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Economic Commission for Latin America and the Caribbean

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of the Housing and Urban Development Sector in Latin
America and the Caribbean.

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**INTERNATIONAL FINANCING FOR HOUSING:
INTERNATIONAL FINANCING**

This document was prepared by Mr. Alfonso Palacios Echeverría, Executive Director of the Regional Housing and Urban Development Office for South America (RHUDO/SA) of the United States Agency for International Development (USAID). The views expressed in this work, which has not been subject to editorial revision, are the exclusive responsibility of the author and do not necessarily reflect those of the Organization. This paper is not an official translation of the original.

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On beginning this brief presentation on behalf of the United States Agency for International Development, we wish to express our gratitude to the organizers of this meeting and all its participants for the distinction accorded us.

In fact, our exposition will be a summary of the criteria and conclusions of our experience in the region which now amounts to more than thirty years of activity in the area of housing and urban development.

Moreover, it must be kept in mind that the Agency, as a section of the Department of State of the Government of the United States, must be considered as a national body whose purpose is to channel the international aid of that Government and is, therefore, conditioned by the political, technical and even humanitarian criteria which prevail in its decisions, as distinct from the multilateral bodies with which you are familiar.

What we will say at this time may, perhaps, differ somewhat from what was specified in the terms of reference proposed to us for the preparation of the discussion document, for which we beg your understanding and considered analysis.

The terms of reference mention that it seemed "necessary to develop strategies (in the countries) to increase the acquisition of external resources for the sector and use them more efficiently". And later, in the same vein, "it is proposed that the discussion of this issue be centred on the analysis of alternatives for overcoming those obstacles which impede more effective channeling of international financing, both those restrictions arising from the economic and social conditions within countries, and the administrative policies and procedures of the international bodies and countries".

The first observation we wish to make is that, from our point of view, the issue of housing is not a problem of the more effective channeling of available international resources, but rather of how to mobilize national resources, which do exist, in function of the solution of the housing problem in each country.

This statement, as the others which we will allow ourselves to make in a moment, is based precisely on accumulated experience.

In 1989, in the First Latin American Forum on Housing Policy, held in Lima and called The Function of the Public and Private Sectors in Finance for Housing in Latin America, our Office expressed the following views with respect to that experience:

"The United States Agency for International Development (USAID) has been granting financial and technical cooperation to housing programmes in Asia, Africa and Latin America for three decades. Our efforts began in 1959, in the form of support for the development of the savings and loan system in Peru. Since then and

up to the present, our thought on how to best organize housing programmes has evolved considerably. We began with a series of preconceived ideas with respect to the nature of the housing problem and of what needed to be done to solve it. Our position today is nearly diametrically opposed to that which we sustained in the 1960s."

"In those early years, the generally accepted idea of adequate housing was ambitious and reflected what was occurring in that field in the United States and Europe. It was thought that the problem was essentially one of technology and of how to organize the mass production of housing units at low cost. This led us to finance projects which would provide housing for many families, but costs were so high that it became necessary to subsidize the purchasers, even when they were middle class and had relatively high incomes for their countries. The limitations of that strategy became obvious when the growing housing needs of urban areas were compared with the resources available to satisfy them. Even with all the external aid they were able to acquire, the countries were not going to be able to finance and subsidize such housing for all."

"Therefore, in the early 1970s, USAID transferred its support to those programmes designed to attend to the basic housing needs of the ever-growing urban populations, such as programmes of sites and services, basic housing units and the improvement of marginal urban neighborhoods. With that change in strategy, it was at least possible to attend to a greater number of poor families with the available resources. Although the dwellings themselves which were financed were minimum and nearly non-existent, they offered the families involved a basis on which to continue building, through their own efforts, until they would arrive at adequate housing. Modest as were the results, there is no doubt that family housing conditions improved".

"In spite of those achievements, that strategy also proved to be insufficient, because the problem has continued to worsen. Even though new programmes for basic housing units were designed on the basis of minimum norms, they did not eliminate indirect subsidies, such as establishing values for sites lower than their replacement costs or offering interest rates lower than the cost of money. Moreover, the design, construction and financing for programmes (the three attitudes) continued in the hands of public institutions. The cost of subsidies and the limitations of public sector institutional capacity combined to make it impossible to sustain programmes for basic housing units at a scale which would allow for attending the needs generated by the urban population explosion."

"Therefore, we have come to perceive the housing problem from another perspective. In the face of governmental programmes, well conceived, though limited in scope, for the provision of basic

housing units, there is the other clear fact that most families have a dwelling which, though rudimentary, is constantly being improved through means generated by the families themselves. They obtain sites. They obtain credit and construct through mechanisms which we do not yet understand or describe completely, but which generate many more units than the governmental and private sector programmes taken together."

"Combining these experiences and the lessons learned in three decades, we in USAID have begun to define a new strategy which will respond to the reality observed in a practical way. The point of departure for that strategy is the profound conviction that it is possible, even today in the midst of all the difficulties through which Latin American countries are passing, to improve the living conditions of the urban poor and middle class families of the region, if the premise is accepted that the solution of the housing problem depends on nothing more than the energy and individual efforts of the families which need that solution. It is not a question of providing housing for those families, but rather of helping them in their efforts to obtain their own place to establish themselves and live decently".

"This means that programmes will have to place greater emphasis on providing families with those elements which they cannot obtain easily by themselves, that is: sites, infrastructural services and financing. The construction of housing itself, in large quantities and as a large project component, is of much less importance, because it is clear that, with the help of relatives and neighbours, the families themselves generate their own homes in time. Providing sites, infrastructural services and financing for more than a million new homes annually in the cities of the Latin American region, which is today a fairly conservative estimate of needs, is going to require an immense effort, on a large scale, sustained year after year, which will only be achieved by combining the efforts of all the agents involved, that is: the Government, private enterprises, cooperatives and other community organizations and the families themselves."

"However, the main actors in the process of the generation of housing -the Government, private enterprise, and the families- remain tied to ways of acting which have proven to be inadequate in the face of the challenge of accelerated urban growth. It is our conviction that, to face that challenge, the main actors -the Government, private enterprise, and, to a lesser degree, the families- must commit themselves to a process of change and evolution of their functions, of the methods they use and of the product they generate, in such a way that their efforts will be complementary and that the most efficient use of scarce resources will be achieved."

The failure to effect that change of attitude is what leads the ever-worried authorities responsible for solving or for

searching for the solution to the housing problem in each country to search for more external financial resources, which has constituted the worn-out path followed to date.

Let us now address the central issue. Our experience shows that the majority of international finance problems begin, not in the slow and complicated steps taken to obtain the resources, but precisely when those resources enter the beneficiary country, where they are often used inefficiently and channelled through unqualified institutions which, moreover, use absurd bureaucratic procedures and are staffed by ineffective personnel. I realize that these statements sound somewhat harsh and I am sorry for that, but you yourselves could speak with greater authority on this issue, because one of the serious problems characteristic of developing countries is the bureaucratism of their public institutions.

For that reason, we propose that the solution to the problem of international financing does not lie in convincing foreign donor institutions to agree to suppress their objections to public institutions in terms of the difficulties of bureaucratization, inefficiency and inefficacy found in them, but rather in generating a process of internal reform of the bureaucratic apparatus and its ways of operating, so that that very reform will become an adequate guarantee for the donor body, at a time when efficacy in the payment of international commitments is not exactly the best of credentials.

Indeed, I dare say that, within the continental movement to rethink the State bureaucratic apparatus, some attention should be given to that issue. It is not only a question of reducing size through privatizations and other means. There remains the deeper problem of attitudes, capabilities and a mystique of service.

We have insisted that in the majority of Latin American and Caribbean countries sufficient resources exist to provide for a basic unit of urban services for families who need it and, for that reason, in our judgement, aid obtained from foreign capital must be understood as only temporary assistance, more properly oriented toward the creation of "seed capital" which will stimulate local capital, and not as a perennial and exclusive source of support.

As well, the experience of years has shown us that, in most countries of the region, local resources exist which can be utilized for solving housing problems. What is needed is to create mechanisms which will make it possible to channel them adequately, efficiently and in a timely fashion, in a context of public confidence, based on the efficiency of the mechanisms for gathering, allocating and managing those resources.

Moreover, we wish to call your attention to a matter which, it seems to us, is not taken into account when foreign sources of credit are sought: that credit has real costs for the national

economy which go beyond interest rates.

* The country becomes more dependent on credit sources at a time when the weight of the foreign debt has passed from the purely financial to the political arena. It will not escape your attention that this is a very delicate matter.

* National creativity in generating local solutions to problems, which is precisely what ought to be stimulated, is stifled.

* And, finally, there is the need to create recovery mechanisms to guarantee the repayment of the funds, which is precisely one of the greatest failings today and which, moreover, involves an internal political cost which some Governments seem unwilling to pay.

From this point of view, the problem does not seem to lie in the assignation of foreign funds for social housing and in increased amounts of those funds, but rather in the transformation of a system characterized by the creation of difficulties and obstacles for channeling and using the country's own funds for housing effectively. Therefore, in our judgment, the objective of "channeling foreign funds more effectively" must also hold true for channeling the national resources of Latin American countries.

And we sincerely believe that the system will only be transformed when the lack of appropriate housing policies for mobilizing those resources is eliminated.

Finally, we wish to conclude with a reflection on our own painful experience: much is said about the poor, only to leave them aside when it is time to act. We believe that it is necessary to direct housing solutions toward the lowest income level of the population effectively, in circumstances in which those solutions are generally geared to the middle levels or, in the best of cases, to the lower-middle level.

This means that, in the future, projects presented for international funds for housing will not only be required to provide for structural reforms in institutions and procedures, together with the guarantee of recovery mechanisms, but must also include the necessary procedures to ensure that the funds will reach the truly poor of the countries of the region.