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FINANCING HUMAN SETTLEMENTS

DEVELOPMENT AND MANAGEMENT

IN DEVELOPING COUNTRIES:

A COMPARATIVE OVERVIEW OF CASE STUDIES

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United Nations Centre for Human Settlements (Habitat)

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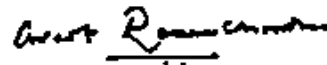
FOREWORD

A key component of the Global Strategy for Shelter to the Year 2000 is the financing of human settlements. The Strategy acknowledges that for the shelter sector to operate to the optimum, there is need to channel an appropriate level of resources into it in line with an enlightened understanding of its role in the development of the national economy. An important component of shelter strategy therefore should be to devise mechanisms by which an adequate and steady flow of long-term financial resources from both the public and the private (household) sectors could be mobilized and channelled into human settlements development in general and shelter development in particular. It is recognized that some countries already have shelter finance mechanisms in place. Examining these systems and mechanisms permits fuller appreciation of their strengths and weaknesses and thereby provides insights into ways of improving or strengthening existing mechanisms and instruments.

This report reviews and analyses existing strategies and mechanisms for financing shelter and human settlements programmes in a selected number of countries, and evaluates their efficiency and effectiveness, identifying the strengths and weaknesses in the systems. Three basic conditions are required for the effective functioning of the financial system - economic stability, a real return on financial investments, and confidence in the security and stability of financial institutions. In this connection, and as part of the general requirement for

strengthening shelter finance systems and institutions, the report recommends, among other things, integration of the institutional shelter finance system into the national finance and capital markets.

The overall objective of this report is to bring about improvements in the functioning and management of shelter and human settlements finance institutions by introducing changes in current policy approaches and instruments on the subject. This forms part of the current United Nations Centre for Human Settlements (Habitat) programme of institution building and strengthening, through the promotion of modifications of and changes from outmoded systems to innovative and updated mechanisms in the development and management of human settlements. In this light, it is hoped that the experiences and ideas reflected in this report will serve as a catalyst to and provide a framework for governments and the relevant institutions to begin to take a new look at their traditional mechanisms of managing and regulating the operations of their housing finance systems and institutions, and to begin considering alternative and more productive instruments for developing flexible and adaptable policy responses, based on a more sensitive understanding of contemporary financial markets.



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INTRODUCTION

The Global Strategy for Shelter to the Year 2000 envisages that for the shelter sector to operate to the optimum there is a need to channel an appropriate level of resources into the sector in line with an enlightened understanding of its role in the development of the national economy. Shelter finance, as a key input into shelter production and as a natural entry point into policy-making for the human settlements sector, is of pivotal importance. A key component of a shelter strategy, therefore, is human settlements finance. Governments have a clear obligation to ensure that appropriate environments and mechanisms are created and put in place for the effective mobilization of funds and their investment in human settlements development and management. The fundamental feature of the "enabling" strategy for shelter is, after all, the creation, on the part of the public sector, of incentives and facilitating measures so that other actors can take action to a greater degree to provide shelter and the associated infrastructure. Strategies for financing investments in human settlements in general and shelter in particular, have to address the central issue of mobilizing a steady flow of long-term finance for the sector. Regardless of the level of external capital flows to the sector, the Global Strategy envisages that much of the efforts should be concentrated on the mobilization of domestic financial resources.

Anticipating this problem, the Commission on Human Settlements, in its resolution 10/16 of 16 April 1987 entitled "Raising the funds needed to ensure the effectiveness of national action to solve the housing problems of the homeless up to the year 2000", requested the Executive Director of the United Nations Centre for Human Settlements (Habitat):

"to draw up a report of the financial constraints and needs of the developing countries and possible solutions for obtaining the funds required to attain the human settlements aims and goals set by the Commission."

This resolution reflected the concern of the Commission that the lack of adequate financial resources would prove to be the main constraint to the goal of shelter for all by the year 2000.

In response to that resolution, a report¹ was

submitted to the Commission at its twelfth session summarizing the trends and future prospects for the mobilization of finance for shelter and infrastructure, given the anticipated trends in the world economy. The report also explored possible options for improving the mobilization and flow of funds to human settlements activities, and for improving the effective application and productivity of the resources and mechanisms and instruments already available to the human settlements sector.

This publication, in further pursuit of the Commission's concern to explore and identify more financial sources for mobilization, undertakes, by the use of national case studies, to review and analyse how national human settlements programmes are currently financed, the adequacy or otherwise of the existing mechanisms, weak links in the chain, and the constraints to improve performance and productivity. It is by examining the existing sources and mechanisms that the situation could be more fully appreciated and the strengths and weaknesses identified. This then provides a stronger knowledge base from which to seek and devise any innovative improvements on or ways to strengthen the existing mechanisms or instruments, or to devise new mechanisms or instruments if found more appropriate. It is also against the backdrop of the current situation that any future progress can best be discussed.

Cross-national and cross-regional comparisons are attempted with a view to sharing the experiences of one country or region with others, in the hope that useful lessons might be learnt and applied for improved performance and productivity.

The purpose of this exercise is, therefore, to identify successful strategies employed by countries to mobilize increased financial resources for the human settlements sector and to target such funds for lending to the sector, particularly to the low-income segment. The Global Strategy for Shelter to the Year 2000 espouses a shift in policy direction in the human settlements sector, from a policy situation of government being a direct developer and provider of shelter and infrastructure to low- and moderate-income households, to one in which government acts to enable the private sector to produce a greater part of the needs in this sector. The role of the private sector in

1/ "Financing of shelter and infrastructure" (H/S/C/12/4).

mobilizing financial resources for this difficult task is also part of this review.

In the first section of the report, country case studies are reviewed and analysed. Case studies are presented on countries representing:

Africa	- Kenya, Nigeria, the United Republic of Tanzania
Asia	- India, Pakistan, Sri Lanka, Thailand
Latin America	- Brazil, Colombia.

Each country case study is summarized by bringing out (where the information is available) such salient points as:

- (a) The scope of the human settlements sector as perceived by the given case country;
- (b) The sources of public sector financing for human settlements programmes (and from what levels of government (central, subnational or local));
- (c) Proportion of governmental revenue that goes to the human settlements sector (as defined);
- (d) Sources and contributions of the private sector to financing human settlements development and management;
- (e) Problems and constraints in the financing or its mobilizing for human settlements development and management programmes in the case country;
- (f) Possible innovative measures or mechanisms to improve and increase financial resources for human settlements development and management.

The second section of the report undertakes an overview of the case studies presented, making cross-national and cross-regional comparisons, identifying particular strengths in some country, regional and institutional systems. Possible benefits of experiences to be derived from this overview are identified and suggested measures to effect improvements are outlined by way of conclusions. Improving or increasing financial resources for this sector may require some reforms in the national financial sector as a whole, which would make the sector more efficient and probably reduce implicit subsidies. Such reforms would obviously be of interest to the country's monetary authorities, including economic planners, and would thereby expand the political support for reform.

The country case studies used in this analysis were commissioned by the United Nations Centre for Human Settlements (Habitat) from experts in the various countries. The reports were supplemented with information and data already existing in-house in the Centre as well as from some other published sources. By size of sample, the number of case studies presented seems small compared with the number of developing countries. This is intentional and was meant to ensure manageability as well as to keep this volume to a reasonable size. The countries represented, however, given their sizes in their regional settings, are fairly representative of their regions and therefore of the developing world.

The concluding section outlines suggestions to improve the mobilization and channelling of increased financial resources to human settlements development and management, based on the lessons drawn from the case studies. In this endeavour, both the public and private sectors have immense roles to play.

Before turning to the case studies, it is useful to comment briefly on the definition, or scope, of "human settlements". The term "human settlements" has frequently been defined with reference to shelter-related activities, encompassing the following: housing; urban and community development; provision or improvement of basic services and facilities (such as water supply, sanitation, solid-waste removal, and roads and transport); essential resources for housing construction (such as land, building materials and finance); and activities aimed at strengthening the capacity of housing and infrastructure agencies at the national, subnational and local levels. For the purpose of this report, "finance for human settlements development and management" may be seen as including all financial resources invested in the following items and activities:

- (a) Housing (both urban and rural);
- (b) Housing-related infrastructure (including water supply, sanitation, waste disposal, roads and transport);
- (c) Land (for housing and related infrastructure);
- (d) Building materials;
- (e) Settlement planning, development and management (encompassing all the above aspects).

I. REVIEW OF CASE STUDIES

A. Africa

Case study 1. Kenya

(a) The scope of the human settlements sector as perceived by Kenya

Judging from the various plan and other official documents of the Government of Kenya, the human settlements sector may be regarded as being made up of the activities located in the Ministries of Lands and Housing, and of Local Government and Physical Planning. At the core of these activities are the formulation and implementation of policies on land, physical planning and housing. These key activities are the responsibility of the Lands Department, the Physical Planning Department and the National Housing Corporation, respectively. Also included within the scope of human settlements are physical infrastructure services - although these are provided by other agencies - in

particular urban water supply and sanitation (Ministry of Water Development and Local Government Authorities), rural sanitation (Ministry of Health and, to some extent, Ministry of Environment and Natural Resources) and electricity (Kenya Power and Lighting Company). Also connected with human settlements development is resource-based industrial development, in the context of a defined urban settlements hierarchy, which ranks among the priority national development policies of the Kenya Government. So far, the perception of human settlements in Kenya seems to have been mostly oriented towards urban areas.

(b) Public sector sources of financing for human settlements

Public sources of financing for human settlements may be divided into two levels,

Table 1. Kenya, source of finance by housing types (1983) (Percentage distribution)

Market sector	Source of finance ^a									Total
	A	B	C	D	E	F	G	H	I	
Private individuals	30.5	8.1	4.2	1.9	4.4	22.8	10.2	7.1	10.8	100.0
Private developers	21.9	16.3	21.7	0.3	19.4	4.5	4.7	5.3	5.4	100.0
Tenant purchase	1.1	5.8	25.9	-	1.1	6.9	1.1	5.2	52.9	100.0
Site and service	22.9	2.4	8.4	-	1.2	37.4	6.0	6.0	15.7	100.0
Other	19.6	2.3	26.2	1.9	0.2	9.6	2.3	3.7	34.2	100.0
Total	26.1	6.6	11.9	1.7	3.8	18.3	7.3	6.0	18.1	100.0

a/ Sources of finance:

- A - Commercial banks
- B - Housing Finance Company of Kenya
- C - National Housing Corporation
- D - Insurance companies
- E - Other financial institutions
- F - Co-operatives
- G - Employers
- H - Relatives
- I - Other

Source: Government of Kenya, *National Development Plan 1989-1993* (Nairobi, 1988).

Table 2. Kenya, gross domestic product and gross fixed capital formation in housing, 1976-1983 (£K millions)

	1976	1977	1978	1979	1980	1981	1982	1983
Gross domestic product (GDP)	1 450	1 854	2 050	2 272	2 632	3 039	3 399	3 809
Gross fixed capital formation (GFCF) total	290	390	514	540	622	725	668	749
GFCF as percentage of GDP	20.0	21.0	25.1	23.8	23.6	23.6	19.6	19.7
GFCF in dwellings:								
traditional	23	27	33	40	44	51	54	63
Modern	16	22	37	53	62	69	71	53
Total	39	49	70	93	106	120	125	116
GFCF in housing as percentage of GDP	2.7	2.6	3.4	4.1	4.0	3.9	3.7	3.0

Source: Central Bureau of Statistics, Government of Kenya

namely, central government and local government. The Central Government derives its income from taxes and external assistance sources, and channels it into the human settlements sector through the Ministry of Lands and Housing (principally for investment in low-cost housing) and other ministries responsible for the related human settlements infrastructure components. In addition to taxes and external aid, the Central Government also derives revenue from three other domestic sources (used principally for deficit financing), namely, short-term treasury bills, treasury bonds and government stocks. The Central Government, through the National Housing Corporation, is mainly concerned with the provision of low-cost housing for the low-income groups. Table 1 shows the different sources of housing finance for the year 1983.

service charges. Capital expenditure on human settlements infrastructure is financed from loans, principally from the Local Government Loans Authority, as well as from central government grants issued through the National Housing Corporation. Local authorities can raise loans from commercial banks or issue stock to raise funds. The latter method has been used by Nairobi City only, the last stock issue of which, amounting to some £K2 million at 8.5 per cent interest and for a 15 year term, was in 1978. Individual buyers accounted for less than 20 per cent of the issue, while the rest was subscribed by parastatal organizations, in particular the National Social Security Fund, the Post Office Savings Bank and the Kenya National Insurance Fund. Local authorities can only issue stock when the Central Government is not in the market for funds.

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