing countries, the competition for household savings is relatively weak. Commercial banks are oriented toward the business community and wealthier families who also have commercial interests. Savings banks, which exist in a number of developing countries, constitute substantial competition for a housing finance system. In this context, the distinguishing feature of a housing finance system is that it offers long-term mortgage credit. Access to such credit then becomes the most significant element in the depositor's decision if the housing finance institution does not also offer a rate of interest that is at least equal to that of the competition. And, as noted above, a housing finance system whose deposit base does not include a significant number of savers who will not plan to borrow must have a strong secondary source of liquidity to assure its continued viability, government funding or grants.

The actual or anticipated rate of inflation has always been treated as a significant factor in the
determination of the rate of interest. As the theory goes, individuals prefer current consumption to future consumption because the future is uncertain. Therefore, in order to induce an individual to forego current consumption, i.e., to save, he must be offered the prospect of being able to consume more in the future than in the present. What this means is that the purchasing power of the funds he saves (lends to someone else) must increase during the period that the funds are lent out. The traditional rule of thumb for this calculation is that the increase in purchasing power should be approximately 2–3 percent a year. Thus, in a world in which prices remained absolutely unchanged, the rate of interest would be approximately 2–3 percent. In a world in which prices are rising at, say, 5 percent a year, money lent at 2 percent would lose 3 percent of its purchasing power every year. To prevent this from happening, the nominal rate of interest would have to be set at 7–8 percent a year.

In practice, a number of factors modify this rigid prescription. Cash assets are important for meeting unforeseen contingencies and must be held in liquid form whatever the rate of price inflation; the convenience of liquidity yields a return in kind in the form of tangible services—safekeeping of the depositor's funds, effecting payments to third parties, keeping records of the depositor's funds, effecting payments to third parties, keeping records of the depositor's financial transactions, etc. Nevertheless, a financial institution cannot ignore the need for paying a rate of interest on deposits that reflects a strong relationship to purchasing power.

The competition is not always an adequate guide to what this rate should be. Potential depositors always have the option of holding tangible assets that also have liquidity characteristics—gold coins and bracelets, even building materials, are but a few examples of tangible assets alternatives. Tangible assets are the traditional forms that saving has taken in developing countries, and it is such patterns that new housing finance systems must overcome to successfully mobilize household savings. The rate of interest offered on deposits is a significant means of accomplishing this.

Since a housing finance institution borrows in order to lend, there is at least one other consideration to be taken into account—the size and strength of the market for its principal product, the long-term mortgage loan.

To pay an "adequate" rate of return on deposits, a housing finance institution must also be able to charge an "adequate" rate for its loans. The institution must be able to cover its operating and administrative costs, including the interest paid on deposits, and provide for additions to its capital reserves. The rate of interest on mortgages must, therefore, be greater than the rate of interest on deposits.

The effective demand for mortgage credit, however, depends on what families are willing and able to pay. Even given the fact that housing is in very short supply relative to the need in virtually all developing countries and given the fact that housing finance systems, where they exist, are virtually the only source of long-term mortgage credit, the terms quoted on mortgage loans will still determine how many families are
able to afford to borrow. The larger the number of such families, the larger the demand for mortgage credit, assuming that developers can deliver housing units that are also affordable by a large number of families in need of housing.

To illustrate, assume that the least expensive house that is being built requires a mortgage of $2,500 and that of 1,000 families. Assuming that each family can devote 25 percent of its income to the mortgage payment. Assume that level-payment mortgages are granted for terms of 25 years on the least expensive ($2,500) housing available.

Clearly, the higher the mortgage interest rate, the fewer are the number of families that can afford even the least expensive housing unit. It then follows, since access to credit is an important element in the success of a housing finance system's savings mobilization efforts, that the broader the market that the system can serve by granting mortgage credit, the larger is likely to be its deposit base.

Interest rate policy, both in terms of the rates paid on deposits and the rates charged for loans, is therefore a key element in savings mobilization. Deposit rates should be the highest rate of return consistent with the competition, both from other financial institutions and from tangible assets, and mortgage rates should be as low as possible to capture the largest segment of the potential savings and lending market.

One means of minimizing the difference between deposit rates and mortgage rates is obviously the careful control of operating and administrative costs.

Another means of expanding the institution's market for savings and for loans is through the use of alternative mortgage instruments.

SECURITY FOR THE LOAN

Financial intermediaries have traditionally based their lending decisions on the estimated market value of the property that the proceeds of the loan are used to acquire. The value of the property is the principal security for the loan; should the borrower fail to repay the loan, the property is forefeited to the lender, who then sells it to recover his capital. In commercial banking terminology, this basis for lending is known as the "commercial lending," or "real bills," doctrine. Its equivalent in housing finance is easily identified in the mortgage contract and in institutional policies that prescribe limits on the remaining useful life of the property, restrict loan-to-value ratios, and require property (or hazard) insurance on the dwelling.

The view that the value of the property is the principal security for the loan is expressed in the standard mortgage instrument in using throughout the world—the fixed-rate, level-payment mortgage. This loan instrument qualifies a borrower on the basis of his current discretionary income and typically sets a limit on the amount of that income that he can prudently devote to amortization of the loan. The amortization schedule provides for periodic (usually monthly) payments of equal amounts throughout the term of the loan, with one position of the payment accruing to interest and the remainder applied, in steadily increasing proportions, to reduce the outstanding principal balance.
The underlying theory supporting this financial instrument is basically static. It assumes - implicitly - that the value of the property will not increase, but rather will depreciate through normal usage in some relatively fixed relationship to the declining principal balance of the loan. It also assumes - implicitly - that the borrower's income will remain unchanged through time. Moreover, on the lender's side is assumed that interest rates will not change appreciably during the life of the loan. None of these assumptions accurately reflect the world in which most of us live today.

Population is increasing in virtually every country in the world as the value of land is rising accordingly. The supply of housing falls far short of housing demand that the market value of existing housing units is increasing as well. Consequently, fixed-rate, level-payment mortgages originated even a short time ago tend quickly to become overcollateralized in terms of the market value of the property.

Furthermore, where long-term housing finance is available, housing is purchased as soon after family formation occurs as it is financially possible to do so. Since family formation takes place relatively early in life, the family's peak earning years are usually in the future; family income tends to grow for an extended period of time, even in the absence of inflation. Bound by the current income criterion at the time of purchase the family typically buys a smaller home than it will need and be able to afford as the family grows and family income increases.

This approach has other implications that should be noted. The current income criterion generally results in a process known as "filtering." Families whose incomes increase significantly over time choose to sell their houses to purchase larger ones, prior to the maturity of their original mortgage loans. The sale of their homes makes available to lower-income families the opportunity to purchase an existing dwelling and enables the housing finance institution to write a new loan on currently prevailing terms. Where this practice is common, effective loan maturities, a fact that makes it possible for housing finance institutions to more closely match the maturity of their assets with that of their liabilities.

Finally, interest rates have, in recent decades, shown a tendency to rise rather than to fluctuate around a flat long-term trend, for the most part due to the persistence of inflation as a world-wide phenomenon. Since most housing finance institutions accept deposits that, at least prospectively or contractually, have a shorter maturity than the mortgage loans they grant with those fund, an increase in short-term interest rates were lower. The broad dimensions of this problem, are illustrated below:

Assume that the institution requires an average yield on its loan portfolio of two percentage points above its average cost of funds to cover operating expenses and to provide for additions to its net worth. Assume now that it receives deposits in $1,000 increments and makes loans in $1,000 increments and that over time short-term interest rates rise from 3 percent to 5 percent to 7 percent. Each increase in short-term rates obliges the institution to pay the new rate on all of its deposits.
(This assumes, of course, that depositors have alternatives and will withdraw their deposits if the higher rate is not paid). If the institution has made fixed-rate mortgages based on its average cost of funds at the time and short-term rates subsequently rise, it will have to increase the interest rate it charges on new mortgage loans more than in proportion to the increase in short-term rates to preserve its two-point spread between the average yield on the loan portfolio and the average cost of funds.

Property value considerations cannot, of course, be ignored, but greater weight can be given in the underwriting decision to the expected future income of the borrower and to the probability of appreciation of the value of the property over time. Similarly, mortgage contracts that contain provisions for changes in the rate of interest in the event of significant changes in the cost of funds to the institution can serve to spread the cost of mortgage financing more equitably over the entire group of borrowers.

**ALTERNATIVE MORTGAGE INSTRUMENTS**

Recognition of these factors has engendered an array of alternative mortgage instruments—the variable-rate mortgage (VRM), the roll over mortgage (ROM), the graduated-payment mortgage (GPM), the blocked-compensating-balance mortgage (BCBM), and the sequentially-escalating mortgage (SEM). Moreover, the potential for combining the concepts of two or more of these instruments creates an even wider set of permutations. What these instruments have in common is that they attempt to deal with the variety of economic circumstances of borrowers and lenders and with changes in those circumstances over time. As such, they are dynamic, rather than station can instruments.

The conventional, fixed-rate, level-payment mortgage is best suited to borrowers who have stable incomes that are sufficient to buy or build complete housing units. As such, it is a mortgage instrument that finds its widest application among salaried, middle-income families. This instrument is not well adapted, however, to the circumstances of low-income families, families with unstable incomes derived from self-employment, or to families whose incomes may presently be low but can be expected to rise in the future. A housing finance institution therefore limits its market by offering only one type of mortgage instrument and restricts its opportunities for savings mobilization from these other types of families, while at the same time impairing access to mortgage credit for a significant segment of the population. It is in this context that the author has dismissed the most compatible financial instruments suitable to low-income housing developments. Though in many cases these innovative tools do not have a recognizable track record, they are discussed as alternatives to be considered in dealing with the problem of housing for low-income variable earning families.
MODES OF DEVELOPMENT DEFINED

Slum and squatter settlement upgrading,
including legalization of tenure and provision of potable water, sewage disposal systems, electricity, roads, and drainage, as needed. Upgrading programs may include home improvement loans to slum dwellers.

Core housing, involving basically a sites and services approach with the addition of a rudimentary housing shell (typically including a bathroom and a small multi-purpose living area) on each lot, designed to be improved and expanded by the owner. Building materials loans may be provided. (Figure 1)

Sites and services, includes the preparation of vacant land for productive shelter use through lot division and installation of water lines, sewage disposal systems, roads, and drainage. This will be followed by self-help home construction by low income buyers of the lots. This type of program may include training programs and building materials loans for self-help builders and small-scale contractors. (Figure 1)

ELEMENTS OF SITES AND SERVICES

Site the residential building plot described by its size, its location in relation to employment and other urban services, and the density of the project.
amenities; both basic such as water and sanitation; and desirable, such as electricity, public lighting, sidewalks, paved roads, gas installations, telephones, etc.

Community facilities

local urban services which act as a link to a larger array of government and private services such as small businesses schools, markets, parks, shops, police and fire protection, religious or cultural centers, and social welfare centers such as clinics, employment agencies or day care and kindergarten schools.

Contractual arrangements

legal relationships between governments and households which establish the tenure debt servicing and land use obligations on a recipient household.

FIGURE 2: Alternative initial levels of services and possible staging.

Types of site and services projects (Figure 2)

1) The subdivision of land alone.
2) The subdivision of land with partial provision of public utilities and community facilities.
3) The subdivision of land with a full complement of public utilities and community facilities.
4) The installation of some combination of public utilities and neighborhood facilities in existing neighborhoods.
The Sequentially Escalating Mortgage

The SEM is designed to make credit available to low-income families who are employing self-help techniques or following an incremental construction program in acquiring decent shelter.

In an attempt to provide adequate, affordable shelter to low-income families, self-help and incremental construction techniques are being employed increasingly in developing countries. These techniques take the form of site and services and expandable core housing projects.

Site and services projects provide only land, portable water, and sanitary sewerage infrastructure; construction of the dwelling unit is the responsibility of the family that acquires the serviced site. This construction is often accomplished through assisted mutual help (or supervised) self-help, and, although loans for the purchase of building materials are frequently provided as part of the initial project, the homeowner is frequently left to his own devices in financing the future expansion of the dwelling unit.

Core housing projects typically provide a one-room, expandable housing unit with enclosed sanitary and cooking facilities on a serviced site. Mortgage financing is usually available to finance the core unit, but, again, arrangements for financing the subsequent expansion of the dwelling are usually left to the homeowner.

At best, the type of credit usually available for
such purpose takes the form of a medium-term or short-term improvement loan and each such loan to finance an increment of construction requires full processing of a loan application. Under this procedure, housing finance institutions incur greater administrative cost relative to the standard interest return and either charge higher interest rates to cover this cost or simply limit the number of home improvement loans they make. The SEM represents an approach to overcoming these problems.

The SEM is inspired to some extent by commercial banking procedures in extending a line of credit. In fact, the SEM can best be viewed as just that - a line of credit against which the borrower can draw after meeting certain predetermined conditions. As described below, these conditions relate principally to the borrower's proven income rather than to property value appraisals.

As applied to an expandable core housing unit, the procedures can be illustrated as follows:

Assume that the core unit is valued at $2,500 and that the borrower is prepared to make a 20 percent downpayment of $500. Expansion of the core unit is expected to cost an additional $3,000 if accomplished within a specific period of time. The lending institution therefore processed a loan application for a line of credit of $5,000 drawn down against which are made to depend upon the borrower's income at the time of the loan is set at say, 25 years. After each draw against the line of credit, the loan is consolidated, so that only one loan payment is made to amortize the series

<table>
<thead>
<tr>
<th>Year</th>
<th>Drawdown Amount (Beginning of Year)</th>
<th>Consolidated Loan Balance (End of Year)</th>
<th>Annual Loan Payment</th>
<th>Borrower's Annual Income (Beginning of Year)</th>
<th>Loan Payment as a % of Annual Income</th>
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of drawdowns. Table 1 provides an illustration of an SEM made at 10 percent interest with a maximum term of 25 years, drawdowns conditioned upon the borrower's income such that no more than 25 percent of income can be devoted to the consolidated loan payment. The borrower's income is assumed to grow at 8 percent per year.

The illustration shown in Table 1 indicates that under these assumptions, the line of credit can be fully drawn down by the beginning of the 12th year and that the borrower's annual payments will peak at $584.75. This is only slightly above the annual payment $550.84 on a single $5,000 mortgage at 10 percent for 25 years assuming an annual compounding. More important, this annual payment is substantially below the combined peak annual payment of $708 required to amortize one 10 percent, 25-year mortgage of $2,000 and 10 percent, 10-year home improvement loans of $500 each.

Moreover, the costs of origination to the lending institution are earned when extending a single line of credit under an SEM compared to originating one mortgage and six home improvement loans.

THE GRADUATED-PAYMENT MORTGAGE (GPM)

The GPM constitutes another alternative mortgage instrument available to housing finance institutions for expansion of their market and their deposit base. This instrument is addressed primarily to young families whose peak earning years lie in the future.

THE BLOCKED-COMPENSATING-BALANCE MORTGAGE (BCBM)

The BCBM is a mortgage instrument designed to reduce the risk of lending to families with unstable incomes and to lower the administrative cost of servicing loans paid on an irregular basis.
CHAPTER 2
THE ROLE OF HOUSING IN ECONOMIC DEVELOPMENT

It is frequently argued that housing is a social investment or a consumption good, rather than a capital good, even though, like other capital goods, housing generates a long lived stream of services. This view in the past relegated housing investment to a second or third priority in economic development strategies and has encouraged the use of techniques of shelter finance that dilute the positive economic effects that can be derived from housing investment.

The broad outline of economic development theory that has conditioned the development plans of most Third World countries is essentially as follows.

● Developing countries were viewed as being constrained by small markets, defined by the limited purchasing power of a relatively small number of potential consumers. Given the population, purchasing power had to be increased by making optimal use of available resources to produce for more affluent markets; in short, this view prescribed an export strategy for development.

● Given further that surplus labor was to be found in the rural sector, an improvement in the efficiency of resource allocation could be realized by inducing rural-to-urban migration, or, more precisely, migration of labor from agricultural to industrial pursuits. Even though imports of capital would be required, the net gains from a more efficient allocation of resources of the exploitation of natural resources were generally estimated to be sufficient to produce the increases in income needed to provide both the saving for domestic investment and the purchasing power required for expansion of the domestic market.

Any theory or grand design must inevitably fail to address some issues, and the now classical theory of economic development is no exception to this rule.

● The export-promotion, import-substitution prescription for economic development is essentially a theory of markets and price mechanisms that, in its need to isolate and illuminate the broad thrust of its concepts, must necessarily abstract from the mass of institutional detail of how particular processes and mechanisms are put in place and are managed to produce the predicted results. Yet it is within this mass of detail that the secrets to the successful development of the domestic economy are to be found.

● The existence and effectiveness of money and capital markets, which constitute the institutionalized saving investment transfer mechanism, cannot safely be assumed. The presence of a market potential is not sufficient to assure the establishment of a market; entrepreneurship is required to recognize the potential, marketing must educate and promote the approach to realizing that potential, and management must assure the effective use of resources devoted to the activity. Put differently, without effective financial institutions to mobilize savings and channel financial resources into investment activities, an increase in income may leave income recipients with little choice other than to consume more or to hold their savings in nonproductive forms. Hence, a sustained expansion of domestic productive capability cannot be assured without the development of the financial institutions that preside over the saving-investment transfer mechanism.
None of the foregoing discussion applies exclusively to housing investment or to housing finance, but it is relevant to those topics for it established a basis for understanding why housing and housing finance have, until recently, been neglected elements of development strategy.

Commercial banks and commercial banking activity have been present in developing countries at least since the European colonial period. Owing partly to commercial banking tradition and partly to their role in international finance and trade during the colonial period, commercial banks primarily serve the financial needs of commerce. Supplying venture capital has typically been the role of merchant or investment bankers, who in the colonial period tended to operate from Europe, not from the colonies themselves. Furthermore, except for a restricted clientele, commercial banks in most of the developing world did not then nor do they now serve the financial needs of households. In the post-colonial era, then, the financial sectors of most developing countries consisted only of a commercial banking system; the international lending agencies and multinational corporations replaced the merchant bankers in supplying venture capital, and the household sector remained essentially as it had been, its financial needs met only through informal and traditional mutual aid schemes and the local money-lenders.

Early efforts to supplement foreign venture capital through the establishment of both industrial and generalized development banks did not live up to expectations, largely because

- they attempted to lend a concessional interest rates, and
- failing in their savings mobilization efforts, they never succeeded in breaking their dependence on limited government budget resources and loans from the international lending agencies.

The financial sectors of developing countries thus did not broaden appreciably beyond the commercial banking sector; savings growth and domestic financing of domestic investment continued to lag behind the growth of income.

In this process, the household sector was overlooked as a significant source of domestic saving. This was at least in part due to the postulate of development theory that the vast majority of individual families were too poor to save and in part to the fact that development strategy inveighed against the allocation of domestic resources to household investment. Given the view, that credit for housing constituted the financing of consumption expenditures that, should be deferred until self-sustaining economic growth had been achieved, little or no encouragement was provided for the development of household-oriented financial institutions.

Consequently, individual families remained then, as they do today, the largest source of untapped savings in a developing economy.

Pursuit of the export-promotion, import substitution strategy did increase income and did induce a migration of surplus labor from the rural to the urban sector. This migration, however, together, with natural population increase, created growing housing needs.
These needs were manifested in overcrowded, unsanitary living conditions and the sprawl of squatter settlements in urban centers throughout most of the developing world.

Few governments failed to recognize the need, but most, still convinced that their people were too poor to save or to repay housing loans, responded with heavily subsidized public housing projects. With few exceptions, the required capital expenditures quickly out-stripped government budget allocations without significantly reducing housing need or benefiting a significant number of families.

**FEATURES OF HOUSING INVESTMENT**

- Within the last few years, housing needs and the recognition that quality of life considerations must have a place in development strategies have compelled more and more Third World countries to raise the priority accorded to housing investment in their development planning. For economic, as well as social, reasons, this modification of the traditional developmental strategy can contribute positively and significantly to the development of the domestic economy.

- Construction in general, but housing construction in particular, is a low-technology, labor intensive activity that can readily absorb unskilled and semiskilled labor. Additionally, the capital requirements for new enterprises are relatively low, which assures ease of entry for local firms.

- Furthermore, housing construction in most countries has a low import component; the use of domestically produced building materials contains within the domestic economy the stimulus derived from investment. The linkage of housing investment to the building materials industries therefore promotes a further expansion of the domestic economy.

- These industries, for the most part, also employ low technology, making capital requirements small and providing employment opportunities for unskilled and semiskilled labor, as well as facilitating entry into the market for local firms.

- Once occupied, new housing promotes an expansion of the domestic market for household furnishings and serves to shift consumer demand away from many imported commodities toward domestically produced goods and services.

These features of housing investment typically are not, however, the ones that prompt Third World countries to raise the priority on housing in their development planning. Rural-to-urban migration and natural population increase, without concomitant increases in the stock of housing, have made most urban areas in the developing world overcrowded and inadequately supplied with potable water and sanitary sewerage. Public facilities of all kinds-transportation systems, health clinics, schools, and recreation areas-have become strained beyond capacity. And while it may seem alarmist to suggest that the situation has reached crisis proportions in many countries, the need for an increased allocation of resources to community development has nevertheless become evident to most.
A major concern and frustration remains the enormous cost of dealing adequately with these needs. Government budgets are almost invariably so assailed by competing demands that officials are unable to see how any significant amount of additional resources can be channeled into shelter and community facilities, for most continue under the impression that the vast majority of their citizens are too poor to afford decent shelter and too poor to afford to user charges for public facilities that would be necessary to make such operations financially viable. On this view, substantial subsidies would have to be granted from government budgets to provide the physical facilities that are such an integral part of the quality of life for the community.

There is hopeful evidence to the contrary, however, evidence that suggests that the capacity for self-help and mutual aid has been underestimated, evidence that suggests that what is lacking is the institutional infrastructure for the mobilization and management of resources directed toward the creation of viable communities. In the Exhibit Case studies new institutions, financing and implementing agencies were able to bring affordable housing to almost 80% of low income families using innovative instruments.

In squatter settlements throughout the developing world, many individual families construct their own dwellings, rudimentary though they may be, largely from current income. In many cases, small contractors provide the expertise for constructing the structural elements of the dwelling and some even offer short-term credit arrangements. Where such credit is not available, mutual aid financing schemes emerge or families fall back upon the urban counterpart of the village moneylender. Rough calculations of the effective interest rates paid in most cases for such short-term credit far exceed the rates that would be required by formalized financial institutions if such institutions existed or served these clients.

Similarly, charges paid for potable water supplied by private vendors generally exceed by a municipal water authority to recover its cost of operations and maintenance and to provide for growth of capital (or amortization of debt) to expand the potable water system.

The point is that the capacity to pay for improved shelter and municipal service exists. The main problems that must be overcome are those of initial capitalization of the time-rate of payment. There are solutions to these problems.

It has been noted above that households remain the largest untapped source of savings in developing countries, largely because financial institutions have not emerged to provide financial services to individual families. In those countries where housing finance systems have been developed, substantial success in savings mobilization has been achieved. Using these savings as the capital base for the extension of long-term loans for housing, they have substantially lowered the time-rate of payment to broaden the market for housing and, thereby, to facilitate the realization of the positive economic benefits to be derived from housing investment.
An especially attractive feature of housing finance systems is that fact that they mobilize new savings, rather than divert existing savings from other institutions, by appealing to that sector of the economy—the household sector—that is not being served adequately. Indeed, in the vast majority of cases, the financial relationship that is established between a household and a housing finance institution will be the first such experience the family will have with a financial institution. In this way, the introduction of a housing finance system serves the general cause of promoting financial development by increasing financial sophistication, a precondition for the successful establishment of broadly based domestic money and capital markets.

In summary, housing investment can legitimately be included among those activities at the leading edge of a country's development efforts for a number of purely economic reasons:

- Housing investment typically has a low import component, which assures that the economic stimulus provided by the expenditure remains within the domestic economy.
- Housing construction is a low-technology, labor-intensive activity that offers employment for unskilled and semiskilled labor and ease of entry into the market for local firms.
- Housing investment is linked to other domestic industries, such as building materials and household furnishings, that also use low technology and afford employment opportunity for unskilled and semiskilled labor and ease of entry by domestic firms.
- Housing finance systems mobilize new savings from that sector of the economy—the household sector—that is least adequately served by other financial institutions, so that the capital used to finance housing investment does not represent a diversion of funds from industrial investment.

PROBLEMS AND PROSPECTS FACED BY THE DEVELOPING COUNTRIES

Low income countries face a number of constraints that cannot be easily or rapidly remedied and which adversely affect their capacity for economic growth.

First, physical infrastructure is typically inadequate.

Second, institutional factors loom large as constraints to more rapid growth. Institutions are needed in order to deal with the problems of analyzing, formulating, and implementing policies; mobilizing and allocating resources; and adjusting to difficult and uncertain economic circumstances. Particularly in low-income countries, institutions are frequently either underdeveloped or ineffective in absorbing and utilizing resource transfers. Developing countries need not only resources, but improvements in their capacity to utilize resources effectively.

Third, development of institutions depends in turn partly on human resources—on healthy, adequately trained, productive people.

Fourth, in low-income countries where there is neither much accumulated capital nor a favorable human resource base, natural resource availability represents
an important determinant of production possibilities and growth prospects.

Finally, these constraints are often compounded by the economic policies pursued by individual developing countries which create distortions within the economy and hinder the efficient use of the resources that are available.

THE CURRENT ECONOMIC SITUATION OF DEVELOPING COUNTRIES

The events of the 1970s -- among them the dramatic increases in energy prices in 1973/74 and 1979/80 have created severe economic dislocations in both the developed and developing countries and exacerbated the already difficult process of development.

For most oil-importing developing countries the year 1982, while somewhat less turbulent and volatile economically than the preceding two years, nonetheless was a year of relatively slow or declining economic growth, large and increasing balance of payments deficits and external debt, declining terms of trade and rapid inflation. Because many of the factors that led to this difficult situation are expected to continue into 1982, little improvement is expected in the economic performance of the oil-importing developing countries over the near term.

The current account deficit of the non-oil developing countries rose in 1981 to an estimated $98 billion. This compares to $82 billion in 1980 and only $38 billion in 1978. The rising deficit derived from several factors, most notably rising import costs, reflecting the high level of worldwide inflation; sluggish export demand; and rising debt service costs.

Inflation has created serious problems for both the developed and developing countries, problems which must be addressed in order to correct the costly economic distortions which inflation has created and to reestablish a stable long-term growth performance. The seriousness of the problem can be seen in the fact that the average inflation rate of the non-oil developing countries was close to 20% in both 1980 and 1981, even when the large hyper-inflation countries of Brazil and Argentina are excluded. (Their inclusion would boost the average to over 50%.)

In 1980 and 1981 the industrial countries' economies grew at little more than 1%, down substantially from the 4% average growth achieved during the 1976-1979 period. This slow economic growth resulted in a significantly reduced demand for the exports of developing countries.

These events amply demonstrate the importance to the developing countries, particularly the middle-income countries which are more integrally involved in the international economy, of healthy economic performance in the industrial countries. The effort to achieve renewed economic growth with stability in the United States represents a major component of the effort to assist the developing world.

In financing their large current account deficits the developing countries have accumulated a rapidly rising level of debt.
The rapid buildup of external debt service obligations by some developing countries, particularly to international banks, has markedly shifted the composition of their external debt, created a more complex task of debt management than that which followed the first oil crisis, and made the debt situation of some developing countries far more worrisome.

These factors have coincided with a reduced economic growth rate in the developing countries. The stunted growth rate of the non-oil exporting developing countries in 1981 was only 3.5%. By comparison, the average annual rate during 1970-1978 was 5.8%. With an average population growth rate in the developing world of 2.3%, per capita income grew in 1981 by little more than 1%.

These average figures on the economic performance of all non-oil developing countries clearly mask differences between individual countries and groups of countries, particularly between the low-income countries and the rest of the developing world.

Prospects for the 1980s are also considerably worse for the low-income countries. The World Bank estimates that under very favorable assumptions concerning developed country growth, levels of economic assistance and policy reform action, the growth of per capita income in the low-income countries will average less than 2%. Under less favorable assumptions the estimated annual growth will be only 0.7% and the African countries would experience an actual decline of 1% a year. For the middle-income countries the comparable projections are 3.4% per annum under the favorable assumptions and 2.1% under the less favorable. The differences in these estimates reflect, among other things, the human and economic resources available to these countries, the effect of external factors on their economies, and their capacities for adjustment. In the final analysis, the economic performance of the individual developing country is primarily dependent on its own policies and actions. The developing nations will need to adopt domestic economic reforms which encourage savings, investment and output.

Such policy actions will not only increase the economic potential and performance of the developing country but also the effectiveness of external assistance. External assistance can play a critical catalytic role by assisting in the development of a country's catalytic role by assisting in the development of a country's institutional and human capacity to solve its own problems, addressing key development issues or bottlenecks, and encouraging economic policy reforms.

The agencies typically involved in infrastructure and housing projects as discussed in the preceding text are playing a central role in encouraging economic policy reform and assisting (Case Studies Chapter 5) the developing countries in their adjustment efforts.

As discussed in Chapter 2 the World Bank and United States Agency for International Development (Housing Guaranty Program) has significantly increased its capacity for respond to the economic dislocating and, payments problems faced by the developing world, not only by an increase in resources but also through an increased flexibility in the use of its various instruments.

Both the World Bank and AID are actively involved in advising and assisting in the reform and adjustment
process through their traditional encouragement of appropriate policies in the context of their project and sector work, and also through their adjustment loans.

DEVELOPMENT POLICY ISSUES

In the previous section, it was indicated that a country's policies have a major bearing on its prospects for development.

The policy measures that directly influence the pace and pattern of development fall into three distinct but interrelated areas. First, policies concerning direct production of goods and services by the public sector. Second, policies affecting prices and incentives to private producers and suppliers, and demand by consumers. Third, policies such as fiscal, monetary and credit policies that influence the mobilization of resources, particularly financial resources for development, as well as the allocation of these resources between the public and private sectors.

Governments can be more or less active in each of these areas, reflecting broad policy decisions about the role of market forces and private enterprise in their development. There is mounting evidence that many developing countries' public sectors have become too large, active and interventionist, at considerable costs in terms of efficiency and growth.

IN SUMMARY

In the preceding text of Chapter Two the author has explained why cooperation with developing countries in the formulation of economic policy is essential, and summarized the international development problems and prospects of these countries. Housing and physical infrastructure including viable supportive financial institutions was relegated in priority to be included among those activities pursued by a country.

In the preceding chapter the author discussed specific development assistance programs which pursue the broadening of economic opportunity through a focus on the housing sector, a sector which most directly promotes equitable growth.
CHAPTER 3 FINANCING AND IMPLEMENTATION
— THE PROJECT CYCLE

INTRODUCTION

As we enter the decade of the Eighties, it is apparent that we are embarking on a period of substantial growth particularly in the urban sector in developing countries (Chapter 2: The Role of Housing in Economic Development.)

Probably no one factor is as important as financing in facilitating the growth that everyone realizes must and will take place. Financing from private sources (Table 2.1/2.2), such as commercial banks, has been and will continue to be the principal means by which needs for financing are realized, and the past few years have been marked by a substantial expansion in the foreign activities of these banks. If this trend is to continue, however, there is a key role for governmental sources (both national and multinational) to play, since such sources (Table 2.1/2.2) can assist in providing or underwriting the vast sums of money that will be required and since they are in the best position to deal with the political uncertainties that accompany trade and investment activities.

This chapter deals with the programs of the national and multinational institutions, primarily located in Washington, which provide financial and other assistance, to less developed countries.

While one or two of these agencies, notably the World Bank and Housing Guaranty (U.S. Agency for...
International Development) have been active for almost two decades or more, the field of government assistance is still relatively new and also fast-growing.

The time has come, therefore, when any business concern seeking to expand into other countries, any consulting firm wishing to participate in the growth which will take place, or any country seeking to secure the funds that it requires for its economic and social development, must be knowledgeable on the programs of assistance offered by the Official Agencies.

The two major agencies involved in programs of assistance in capital project development financing particularly housing and infrastructure development are described in this chapter.*

The Study of particular cases and the project cycle resulted in a project formulation format (Chapter 4).

GROWTH OF THE AGENCIES

Foremost among the reasons for the increase in the number of official agencies and programs created to provide financial assistance for international development was the emergence of the newly independent countries upon the world scene. A revolution of "rising expectations" swept over these countries once they became independent; they knew that it was possible in today's world to defeat some of the forces of poverty and disease which had plagued them through their history and they were impatient to secure some of the benefits of modern civilization. The industrialized nations of the world responded to this revolution for a variety of altruistic, political, and commercial reasons by making financial assistance available for the economic and social development of these and other "less developed" countries.

The reasons behind the creation of separate institutions are more obscure; the best explanation is that they were created to respond to what were felt to be particular needs which could best be served separately instead of in conjunction with existing institutions. One of the principal factors underlying the creation of the Inter-American Development Bank (IDB) was the basic desire of the Latin Americans for a financial institution of their own.

The International Development Association and the Development Loan program of the Agency for International Development (AID) were created to respond to the development needs of countries that would otherwise, because of balance-of-payments difficulties, find it almost impossible to finance any development program of substance.

ASSISTANCE TO GOVERNMENTS AND OTHER PUBLIC ENTITIES

The principal activity of the agencies described in this chapter consists of making loans to foreign governments or other public entities. The long-term development financing provided by these institutions cannot (at least to any great extent) be duplicated.

elsewhere in the world and represents a prime source of capital, particularly for the less developed countries.

A foreign government, faced with the problem of securing financing for development projects will generally be most interested in adapting its requests to the policies and procedures of the various agencies so as to be able to obtain the maximum amount of financing likely to become available to it.

Financing for a particular project may well be obtainable from more than one agency, but the agencies lending policies do vary and governments and consultants are well advised to be aware of their significant differences.

All of the agencies are interested in financing projects that further the economic development of a country, but there is no such unanimity of opinion concerning the financing of projects falling more within the sphere of social development than economic, such as housing, land resettlement, and sanitation.

The agencies described in this chapter perform a number of service functions in addition to their direct lending activities. Being interested in the process of economic and social development they will counsel and advise foreign governments seeking their advice as to the manner in which development can best proceed in their countries.

In addition, almost all agencies have programs for Technical and Financial, to making loans possible, AID the the World Bank will also to some extent make technical and financial assistance available for the conduct of feasibility surveys.

ELIGIBILITY OF COUNTRY FOR FINANCIAL ASSISTANCE

The receptivity of an agency to a loan application by a country depends on a number of factors—some political, some economic, and some of a more formal nature, such as the requirement of the international agencies that a country must be a member of the agency before becoming eligible for the receipt of assistance. The IDB, for example, will lend only for projects located in its member countries in Latin America.

The most important factor distinguishing the various countries is whether they fall within the category known as "developed" or the category known as the "less developed." The developed countries (for all practical purposes consisting of Canada, the countries of Western Europe, Japan, Australia, New Zealand, and South Africa) may be eligible for assistance from the Eximbank or the World Bank. The Eximbank was formed to assist, support, and encourage the export trade of the United States and will provide financing for export-trade transactions or projects in the developed as well as the less developed countries to the extent that private financing is not available. The World Bank is interested in assisting in the development of its member countries and will lend for projects in countries of either category, although most of its lending activity in recent years has taken place in the less developed countries.

The less developed countries, are eligible for assistance from all agencies, although the amount of
assistance will vary as to countries, and some countries may not receive any assistance. The Eximbank and the World Bank will lend in these countries, although the total amount of the assistance they will make available to a country will tend to vary in accordance with the latter's ability to service foreign exchange debt, as these institutions make their loans repayable in foreign exchange over a period of time related to the life of the project. The other agencies--AID, IDA, and IDB--lend only for projects or programs in the less developed countries. The amount of assistance they will make available to a country will vary in accordance with political and economic factors, one of the most significant being the extent to which the country is mobilizing its own resources for development. The lending activities of AID, are substantially conditioned on the willingness of a recipient country to prepare sufficient development programs and to take effective "self-help" measures, such as land and tax reform.

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<th>PRIMARY STAGES IN FORMULATION</th>
<th>WORLD BANK</th>
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\*U.S. Procured Projects only.
INTRODUCTION

The world bank lends for development projects. The Bank's central business is the financing of specific projects, carefully selected and prepared, thoroughly appraised and closely supervised.

This emphasis on project lending derives from the Articles of Agreement of the Bank, which provide that loans made by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction and development.

Project lending is intended to ensure that Bank funds are invested in sound, productive projects with the purpose of contributing both to the borrowing country's capacity to repay and to the development of its economy. It is the coincidence of these two purposes that the Bank functions as an international financial institution merge with those that it has increasingly assumed as a development institution.

The bank and IDA deal with a relatively small number of project operations. These projects are, characteristically, large, usually costing in the millions of dollars. No two projects are alike; each has its own particular history and project lending has to be tailor made to fit each one of them.

Techniques and procedures of project lending are continually being re-examined and revised.

This work as it is carried out in the Banks, is a continuing and self-sustaining cycle of activity which runs through four principle stages.

The First: is identification of the project.

The Second: its preparation, once identified, to the stage where it is ready for appraisal;

The Third: is appraisal of the project and, assuming the appraisal is affirmative, the negotiation and signature of a loan for it; and

The fourth is the supervision of the project in its construction and operating stages to make sure it achieves its objective.

Project study examples concentrating on the Formulation of Financing Plan's for the project as a whole and the formulation of financing plans for the users are discussed in detail to provide a basis for the formulation of the model project (Chapter 4) in accordance with the principles of the project cycle of a finance source as the World Bank. The project cycles of one other Government Agencies is set out in the following text to establish uniformity and consistency in project formulation formats (Chapter 4) which if adhered to is expected result in greater success of securing project finance.

The IDA is the self loan associate of the World Bank. Loans are made by the Bank at an annual interest rate which is currently 7%; IDA offers credits on concessionary terms of 50 years with a charge of 3/4% per year.

Appendix A: Case Study Examples — Project Korea, Project El Salvador.

Chapter 4: Project Edendale — KwaZulu: Republic of South Africa.
The Housing Guaranty Program was developed as part of the U.S. Foreign Assistance program to respond to the enormous and rapidly-mounting world-wide shortage of adequate shelter. This program is A.I.D.'s principal instrument for helping developing nations address their shelter problems. Since its beginning, more than $1 billion in Housing Guaranty loans have been authorized for 128 projects in 35 nations and to three regional institutions.

**DIRECT LOANS/GUARANTIES**

This is a unique A.I.D. activity in which U.S. private sector investors, or lenders, provide long-term financing for low-income housing programs in developing countries. The United States Government underwrites these transactions through the provision of a full faith and credit guaranty that will compensate U.S. investors for losses. Maximum interest rates to investors are established by A.I.D. and reflect the current cost of money in the U.S. mortgage market.

A.I.D. charges a fee for its guaranty to cover operating expenses and to provide a reserve against claim losses. As a result the program is virtually self-sufficient.

In its early years the program focused on introducing new building technologies and modern management practices to developing countries. In the mid-1960s the focus shifted to creating and strengthening housing finance institutions, particularly the savings and bank institutions in Latin America.

Another major change in emphasis occurred in 1973 when the Agency reformulated its shelter strategy. The new strategy, backed by legislative changes in 1975, called for Housing Guaranty resources to be used almost exclusively to finance shelter for lower-income families. Since 1974, all Housing Guaranty projects authorized by A.I.D. have been designed for this income group.

Less-developed countries (LDCs) may request a Housing Guaranty project. Upon receiving a request, the Office of Housing, the U.S.A.I.D. Mission and the requesting country jointly participate in project identification and begin the process leading to project authorization and implementation.

In the development stage of the project, the host country is encouraged to take a broader look at its housing problems, particularly those of low-income households, and to develop new long-range shelter policies based on sound cost-recovery strategies.

**THE PROJECT CYCLE**

The Housing Guaranty Program involves collaboration with a local housing institution, such as a national housing authority, a central savings and loan system, a national cooperative organization or similar public or non-profit private institution acting as borrower.
Following a request from the country, A.I.D. working with host country officials will prepare a shelter sector assessment to better understand the existing situation. Within the context of this analysis, A.I.D. reviews with the borrower the type of housing program to be financed and the institutional context within which it will be undertaken. A.I.D.'s concerns at this stage include:

(a) the progress which has been made towards the development of a national housing policy; (b) the contribution which the program will make towards the creation or strengthening of institutions needed to meet national housing needs; (c) the capacity of the construction industry to supply housing over a given period; (d) the effective demand for housing at the agreed-upon price level; and (e) the ability of the beneficiaries to repay their loans and the ability of the economy to make the dollar repayment.

The borrower then seeks the most favorable terms available in the U.S. capital market for a U.S. Government guarantied loan. The U.S. investor and the borrower agree on the terms of the long-term financing (within interest rate ceilings set by A.I.D. in accordance with the law which reflect the prevailing interest rate for long-term mortgages in the United States) and sign agreements incorporating these terms. At the same time, A.I.D. and the borrower enter into agreements defining the use of the loan. A typical Housing Guaranty loan is disbursed over a period of two years and is repaid during a period of up to 30 years. When a mutually agreeable program has been developed, A.I.D. offers to guaranty repayment to any eligible U.S. investor who makes a loan for this program.

In essence, Housing Guaranty loans can be viewed as two separate transactions. The first provides needed foreign exchange to a government at below market rates. Little of this will be utilized for the construction of low cost housing, which is primarily a local currency investment. The second transaction occurs when the government provides the local currency at a rate which reflects local conditions. The government thus pays the cost of borrowing internationally for the foreign currency it needs, and the project beneficiary pays the going domestic interest rate for local currency which is in fact used to build his house. It is this view which has motivated those who have utilized the Housing Guaranty authority over the past years.
The Overseas Private Investment Corporation fosters economic development through encouragement to long-term US private investment in some 90 basically less-developed countries and areas in Latin America, Asia, Africa and Europe. It does this by providing qualified US investors (including financial institutions) with political risk insurance, financial assistance and investment counselling.

OPIC's Role: By providing broad insurance coverages designed to protect US Companies from the political risks involved in investment abroad, OPIC removes one of the most significant deterrent for investment in the developing economies of the Third World. In addition OPIC's financial programs offer a means for helping and encouraging smaller companies to participate in the growth opportunities of the high potential Third World Markets.

The increased use by American businesses of OPIC's insurance and financial programs demonstrates that the private sector is willing to increase its involvement in the rapidly growing Third World Markets through direct private investment.

Greater private sector involvement in the developing world is based upon a number of compelling factors:

- The urgent development needs of the more than 100 Third World nations can no longer be met through concessional aid alone. The infusion of private capital by concerned business, and lasting means for transferring technology, creating new jobs and providing the keys for a better quality of life for millions of people throughout the world.
- Third World countries represent the fastest growing market in the world and today account for 39% of total U.S. Exports. The continued growth of the U.S. economy will depend to a large extent on how effectively competition is managed for these markets in the future.

The process of investing U.S. private sector capital in Third World Countries is very definitely a two way street, with benefits accruing to both the United States and the host country. For the U.S. private sector, there is the creation of new jobs and the establishment of new sources for the vitally needed materials and the opening of new export markets for U.S. goods and services. From the host countries standpoint, the development impact is critical as new jobs and products are created, new technology and management skills are transferred and dormant economies are stimulated thereby providing improved standards of living.

**PROJECT CYCLE - US PROCURED PROJECTS**

1 INVESTMENT MISSIONS

EXAMINATION OF INVESTMENT POSSIBILITIES

2 FEASIBILITY STUDIES

RISK SHARING SURVEY PROGRAM TO FIND AND CONFIRM THE VIABILITY OF PROJECTS

3 DIRECT LOANS/ GUARANTEES

4 INSURANCE

5 TRAINING

6 PROJECT IMPLEMENTATION

7 PROJECT COMPLETED
IN SUMMARY

The growth of viable institutions, informal as well as formal, private as well as public, is essential to the success of any development effort. Experience in many countries and sectors suggests that only when significant institutional development has occurred is it possible to provide services in a sustained way. Currently, insufficient development of such institutions represents a serious bottleneck, especially in Africa.

A.I.D. and World Bank have an important tradition of helping to create and strengthen institutional capacity throughout the developing world. The new emphasis in A.I.D. and World Bank programs involves a shift in the mix of development assistance activities in favor of institution building, rather than simply providing financing for ongoing project activities.

Institution building activities include training to upgrade technical and managerial skills, technical assistance to establish or refine organizational objectives and structures, to streamline staffing procedures, and to build in appropriate incentives; capital assistance; and funds, when appropriate, to establish needed facilities and physical infrastructure. It is important to note that this shift in emphasis makes significant demands on both donor and recipient countries. The recipient must insure that the institutions, once established with outside assistance, eventually become self-sustaining; further, that the institutions involve the broadest possible participation of all those individuals and groups essential to their success.

On the donor side, the shift in emphasis toward institution building requires a longer term commitment. Creating and strengthening institutional capacity in a developing country is a long term process. It cannot be turned on and off without major costs and inefficiencies.
CHAPTER 4
PROJECT EDENDALE: KWAZULU/REPUBLIC OF SOUTH AFRICA

PREFACE

Governments have pursued two types of policies to promote the dual goals of improving housing conditions and increasing private homeownership. Direct government participation in the production of housing has usually been undertaken only in pursuit of improving general housing conditions for the entire country. These efforts have been confined largely to the less developed areas of the world, where in many cases, people would not be housed at all, otherwise. To promote individual ownership of houses, an indirect approach has been successfully applied all over the world. Indirect policies include encouragement of mortgage lending institutions, interest rate controls to channel savings into thrift institutions, policies to deal with the effects of inflation, tax concessions for home buyers and mortgage lenders, and contract savings-for-housing plans supported by government-paid bonuses.

Assessing the housing needs of a country is not easy. The percentage of owner-occupied houses can be interpreted as a measure of the quality of a nation’s housing stock, and provides a rough guide to how well a country is doing in terms of promoting private homeownership. The percentage of owner-occupied housing around the world varies from a low of 18.1% in Hong Kong to a high of 100% in Mongolia, with a worldwide average of 56.8%.

The developing countries more frequently have chosen a direct approach to promote housing. In many countries the government either builds houses or provides the financing through a state-operated mortgage lending institution, or both, in some cases. In a few countries, whose economies are changing from developing to industrialized, public policy is a hybrid between direct and indirect assistance. In Brazil, for example, almost every type of public policy to promote housing is currently in use.

Government assistance to housing works by lowering the cost of a house to the individual purchaser or by lowering the operating costs of a financial institution which specializes in residential mortgages. This is accomplished for the most part by channeling resources into the housing and mortgage loan market. For the home buyer, part of the cost of the house is paid by the buyer and part is paid by everybody else in the country through their taxes. For the lending institution, part of its operating costs are paid by the institution and part by everybody else. While it may seem unfair to require others to bear part of the cost of an individual family’s house as a matter of public policy, as long as equal assistance is available to every family no one bears an unfair burden. In support of this intervention in the housing market, as well as other public policies, is the premise that the increase in national welfare that is achieved will outweigh the small sacrifice required of each individual.

Government assistance to housing has the additional benefit of promoting savings in general. Since saving is essential to investment in the productive capital stock, encouragement of housing by redirecting income through financial intermediaries can work hand in hand with other government policies designed to increase industrial
development. Those countries which employ policies to promote homeownership through their savings institutions are, for the most part, those countries in the world which are categorized as industrialized nations. Their economies are based primarily on manufacturing and service industries. Usually a relatively small proportion of the economy's output is accounted for by agriculture or raw materials production. As a result, the population tends to be urban and suburban rather than rural. The effect of increased urbanization is to drive up the price of land in and around cities. The effect on private homeownership is obvious. As the price of the lot increases, the total price of the house

The use of the legislative and regulatory powers of the government to facilitate housing finance can take many forms. The range of possibilities runs the gamut from direct production subsidies to builders or buyers, to making a secondary market in mortgages, to doing nothing. The types of policies studies in this paper are government creation and encouragement of mortgage lending institutions, tax concessions for buyers and lenders, and the contract savings-for-housing plans of which there are several variations. Many countries have found it useful to employ several different types of incentive plans.

The most obvious direct incentive is the development of specialized financial institutions. Simply allowing these institutions to be chartered promotes housing.

In South Africa the percentage of housing finance undertaken by the institutions amounts to 80%. This figure however relates to specifically "white" housing and fails to take into consideration the fact that no primary source of housing finance is available for housing other than "white" housing.

Other policies have been employed to encourage the development of institutions. A system of government insurance of deposits, such as the Federal Savings and Loan Insurance Corporation in the U.S.A., is quite important to instill public confidence in these institutions. Government insurance of deposits is found primarily in the U.S. and South America, where it has been especially important since savings and loan associations are a recent innovation and have had to build public confidence.

A system of government institutions which make a secondary market in mortgages is of great assistance to mortgage lenders because they are able, via the borrowing power of the government, to tap sources of capital other than individuals' savings.

In every country in the world where specialized savings and mortgage lending institutions exist, governments have implemented public policies to encourage the growth of these institutions and to insure their continued viability. These institutions are designed primarily to attract household savings and to finance private housing. In order to accomplish this goal, limitations are frequently imposed on the borrowing and lending capabilities of savings associations. The advantage of these restrictions is that the institution is precluded from financing investments other than housing. The disadvantage of these restrictions is that mortgage lenders are prevented from matching their assets and liabilities. They always borrow short and lend long. As compensation for the decreased flexibility in their asset and liability powers, which may threaten the
viability of the lending institution, governments have implemented a wide range of incentives to assist these institutions.

A whole constellation of differences in economic, financial and political structure, determine the incentives provided by Government to their mortgage lending institutions.

THE PROJECT PROPOSAL

There are two major objectives of the proposed project:

- The initiation of a principal institution in the black Urban sector to provide long-term housing finance and implementation of low-income affordable housing.
- The demonstration of the practicality of installing low-cost affordable infrastructure, shelter and services in a primarily urban areas.

Although both objectives are interrelated and are crucial for South Africa's ability over the next decade to proceed with a systematic program to enhancing the efficiency of its urban management and policy of homeland development, the first objective will undoubtedly be more significant in a pioneering operation of his nature in the country.

The proposed project is unique in its use of the private sector to execute a large-scale sites and services program.

The institutions substantial financial participation will exemplify the type of private initiative government's encouraging in order to meet South Africa's urban shelter needs.

The program should be highly replicable for future projects in South Africa and could develop into the country's primary focus for housing investment and the mobilization of savings towards have-ownership.

Governments partnership with a successful private agency should provide a useful example to other countries facing similar shelter problems.

APPROACH TO FORMULATION OF PROJECT EDENDALE

The approach to the formulation of the project is guided by the National Housing Authorities objectives as they relate to the project.

The project is to consist of housing together with a comprehensive package of urban services, community facilities and economic opportunities.

The project should provide housing that is affordable by the likely target population, utilizing whatever means available to the project in terms of self-help labor, cross subsidies, innovative financing techniques, etc.

The principle of full cost recovery from the beneficiaries should be adhered to in order that the NHA housing program as a whole is fully sustainable over the long term.
The following steps were followed in the formulation of the project by the development of a work program and activity chart (Figure 4.1.1)

**First,** the target population was identified and its socio-economic characteristics were assessed:
- family and skills;
- employment and skills;
- income and expenditures.

**Second,** housing affordability was assessed using two factors:
- a range of family income levels;
- two estimates of the proportion of family income available for housing.

**Third,** the basic "economics" of the project were considered:
- the housing affordability of the potential residents;
- the potential for cross subsidy from remunerative uses.

**Fourth,** first development concepts were prepared and evaluated:
- the initial constraints and opportunities for site development were considered;
- a variety of conceptual development approaches were prepared.

**Fifth,** the plot, housing groupings, and community planning were explored:
- the planning approach at each level of community development was considered;
- a flexible community structure for the project was defined.

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**MODEL PROJECT ACTIVITY FORMULATION PROGRAM**
**USED IN THE FORMULATION OF PROJECTS (Derived from text and case studies.)**

**PART 1 INTRODUCTION AND SUMMARY**

Part 1, Introduction and Summary, consists of Background, Context, Approach, Major Findings, Recommendations and Summary Data.

National and local urbanization trends; A brief statement on urbanization policies, programs and priorities.

The Housing Sector - a brief description; Housing needs, supply and patterns of effective demand; housing policies, programs, and institutions.

Summary of knowledge of existing low-income settlements - squatter areas, Site and Services squatter upgrading schemes; and other non-conventional approaches to housing.

Specific situation in project cities with regard to urban development and living conditions.

**PART 2 THE PLAN FOR DEVELOPMENT**

Part 2, The Plan for Development, consists of a description of the site and the target population, the development strategy and objectives and a detailed description of the project plans, policy proposals and phasing.

**Location of the Project**

Identification of possible sites on basis of land availability

Evaluation of alternative locations in terms of:
- Compatibility with desirable patterns of urban development.
- Relative off-site (trunk) infrastructure requirements
- Land, ownership and tenure patterns
- Natural features
- Cost of land

Selection of preferred locations for the project.
Sixth, a set of alternative framework plans, based on the community structure studies and preferred development concepts, was prepared and evaluated;
- the major variables affecting the framework planning were displayed and their impact evaluated;
- a preferred framework plan was selected for further refinement.

Seventh, the preferred framework plan was refined by evaluating the impact of various strategy options, all of which could be accommodated within the overall plan.

Eighth, the preliminary financial plan was prepared based on the preferred framework plan and selected strategy options to assess feasibility:
- financial analyses were utilized throughout the evaluation process.
- the implications of various strategy options were tested.

Nineth, based on the results of the preliminary financial plan, detailed studies and review with government agencies, the preferred framework plan was amended:
- detailed infrastructure plans and community layouts were prepared.
- the form and standard of the proposed infrastructure services were reassessed;
- the pattern and nature of the proposed community facilities were reassessed.

Tenth, the project plans and policies were subjected to further financial and economic analyses to confirm feasibility;

Intended Project Scope, Scale and Beneficiaries:
Determination of prospective project beneficiaries particularly in terms of income groups with capacity and willingness to pay for housing services of the type proposed in Site and Services.

Planning and Design
Site Layout
- Land use plan proportions of private and public land uses.
- Circulation plan defining vehicular and pedestrian circulation.
- Subdivision plan and plot layout on basis of over-all economy of infrastructure network simplicity and flexibility.
- Determination of appropriate plot size, shape and configuration on basis of functional requirements, local tradition and preferences and minimization of infrastructure frontage.
- Intensity of development: Gross and Net densities of plots and population.

Planning and Design of Infrastructure:
- Determination of eventual levels of services and standards and choice of initial levels consistent with economic capacity;
  - on-site requirements; off-site trunk requirements:
    - Water
    - Sewage
    - Roads and Footways.
    - Surface drainage
    - Street lighting and electricity
    - Gas, telephone, other

Planning and Design of Social infrastructure - analysis of requirements for community facilities:
existing/available facilities in the area that can be utilized by the project,
and new facilities that must be provided; staffing and maintenance, requirements; design standards and costs;
- Education: schools, playgrounds, vocational training.
the project was recosted and detailed financial analyses of various options were studied;
• an economic evaluation of each project component was undertaken.

Lastly, the specific requirements for implementation of the project were prepared;
• NUDC's responsibilities were described;
• the responsibilities of other government agencies were listed;
• the role of community involvement was defined.

FIGURE 4.1.1. Work program and activity chart.

- Health: clinics
- Community centers, social halls
- Recreation, parks and open spaces
- Markets, commercial and small halls
- Religions
- Refuse collection
- Police, Fire and Postal Services
- Public transportation
- Other

Planning for employment generation - modern and traditional sectors

PART 3 THE FINANCIAL ANALYSES

Part 3, The Financial Analyses, consists of funding sources and project cost recovery, affordability and loan issues cost and revenue assumptions, the plot pricing policy, cash flow analyses and sensitivity analyses.

Formulation of financing plan for the project indicating:
• Proportion, form and nature of bank loan and/or credit
• Proportion, form and nature of financing by National Government
• Proportion, form and nature of financing by local authority
• Other sources of finance
• Interest rates and terms for borrowed funds

Project Costs

Detailed estimates of total project costs (first costs):
• Land acquisition, compensation
• Site preparation including topo/survey works, earthworks, clearing and levelling, staking out of plot boundaries, road centering, etc.
• Off-Site public utilities including project specific trunk infrastructure and plants.
• On-Site public utilities including water supply, sewerage surface drainage, roads and footways, public lighting and electricity, telephone.
• Community facilities including project specific schools, health clinics, community centers, markets, shops, small industries, fire, police, postal, garbage disposal.
• Plot development including all costs associated with development of individual plots in the form of construction costs and/or materials loan
  - Supervision
PART 4 THE ECONOMIC ANALYSES

Part 4, The Economic Analyses, consists of the sites and services housing component, the large scale housing component and the project as a whole.

Project Evaluation

Economic Analysis

(a) Direct rates of return (using shadow pricing and sensitivity analysis)
   • Definition of allocable cost categories
   • Apportionment of total costs recoverable from users
detailed breakdown by components -
   • Apportionment of total costs recoverable from other

Formulation of financing terms for users:
   • Estimate of total housing expenditure to be borne by users
   • Terms for repayment of capital costs - down payment and amortization of balance
   • Terms for repayment of loans - monthly amortization
   • Monthly standing charges covering recurrent costs
   • Other costs if any, e.g. property tax, ground rent, etc.

PART 5 THE IMPLEMENTATION ANALYSES

Part 5, The Implementation Analyses, consists of the responsibilities of government departments and agencies, the role of community involvement and marketing.

The Management & Organizational Aspects:

Analysis and proposals for major administrative requirements of the project:
   • Advertising of the project to inform prospective users without interference of interested intermediaries
   • Processing of applications, selection and notification of users
   • Allocation of plots
   • Collection of fees, dues, rents, loan repayments, etc.
   • Management of materials loan fund and distribution of loans
   • Delivery of technical assistance to users
   • Supervision of private construction
   • Management and operation of publicly-owned community facilities
   • Management and operation of community-owned facilities
   • Management and operation of municipal services
   • Monitoring of development of individual plots
   • Overall administration of project.

Staffing Requirements:

• Assessment of staffing requirements
• Availability of local personnel
• Expatriate staff requirements
• Training of local staff

Executing Agency: determination and establishment of authority, agency or department of government to be responsible for construction, operation and maintenance of the project:

• Functional requirements
• Financial requirements
• Constitutional and organizational structure
• Personnel

Affordability Analysis

(a) Government potential for developing a large-scale program
(b) Ability of low-income groups to meet the corresponding changes.
PART 1 INTRODUCTION AND SUMMARY

This case study formulates a site and services urban development project in the Republic of South Africa, a project designed to help the private sector in participation with the Government establish a national urban development program to raise the living conditions of the urban poor by improving their access to better physical infrastructure and housing. During the three year implementation period the project would support a newly established National Urban Development Corporation that would begin acquiring and developing urban sites throughout the country including the newly inaugurated homelands and independent states.

The proposed project would initiate the National Urban Development Corporation by assisting in the formation of a National Mortgage Bank (to be known as the "African Mortgage Bank") and a National Development Corporation (to be known as the "African Development Corporation") the implementing component, to develop urban land for purposes that would benefit primarily low income residents. The proposed project investment in KWAZULU - Edendale Township would be the first undertaking of the new institution. The proposed project would be the first NUDC operation for urban development in the Republic of South Africa. It would also be the first example of a private organization implementing, executing and substantially financing a major public sector project, thereby conserving public resources. To-date, housing projects have embraced private participation through individual or small group efforts.

Legal Aspects:
(a) Classification of rights, liabilities and legal relationships of the users and the project administration with respect to all components of the projects
Provisions and conditions for transfer of rights
Provisions for minimization of abuses, redress of grievances and administration of sanctions
Definition of possible and preferred land tenure arrangements on the Selected Sites both throughout the life of the project and at the completion of the contractual arrangements.
The proposed project would be a significant step in the gradual evolution of Government's role from that of housing producer, possible only in small scale, to one in which it co-ordinates low income shelter activities which now take place in an uncontrolled manner.

South Africa and the independent and homeland territories with 25 million non-europeans continues to grow by more than 2% per year. Some 18% of the population resides in urban areas in South Africa. Unemployment in urban areas is nearly 12% and more than 15% in the rural sector including the homeland and independent territories, stimulating migration into urban cities seeking jobs and cultural opportunity, but none of the cities is prepared to cope with the influx.

All urban areas face substantial deficits in housing, basic infrastructure and community facilities, especially among the urban poor. Approximately one-half of the urban population reside in either squatter invasions unauthorized sub-divisions, or in overcrowded townships.

Government has been unable to close the demand-supply gap for shelter among the urban poor due to rapid growth in cities, lack of resources and the relatively high standard of units produced. Consequently it is in the process of refocusing its housing policies with the private-sector playing an increasing role.

In the past, urban centres in South Africa have relied on financial transfers from the Government, (Department of Community Development (DCD)), to execute their development programs. However, such transfers have not been, nor can they ever be, sufficient to underwrite the costs of development programs that would keep pace with urban population growth. But urban centres do have a potential revenue base in the real property tax and Government would like to see this mechanism more fully developed so that a larger portion of scarce government resources could be allocated to rural areas including the homeland and independent territories. This implies a consistent improvement of the present property tax assessment and collection systems to generate increasing revenues to local municipalities government to finance physical infrastructure investments and further provide incentives in the encouragement of increased private sector participation in housing finance and execution.

The three year plan target the National Urban Development Corporation (NUDC) to produce and make long-term finance available for approximately 2000 units for households earning less than R200 (US$220) per month.

This proposal focuses on the formulation of the National Development Corporation comprising. The African Development Corporation (ADC) which would develop urban land for residential, industrial or commercial use in urban centres, homeland and independent territories; and the African Mortgage Bank (AMB) which would, for the first time in the Republic of South Africa, make long-term financing available for low income housing. The project proposed by the author would be the initial activity for both components of the institution and, it is anticipated, a prototype for later operations.

NATIONAL URBAN DEVELOPMENT CORPORATION

African Development Corporation  African Mortgage Bank

The project is not intended to serve total housing needs but to demonstrate an effective and replicable alternative to shelter problems. The project would accommodate roughly 80% of new household formation within the target income group over the construction period."
PART 2 THE PLAN FOR DEVELOPMENT

Site and Services Program

The proposed township is situated on unit P at the Edendale Township for Blacks. The area of land is 174.7 ha situated approximately 12km towards the South of Pietermaritzburg. The land has an average gradient of 10% to 20% in a North Easterly direction with a large portion of the Township overlooking Pietermaritzburg. The land is so situated that a large portion of the Township does not overlook existing lower class development in the area, making the land ideal for a prestige and improved type of black township. With the size of all the erven between 200 square metres and 400 square metres compared to an average of 400 square metres in adjacent townships and the fact that potential owners owners can have freehold title on this land which is very popular amongst blacks due to the scarcity of such land, one can only visualise a highly sought after development.

In the area of Pietermaritzburg, the sites are well served by public transportation and are adjacent to the existing industrial corridors on the major highways. The project site borders the developing West and North Industrial corridor. The site is well located in relation to off-site infrastructure, i.e., roads, water, sewage, and power mains. The terrain is sloping in various directions with maximum use being made of even slopes well suited to low-cost infrastructure development.

Principal site selection criteria were: (1) proximity to employment opportunities. (ii) construction suitability regarding topography, vegetation, soil and ground water conditions; and (iii) availability of adjacent community facilities.

The project constitutes a new approach to meeting the large housing deficit; it facilitates housing construction by low-income groups who have been unable to participate in public housing programs due to limited financial resources and high building costs. Under the project, financing would be made available for purchase of serviced plots - a distinct departure from the outright cash purchase of land required under existing programs. Site development would be low cost, and housing designs would allow for minimum cost and maximum self-help construction. The project aims at balanced community development; while 70% of the serviced plots would be made available to low-income families, the remainder at higher standards and costs would be made

SITE ANALYSIS AND URBAN PARAMETERS

SITE CHARACTERISTICS
- Total area: 174.7 ha usable area, 40%
- Large size site, irregular shape
- Irregular and steep topography
- Ridges and valleys (Natural Drains) running in one general direction

PROGRAM CONSTRAINTS
- Land subdivision in variable size lots (200m² to 400m²), dwelling 1 story high
- Lots in ditches

DESIGN ASSUMPTIONS
- Site development with a minimum change of natural drainage patterns
- Main lines of drainage determine main street patterns
- Minimization of leveling (cut and fill)
- Semipublic facilities in areas of maximum slope
- Private areas (100m²) in areas of minimum slope

DESIGN APPROACH
Basic Layout
- Circulation, land utilization, subdivision
- Lines of natural drainage (valleys)
- Lines of ridges
- Contours (slope areas location and %)
- Functional areas

Terrain
- Main streets determined by accesses valleys and ridges
- Semipublic areas (terminally, areas of 20% or more slope if location is convenient
- Terrain: Uniformly parallel to contours and streets
available to higher income groups. Low income beneficiaries would be selected based on agreed criteria. Experience gained under this project would serve to guide the development of low-cost housing programs in other areas of the Republic.

LAND USE

The site, designed for a population density of about 150 people per hectare, has been apportioned on the following basis: 60% for developing about 1400 lots, of which 30% would measure 400 m²; 70% would be 200 m². Each would directly border a road or a private roadway. About 18% of the site area would be used for roads and footpaths, 17% for community facilities and 3% for commercial development.

HOUSING

Core House. It is expected that all 200 m² lots would be sold with a 20 m² core shelter already constructed. This shelter would consist of a concrete floated floor; supporting stanchions and a tile roof; concrete block walls; and a sanitary unit. This design follows the traditional method of house construction in Edendale. After occupying the core, a family would erect partition walls and start adding on to the core in terms of their own needs for accommodation. The 400 m² lots would not include a core house since the purchasers of these lots would have higher incomes than the target population and could therefore finance construction of their houses.

The rationale for providing this simple core house instead of letting a family begin from scratch is as follows:

- Core housing initiates an order to the building pattern and helps to define site development. This will substantially reduce the risk for a haphazard and squatterlike development;
- It also builds into the lots an almost self-imposed series of building regulations, especially regarding health and fire;
- The core shelter provides for an immediate occupancy of the lot, which is important since families without their own dwellings have priority in the selection process;

SITE CIRCULATION PLAN

The circulation network forms the necessary framework around which the site is developed. The network also provides utility lines throughout the site by providing continuous access for maintenance and control, and is considered to be under public ownership.

The circulation layout is based upon:
- Recognition of topographical conditions to minimize the development cost as well as the cost of infrastructure, its operation and its maintenance;
- Recognition that the ridges determined the lines of major thoroughfares;
- Lines of access and lines of circulation are considered separately.

The following modes are considered in the network:

- MODE 1: Main access from City Highway. Exclusive use by vehicles, large volume of traffic flow.
- MODE 2: Main commercial arterials. Vehicles and pedestrians mixed.
- MODE 3: Local residential streets. Pedestrians and vehicles mixed.
- MODE 4: Pedestrian walkways/vehicle access and cluster courts. Exclusive use by residents.
TARGET POPULATION

The population groups that would benefit from the site and service program were identified by examining available data which indicates a willingness of low-income households to allocate as much as 20% of income for housing. Table 5 presents the distribution of household income. On the basis of a 10% downpayment, a 25 year mortgage at 12% annual interest, it appears that the 200 m² lots would be available to families at the 20th percentile and the large 400 m² lots could be financed by families at the 60th percentile.

Some variations in downpayments and mortgage terms as outlined in Chapter 1 could make the lots available to an even larger segment to the population.

SITE LAYOUT

Site layouts are based on a careful analysis of slopes, natural drainage patterns, soil quality, and prime buildable areas. Lots per site within the project range from 200 square metres to 400 square metres yielding sites large enough to achieve economies of scale, but not so large as to concentrate too many low-income families in a given area.

The individual lots of the layout are organized into clusters surrounding a central semiprivate courtyard space. They follow the natural topography of the site with the lots being arranged perpendicular to the contours. This forms flat condominium courts that open onto the primary streets. This subdivision scheme allows for a maximum utilization of private and semiprivate court spaces for this very irregular and steep sloped site. While this grid pattern will not minimize earthmovement it does provide the most efficient overall layout with low development and maintenance costs per lot.

INFRASTRUCTURE

A grid of pedestrian walkways will provide access to each site and contains sanitary sewage pipes storm water drainage channels. The pathway system links each lot with other lots and community facilities. Vehicular crossings of pedestrian walkways will be minimized. Community facilities are generally located in the interior of the site and are easily accessible, with small commercial zones located at selected internal

### Table 5. Distribution of Earners' Income

<table>
<thead>
<tr>
<th>ANNUAL INCOME GROUP</th>
<th>PERCENTAGE OF POPULATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>0,01 - 999,99</td>
<td>32.28</td>
</tr>
<tr>
<td>1 000,00 - 1 999,99</td>
<td>46.29</td>
</tr>
<tr>
<td>2 000,00 - 2 999,99</td>
<td>16.34</td>
</tr>
<tr>
<td>3 000,00 - 3 999,99</td>
<td>3.61</td>
</tr>
<tr>
<td>4 000 - 4 999,99</td>
<td>0.21</td>
</tr>
<tr>
<td>5 000 +</td>
<td>1.27</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

![FIGURE 5. Cluster subdivision (proposed block)](image)
points. Larger commercial and market areas are at the site entry point or bus stops, providing easy access and social links with adjacent residential areas and communities.

**SERVICED LOTS**

All lots will be serviced to the same initial standard level of infrastructure, with individual water, sewage and electricity connections. Street lighting will be installed along major access roads and at main circulation points. Lot sizes vary between locations, according to the availability and price of land.

**OFF-SITE INFRASTRUCTURE**

The necessary water distribution and sewer mains will be provided where existing capacity is inadequate to serve project requirements. Major access roads will be upgraded.

Thus easy and rapid occupancy also reduces the risk for land speculation;

The large number of core houses will provide economies of scale in construction and purchase of materials resulting in lower costs than if site occupants were to build the shelter themselves;

The additional cost of the core house will be within the means of the lower-income levels of the target population.

The sanitary unit consists of a cement floor with water tap, water closet. The core house would be located at the back of the lot since this permits for later extension of the core.

**Demonstration Housing.** A demonstration group of low-income houses will be constructed on each site. These demonstration house will provide an example of the kind of house that occupants may build themselves as an extension of the core.

**TABLE 6. Core House Costs**

<table>
<thead>
<tr>
<th>Component</th>
<th>Cost (R)</th>
<th>Cost (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation and Floor</td>
<td>1800</td>
<td>200</td>
</tr>
<tr>
<td>Roof and Columns</td>
<td>300</td>
<td>33</td>
</tr>
<tr>
<td>Concrete Block</td>
<td>100</td>
<td>11</td>
</tr>
<tr>
<td>Sanitary Unit</td>
<td>500</td>
<td>55</td>
</tr>
<tr>
<td>Service Connection</td>
<td>300</td>
<td>33</td>
</tr>
<tr>
<td>Total Construction Cost</td>
<td>3900</td>
<td>429</td>
</tr>
<tr>
<td>(including a 30% labor component)</td>
<td>3900</td>
<td>(US$4290)</td>
</tr>
<tr>
<td>Contingencies</td>
<td>390</td>
<td>42</td>
</tr>
<tr>
<td>Interest during Construction</td>
<td>300</td>
<td>330</td>
</tr>
<tr>
<td>Selling Price</td>
<td>4590</td>
<td>5049</td>
</tr>
</tbody>
</table>
PART 3 THE FINANCING PLAN

THE NATIONAL URBAN DEVELOPMENT CORPORATION

The major initiative of this Development Plan is the formation of The National Urban Development Corporation (NUDC) which will buy urban land throughout the country to develop and resell for specific residential, commercial, or industrial uses. In this way the Government hopes to aid cities by directing the course of physical expansion with the strategic location and nature of its projects. Establishing a quasi government corporation in partnership will be private sector to undertake such projects offers the advantage of combining government seed capital and authorization to borrow from both public and private sources to develop facilities neglected by the private construction sector. The scarcity of developed urban land in South African cities has led to expensive speculative investment surrounding those limited areas where public funds have been expended for infrastructure and service improvements. It is anticipated that the Corporation through its projects would recapture a portion of the benefits from public infrastructure investments now accruing to private land speculators. Initially, the GOSA will capitalize NUDC with about US$6.0 million. This amount would be augmented annually according to requirements of the work program to be prepared. The author is patterning the NUDC along the lines of urban development authorities in cases studied in the proceeding text, which have experience in executing both residential and commercial projects. In preparing the preliminary framework for the NUDC, consulted experts familiar with the operations of various institutions contained in the text of this thesis.

THE AFRICAN MORTGAGE BANK

As part of the government efforts to stimulate urban development an African Mortgage Bank (AMB) will be established, as a mortgage institution. Since the Republic of South Africa has no mortgage system at present geared toward black homeownership and no long-term loans are available for black housing development, the housing construction industry has lacked the financial resources necessary for growth. Consequently, inauguration of a mortgage finance mechanism is expected to vitalize the residential construction sector throughout the country. AMB's first experience with long-term mortgage payments will be the lots sold as part of the site and service program. The GOSA will initially commit about US$6.0 million as equity

*GOSA: Government of South Africa

*Case Study: Tanzania and Philippines Chapter 5 Appendix A.
capital for the AMB, but it is anticipated that private and public foreign institutions will make available significant additional funds.

THE AFRICAN DEVELOPMENT CORPORATION

In order to stimulate development and project activity an implementing agency will be established to work hand in hand with the African Mortgage Bank.

ADC will be created as an organization to provide shelter and related services to households with low incomes. Sites and services projects will be the exclusive means utilized by the ADC to achieve this objective.

The ADC is anticipated to be a division of the NUDC, will be a small, well-managed organization with a solid technical staff.

Objectives and Functions of the National Urban Development Corporation

The objectives and functions of the NUDC are summarized as follows:

- To mobilize local savings and external resources for housing development;
- To promote housing development by making technical and financial assistance available for sites and services projects, and other owner-occupied housing schemes;
- To ensure the implementation of the Government's housing and building policies, promote the use of local materials, encourage the construction of housing types best suited to local conditions, and foster the minimizing of building costs and rents.

THE URBAN STRATEGY

In the light of the above, the proposed project concentrates on the following main elements of an urban development strategy for the Republic of South Africa.

- Support for new national institutions for developing urban land and financing housing mortgages;
- Execution of an investment program to demonstrate the potential of a low-cost, minimum-standard approach to new community development.

### Chart 3: Organizational Structure

**ADC**

<table>
<thead>
<tr>
<th>DIVISION</th>
<th>TECHNICAL OPERATIONS</th>
<th>HOUSING ADMINISTRATION</th>
<th>ADMINISTRATION</th>
<th>SOCIAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>SECTION</td>
<td>PLANNING</td>
<td>LEGAL</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PROJECT EXECUTION/PROCUREMENT</td>
<td>COLLECTIONS</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CONSTRUCTION SUPERVISION</td>
<td>ACCOUNTING AND AUDIT</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CONSTRUCTION MATERIALS DEPOTS (Proposed New Section)</td>
<td>MUTUAL HELP</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>MONITORING</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**ORGANIZATION AND ADMINISTRATION**

The proposed NUDC would be a parastatal of the Department of Finance, a corporate body and will have 49% of its share capital owned by the Government, 51% by the private sector. The organizational structure of the National Urban Development Corporation and the African Mortgage Bank, are shown in Chart 2 and Chart 3.

It will be governed by a Board of Directors consisting of twelve members appointed for unspecified terms by the Minister of Finance. The Chairman will be appointed by the Minister. The Directors are persons with knowledge and experience in economic and financial matters, town planning, estate management, building industry, and other fields.

The General Manager of the AMB is appointed by the Minister of Finance after consultation with the Board. He is the chief executive officer responsible for the Bank's day-to-day management, business and affairs, and a general manager with the same portfolio will be responsible for the Development Corporations day to day management, business and affairs.
The NUDC is made up of two separate corporate divisions, the financing entity, the AMB and the implementing agency, the ADC. The AMB's organization consists of four departments in the Head Office in Pretoria, Branch Office's, and representatives in several other cities. The Administration Department is responsible for personnel matters and general services. It will also handle the secretariat matters for the Board, and its Manager serving as the Board's Secretary. The Finance Department is responsible for the Bank's lending, and guaranteeing activities rest with the Operations Department. The Operations Department will deal with loan applicants and their appraisal from the technical, economic, and financial points of view. It is also concerned with providing advice to clients obtaining securities for loans, preparing loan agreements and reports, and supervising projects. Finally, the Promotion Department ensures that the Bank's operations are carried out in accordance with the Government's development policies and directives. It promotes the savings and loan opportunities of the Bank, and gathers and analyses statistics, prepares studies, and maintains liaison with Government agencies and institutions throughout the country.

The ADC will constitute the Technical Operations Division of the National Urban Development Corporation. They will be responsible for the design, engineering and supervision of all construction. Because all of its time is to be devoted to project execution, the detailed engineering will be sub-contracted to consulting engineering firms.

The Technical Division will be organized into two sections: allottees selection and mutual help. In all during the three year initiating program, the total full time staff of the NUDC is expected to reach 50 professional and 60 support of all excluding staff in branch offices and on-site construction supervisors. With this staff the NUDC should be able to execute smoothly approximately 2,000 units per year. Because of the transportation linkage and networks in the country, project execution in the secondary cities and homeland territories poses little difficulty for head-office staff who can visit on-site offices and return to Pretoria the same day.

SEED CAPITAL FOR THE NATIONAL URBAN DEVELOPMENT CORPORATION

The primary source of income will be long-term low interest loans from both domestic and international sources. Government grants will be sought to provide seed capital for the first project, and thereafter grants to partially cover administration expenses.

Studies undertaken by the would Bank and USAID on selected countries have shown that many low-cost housing/sites and services projects in the nineteen-sixties failed because of scant attention to the most critical aspect--project management.

A projected set of financial statements do not form part of this study.

It is anticipated that the NUDC will evidence a sincere commitment to the self-help approach and offer distinct advantages over other agencies involved in housing in the Republic of South Africa:

- low, realistic standards coupled with an ability to maintain cost discipline enabling it to reach very low-income families;
- the ability to organize communities into effective programs which train participants in building skills critical to the self-help house construction process;
- relatively unsubsidized pricing policies;
- an impressive payment record by participants;
- an ongoing evaluation study which will provide valuable knowledge for improving the execution of future programs.

The program should be highly replicable for future projects which might be executed by other agencies. Government's partnership with a successful private agency could provide a useful example to other countries facing similar shelter problems.

THE FINANCIAL PLAN (PROJECT EDENDALE)

Financial Analyses are used as a working evaluation tool throughout the stages of the project to refine
design standards and test the implications of various implementation policies.

The prime purpose of the financial analyses is to assess the financial viability of the project viewed from the perspectives of NUDC and the government. The government of South Africa, through internal and international loans is being asked to invest approximately 50 million and in the largest single housing project yet conceived in the country.

NUDC, as the implementing agency will act as a channel for these funds and will be responsible for ensuring that the regulations of both government and the international source are adhered to. Loan funds from the international source will be on-lend by the government to NUDC to assist in the financing of the project.

The financial objectives of the project are related to affordability, cost efficiency and financial viability. The components of the project, particularly the housing opportunities, are to be designed and financed in a way that ensures they are affordable by the target group. The project will attempt to be cost efficient in terms of design, layout and standards.

The financial analyses is based on a number of basic assumptions regarding the implementation of the project. The project will be implemented in phases over a three year period 1984-87. The project will be developed according to the standards proposed based on preliminary and detailed architectural and engineering design. The components of the project, particularly the housing opportunities, are to be designed and financed in a way that ensures they are affordable by the target group.

The project will attempt to be cost efficient in terms of design, layout and standards.

The financial analyses is based on a number of basic assumptions regarding the implementation of the project. The project will be implemented in phases over a three year period 1984 to 1987. The project will be developed according to the standards proposed based on preliminary and detailed architectural and engineering design. The components of the project, particularly the housing opportunities, are to be designed and financed in a way that ensures they are affordable by the target group.

The project will attempt to be cost efficient in terms of design, layout and standards.

GENERAL DEVELOPMENT SCHEDULE

The project to be implemented over a three year period from 1984-87.

The project is to be developed in overlapping phases. The development schedule seeks to achieve a rapid build-up of housing plots as well as an early inflow of revenues to the project from the sale of commercial/industrial land.

2000 serviced plots are scheduled for development in the first two years. 5 hectares of commercial/industrial land are placed on the market in the first 2 years.

A detailed construction program will be developed to achieve this schedule.

COSTS, COST ALLOCATIONS AND FUNDING

Cost estimates for the project are based on assumptions regarding planning and design standards and preliminary and detailed architectural and engineering design. The phasing of construction costs is based on the project phasing. Project design and supervising is estimated at 12% of construction costs (excluding land costs).

A physical contingency of 10% of construction cost plus design and supervision is included to reflect possible changes in the amount of construction.

A price contingency of 10% per annum is included in respect of inflation during the construction period.

The project development costs will be funded by a government loan, by a loan from an International Bank and by capital contributions from Line Agencies.

It is estimated that the loan will amount to approximately US$30 million or 60% of total project costs. An analysis of the cost of that part of the total project in which the external source will participate is shown in Table 6.

For the purpose of the financial analysis an interest rate of 7 1/2% per annum has been assumed, the term of the loan being 20 years including a 5 years grace period.

Capital contributions from Line Agencies will be made for those works which can be said to be a function of their normal activities or otherwise agreed to be recovered through user charges.

The balance of the required funds will be provided by Government. Throughout the financial analyses these funds are termed 'Government Loan'. This is, however, not necessarily to imply that such funds will be actually
repaid to the Government. More probably the funds will remain within NUDC for reinvestment in future programs. It is nonetheless essential that project viability should be established on the basis that such monies constitute a loan which will be wholly repaid together with an appropriate rate of interest. The rate of interest used is 12% on the balance outstanding from time to time.

An analysis of the source of funds is shown in Table 7.

**TABLE 7. Sources of Funds (millions) Rand.**

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>Rand</th>
<th>(% of Total Cost)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Loan</td>
<td>1.08</td>
<td>10</td>
</tr>
<tr>
<td>International Loan</td>
<td>6.48</td>
<td>60</td>
</tr>
<tr>
<td>Grants From Line Agencies</td>
<td>2.16</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>10.6</td>
<td>100</td>
</tr>
</tbody>
</table>

**PROJECT REVENUES**

Revenues will be derived from the sale of commercial/industrial land, from the lease of residential plots including some on-plot development and from the subsequent sale of residential plots.

Commercial/industrial land will be sold at an average of R25/M² (1982 Prices) escalating at 10% per year during the take-up period.

**PRICING POLICY — RESIDENTIAL PLOTS**

The Plot pricing policy proposed takes into account a number of interdependent issues.

- The affordability of the target population.
- The extent of on-plot development provided and the probable liability of occupiers for additions to that provision.
- The distribution of plot sizes.
- The need to optimize cost recovery, compatible with the target group’s ability to pay, in order to ensure the viability of the project and demonstrate the replicability of the concept in other locations.

In view of the tenure strategy proposed a two tier definition of housing affordability has been adopted.

The income distribution of the target population is discussed in Section "Target Population" on page 56 (see Table 5).

Income levels have been assessed as a maximum of 25% of income when related to the ability to acquire the freehold.

In view of the several levels of on-plot development proposed, notional costs, likely to be incurred in securing a minimum level of shelter, should be allowed in the computation of affordable rentals for those plots upon which initial provision is not included.

Plot sizes and their distribution are to be selected to relate to net housing affordability at the midpoint of the project construction period.

The desirable range of plot sizes is discussed in Section "Land Use" on page 55 where it is concluded that the average size should be 200 to 400 square meters.

The assumption that there should exist a broad correlation between plot size and income has been made in formulating the affordability test and the subsequent determination of subsidy requirements, if any. However, in view of the various on-plot development options available and the level of initial investment that these imply, some flexibility of interpretation is called for.

A distribution was therefore selected, based on the factors discussed in Section "Target Population" on page 56 and then adjusted to accord with the overall concept of affordability.

Internally generated cross-subsidy will be available to the lower income residential beneficiaries from the sale of commercial/industrial land and those residential beneficiaries whose capacity to pay exceeds the calculated minimum rentals.

The distribution and absolute level of subsidy required should be calculated on the following basis:

- **Payments:**
  - Notional costs in respect of on-plot development, where not provided, should be added to allocated costs.
  - Capital differences between these figures and the capital equivalent of affordable rents are to be established.
  - Percentage subsidies derived on the basis of notional cost but to be applied to actual allocated costs are suggested to be fixed.
  - Where beneficiaries are able to pay more than a cost rental a proportion of the excess income is to be claimed.

The resulting percentage subsidies or premiums applied to difference between allocated cost and affordability would then be applied on the basis of the plot sizes to benefit the 200 m² undeveloped plot the most.

*Rental: Equivalent Payment for Mortgage.*
The estimated costs to provide the domestic services to the township are as follows:

**STAGING:**

<table>
<thead>
<tr>
<th>ZONE</th>
<th>STAGE 1</th>
<th>STAGE 2</th>
<th>STAGE 3</th>
<th>STAGE 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>R2 344</td>
<td>740</td>
<td>(US$2 576 637)</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>R2 132</td>
<td>190</td>
<td>(US$2 343 066)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>R2 177</td>
<td>790</td>
<td>(US$2 393 176)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>R2 388</td>
<td>290</td>
<td>(US$2 624 495)</td>
<td></td>
</tr>
</tbody>
</table>

Financing and Disbursement

The total project cost for the Site and Services excluding stage 1 core units is of the order of $10,800,000 (US $1 = R0.91)

For Negotiation with the Bank are the following:

- On Lending Arrangements
- Cost Recovery and Pricing

Lot Development Costs and Sales Prices

Lot development costs will range from R5 000 (US $5 495) to R13 000 (US $14 286). A formula will be used to demonstrate the principles governing costs for each site for allocation between users. Actual land and construction costs for each site would be used to calculate final charges on that site. Sales prices would be adjusted to reflect locational advantage within the site, will commercial sites being sold at market prices.

**CASH FLOW ANALYSIS**

The project cash flow statement would show a net-surplus at the midpoint of project development. Interest on the Government loan of 12% pa. would be provided for.

The project would be charged interest on the loan from international source during the grace period at the rate ultimately payable by the government (7 1/2% pa.). Contributions from line agencies are to be shown in the year in which the expenditure is estimated to be incurred.

The Government loan is assumed to be fully repaid by 1988 from which time real surpluses are expected to arise.

Annual surpluses beyond 1988 are expected to be available for reinvestment within the NUDC program.

It is practice in most cases for the Local Authority to reimburse the Developer (NUDC) for certain of the domestic services installed. In this instance it would be proposed during negotiations with the Department of Cooperation and Development that the Department reimburse the Developer (NUDC) in full. The proposal arises from the fact that prior to the present Development Proposal the Department was itself proposing to develop this area and would therefore have had to provide the funds anyway.

**NUMBER OF STANDS = Approximately 1 340**

**WITHOUT PROVISION FOR SERVICES REBATE**

<table>
<thead>
<tr>
<th>COST/STAND AVERAGED</th>
<th>R7 345</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% REBATE FOR SEWERAGE AND ELECTRICAL</td>
<td>R5 165</td>
</tr>
<tr>
<td>COST/STAND AVERAGED</td>
<td>R1 000</td>
</tr>
</tbody>
</table>

The three examples above broadly illustrate the relative influence reimbursements exercise on individual stand costs.

The construction of the housing units will be dealt with under a separate treatise. Briefly at this stage as an indicator the cost of a house including professional fees is anticipated in the region of R20 000 to R30 000 relative to the prestige value of the sites, and R5 165 to R10 000 for the sites and service component.

Construction funds of the order of R30 000 000 to R40 000 000 will be absorbed in the development of the housing phase. Since these funds would be required on a staged construction basis this would account for approximately R6 000 000 per year. Construction on this phase could be programmed to commence prior to completion of the servicing of Zone 1.

---

1 Including Core
SENSITIVITY

Two major factors could significantly affect the viability of the project.
- The phasing and price at which commercial/industrial land can be marketed.
- The non-receipt of Line Agency contributions in accordance with the assumptions made.

The project is financially viable under the pricing scheme proposed. The need to recover investment at the earliest opportunity, to minimize reliance on loan funds and to optimize the alleged preference to own, supports the proposal to sell commercial and industrial land.

The project's viability is dependent on the financial participation of line agencies. Every effort should be made to ensure that contributions are obtained in accordance with the capital investment program. Delays will be costly to NUDC.

Cross subsidy derived from commercial/industrial land is an essential feature of enabling mortgage payments to be brought within the affordability of beneficiaries, but an aggressive marketing strategy will be necessary in order to realize this subsidy.

Surpluses generated from this project should be reinvested in future NUDC projects as a net borrowing situation is likely to exist for many years to come.

Because of the magnitude and duration of the project, strict monitoring of actual performance against the financial plan will be necessary.

THREE YEAR PROGRAM SCHEDULE

<table>
<thead>
<tr>
<th>YEAR</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>5</th>
</tr>
</thead>
</table>

**NUDC MANAGEMENT ORGANIZATION**

1. ESTABLISH NUDC/APPOINT EXECUTIVE DIRECTOR
2. DEVELOP ORGANIZATIONAL AND STAFFING (ADC/AMB)
3. ESTABLISH POLICY AND PROGRAMMING
4. DEVELOP MANAGEMENT
5. OPERATE PILOT PROJECT

**ECONOMIC DEVELOPMENT**

1. INITIAL SITE AND SERVICES DEVELOPMENT
2. MARKETING
3. FINANCING

**TABLE 3. Guideline Format for Structuring Projected Cash Flow Statement.**

<table>
<thead>
<tr>
<th>TIMESCALE (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>'Capital Expenditure is to reflect the expenditure of line agencies in the sums expended in the corresponding timescales.</td>
</tr>
</tbody>
</table>

**SOURCES**

Government Loan
Loan -- International Line Agencies -- Contributions
Residential
Sale of Plots Commercial/Industrial
Sale of Plots Less Uncollected Payments -- Residential

<table>
<thead>
<tr>
<th>USES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Acquisition Construction Administration and Overhead Expenses</td>
</tr>
<tr>
<td>Loan Repayments -- International Principal Interest</td>
</tr>
<tr>
<td>Interest During Grace Period Interest on Government Loan Working Capital</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Inflow (Outflow)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repayment of Government Loan Cumulative Surplus Available for Reinvestment</td>
</tr>
</tbody>
</table>

**DESIGN DEVELOPMENT**

1. ESTABLISH PROGRAM APPOINT SUB-CONTRACT CONSULTANTS
2. DATA COLLECTION AND PRELIMINARY DESIGN
3. DETAIL DESIGN
4. INFRASTRUCTURE DESIGN
5. PLANNING STUDY

**CONSTRUCTION**

1. CONSTRUCTION MANAGEMENT (ADC)
2. ADVANCE PROCUREMENT
3. ADVERTISEMENT AND AWARD OF CONTRACTS
4. CONSTRUCTION

*Indicate activity for accomplishment of the first construction program.*
PART 4 THE IMPLEMENTATION PLAN

Responsibility for project implementation, coordination, and administration will rest with the National Urban Development Corporation (NUDC), an institution established to buy and develop urban land. For the purposes of this project, NUDC would supervise the program and execute the site and service program. The project will be planned and executed by a Unit in the ADC administration. Execution of the site and service program in its construction aspects will be delegated ADC. (Details of project organization are presented in this Chapter and the relationship of project agencies is illustrated in Chart No. 1.)

Although the physical components of the project would be executed within the jurisdictional boundaries of KwaZulu, the NUDC would exercise primary responsibility for implementation since a major purpose of this first urban project is to develop a national model which the NUDC can transfer with appropriate variations to other cities. As the project organization chart indicates the NUDC would operate under authority of the Ministry of Finance. As Chief Executive of NUDC, the Executive Director would report to a Board of Directors for approval of budgets and development plans. The Managing Director would develop the planning, financial, and engineering capacities of the NUDC and prepare a five-year work program. Appointments to the positions of Executive Director and General Manager's ADC & AMB assumption of the duties of these posts is a condition of effectiveness of the proposed project.

The site and service component of the project will be executed by ADC. A suitably qualified Project Manager will be appointed within ADC to direct a Site and Service Unit. This Unit will prepare the preliminary project site plans, engineering and cost estimates. A local engineering consulting firm is to be retained to prepare detailed engineering. On behalf of and under NUDC's supervision, ADC would contract with private construction companies for the execution of civil works.

A team within the NUDC would be established to systematically monitor the social response and physical aspects of the Site and Service Programs. Intensive monitoring would be done throughout the planning and execution phases to learn what impact community desires have on determining infrastructure investments, what self-help improvements are initiated by residents, what property transfers occur as a result of improvements, etc. Evaluation results would be used to modify the ongoing program and to aid the design of a national program. Monitoring of the site and service experience should also result in the preparation of a general model for Edendale and a national program. The review process would include, an assessment of the success of the application process in correctly identifying creditworthy residents satisfying the desired eligibility criteria, the progress in expanding the core houses, community response to new neighborhood responsibilities, the mortgage system, and the compliance with property transfer regulations.

OCCUPANT SELECTION PROCEDURE

The availability of residential lots for low-income residents would be announced through local language newspapers and community officials. Each of the offices in the area would have pamphlets describing the project with pictures, drawings, and application forms. Applicants would be required to provide relevant information verified either by the community leader and/or employer. Completed applications would be forwarded to NUDC along with evidence that an amount sufficient to cover the downpayment was on deposit with the Mortgage Bank. These applications would be reviewed by a selection committee according to established criteria.

CONSTRUCTION TRAINING

ADC would supervise an on-site training program in construction techniques provided by ADC in order to teach new residents how to complete and eventually expand the core units. In the course of the training program about 10 units would be constructed, approximately one each month during the occupancy period. These units would be sold individually at a price that covers the downpayment and the profit is used to offset the costs of the training program. The Project Unit would provide a manager in low-cost housing construction familiar with local materials and construction techniques who would prepare a training...
program. It is anticipated that construction techniques learned during the training program and practiced in the erection of individual houses would prepare some new residents with skills needed for permanent employment in the construction industry.

**LAND TITLE AND OCCUPANCY REQUIREMENTS**

Occupants will receive freehold title to their lots. In June 1980, Government promulgated legislation making it possible for blacks to obtain 99 year leasehold tenure on land. The parcel of land referred to in this development is the only parcel of land in the Republic of South Africa on which freehold title will be obtainable by black households.

**MORTGAGE ARRANGEMENTS AND LOT PRICES**

The African Mortgage Bank would extend mortgage loans to eligible purchasers of lots for up to 90% of the purchase price on terms of 12% interest per annum for a period of 15 years. AMB would finance these mortgage loans partially from equity capital (US$6.0 million equivalent from GOSA) and partially from a Government loan bearing an interest rate of 8-9% per annum, repayable in accordance with the aggregate of mortgage loans. Prices charged for individual lots (including core houses) in the site and service area are based on recovering the relevant administration costs of NUDC, interest during construction, and the full site development cost, exclusive of municipal services which are the responsibility of government agencies, i.e., schools, refuse collection, etc. The 280 m² lots would be priced at full development cost or about R 5000 (US$5500). The large 400 m² plot 100% above cost. Calculated in this way the estimated price of a 400 m² lot would be about R 9000 (US$9900). The 200 m² lots should be available at a price of about R 3000 (US$3300) or even less if the profit margin from market value sales on the larger plots is larger than estimated.

**MORTGAGE PAYMENTS AND DEFAULTS**

All monthly mortgage payments would be collected through a site office of AMB. A list of families who have been delinquent in their payments for more than three consecutive months would be prepared by the Bank and submitted to local AMB administrative officials who would determine the reasons for delinquency and necessary procedures for collection. After a six-month grace period, the bank would have authority to foreclose the

**IN SUMMARY**

This proposal and case study is based on the thesis that in furthering the cause of bringing affordable housing to the majority of low income families in the Republic of South Africa, neighboring territories and independent homeland's a financial and implementing agency is required to support housing and infrastructure development in the form of innovative financial instruments and alternative forms of housing development.

The creation of the National Urban Development Corporation company the African Development Corporation and the African Mortgage Bank merely provide a model for achieving these ends.
CHAPTER 5

APPENDIX A: WORLD BANK AND INTERNATIONAL DEVELOPMENT ASSOCIATION (from page 41)

EXHIBIT 1: CASE STUDY—KOREA (p. 70)
EXHIBIT 2: CASE STUDY—EL SALVADOR (p. 72)

CASE 1:
TANZANIA SITES AND SERVICES (p. 79)

CASE 2:
PHILIPPINES (p. 84)

APPENDIX B: FINANCING AGENCIES (p. 87)

APPENDIX C: EXAMPLE PROMOTIONAL INFORMATION DOCUMENT (from page 19) (p. 88)
THE FIRST STAGE
IDENTIFICATION

This is the process of identifying in a preliminary way, projects which are of high priority, which might be suitable for Bank financing, and which the borrower, the Bank, and the government are interested in considering. There are essentially three tests involved in the identification of a project:

- The first is whether the sector of the economy into which the project for development falls is a priority sector and is so recognized in the government's development plans.
- The second is whether, on prima facie grounds, the project seems to be feasible; that is, whether a technical solution to the problem to which the project is addressed can be found at a cost commensurate with the benefit to be expected.
- The third test is whether the government is willing to support the project by financial and other means. This is because loans are made either to governments or government entities, or to private entities with the support and guarantee of the government.

The most straightforward way of getting a new project is by a repeater loan to the same borrower, for subsequent stages of development of the same or a similar project. The principal source of new projects is continuing relations with borrowers, with new projects being identified and growing out of the supervision of existing projects.

Repeater loans, because they are easy to identify, are necessarily easy to prepare and negotiate. Sometimes this is so, and if the first project is going well, the second can be relatively straightforward. But sometimes the reverse is true. The first loan must be made somewhat on faith, with limited knowledge of the borrowing entity which may be a new institution established as part of the project, or with which the bank is just beginning to get acquainted. Various objectives are agreed upon and consultants entered into, but the project may not develop as hoped or expected. When this happens it may take three, four, or even five years to make the second loan because the problems which arose under the first have to be straightened out and the bank must be reasonably satisfied with performance under it before they are prepared to make another one.

There is a variant of the repeater loan, bearing the inelegant but descriptive title, which is acquired from the railway transportation field, of the "piggyback" operation. An important way of securing a self-sustaining project cycle is to include in a loan for a given project the funds for feasibility studies or for detailed engineering of subsequent projects. If, for instance, the Bank is financing the construction of urban infrastructure facilities as the first stage of expansion of a site and services development, the loan may well include the studies necessary to identify and prepare the succeeding stages of the project to include the establishment of supportive financial institutions and provide sector participation.

Once a project has been identified, it enters what is called the project pipeline, and an extensive period of economies of scale to the benefit of the borrower begins. This phase of the project cycle, because it depends so much on the nature of the project, the past experience of the borrower, the relationship of the Bank with the country and the borrower, and many other factors, is the most difficult to characterize.

Preparation covers all the steps necessary to bring a project to the point where its technical, economic, and financial feasibilities have been established and it is ready for appraisal. For a repeater loan where the first project has gone well, the time can be as brief as a few months. At the other extreme, where the bank has had great difficulties with the borrower in identifying and helping to prepare a satisfactory project, or where the bank cannot lend to the country for other reasons (for example, until it has improved the management of its economy), preparation may take five years or more. Some projects fall out during the process, and a loan or credit is never made.

The time consumed in the preparation process is a common source of complaint by governments in the developing countries which have an understandable desire to short-circuit project preparation and move directly from the stage of identification to the making of a loan. But the projects characterized by long-lived investments, and the time spent in ensuring that correct technical solutions have been found, in setting up the proper organization, in anticipating and dealing in advance with marketing and other problems, usually pays for itself many times over.

Preparation of a project involves decisions, based on technical judgements, about the site and location of the facility, and more broadly, on the appropriate technical features of the project itself. This is the stage in which soil, and other engineering investigations have to be undertaken, and the suitability and adequacy of the resources required for the project determined. It is also the stage where alternatives are systematically explored. At the preparatory stage it is therefore essential that all the alternative ways of accomplishing the objectives be considered. This is done typically through feasibility studies, which provide the preliminary design and engineering of alternative technical solutions and make a preliminary assessment of the economic benefits of each.
THE BANK'S ROLE IN PREPARATION

The formal responsibility for preparing projects is that of the borrower and not that of the Bank. This formal position was rigidly adhered to in the past for good reasons, one of which is the potential conflict of interest between the roles of the Bank in preparing projects and in lending for them.

While the position is logical, it has not been able to withstand the pressure of events. Experience has demonstrated that the Bank does not get enough good projects to appraise unless they are involved intimately in their identification and preparation. The result is that, instead of having an invisible dividing line, with identification and preparation of projects on one side and appraisal and supervision on the other, there is a continuing cycle in which the Bank is closely engaged at all stages. One of the benefits of this change of attitude is that through better preparation, fewer projects are rejected at the appraisal stage, although the final version of the project may be quite different from its original conception.

THE THIRD STAGE

APPRaisal

While consultants or specialized institutions are relied on to help prepare projects, the appraisal work is conducted almost exclusively by Bank staff. The appraisals are always made in the field; desk studies alone are not enough. How difficult the appraisal will depend very much on how the project has been prepared. If the preparation has been well done, the appraisal can be relatively straightforward; if not, what was thought to be an appraisal mission then becomes in fact a project preparation mission, and a subsequent mission or missions may be necessary to complete the job. The appraisal can cover up to six aspects of a project: the technical, economic, commercial, financial, managerial, and organizational.

FINANCIAL

The review is very comprehensive, covering all the significant financial aspects, but for purposes of his discussion these can be separated into two issues. One is concern that there be sufficient funds for the construction of the project. It is not the practice of the Bank or IDA to lend all the money that is required for a project; as little as 10 per cent or 20 per cent, or as much as 70 per cent or 80 per cent, but never 100 per cent.

The borrower must therefore provide part of the funds. In large projects, the borrower may not put up all of the remainder itself, but may go to other sources of finance such as the national agencies of capital-exporting countries. An important aspect of the appraisal may be to ensure that there is a financing plan which will make sufficient funds available to construct the project on schedule. When the borrower is a government that is known to have difficulty in raising local revenues, special arrangements may be proposed, such as advance appropriations or the earmarking of tax proceeds, to secure the necessary funds on time.

The second financial issue is whether the project will be able to meet all its financial obligations when it is in operation.

MANAGERIAL

The fifth dimension of project appraisal is the managerial one. The adequacy of the top management to direct the management of the project and manage it thereafter, and also with the adequacy of the staffing at all levels of the implementing organization. In some countries this becomes a major concern. Consultation between the borrower and the Bank on key managerial appointments is now a standard loan provision.

ORGANIZATIONAL

The organizational is concerned with the administrative structure of the agency carrying out the project. It should be free from political interference and from the rigidity that is sometimes inherent in agencies administered directly by the government. So while the degree of autonomy is a principal question examined by the staff member concerned with organization, the Bank's interest goes beyond this to make sure that the whole internal structure, the chain of command, the way in which departments are organized, the flow of decisions, the allocation of responsibilities within the organization are reasonably efficient.

The appraisal mission returns, it writes its report, and the report is carefully reviewed, and reviewed again within the Bank. When it has finally been approved negotiators are invited.

NEGOTIATIONS

Negotiations are the stage at which the Bank and the borrower endeavor to agree on the various measures that the appraisal report has shown to be necessary to ensure the success of the project; these agreements are then converted into legal obligations, set out in the loan documents.

After negotiations, the appraisal report is updated to reflect the agreements reached during negotiations, and the revised report, together with related documents, is given to the Bank's Executive Directors. If the Executive Directors approve the operation, the loan or credit is then signed in a simple ceremony which marks the end of one stage of the cycle and the beginning of another.

THE FOURTH STAGE

SUPERVISION

The final stage in the life cycle of an individual project is its supervision during the period of construction and subsequent operation. The purpose of such supervision is to ensure that the project is executed as planned, or modified in the light of changing circumstances, so that the development objectives are achieved.
EXHIBIT 1: CASE STUDY — KOREA

FORMULATION OF FINANCING PLAN FOR THE PROJECT

PROJECT OBJECTIVE

The project constitutes a new approach to meeting the large housing deficit in Korea; it facilitates housing construction by low income groups who have been unable to participate in public housing programs due to limited financial resources and high building costs. Financing would be made available for purchase of serviced lots, previously all purchases were made for outright cash. The project aims at a balanced community development and would allow for multi-family occupancy. The experience gained under this project would serve to guide the development of low-cost housing programs.

PROJECT FINANCING PLAN

US$ Million
Source of Funds
Total Loan Govt. City Recovery Source & %.

| Housing | 6.05 | 2.08 | 3.97 | - | Beneficiaries, 56% |
| Sites & Services | Government Charges & Taxes, 44% |

The Loan to the Government is 60% of total project cost, is channelled by the Central Government (Ministry of Finance) through subsidiary loan agreements to City Government and implementing authorities. The Ministry of Construction will undertake the construction, then hand the sites over to the cities for allocation and sale. Funds for the construction of the low-cost housing (not financed under the project) will be channelled from Korea Housing Bank through the cities to the beneficiaries. The cities will collect payments on the housing construction loans from the beneficiaries and pass them through to the Korea Housing Bank.

Allocation of Sites and Services Costs.

Full cost of land and site development charged to cities. Cities than charge site occupants a lot price sufficient to recover the costs.

The sale prices for the housing sites are based on the allocation formula outlined in Table 1.

Cost includes both price and physical contingencies. (1)

Site occupants will pay for land, site preparation, and on-site infrastructure costs. (2)
FORMULATION OF FINANCING PLAN FOR USERS
(Refer Chapter 1 Case: Korea House Bank).

GRADUATED PAYMENT MORTGAGE PLAN.
A 20% down payment on the lot purchase would be required from households purchasing the 35 py lots and a 50% down payment would be required from households purchasing the 50 py lots. However, about 40% of the 35 py purchasers would have initial debt service payment up to 15% lower than those required under constant monthly payments provided that subsequent debt payment would increase over time to meet the full amount of the purchasers' debt obligations. The repayment terms on the loan for the balance would be 12%, 15 years. The 70 py lots would be sold on a cash basis only. The 12% interest charged project beneficiaries in 4% higher than the present rate for public housing in Korea and the rate at which the Government is charging the cities for the development of sites. This 4% interest spread and the 30% surcharge on buyers of the 70 py lots would help the cities meet the attendant administrative and default expenses without undue strain on their own finances.

Financing for the cost of housing construction for low- and middle-income site occupants would be made available by the Korea Housing Bank, through the cities. The average construction costs for the low-income housing to be built by self-help and W 903,000 for the 15 py house built by a constructor. For low-income site occupants who choose to build their house with help from constructors, KHB would finance up to 80% of the cost, through the city. The repayment terms for the site occupants would be 12% and 15 years. It is expected that two-fifths of all the houses on the 35 py lots will be of the self-help variety.

To afford the high housing cost in Korea, more than one household usually shares a house.

A low-income household desiring to construct a 12 py (40.6 m²) house on a 35 py lot would experience the following monthly charges assuming the following:

(a) the 20% down payment on the lot has been met;
(b) the 20% down payment on the house has been met;
(c) the balance on lot would be repaid in 15 years at 12%;
(d) the balance on the housing would be repaid in 15 years at 12%;
(e) the occupant builds with the help of a constructor but provides family labor; and
(f) initial debt service payments at 15% below face value.

Assuming that low-income households can devote no more than 25% of their monthly incomes to housing and utilities, over 80% of all households would have sufficient incomes to afford a house on a 35 py lot.

| Land Development Cost/1 and Household Loan Obligations for the Housing Sites and Services (W 000) |
|-----------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Total % | Directly Chargeable % |
| Cost | Cost/2 | |
| Cost per py to be sold (W) | 30 878 100% | 17 060 55% |
| Land | 276 410 16 | 268 343 26 |
| Site preparation | 199 120 12 | 199 120 21 |
| On-Site Infrastructure | 481 780 28 | 481 780 51 |
| Off-Site Infrastructure | 649 470 38 | - 0 |
| Green areas | 3 310 .2 | - 0 |
| Community Facilities | 7 130 .4 | - 0 |
| Professional Services | 103 470 5.39 | - 0 |
| Sub-Total | 1720 690 100% | 949 243 55% |
| Number of lots | 970 255 128 |
| Chargeable cost of lot to site occupants/3 | 597 853 1552 |
| Sale price per Tot /4 | 597 853 1552 |
| Downpayment /5 | 119 426 1552 |
| Lowan obligation per lot | 478 426 - |
EXHIBIT 2: CASE STUDY — EL SALVADOR

Project data

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>El Salvador</td>
</tr>
<tr>
<td>City</td>
<td>National</td>
</tr>
<tr>
<td>Project Name</td>
<td>Sites and Services</td>
</tr>
<tr>
<td>Population</td>
<td>3.96 million</td>
</tr>
<tr>
<td>Target Income Groups</td>
<td>Low Income</td>
</tr>
<tr>
<td>Site Gross Area</td>
<td>95ha</td>
</tr>
<tr>
<td>Site Conditions</td>
<td>Good</td>
</tr>
<tr>
<td>Number of Lots</td>
<td>7000</td>
</tr>
<tr>
<td>Average Lot Dimensions</td>
<td>60m² to 120m²</td>
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<tr>
<td>Development</td>
<td>Progressive</td>
</tr>
<tr>
<td>Level of Services</td>
<td>Minimum</td>
</tr>
<tr>
<td>Project Costs</td>
<td>Refer Funding requirements in text of case study</td>
</tr>
</tbody>
</table>

FORMULATION OF FINANCING PLAN FOR THE PROJECT

PROJECT OBJECTIVE

The objectives of the project are to: (i) demonstrate that a site and service program with partially-built units is a practical alternative to conventional fully-built Government housing programs, the costs of which have been beyond the means of nearly 60% of urban households; (ii) ease the severe shortage of low-cost urban shelter by providing units affordable to families earning US$40-120 per month, reaching down to the 17th percentile of the urban income distribution scale; (iii) demonstrate the potential role of the private sector in providing self-financing, low-income housing, thereby easing the burden on Government resources;

PROJECT FINANCING PLAN

<table>
<thead>
<tr>
<th>Financing</th>
<th>% of Total Project Costs</th>
<th>Amount US$ Million</th>
<th>Recovery %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>21%</td>
<td>3.2</td>
<td>Beneficiaries 100%</td>
</tr>
<tr>
<td>FSVM (implementing Agency)</td>
<td>24%</td>
<td>3.8</td>
<td>100%</td>
</tr>
<tr>
<td>IDA/IBRD (Bank)</td>
<td>55%</td>
<td>0.5</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>15.5</td>
<td></td>
</tr>
</tbody>
</table>

Government would cover total costs of off-site infrastructure, community facilities, related design and engineering fees and certain technical assistance totalling (US$2.4) million. Power reticulation costs totalling US$0.8 million for street lighting and individual connections including related design and engineering would be financed by government. The FSVM would finance 100% of expenditures on land, project management, and small industries loans, and 80% of the construction materials fund. Bank loan would consist of an IDA credit of US$6.0 million and a US$2.5 million iBRD loan.

Government’s share of total project costs would be financed through the regular budgets of government agencies and CAESS. Costs would be recovered through mortgage payments, normal rates and tariffs levied by ANDA, CAESS and the Municipality. The FSVM would supply US$3.8 million of which US$2.0 million will come from local bank lending (Banco Hipotecario) and US$1.8 million from its own reserves.
The proposed US$6.0 million IDA credit would be on standard IDA terms to the Government who would on-lend the full amount to the FSVM at 2% interest over 30 years including 6 year grace. At the request of Government, payments by FSVM of principal and interest on the IDA funds in excess of the amounts required to service the IDA credit will be credited to a special government fund to be established in the Financiera Nacional de la Vivienda (FNV). The proceeds of the fund will be used exclusively for the purpose of financing low-income housing. The interest differential between the 2% on lending rate and the household mortgage rate was determined by Government in order to cover possible defaults by households and to build-up the FSVM’s reserves for future projects (Table 1). The US$2.5 million IBRD loan would be made to Government for on-lending to FSVM at IBRD terms (8%, 30 years including 6 year grace). Government would bear the foreign exchange risk associated with the credit and the loan.

FORMULATION OF FINANCING PLAN FOR USERS
(Refer Chapter 1 Case: El Salvador)

The costs of land, on- and off-site infrastructure, core units, construction materials and small industries loans, and project management including related design and engineering fees, totalling US$13.2 million, would be recovered by the FSVM from project beneficiaries.

The FSVM’s relatively unsubsidized pricing policies differ from those of government on essentially three points. In previous IVU projects, as well as many private middle and high income developments, households were often not charged for (a) project management, (b) interest during construction, and (c) land and infrastructure costs for roads, footpaths and open space, representing up to one-third of costs. In some cases no land charge was made at all. These practices represent a regressive Government subsidy favoring the higher-income groups generally served in IVU projects. Assuming IVU initiates its own sites and services program, a similarly subsidized monthly charge could undermine the pricing practices of the FSVM, the marketability of lots and the agency’s credibility as a non-profit enterprise. IVU policy however is to eliminate these subsidies on future projects.

LOT DEVELOPMENT COSTS AND SALES PRICES
Lot development cost range from (US$860) to US$1,515 as summarized below. The formula presented below is intended to demonstrate the principles governing cost allocation between users. Actual land and construction costs for each site would be used to calculate final charges on that site. Sales prices would be adjusted to reflect locational advantages within the site, with commercial lots sold at market prices. In previous FSVM projects, different service levels produced a narrow cost differential. As a result, the majority of the applications were for the highest service level, indicating that the price differential was lower than the value placed on that unit by households. The FSVM will therefore price level 2 units 10% above costs, applying the difference to reduce level 1 units on the same site in order to reach lower-income groups. For example, the development cost of C 2,900 for service level 2 on a 60 m² lot would be increased by about 10% or C 290 resulting in a sale price of C 3,190. The C 290 would be applied towards the development cost for service level 1 on a 60 m² lot reducing that sale price to about C 1,855. The estimated range of sale prices for the various service levels is shown below.

As shown above, 80% of the units would sell for about US$1,275 or less. Optional construction materials loans would further extend the range of lot development costs:

VARIABLE RATE MORTGAGE
(Refer to Chapter 1 Case: El Salvador)

The FSVM’s mortgage terms to households would be at least 6% over 25 years. Households receiving service
level 2 might be charged a higher rate. The 6% rate is 1% above FSVM's existing rate, equal to the IVU and Fondo Social minimum rate, and 4.5% below the rate charged by the profit-oriented savings and loan associations. The latter recently increased their rate from 9% to 10.5%. Because interest rates are increasing, it was agreed during negotiations that should IVU and the Fondo Social increase their minimum rate to 7% prior to lot allocation, the FSVM rate shall be adjusted accordingly. Should the IVU and Fondo Social increases exceed 7%, the FSVM will review with Government and the Bank the need for further increases in the FSVM rate. Construction materials loans would be amortized over 10-15 years at rates of at least 8%.

Households will be required to make a minimum downpayment of 5% the sale price either in cash or through mutual help labor credits which generally amount to 5% of lot development costs.

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
<th>Loan Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Serviced lot with sanitary unit.</td>
<td>IDA Credit @ 0.75, 50 years, 10-year grace, US$6.0 million; IDA IDRE Loan @ 8%, 30 years, 6-year grace, US$2.5 million; IBRD Loan @ 6.83, 30 years, 6-year grace, US$2.5 million; Special Fund @ 3.01, 30 years, 6-year grace, US$2.0 million; Other @ 4.01, US$1.0 million.</td>
</tr>
<tr>
<td>2</td>
<td>Serviced lot with sanitary unit and basic dwelling.</td>
<td>IDA Credit @ 0.75, 50 years, 10-year grace, US$6.0 million; IDA IDRE Loan @ 8%, 30 years, 6-year grace, US$2.5 million; IBRD Loan @ 6.83, 30 years, 6-year grace, US$2.5 million; Special Fund @ 3.01, 30 years, 6-year grace, US$2.0 million; Other @ 4.01, US$1.0 million.</td>
</tr>
<tr>
<td>3</td>
<td>Close-up of 2 Sanitary Core Units, Back-to-Back.</td>
<td>IDA Credit @ 0.75, 50 years, 10-year grace, US$6.0 million; IDA IDRE Loan @ 8%, 30 years, 6-year grace, US$2.5 million; IBRD Loan @ 6.83, 30 years, 6-year grace, US$2.5 million; Special Fund @ 3.01, 30 years, 6-year grace, US$2.0 million; Other @ 4.01, US$1.0 million.</td>
</tr>
<tr>
<td>4</td>
<td>Lots with Sanitary Core Units and extended house units.</td>
<td>IDA Credit @ 0.75, 50 years, 10-year grace, US$6.0 million; IDA IDRE Loan @ 8%, 30 years, 6-year grace, US$2.5 million; IBRD Loan @ 6.83, 30 years, 6-year grace, US$2.5 million; Special Fund @ 3.01, 30 years, 6-year grace, US$2.0 million; Other @ 4.01, US$1.0 million.</td>
</tr>
</tbody>
</table>

FIGURE 3: Project financing plan.
### Project Work Financed by AID (from page 42)

1. Slum and squatter settlement upgrading, including provision of clean water, sewerage, electricity, roads, community services, and building materials for self-help home improvement.
2. Sites and services, including preparation of vacant land for productive shelter use through uniform lot division, installation of water and sewerage lines, provision for building materials loans and training programs for self-help constructores and small-scale contractors, as well as construction of some common-use facilities.
3. Core housing, involving basically and site-and-services approach with the addition of a rudimentary housing shell on each lot (perhaps four walls, a roof, and water facilities) designed to be improved and expanded by the owner.
4. Low-cost housing units for sale or rental.

<table>
<thead>
<tr>
<th>Project Location</th>
<th>Agency and U.S. $ Loan Amount</th>
<th>Project Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peru</td>
<td>Housing Bank of Peru (BP)</td>
<td>$25 million Housing Guaranty program, $15 million of which was authorized in FY 1975/76. This program will provide new and upgraded infrastructure services and community facilities.</td>
</tr>
<tr>
<td>Tunisia</td>
<td></td>
<td>$10 million loan</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>NHB</td>
<td>$15 million loan</td>
</tr>
<tr>
<td>Bolivia, Costa Rica, Ecuador, Honduras, Paraguay, and Peru</td>
<td>InterAmerican Savings and Loan Bank (SIAF)</td>
<td>Authorized for the development of low-income housing programs for an estimated 15,000 families. The funds are expected to be channeled through central savings and loan banks to their member savings and loan associations.</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>$1 million loan</td>
<td>For improving housing and community facilities in 19 low-income areas in metropolitan San Jose, Costa Rica. The loan is helping to finance home improvements, additions, and new construction. Subproject sites will be selected according to proximity to place of employment, availability of infrastructure, and community facilities, and environmental suitability. About 4000 families are expected to benefit.</td>
</tr>
<tr>
<td>El Salvador</td>
<td>$15 million loan</td>
<td>Authorized for the El Salvador Ministry of Planning. This loan is the shelter component of a $31.5 million project that is seeking to meet immediate needs for shelter, public services, and productive opportunities in marginal communities and improve El Salvador’s capacity to comprehensively address these needs.</td>
</tr>
<tr>
<td>Honduras</td>
<td>National Housing Institute of Honduras</td>
<td>Authorized to finance shelter solutions for 6,300 families in Yepocapan and San Pedro Sula and institutionalize the sites and services approach on a national scale. The purpose is to redirect the policy of IMVA towards low-cost housing, increase its capacity to produce and service low-cost housing, and initiate the use of market-rate interest for low-income housing.</td>
</tr>
<tr>
<td>El Salvador</td>
<td>$11.4 million loan</td>
<td>This program is the balance of a Housing Guaranty program, $15 million of which was authorized in 1975/76. This program will provide new and upgraded infrastructure services and home improvement loans in “Pueblo Jovenes,” legalized squatter settlements in cities throughout Peru.</td>
</tr>
<tr>
<td>Tunisia</td>
<td></td>
<td>For a housing guaranty program that will provide low-income families with secure land tenure and access to core housing as well as improved access to infrastructure services and community facilities. This program, $10 million of which was authorized in FY 1977.</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>NHB</td>
<td>National Housing Bank for a tripartite housing program for lower income workers. The loan will finance a demonstration approach to the provision of low-cost shelter for workers through a collaboration of private enterprises, workers, and the Government of the Dominican Republic acting through the National Housing Bank. The National Council of Businessmen (Conasjo) will promote the participation of private employers. Workers will finance home construction and improvements by combining employer benefits with loans from local savings institutions.</td>
</tr>
<tr>
<td>Bolivia, Costa Rica, Ecuador, Honduras, Paraguay, and Peru</td>
<td>InterAmerican Savings and Loan Bank (SIAF)</td>
<td>Authorized for the development of low-income housing programs for an estimated 15,000 families. The funds are expected to be channeled through central savings and loan banks to their member savings and loan associations.</td>
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</tr>
<tr>
<td>PROJECT LOCATION</td>
<td>AGENCY AND U.S. $ LOAN AMOUNT</td>
<td>PROJECT DESCRIPTION</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td><strong>HONDURAS</strong></td>
<td>$15 million loan guarantee the first $25 million program.</td>
<td>A project that will help establish a functional system for expanded private sector involvement in providing shelter affordable by the urban poor. The loan program will provide most of the financing for approximately 6700 minimal cost housing units, to be improved as owners can afford it, in the San Pedro Sula and Tegucigalpa metropolitan areas. The unit will be between 25 and 27 square meters and initially will have a living room, a bathroom, and laundry facilities.</td>
</tr>
<tr>
<td><strong>IVORY COAST</strong></td>
<td></td>
<td>Continuous activities begun in Abidjan in the joint A.I.D.-World Bank Urban Development Project in several secondary cities. This loan will help finance the upgrading of existing low income neighborhoods housing about 70,000 persons. Included will be all weather streets and storm drainage, potable water distribution, sewage disposal, electricity, community facilities, and land tenure. The loan will also finance sites and services and core housing for approximately 50,000 low income persons in secondary cities; initial credit for about 300 small businesses; and about 1000 home improvement loans. Emphasis will be placed on achieving cost recovery. Also, the project will be bid in small lots to permit awarding of at least 50% of the contracts to Ivorian firms.</td>
</tr>
<tr>
<td><strong>KOREA</strong></td>
<td>Korea Housing Bank $25 million loan</td>
<td>To expand its role as the principal housing finance institution and introduce lending programs more suitable to the needs and financial capacity of low-income families. The Korea National Housing Corporation, credit unions, and municipalities will act as sub-borrowers to finance expandable core housing; serviced lots and building materials; and home improvement loans for low-income families.</td>
</tr>
<tr>
<td><strong>JAMAICA</strong></td>
<td>$15 million loan</td>
<td>Authorized for a program of slum upgrading and home improvement in the San Miguelito District of Panama City. This loan permits a $15 million financing started in FY 77.</td>
</tr>
<tr>
<td><strong>PANAMA</strong></td>
<td>$5.4 million loan</td>
<td>To finance low-cost shelter projects that are expected to benefit 11,000 people in eight market towns in central and western Panama. Six different levels of shelter will be provided, ranging from sites with utility services to completed two-bedroom units on urbanized lots. Also included in the project is a technical assistance loan to help improve the management practices of the National Mortgage Bank of Panama (the borrower), and the Ministry of Housing, which will be the implementing agency.</td>
</tr>
</tbody>
</table>

### Project Location: India

**Agency and U.S. $ Loan Amount:**

- **Agency:** Housing Development Finance Corporation (HDFC)
- **Loan Amount:** $20 million loan

**Project Description:**

- The project will help establish it as the nucleus of a private sector housing finance network serving all income strata, especially lower income families.
- The funds will be re-loaned to industrial and agricultural enterprises for worker housing. The housing sites will be in several locations throughout India, but not in the major urban center, to support India's policy of distributing industrial development more widely in the country.
- It is expected that approximately 6000 low cost units will be constructed, benefiting about 36,000 persons.
- Short term technical assistance, training, and office equipment will be provided in conjunction with the loan.

### Project Location: Ivory Coast

**Agency and U.S. $ Loan Amount:**

- **Agency:** Ivory Coast Sinking Fund
- **Loan Amount:** $20 million loan

**Project Description:**

- This loan completes a project that includes $63 million for urban transportation and $18 million for shelter.
- The World Bank is developing a parallel project that includes $63 million for urban transportation and $18 million for shelter.
- An A.I.D.-financed advisor will coordinate development of the sub-projects and access of beneficiaries to urban services.
A comprehensive approach to the formulation of capital projects in developing countries

Project Location: Morocco
Agency: $17 million loan
Project Description: Authorized for the Government of Morocco to help finance a variety of low cost shelter activities and improve the effectiveness of Moroccan shelter institutions. The program, which will be carried out throughout Morocco, includes:

1. Upgrading of approximately ten bidonvilles (slums) with water, road and sewerage layouts. Land tenure will be legalized and community facilities included. About 26,000 persons will ultimately benefit.
2. Urban core housing for as many as 7000 beneficiaries in four cities.

Project Location: Sri Lanka
Agency: $25 million loan
Project Description: Authorized for the Government of Sri Lanka. The project will assist Sri Lanka to develop shelter policies and structure programs to increase the effectiveness of limited government resources and maximize the benefit to lower income families. This first part ($25 million) will finance about 13,000 new starts in the aided self-help sites and services/core housing program.

It will also provide building materials loans and some level of infrastructure to existing slum and shanty areas, with improvements to benefit about 3600 families. These programs will take place in Colombo, district capitals and secondary cities, and rural villages.

An array of technical assistance for the life of the project is proposed, including several short and long term advisors, technical studies, and training in the U.S. for Sri Lankan shelter sector professionals. Chief aims of this advisory assistance are an improved national housing finance system and more efficient housing sector management.

Project Location: The Seychelles
Agency: Seychelles Housing Development Corporation
Project Description: Authorized for a project that will increase production of low cost housing by institutionalizing the aided self-help, minimal standard and maximum cost recovery approach. With matching funds from the Government of the Seychelles, the loan will finance approximately 800 low cost houses, with varying plot sizes and house types, based on families' needs and ability to pay. The loan supports the Seychelles' District Housing Program, an effort to develop scattered clusters of modern housing throughout the islands, while making the maximum use of available infrastructure.

Technical assistance in the form of short term consultancies will help the Seychelles Housing Development Corporation to set the project in motion.
SERVICES PROVIDED BY OPIC  (from page 44)

INVESTMENT MISSIONS

The need for direct communications, the exchange of ideas and the creation of mutual understanding between nations has never been greater. Investment Missions are aimed at creating a better understanding in the developing world and the opportunities available for private sector investment that will generate employment, transfer skills and ideas, and give people the means to help themselves.

FEASIBILITY STUDIES

Before projects are undertaken, OPIC will under certain circumstances provide funding to undertake extensive feasibility studies to corporations with a sound investment record and demonstrate managerial, technical and financial capabilities.

Investment missions offer a first hand opportunity to study project sites and to determine the need for a more detailed pre-investment analysis of the proposed project.

DIRECT LOANS/ GUARANTEES

Finance is provided by U.S. sponsored projects in the developing world, principally through programs of banks made directly out of its own capital (DIRECT INVESTMENT FUND) and of loan guarantees to U.S. financial institutions providing such loans. The loan guaranty is an all-risk guaranty pledging the full faith and credit of the USA for the prompt payment of principal and interest.

Insurance

The investment programs provides coverage against:

1. Inconvertibility of local currency earnings and returns of capital.
2. Expropriation and in some cases abrogation of contractual rights and
3. War, revolutions and insurrection.

To the private investor political risk insurance is often an essential element in the decision to make a commitment in a developing nation. Although the investor has the capability to assess the practical business considerations involved he may find it difficult to judge the long-range political climate in a given country or area.

Insurance coverage typically is assured for the duration of project loans or contracts and for 12-20 years of equity. Rates are based on the coverages elected and on the corporations assessment of the risks to the project.

TRAINING PROGRAM

Assistance in the funding of training projects which are an integral part of existing or projected enterprises. Training the workforce in both the operational and supervisory areas is essential to the success of any project and is often the most critical problem of the project.

Financing is based on a projected economic and financial stability and reasonability to repay.
Case 1: Tanzania — Sites and Services Project

Objectives of the Proposed Project

The objectives of the proposed project are to:
- Demonstrate the suitability of the sites and services approach and squatter area upgrading for meeting the needs of low-income urban dwellers; and
- Strengthen the Government's institutional capacity to plan and implement an ongoing national sites and services program.

Part 1: Introduction and Summary

The project, first in a series of proposed sites and services projects throughout Tanzania, will help strengthen an essential link in the national rural/urban development strategy.

With its nationalisation and decentralisation policies, the Government has the institutional means to build an economic base in the regional centers. However, it lacks the capital and manpower to accommodate the population increase which will accompany this growth, as well as the mounting numbers of subsistence farmers migrating to these centers in search of a better living environment and improved employment opportunities. As a result, severe shortages in housing, basic infrastructure and community facilities are developing, giving rise to growing squatter settlements. Living conditions are difficult due to inadequate access to water, electricity, refuse collection, education, and health services.

Context

In early 1973, at the request of President Nyerere, the Ministry of Lands, Housing and Urban Development (Arndt) prepared a four-year sites and services program for the ten regional centers, to provide 12,500 newly surveyed, serviced or improved plots annually with basic infrastructure and community facilities. In an important departure from previous policies of squatter demolition and resettlement, which the Government found too costly and socially disruptive, the program provides basic infrastructure and community facilities in areas where spontaneously-organized efforts have resulted in viable neighborhoods.

To make credit available to low-income households for construction loans, the Government established the Tanzania Housing Bank (THB) to mobilize domestic savings and foreign funds. Arndt was reorganized and a Sites and Services Section was created to help plan and implement projects.

Approach

The proposed project, with sites in Dar es Salaam and the other two regional centers of Mwanza and Mbeya, is an initial step in implementing the Government's nationwide low-cost housing program. Although it will not satisfy the total demand for serviced and improved plots, the funds, technical assistance and training support provided under the project will enable the Government to strengthen its institutional capacity to plan and implement an expanded program in the future. The provision of surveyed plots, basic infrastructure, community facilities, and access to credit for construction will permit low-income households in planned areas and squatter settlements to construct houses and improve their living environment on a self-help basis at acceptable per plot costs.

Part 2: The Plan for Development

The proposed project consists of:
- Approximately 10,600 newly serviced plots located as follows:
  1. About 7,450 plots in three sites in Dar es Salaam;
  2. About 2,300 plots in Mwanza; and
  3. About 850 plots in Mbeya.
- Improvements to basic infrastructure and additional services in existing squatter settlements, totalling approximately 8,800 dwellings.
- Community facilities.
- Consultants' services for the design and detailed engineering of basic infrastructure and community facilities, preparation of a follow-up sites and services project and overall project supervision.
- Financing for the THB soft-loan lending program for construction loans for low-income households; and

The sites were carefully selected in terms of availability of land suitably sized and situated for low-cost housing, natural conditions suitable for construction and drainage, and location relative to...
PART 3 THE FINANCIAL ANALYSES

Financing of project costs will be shared in the following amounts and proportions:

<table>
<thead>
<tr>
<th></th>
<th>TSh (millions)</th>
<th>US$ (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA Government of Tanzania</td>
<td>60.0</td>
<td>8.5</td>
</tr>
<tr>
<td>THB 1974-78</td>
<td>36.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Total</td>
<td>119.6</td>
<td>18.7</td>
</tr>
</tbody>
</table>

The proposed IDA credit will be on standard terms to Government. This would finance 65% of the cost of civil works, 75% of consultants services, the full cost of equipment, zero percent for land acquisition, and US$2.0 million for the construction loan funds for the THB. IDA funds for construction loans will be made available to THB at 3% annually. Although the funds provided for THB construction loans (TSh 14.0 million) are small relative to the need of TSh 45.0 million, the IDA contribution is expected to encourage other external financing and bilateral-aid agencies to follow suit. Detailed project financing is shown in Table 1.

Cost estimates for the on-site infrastructure are based upon the preliminary engineering for Sinza and Manzese B. These costs formed the basis for estimating the on-site infrastructure costs for the other sites. The off-site infrastructure costs were estimated separately for each site, also using the preliminary engineering for Sinza and Manzese B.

The estimated costs of the project, including land acquisition, technical assistance, construction loans and contingencies, is about TSh 119.6 million (US$16.7 million equivalent). The foreign exchange component is small, US$3.9 million or about 30% of civil works (25% of project cost), due to labor intensiveness and economy levels of design standards.

The infrastructure costs include a 15% physical contingency for the sites for which preliminary engineering has been completed, and 25% for the remaining sites. A 10% physical contingency allowance is provided for community facilities. Due to rapidly increasing prices, particularly for oil and petro-chemical products, a high contingency allowance for price escalation is provided. For all civil works, price escalation of 15%, 15%, 12.5%, and 15% is assumed in 1974, 1975, 1976 and 1977, respectively. This amounts to an overall price contingency of about 31%.

Channelling of Funds

Proceeds of the Credit will be made available to the Treasury which, in turn, will make a portion available to Ardhi through its normal budgetary procedures. The Treasury will on lend to THB its portion of the Credit at 3% interest for 25 years. Funds accruing to the TSh 45.0 million for squatter improvement areas (i.e. 38%) will be used for future loans, after covering administrative costs and any defaults in repayments.

Through 1973, the Government has expended TSh 4.68 million, including TSh 2.53 million for compensation payments and TSh 2.15 million for consultants' services for detailed engineering. The Government has requested IDA to retroactively finance THB 1.4 million of this latter amount. The Government has assured IDA that its contribution totaling an estimated TSh 50.8 million (including TSh 31.0 million for the THB) will be provided.

This is a gross amount, and does not take into account the downpayments, ground rents, and repayments on construction loans, amounting to an estimated TSh 14.5 million which the Government will receive during the 1974-78 project disbursement period.

It is estimated that this project will require a total of TSh 45.0 million (Assuming that 70% of the households on new plots (10,400) will borrow construction loans averaging TSh 5,000 and 50% of households in squatter improvement areas (8,800) will borrow improvement loans averaging TSh 1,500) for construction loans. Taking into account expected contributions to the project from IDA and other external financing and bilateral-aid agencies, totaling TSh 28.2 million, the Treasury will need an additional TSh 16.8 million from other cash sources (e.g., the Government, public deposits, and other external sources). The Government has assured IDA that it will guarantee sufficient funds for the THB to meet the demand for low-cost construction loans in accordance with the cash flow projection.

Plot Pricing Policy

For pricing purposes, the infrastructure costs are allocated to the residential and community facilities areas. The allocation criteria charge all off-site infrastructure and consultants' costs to the Government. The land acquisition and on-site infrastructure costs are shared by the residents and community facilities. The
community facilities are charged in direct proportion to the area they occupy, with the residential plot-occupant paying the remainder, i.e., roughly 75% of the land acquisition and on-site infrastructure costs. The chargeable cost per plot ranges from TSh 1,140 to TSh 4,600. The cost variation is primarily due to the level of services provided.

An individual monthly plot payment includes the ground rent, repayment of the construction loan, and utilities bill, if any. (Initially, residents will be paying a utility charge for the individual water connections. Furthermore, not all plot-occupants will take a construction loan). The ground rent consists of: the statutory ground rent and the chargeable ground rent. The statutory rent is a charge levied by the Treasury for the privilege of using land, and is taken as 4% of its capital value (The capital value is determined by a tendering and capitalised rent system, for example, where a unit capital value of land is calculated as TSh 0.30/sq. ft. and the typical plot size is 2000 sq. ft.) the capital value per plot is TSh 950 (i.e. 0.3 x 3,160). This amount accrues to the Treasury. The chargeable rent is:

Based on the cost of the infrastructure provided, (the calculation of ground rent is based upon capital value of land (statutory ground rent) and infrastructure costs (chargeable ground rent) replaces the arbitrary and outdated charging system employed for high density areas.

Previously, plot-occupants were charged a flat fee based upon a fixed schedule for the privilege of using land. They were also charged a fixed tax of TSh 100 per year to help defray the cost of urban services) and is calculated from the on-site costs allocated among the residents and community facilities. (For example, the assignable infrastructure cost per plot is TSh 1,809. A 10% down payment will be required and the remaining amount will be amortised over 25 years at 9% interest, amounting to TSh 13.6 per month) Ground rents range from TSh 12.7 per month in the squatter improvement area of TSh 37.8 for a new plot.

Construction loans are expected to range from TSh 4,000 to TSh 10,000 with a typical loan of TSh 5,000 amortized at 6% for 20 years. The size of the construction loan will vary, depending upon the type and size of house to be constructed and the individual's savings and construction skills. A plot-occupant may build the house of his choice. However, to be eligible for a loan, the house must meet certain construction specifications. The estimated cost of an improved Swahili house of soil-cement blocks, concrete floors and galvanized iron roof is TSh 7,000 and TSh 9,000 for a four-room and six-room house, respectively.

The total monthly payments for the new sites (including construction loans of TSh 5,000) range from TSh 50.6 to TSh 88.4. Houses must meet not only a monthly income requirement, but also have sufficient savings to meet the front-end costs, which are an important expression of the household's commitment to the project. These costs include a downpayment amounting to 10% of the assignable infrastructure cost and several small fees. The project is expected to reach well below the household income scale and cover an intermediary range, including about 70% of the total income distribution. In Dar es Salaam, about 16% of the households earn more than TSh 500 per month. Assuming that families spend about 15% of their income on housing, the minimum monthly household income required to afford a new plot ranges from TSh 340 to TSh 590. Households with lower incomes, about TSh 200 per month, can afford a plot by: (I) taking a smaller construction loan of (II) renting rooms or (III) cross-subsidisation. For example, higher charges could be levied on plot-occupants with preferred locations permitting a reduction in charges for plots further away from infrastructure and community facilities. Finally, very low-income households will benefit through the project's substantial squatter improvement component.

**THE TANZANIA HOUSING BANK BACKGROUND AND PURPOSE**

The Tanzania Housing Bank (THE) was established by the Tanzania Housing Bank Act, 1972. It replaced the Permanent Housing Finance Company of Tanzania (PHFCT), a commercial institution jointly owned by the Government and the Commonwealth Development Corporation (U.K.) set up in 1968 to finance medium and high-cost housing. The PHFCT funds were expensive because they were borrowed at high interest rates from the public, Government, and from abroad. The resulting high housing costs and rents led to public criticism and the subsequent takeover of the PHFCT's assets, liabilities, and operations by the THE.

The objectives and functions of the THE are summarized as follows:

To promote housing development by making technical and financial assistance available for housing and services projects; housing cooperatives, ujamaa villages, and other owner-occupied housing schemes;

To ensure the implementation of the Government's housing and building policies, promote the use of local materials, encourage the construction of housing types best suited to local conditions, and foster the minimizing of building costs and rents; and

To administer any special funds which may be placed at the disposal of the Bank and undertake other related functions assigned by the Minister of Finance after consultation with the President;

**Organization and Administration**

The THE is a parastatal of the Treasury, a corporate body with more than 50% of its share capital owned by the Government. It is governed by a Board of Director consisting of eight to twelve members appointed for unspecified terms by the Minister of Finance. The Chairman is appointed by the President. The Directors are persons with knowledge and experience in economic and financial matters, town planning, estate management, building industry, and other fields the Minister of Lands, Housing and Urban Development, which largely determines the Bank's policies and procedures.

The General Manager is appointed by the Minister of Finance after consultation with the Board. He is the chief executive officer responsible for the Bank's day-to-day management, business and affairs.

The THE's organisation consists of four departments in the Head Office in Dar es Salaam, a Branch Office, and representatives in several other towns. The Administration Department is responsible for personnel matters and general services. It also handles the secretariat matters for the Board, and its Manager serves as the Board's Secretary. The Finance Department is responsible for the Bank's lending and guaranteeing activities and related functions. The Finance Department deals with loan applications and their appraisal from the technical, economic, and social points of view. It is also concerned with providing advice to clients concerning the khi, clients obtaining securities for loans, preparing loan agreements and reports, and supervising projects.

The THE promotes the savings and loan opportunities of the Bank, and gathers and analyses statistics, prepares studies and maintains liaison with Government agencies and institutions throughout the country.
LENDING OPERATIONS

The THB offers two major types of loans:

Soft Housing Loans: These loans are offered at 6% interest for up to 20 years to help meet the needs of low-income people. Applications from housing cooperatives and other groups for construction of low-cost, self-help housing or house improvements are encouraged because it is felt that this group approach fosters communal living, results in lower-cost housing, and improves the collection of loan repayments. Borrowers include the National Housing Corporation (NHC). (The National Housing Corporation (NHC) is a parastatal of Ardhi and is responsible for designing and building low and medium-cost housing for sale or rental) housing cooperatives and other groups, and urban villages, as well as low-income individuals.

Commercial Loans: These loans are offered at 9% interest for up to 20 years, for individuals or institutional borrowers who wish to build expensive houses, commercial buildings such as commercial buildings, and general contractors such as contracting and manufacturing of building materials. They include loans to the NHC for constructing medium and high-cost houses or flats for sales or renting, as well as medium and high-income individuals.

The THB's operations are guided by its stated objectives and functions and accepted banking principles. It only invests in projects which are technically, organizationally, administratively, and financially feasible and socially desirable. All loan applications for housing construction must be accompanied with a long-term Right-of-Occupancy issued by the regional administrations, and all construction loans must be secured by first mortgages. The THB takes measures to ensure that the proceeds of any loan are used solely for the purposes for which it is granted, and that due attention is paid to economy and efficiency.

OBJECTS AND FUNCTIONS OF THE BANK

The objects of the Bank shall be:

- to mobilize local savings and external resources for housing development;
- to operate savings, time and term deposit accounts and to pay interest thereon;
- to promote housing development by making available loan or equity finance for housing development to any person;
- to make loans, guarantee loans made by others and to provide technical and other assistance, to persons or body of persons corporate or unincorporate, for the construction and development of commercial and industrial premises;
- to make loans, guarantee loans made by others and to any person or body of persons, corporate or unincorporate, for the purpose of enabling such person or body to carry out housing development;
- to make loans, guarantee loans made by others and to provide technical and other assistance, to persons or body of persons corporate or unincorporate, for the construction and development of commercial and industrial premises;
- to perform any similar or other related function conferred upon it by the Minister after consultation with the President;
- to do all such acts and things as may be necessary, expedient or advantageous for the performance of the foregoing functions.

The Bank shall utilize all its ordinary and special resources for the purposes only of furtherance of the objects for which it is established.

PART 5 THE IMPLEMENTATION ANALYSES

The Borrower will be the Government of Tanzania. The Executing Agency will be Ardhi, which will have overall responsibility for the project. The Sites and Services Section, within Ardhi, will be responsible for planning, designing, and construction of the infrastructure, and community facilities in consultation with concerned ministries. The local administration (i.e., plot allocation, collection of repayments, etc.) will be handled by the respective Regional Land Development Offices (RLDO). The THB will give loans to individual plot-occupants and cooperatives for house construction.

The Sites and Services Section is presently understaffed. It has three architect/planners, financed by the UNDP advisor as Acting Administrator.

The three-year town planning curriculum of the Ardhi Institute has been re-evaluated to enable the Sites and Services Section to develop its capacity for project implementation. It has been restructured to reflect the practical needs of Tanzania's urban areas. The National Sites and Services Program will be given priority in the assignment of institute graduates.

The Sites and Services Section has engaged a consulting firm to consult for detailed engineering and construction supervision of all sites. To assist the regions in local administration, the section will set up a Site Office on each site. Staffed with a Site Officer, Building Inspector, and fundis (artisans) who will provide advice and technical assistance in self-help construction and building techniques.

The RLDOs have direct responsibility in the regions for project administration, including land acquisition (compensation payments), advertising and processing of plot applications, plot allometria, leasing of Rights-of-Occupancy, and collection of ground rents, præmia and fees. The RLDO consists of three functional units, i.e., Lands, Survey and Town Planning. In Dar es Salaam, the staff includes five officers and twelve assistants. The RLDOs in the three regions included in the project are adequately staffed. Additional land administrative staff are being trained by the Ardhi Institute to carry out the program in other regions.

The THB maintains its Head Office in Dar es Salaam, a branch office and representatives in several other towns. The former PHCST staff forms the administrative and operational nucleus of the THB. Because THB has broader objectives and functions than the PHCST, additional staff are being recruited and trained as rapidly as possible. To date, with a total staff over 100, it is three years ahead of its staffing plan. In cases where qualified Tanzanians are not available, non-citizens are hired to fill vacant positions while citizens are being trained. Under a technical assistance arrangement, SIDA is financing three experts: (i) a bank administration
specialist to develop procedures for handling small loans; (ii) a savings promotion expert; and (iii) an engineer/architect or building technician to develop methods for evaluating applications for construction loans (especially self-help construction) and providing the applicants with technical advice.

PLOT ALLOCATION

The RLDO, working with the Sites and Services Section, will process applications for Rights-of-Occupancy and allocate plots. Project information will be circulated to persons on the NHCL and Mzizima District waiting lists and disseminated through the bureaucratic and TANU frameworks, places of employment, and by mass media. Interested parties will apply through the RLDOs, who will forward all applications to already functioning District Allocation Committees in the regions. The composition of these committees varies nationwide, but usually includes representatives from the RLDOs, TANU officials, and members of national organizations such as the United Women of Tanzania. Selection criteria give preference to inter alia: (i) persons previously displaced by public works projects; (ii) the number of immediate dependents; (iii) applicants who do not own a house in the town; (iv) the length of time on one of the above waiting lists; (v) employment in Dar es Salaam, Mwanza or Mbeya; and (vi) households with monthly incomes above TSh750.

The RLDO will issue long-term Rights-of-Occupancy (in Tanzania, all land is Government owned). In high-density areas, a short-term Right-of-Occupancy is issued to occupants of surveyed plots entitling them to the plot on a year-to-year basis. No building standards apply, and so-called "traditional" construction is used, consisting of bush poles, mud, thatch, etc., and self-help techniques. The annual charge to the plot occupant is almost negligible, and the urban services provided are minimal. In low-density areas, long-term Rights-of-Occupancy are issued up to 99 years, (usually 33 years), and only "permanent" buildings can be constructed. Levies on property in these areas are based on a percentage of the capital value of land. (25 years) to allottees in new areas. Plot-occupants in squatter improvement areas will have the option of applying for either a short-term or long-term Right. The Rights will be issued on an owner-occupier basis; however, sub-letting of rooms will be permitted. Should the plot-owner decide to sell his house, his Right reverts to the Government for re-issuance to a prospective buyer meeting eligibility criteria. If the Government later decides to withdraw the Right to use the land for public purposes, the plot-occupant will be eligible for compensation and assistance in relocating.

CONSTRUCTION LOANS

THB offers loans to low-income people at 6% interest for up to 20 years for house construction or improvements. The advantage of increasing this rate have been discussed with the Government, i.e. (i) to mobilize domestic savings, and (ii) to increase the replicability of sites and services projects. Nevertheless, IDA has accepted THB's prevailing rate because: (i) it is in accordance with Government policy to subsidize low-income housing and, since IDA's proposed contribution is small relative to THB's need, the Government decided not to change this policy, and (ii) if a new rate for unloading IDA funds would complicate the administration of THB's lending program and create equity problems among its borrowers.

The THB has prepared lending policies and procedures for housing cooperatives and individual applicants in sites and services areas. In making loans, THB must satisfy itself that the borrower can repay without undue hardship, and that adequate provision exists for the enforcement of the repayment. Each construction loan application must be accompanied by a long-term Right-of-Occupancy, and be secured by first mortgage. If the applicant's employer or another suitable source or means can be provided for security. Households are encouraged to join cooperatives, because it is felt that facilitate loan payment collection. When considering applications from individual plot-occupants, household incomes are taken into account (i.e. lending procedures provide for an upper limit for soft loans which can be changed from time-to-time in accordance with housing construction costs. For 10,600, covering building materials' costs and up to 22% for specialized labor, e.g. framing for doors and windows. Cash disbursements on the loans are tied to a construction and inspection schedule agreed to by the plot-occupant and the THB. The loans carry a one-year grace period. When considering applications from housing cooperatives, household and prospective rental incomes are also taken into account, but in a collective sense. Thus, as cooperative members, very low-income households have access to credit, secured and arrangements for monthly payments, disbursements, construction and inspection, and grace are similar to those of an individual loan-applicant, although they are handled through the cooperative.

MAINTENANCE

Operation and maintenance of the infrastructure and community facilities is the responsibility of the regions, and funds for these purposes are provided in their annual budgets. For the infrastructure, operation and maintenance work is carried out by the regional field staff of the respective ministries and on-line agencies, (i.e. the Ministry of Water Development and Power, Ministry of Communications and Works, etc.).

MONITORING

The project will be monitored by university students contracted by the Economic Research Bureau of the University of Dar es Salaam to assess whether the project objectives are being reached. Sample surveys will be carried out during the disbursement period through 1978 to ascertain inter alia: the rate of actual construction and occupancy vis-a-vis expected schedules for the project; the extent to which participating households receive advice and technical assistance in self-help construction and building techniques; number of options for water privies versus pit latrines; household incomes (wages/salaries), rental incomes (including rents in arrears), and number of rooms rented at start and end of project; default rates on ground rents and construction loans; costs of houses built or improved;
CASE 2: PHILIPPINES

INTRODUCTION

In 1973, the Government of the Philippines showing an increasing awareness of and sensitivity to the growing problems confronting urban areas in the Philippines established a development authority, as part of the National Housing Authority, to prepare plans for and implement a program designed to upgrade and improve the housing needs of the low income people on the Tondo Forshore Lands, (Project: Dagat-Dagatan)

FORMULATION OF THE PROJECT

NATIONAL HOUSING AUTHORITIES OBJECTIVES

The National Housing Authority adopted four basic concepts, approaches and strategies to deal with the housing problems.

- That housing is not simply the provision of physical shelter but also includes the provision of basic physical amenities such as water, sanitary facilities, social welfare facilities and also the opportunity for productive employment.

- That housing must be made available at a cost which can be afforded by the various income groups, which may be achieved through the utilization of the self-help efforts of the beneficiary, the development of improved building systems or other means such as cross-subsidies from other complementary development.

- That the long term solutions to the housing problems would only be possible by fully recovering all cost of development from the beneficiaries.

- That housing is not only the responsibility of the national government, but also that of the local governments and of the private sector who benefit from the services that these blighted communities render to the larger population.

TERMS OF REFERENCE

To develop land use and preliminary cost estimates for sites and services on about 400 hectares of land located in Dagat-Dagatan in Metro Manila.

To provide detailed engineering and design, and cost estimates for a 300-hectare section of the area suitable for the funding of the project through domestic or foreign sources.

To determine the technical, economic, financial and social feasibility of 300-hectare development proposal.

To recommend appropriate social and economic support programs for the selected project area to create a viable economic community.

DEVELOPMENT STRATEGY

The strategy for development of Dagat-Dagatan was evolved in a three stage iterative process. First, a series of concept plans were prepared which responded to the basic needs of the target population and the site opportunities and constraints. Second, two selected concepts were developed as framework plan alternatives based on studies of community structure. Third, a preferred framework plan was amended and refined as the recommended plan for development.

THE PROJECT IMPLEMENTATION PLAN

The implementation of the project plans and programs will be the responsibility of NHA, other government agencies, the beneficiaries themselves and the private sector.

NHA is the national government agency responsible for housing and is the action agency for the Metro Manila Commission.

Other national government agencies and metropolitan agencies are responsible for major regional and subregional infrastructure works, the provision of education and health facilities and the operation of supporting social and economic welfare programs.
The beneficiaries will be in large part responsible for the construction of their housing, the development of community government and the operation of local community commercial and social services.

The private sector will be relied upon to purchase serviced commercial/industrial land and construct facilities thereby creating jobs and generating secondary economic opportunities on site.

Appropriate new mechanisms and organizations will be necessary to ensure that each group exercises its responsibilities in an adequate, timely and accountable way.

NHA, as project coordinators, should devise a realistic project implementation plan that relates the available management, design, funding and construction capacity to an achievable development pace.

NHA should also make adequate allowance for the coordination and involvement of other government agencies as well as participation of the selected beneficiaries in the implementation of the project.

The several national and local government agencies involved in construction, operation and maintenance of project components should be made fully aware of their responsibilities and the agreed responsibilities should become formal commitments.

The beneficiaries of the housing opportunities offered should be continuously consulted and involved in the design and implementation stages of the project in order to minimize confusion and to encourage cooperation in advancing the maturity of the community and its services.

The private sector should be made aware of the opportunities available at the project for commercial and industrial development and encouraged to purchase or lease the prime fully serviced land available.

**RESPONSIBILITIES OF NHA**

If the implementation of the project is to proceed in a smooth and efficient manner, NHA must develop an appropriate management structure, coordinate the involvement of other government agencies and resolve several outstanding internal policy issues.

NHA have indicated that they believe a semi-autonomous department or office within the present authority is the most appropriate form of management. Specialized skills can be supplied to the management team by private consultants through technical assistance packages.

**Project office**

The Project office should exhibit four important characteristics.

1. Management should have clear access to the NHA policy making and decision process.
2. Management should have substantial autonomy to enable a smooth internal decision making process to occur that is accountable in terms of performance targets that are monitored periodically by NHA senior management and their Board.
3. The management structure should have a very capable middle management team in order to equitably distribute responsibilities.
4. The functional structure of the office should be sufficiently flexible so that it can be altered periodically to match the emphasis of each implementation phase.

There are six key management functions to be carried out by the project office in addition to overall project management and coordination:

1. Administration;
2. Social and economic development including community relations;
3. Marketing and property management;
4. Financial planning and management;
5. Construction management, scheduling and supervision; and
6. Physical planning design.

A management structure has been proposed for Dagat that has a number of important features (see Figure 1). The project manager should be the integrator of advice and action recommendations received from each section manager. The person selected for this position should be chosen on the basis of recognized management/coordination/decision making skills and not in terms of a particular professional bias.

The six section managers should each be skilled in management as well as being very capable, experienced people in their particular fields. Their management skills should be sufficient to recommend their consideration for a project manager’s position in the near future.

The assistant managers in each section (e.g., the middle management) should also be senior personnel, capable of being considered for a section manager’s position before long.

The construction and finance sections will require particularly strong staffs.

All functions (with the possible exception of rent/amortization and loan collections) that involve contact with the beneficiaries should be concentrated in one section: Social and Economic Development. This will allow a continuity of contact and a direct integration of community relations and information activities with social and economic development programs.

Each section could probably benefit from some form of technical assistance, particularly Construction. Initial emphasis should be given to making operational the social and economic development, the planning and design and the construction sections.

Community participation programs should proceed uninterrupted by any transition period and several social and economic support programs require early development. Planning and design continue to enable early contracts to be let and rapid implementation to be achieved.

Construction management and supervision will be essential in early 1978 to oversee the initial construction activity and to schedule an ongoing construction program.

NHA should devise a systematic means of coordinating the involvement of national and local government departments and agencies.

The present coordinating task force on infrastructure, should be formally established with an agreed composition, terms of reference and meeting and reporting procedure.

Some unresolved NHA policy issues should be given priority attention.

The relationship between housing tenure, pricing, affordability and cost recovery should be made clear.

The role and operation of a building materials loan program needs further refinement.

The potential role of self-help labor in the construction activities needs further consideration.
The methods for selection of beneficiaries and the distribution of plots need study.

**Responsibilities of Other Government Agencies**

The timely implementation of the project will be dependent upon the cooperation of several other national government agencies for the financing, construction, operation or maintenance of several project components. While NHA must coordinate the involvement of these agencies, the agencies themselves have been requested to coordinate their own programs to take account of their responsibilities.

**Community Participation**

A program is necessary to encourage the continuous involvement of the beneficiaries in the planning, design and social and economic development of the project. Target population groups have been identified, meetings and discussions have been held and feedback obtained during the feasibility study period. The current participation program has focused on discussing the types of plans being proposed with the community and civic leaders first and then with the beneficiaries themselves, and obtaining feedback. The results of these early meetings provided inputs to the plans and the effectiveness of the meetings is being assessed to refine the guidelines for an ongoing program.

The target groups identified for resettlement in the early phases of the project need to be consulted about a number of issues prior to their taking up residence in the project. The questions of land tenure and pricing remain the highest priority of each group that have been consulted. Some target groups have expressed a strong desire to be resettled as one homogeneous community. This raises the question of plot selection/assignment procedures. Many members of the target groups are concerned about the degree of completeness of the housing units and the availability of building materials and building materials loans.

Once the initial beneficiaries are resident at the project part of the program of community involvement will need to be addressed to their specific needs.

Early consideration should be given to the form, composition and build-up of local government.

The relationship community government to the existing municipalities and cities will require discussion with the community.

The existing and incoming residents of the project should be considered as a prime resource to assist in the implementation of the project.

The actual development of the project in terms of house construction, commercial services, community services and government will be heavily dependent upon the response of the residents.

The lessons learned from the early phases of the project, through a dialogue with the existing residents, will provide important input in the refinement and improvement of later stages.

**Marketing**

The project depends upon the timely marketing of commercial/industrial land to provide a considerable cross subsidy to the housing areas as well as to provide a large number of new employment opportunities in the area. The financial feasibility of the project is most sensitive to the rate at which this land can be sold or leased and the price that it can command.

NHA through its main office and the project office will need to launch an aggressive marketing campaign to attract commercial and industrial enterprises to the site.

The NHA commercial and industrial estates department should begin immediately to acquaint potential investors with the property.

The section manager in the project office should devise a marketing strategy for the site in conjunction with the NHA main office.

NHA should enlist the assistance of other private and public agencies in marketing this land.

The Development Bank of the Philippines should be fully briefed on the project, given the necessary promotional material and consulted periodically about interested potential investors.

The Philippine Chamber of Commerce should also be briefed, giving appropriate promotional material and actively encouraged to promote the project.

Various other organizations, including real estate agents, developers and industrial and commercial organizations should be approached in a similar manner.

Land pricing should be sensitive to the impact on absorption rates and the rate of receipt of revenue.

High initial prices may lengthen the absorption period leading to revenues, when discounted, that are worth less to the project.

The rate of revenue generation should be monitored regularly to advise where pricing changes may be necessary or desirable.

Since the timing of the road is crucial to the marketing of commercial and industrial land, the marketing section manager for the project should play an active role in continuing to ensure that the proposed timing of these routes will be set.

**Conclusions**

A number of important conclusions can be drawn concerning the implementation of the project.

The management requirements of a project the scale of Dagat-Dagatan, expending over 100 million pesos and housing over 3,500 families per year, should be given priority attention by NHA or the project will impact the Authority's effectiveness on other programs.

NHA should consider, where necessary, advancing funds on behalf of other government agencies (with prior formal agreement) to achieve the timely and efficient implementation of the project.

The responsibilities of other government agencies, in terms of their breadth and timing, should be formally discussed and agreed to in detail to suit the implementation schedule of the project.

The implementation of the project should endeavor to be a cooperative effort between NHA, other government agencies and the beneficiaries.

An aggressive and enlightened marketing program for the sale or lease of commercial/industrial land will be an essential determinant of the financial viability of the project.
APPENDIX B
INTERNATIONAL FINANCE: OFFICIAL AGENCIES

Twelve of the major agencies and programs of assistance are described as follows:

1. Export-Import Bank of the United States (Eximbank): This Bank is a wholly U.S.-owned institution created to assist, support, and encourage the export trade of the United States.

2. Agency for International Development (AID): AID is the agency created in 1961 to administer the foreign aid program of the United States. Its program of development lending (as distinguished from military assistance, supporting assistance, and other programs)

3. Overseas Private Investment Corporation (OPIC): OPIC is a new U.S.-owned institution which was created by the foreign aid legislation passed by the Congress in 1969. OPIC was created to assist and facilitate U.S. concerns in expanding their investment activities abroad.

4. Investment Survey Program: OPIC has been authorized to provide a variety of financial incentives to encourage U.S. concerns to conduct feasibility studies or surveys of investment opportunities in the less developed countries.

5. Investment Insurance Program: OPIC will continue the program previously administered by AID pursuant to which investors can secure insurance offering protection against three types of specific political risks—inconvertibility of currency; expropriation or confiscation; and war, revolution, or insurrection.

6. Investment Guaranty Program: Investors interested in lending to or investing in an enterprise in one of the less developed countries may be eligible under this program for guaranties providing protection against all risks, both political and commercial, for up to 75 percent of an equity investment and for up to 100 percent of a loan investment.

7. Under this program, currencies of the less developed country in which the enterprise is located are made available for lending to American private enterprise and to a lesser extent foreign (non-U.S.-owned) private enterprise.

8. Housing Guaranty Program: AID is authorized to issue guaranties on loans made to provide the long-term financing required for the development of housing in Latin America and other areas of the world

9. Inter-American Development Bank (IDB): IDB provides financial assistance for economic and social development projects and programs located in member countries in Latin America.

10. International Bank for Reconstruction and Development (World Bank): This bank provides financial assistance for economic and social development projects in its member countries.

11. International Finance Corporation (IFC): IFC is a World Bank-affiliated institution created in 1956 to assist in the development of private enterprise in member countries, particularly in those considered less developed.

12. International Development Association (IDA): IDA, also a World Bank-affiliated institution, was established to provide financial assistance for the economic and social development of its member countries on terms and conditions that would bear less heavily on their balance of payments.
This is the story of Mr. Molefi who lived with his family in an old house on his brothers small plot and how he managed to get a proper house for himself.

**FAMILY MOLEFI'S HOUSING PROBLEMS AND HOW THEY WERE SOLVED**

Produced by Sana Self Help Housing Agency
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251 E. Street NW, Washington DC, 20003 USA
Sana Sani e namoleni le na sesoana Gaborone, December 1978

Example Promotional Information Document (from page 19)
A COMPREHENSIVE APPROACH TO THE FORMULATION OF CAPITAL PROJECTS IN DEVELOPING COUNTRIES
BIBLIOGRAPHY


