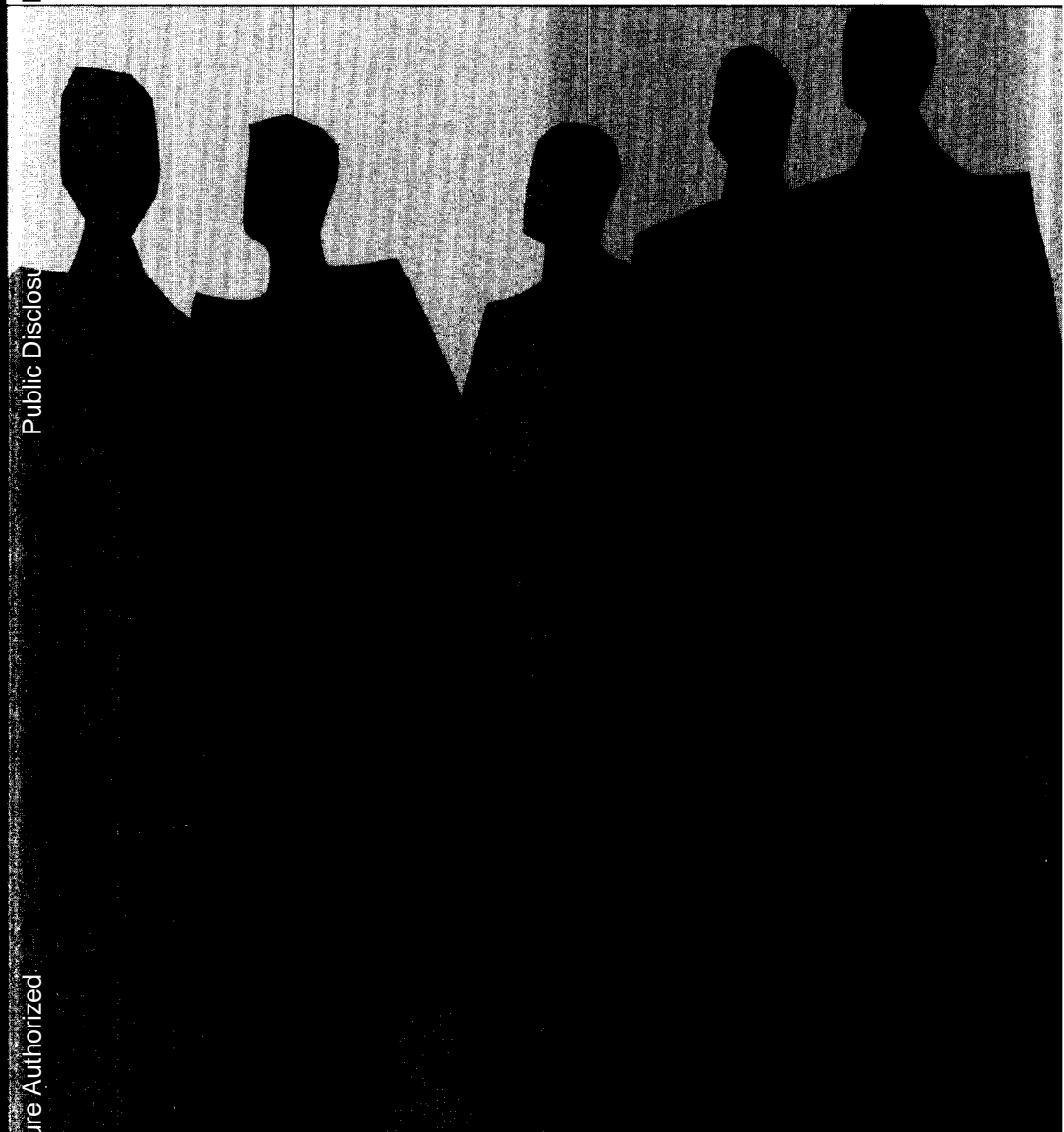


Shelter

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Poverty and Basic Needs Series
September 1980



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This is one of a series of papers prepared by the staff of the World Bank on the subject of basic needs. The series includes general studies that explore the concept of basic needs, country case studies, and sectoral papers. The Bank staff work on basic needs was coordinated by the Policy Planning and Program Review Department.

Shelter

September 1980

This paper was presented to the Executive Directors of the World Bank for discussion in June 1980. It was written by Anthony A. Churchill in collaboration with Margaret A. Lycette and other members of the Urban Projects Department of the World Bank. *Shelter* was edited by David Howell Jones.

Preface

Despite the impressive level of economic growth the developing world has achieved over the past quarter century, some 800 million individuals there remain caught up in absolute poverty: a condition of life so limited by malnutrition, disease, illiteracy, low life expectancy, and high infant mortality as to be beneath any rational definition of human decency.

The self-perpetuating plight of the absolute poor has tended to cut them off from the economic progress that has taken place elsewhere in their own societies. They have remained largely outside the entire development effort, able neither to contribute much to it, nor to benefit fairly from it.

Unless specific efforts are made to bring them into the development process, no feasible degree of traditional welfare, or simple redistribution of already inadequate national income, can fundamentally alter the circumstances that impoverish them.

The only practical hope, then, of reducing absolute poverty is to assist the poor to become more productive. The World Bank has put a major emphasis on that strategy in its lending operations over the last several years: projects specifically designed to enhance the earning power of the poor.

A critical component of that approach is for governments of developing countries to provide better access for the absolute poor in their societies to essential public services, particularly basic education, primary health care, and clean water. These fundamental services—combined with the better shelter and nutrition that improved incomes can afford—are the key to the poor's being able to meet their own basic needs.

None of this can be achieved, of course, except in a climate of economic growth. But growth alone—essential as it is—cannot assist the poor unless it reaches the poor. And it does not reach the poor well enough today in much of the developing world. It all too often passes them by.

In this situation the right kind of public services are those which not only reach the poor, but help them alter their personal circumstances so that their own inherent potential can be more fully realized.

What the Bank's experience clearly demonstrates is that investment in the absolute poor's human development is not merely more equitable social policy, but very sound economics as well.

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Chapter 1

Basic Needs in Shelter

While the concept of basic needs has its economic dimensions—it has to do with the supply of and demand for scarce goods and services—it does not depend on economics for its justification. Its justification rests primarily on value judgments of the desirability of consuming a certain bundle of goods and services described as basic. The fact that value judgments are involved means that *basic* can never be defined absolutely. What is basic will depend on the perceptions and judgments of those making the decisions to supply or demand these goods and services and is likely to be specific only to the socioeconomic framework within which the judgments are made.

Whether the concept is relative or arbitrary does not invalidate the approach. It does suggest, however, that some caution is required in applying it. Explicit recognition of the value judgments involved will prevent the futile pursuit of absolutes and permit a more reasonable discussion of the alternatives and tradeoffs in the package of goods and services considered to be desirable.

In any discussion of basic needs, shelter is always given prominence along with food and clothing. Shelter does not mean, however, simply protection from the elements; location is an essential attribute of shelter. The fact that many poor families choose, for example, to live in more expensive and crowded central urban locations rather than live in the suburbs where they could have more land is indicative of the importance of its locational aspect, which is in turn related to other important attributes of shelter. More than just a roof overhead, it requires a series of services that are an integral part of the specific location and dwelling.

When shelter is placed in this broad context, it is difficult to say what is basic to it. Shelter is in fact a multitude of services that can be discussed only in a specific context and as a whole rather than as a particular service. In Korea, for example, provision of a basic shelter must include an enclosed and heated space. In less rigorous climates an enclosed space may be unnecessary. Not only adequate water supplies but also the disposal of human wastes and refuse must be taken into consideration in the provision of healthy, environmentally sound shelter. What is basic must thus be considered in a given cultural, physical, and economic context, and generalized definitions are not possible. Fortunately, the World Bank can develop practical, if imperfect, ways of encouraging the development of appropriate pol-

icies and goals with respect to shelter without engaging in unproductive discussions of definitions and concepts.

In household surveys, consumption expenditures are usually separated into broad categories such as food, clothing, and shelter. Within the specific context of the survey—that is, the socioeconomic group and nationality of the household under study—reasonable and consistent definitions of shelter can usually be arrived at. While there is generally some room for dispute about details, a consensus as to the elements that constitute shelter in that particular context tends to emerge. Difficulties are likely to arise when the quality of shelter is traded off against location—the problem of the extent to which transportation should be included in the definition of shelter, for example; some households will pay less for shelter but more for transportation and some will do the opposite. Although this factor is important, however, it does not seriously limit the usefulness of the context-bound definition of shelter in the formulation of policies and investment programs.

Physically—that is, in the amount of space and the amenities enjoyed—there is often very little difference between the shelters of the rural poor and those of the urban poor. In many instances, rural forms of shelter are simply transposed into the low-income settlements that surround most urban centers. There is also little difference between the environmental conditions found in rural areas and in low-income urban settlements.¹ There are, however, certain significant differences that suggest variations in the approach to providing shelter in the two types of setting:

- The absolute need for shelter is growing faster in urban areas; more than twice as many new units of shelter will be required during the next two decades in urban areas than in rural (see Table 1).
- There are increasing indications that while low-income urban residential areas begin with environmental parameters equal to those of rural areas, they may, in fact, be the locus of a general deterioration of living conditions. The nutritional intake of slum dwellers, for example, is often less than that of persons living in rural areas.²
- The daily contact between urban elites and low-income groups concentrated in urban areas where shelter is inadequate is potentially more explosive, politically and socially, than any problems of widely scattered rural settlements.
- Individual initiative in the provision of shelter can be relied on more in rural areas than in urban, where the concentration of population requires collective, often public, solutions to the problem.

The first three statements reflect the urgency of the needs for adequate shelter in urban areas; the fourth points up the fact that solving the problems of providing shelter in urban areas requires well-organized, well-

¹Samir Basta, "Nutrition and Health in Low-income Urban Areas of the Third World," *Ecology of Food and Nutrition* 6 (1977), pp. 113–24.

²*Ibid.*

Table 1

**Projected Growth in the Number of Households
in Poverty, Rural and Urban, 1975-2000^a**

Region	1975	Increase or decrease	1980	Increase or decrease	1990	Increase or decrease	2000
<i>Urban poor households (thousands)</i>							
Eastern Africa	1,039	+330.5	1,369	+1,175	2,544.5	+2,158.5	4,703
Western Africa	1,072	+333	1,405	+861	2,266	+961	3,227
East Asia and the Pacific	2,664	+1,491	4,155	+956	5,111	+633	5,744
South Asia	10,213	+3,757	13,970	+7,285	21,255	+11,300	32,555
Europe, the Middle East, and North Africa	5,581	+669	6,250	+1,324	7,574	+1,169	8,743
Latin America and the Caribbean	12,945	+1,078	14,023	+2,775	16,798	+2,530	19,328
Total	33,514	+7,658.5	41,173	+14,376	55,548.5	+18,751.5	74,300
<i>Rural poor households (thousands)</i>							
Eastern Africa	5,902.5	+555.5	6,458	+1,100	7,558	+1,067	8,625
Western Africa	2,670	+268	2,938	-450	2,488	-250	2,238
East Asia and the Pacific	14,327	-1,774	12,553	-834	11,719	-1,847	9,872
South Asia	49,677	-878	48,799	-7,763	41,036	-8,327	32,709
Europe, the Middle East, and North Africa	4,563	-802	3,761	-1,428	2,333	-930	1,403
Latin America and the Caribbean	6,040	-1,108	4,932	-1,904	3,028	-1,407	1,621
Total	83,279.5	-3,738.5	79,441	-11,279	68,162	-11,694	56,468

^aBased on estimates of real per capita incomes through the year 2000, using United Nations medium-variant rates of growth of population and World Bank projections of real growth of national income. Poor households in 1975 are here defined as those living in absolute poverty in 1975 in all rural areas, except those in El Salvador and Jamaica and in all urban areas in East Asia, Malawi, Zambia, and Egypt. In all other instances the numbers of those in absolute poverty are small in comparison to the numbers of those in relative poverty, which indicates that the relatively poor are the appropriate target group. In determining movements in and out of poverty in the course of time, the thresholds of both absolute and relative poverty are held constant in 1975 dollars. The accuracy of the projected figures is dependent upon a fairly stable distribution of income.

managed efforts, something that is difficult to bring about. The great need is for large numbers of new units to accommodate the rapid increase in the number of households, whereas in rural areas the needs are for the upgrading of existing units and for the provision of social services. In both rural and urban areas, the needs are substantial, and priorities must be set.

Although there will be considerable differences between the priorities of one country and those of another, and they will differ at different times, it is likely that in any country and at any time provision of adequate shelter in urban settings will have a higher priority and a greater claim on resources, particularly on those of the public sector, than will rural shelter. This is not because the needs of the rural population are less important; it is because the solutions to their shelter problems are much more in their own hands. Rural households can expand or improve their dwellings more readily as their incomes rise than can urban households because they face fewer administrative barriers, more land is available to them, they are experienced in using the traditional building materials that are readily available to them, and the provisions of their needs for sanitation are less costly. In urban areas the increase in effective demand for adequate shelter implied by rising incomes will not necessarily engender an adequate supply response.

Demand and Supply

Before the provision of basic shelter can be discussed, it must be determined whether *any* acceptable shelter can be provided for those at the lower levels of income at a cost that is within the proportion of total income normally spent on shelter—usually between 15 and 20 percent, as indicated by regression analyses of data collected in surveys of households in the lowest third of the income distribution in twelve countries—a solution, in other words, that is within the income constraint.³ An acceptable solution is one that both satisfies consumers and meets environmental and economic standards.

The desirability of remaining within the income constraint is enhanced by consideration of the resource constraints of the economy as a whole. What the household can afford and what society as a whole can afford are overlapping concerns. Few countries have either the resources or the political will to transfer enough income to subsidize shelter programs for large numbers of their citizens whose incomes are low, and they have no choice but to make such programs largely self-supporting.

The experience with low-income shelter programs so far indicates that it is possible to provide adequate and acceptable shelter within this income constraint for all except possibly those in the lowest 5 to 10 percent of the

³The income of the poor may not always be the binding constraint. As will be seen in Chapter 2, there may be some limited possibilities for transfer of income or shelter services from higher-income groups to lower. The possibility of making such transfers is limited to countries in which incomes are higher, where the question of what is basic in an absolute sense—that is, is necessary to life—seldom arises.

income distribution. Income has seldom been the binding constraint. In all but the very poorest societies more can be afforded than the minimum environmentally safe shelter and more is spent than the minimum shelter would require.⁴

If, as has been suggested, income is seldom the binding constraint to the provision of adequate shelter, the question arises as to why so many of the poor throughout the world must live in shelter that would appear to even the most casual observer to be inadequate. The demand for adequate shelter exists in all countries, and within countries it exists throughout the entire spectrum of the income distribution. In contrast, effective demand for some goods and services judged to be basic, such as family planning, education, and nutrition, because of custom, ignorance, or tradition is found to be inadequate. The poor do not live in crowded and unsanitary shelter because of ignorance of the alternatives. All the evidence suggests that members of low-income groups can and will spend sufficient portions of their limited incomes to purchase secure and sanitary shelter if it is available to them.

The problems of the shelter sector thus do not lie on the side of effective demand. Consumption of shelter is low because its price is high, and its price is high because of the failure of the supply system. Projects of the World Bank have consistently demonstrated that it is possible to provide secure and environmentally sound shelter to members of low-income groups within the constraints of the amount of their incomes and the share that they are prepared to spend for shelter. The problems on the supply side fall under three general headings: land, public services, and finance.

Land

The problem of the supply of land for shelter is almost exclusively an urban problem. The problem is not one of inadequate land per se; it is the problem of delivering the land, particularly to persons of low income, for use in the construction of shelter. It is for the most part an institutional problem. The cost of land is usually a small part of the total cost of shelter, but land is vital to the construction of shelter.⁵ Without some security of tenure,

⁴In one recent exercise, it was suggested that US\$1,000 a household be considered the minimum amount of capital required for shelter expenditures. Assuming a real rate of interest of 6 percent and the devotion of 20 percent of income to shelter, a capital expenditure of this size would be within the means of a household whose income was US\$25 a month or US\$300 a year. If there are six persons to a household, an annual income of US\$50 a person is implied. See S. J. Burki and J. J. C. Voorhoeve, "Global Estimates for Meeting Basic Needs," a World Bank Background Paper (Washington, D.C., August 1977).

⁵The following figures are for the cost of land as a percentage of the total cost of shelter in several projects of the World Bank: Nicaragua, 13 percent; Senegal, 5.5 percent; Tanzania I, 0.5 percent; Tanzania II, 3.6 percent; Zambia, 0.8 percent. In the United States between 1968 and 1973 the cost of land constituted, on the average, only 2 percent of the monthly cost of housing. Even when the cost of land is considered as a proportion of the cost of capital alone, it constitutes only 8.3 percent of the cost. See B. Bruce-Biggs, "The Cost of Housing," *The Public Interest* no. 32 (Summer 1973), pp. 34-42; Bernard J. Frieden, "The New Housing-Cost Problem," *The Public Interest* no. 49 (Fall 1977), pp. 70-76.

the poor will not make the investments necessary to improvement of their shelter. Projects for the improvement of shelter such as the Tondo in the Phillippines are dramatic examples of what can happen once security of tenure is given.

The institutional factors that constrain the supply of land are many, and they vary considerably in importance from country to country. In some instances cities have expanded into the surrounding agricultural land, thereby giving monopoly powers to a few landlords with large holdings, as in San Salvador, El Salvador. In others, confused titles and cumbersome legal systems have so increased the costs of transferring land that those who want small plots cannot afford them. More common are conditions of size and occupancy that effectively keep the poor out of the formal land markets. Even in those countries in which land has been nationalized, such as Tanzania and Zambia, or in which most of the land is already in the hands of the state, such as Mali, the means of distributing this land to low-income groups are yet to be devised.

Urban land reform is as urgent a problem as rural land reform and is likely to be more intractable.⁶ Even with the best will in the world, changing and adapting traditional systems of land tenure to promote the equitable distribution of land within cities presents difficult technical and social problems. Unfortunately, the will is not always there and certain persons and groups have strong vested interests in maintaining the status quo.

Public Services

The delivery of public services is of particular importance to low-income settlements. At low levels of income, the cost of these services constitutes a large part of the cost of shelter.⁷ In household surveys in which low-income residents are asked to list their priorities, it is common to find housing itself well down the list, below water supply, education, transportation, and other services. Generally the poor feel able to construct their own dwellings; what they cannot do is provide the services to go with them. Although most governments have maintained monopolies on these services, they have not extended services rapidly enough to meet the needs of the low-income settlements that now surround most urban areas. Settlements without the necessary services have been growing faster than the service network.

The reasons for this disappointing record vary somewhat from country to country. Under the best of circumstances, the task would be gargantuan, and in most countries circumstances fall far short of being the best. Part of the explanation lies in the fact that governments have been slow to recognize the problem. It is only within the past twenty-five years that this kind of

⁶See Harold B. Dunkerly, Alan A. Walters, John M. Courtney, William A. Doebele, Donald C. Shoup, and Malcolm D. Rivkin, "Urban Land Policy Issues and Opportunities," Staff Working Paper no. 283 (Washington, D.C.: World Bank, May 1978).

⁷In recent projects of the World Bank it has varied between 20 and 30 percent, but it has been as high as 50 percent, as it is in India.

growth of urban populations, both in numbers and level of income, has taken place. Initially the phenomenon was seen as a transitory one that could be eliminated by the bulldozing of slums and squatter settlements. Only recently has it been recognized as a permanent feature of the urban landscape, and it is only with this recognition that the search for solutions has begun.

In general the rate of expansion of public services has been limited by the unrealistic standards that have been set. Provision of services at unrealistically low tariffs and otherwise inadequate financial performance on the part of the supplying institutions have made necessary large infusions of public funds into these institutions. Tariffs kept low by subsidies and the failure to raise them along with inflation are often justified as favoring the poor, but unfortunately, the majority of the poor are without access to the system and thus receive little benefit from these policies. To one who cannot obtain a service, it is small comfort that the price is low. It is common to find, for example, that the poor pay ten to twenty times as much for water as do persons whose incomes are higher but who are connected to the public water-supply system.

The difference between access to electricity and access to water in low-income areas is ironical. It is not unusual to find from 85 to 100 percent of low-income areas supplied with electricity and only 10 to 15 percent supplied with water. One reason is that electricity is regarded as something that it is acceptable to provide on commercial terms rather than something merited by everyone. It can thus be offered at rates that cover costs, and the service can be discontinued if bills are not paid.

Finance

In most countries little financing is available for low-income housing. Some financing, usually heavily subsidized, is passed through public institutions, such as social security agencies, and is available only for housing in public developments. Little of this reaches the poor. There are very few institutions in the private sector that offer financing for housing in developing countries, and those that do offer it only for short terms and only to members of higher-income groups. Some large employers make loans to their employees for housing, but only a small share of the total stock of housing is financed in this way.

The bulk of low-income housing is financed out of personal savings, without the involvement of any financial intermediary. In a recent survey of low-income housing in Cartagena, Colombia, for example, less than 10 percent of low-income housing was found to have any debts against it.⁸ The common pattern seems to be one in which a slow accumulation of funds or materials determines the pace of construction. There also appears to be a

⁸W. P. Strassman, "Basic Shelter in an Urban Framework," mimeographed (Washington, D.C.: World Bank, November 1978), pp. 81, 161.

high marginal propensity to put any windfall or unexpected income into housing. In Cartagena it was found that many of those who improved their housing did so with the aid of remittances received from members of their families who worked outside the country.⁹ A similar pattern can be observed in North Africa, in Turkey, and in parts of India and Pakistan, where remittances from absent workers are an important source of a family's income.

The fact that financial institutions do not lend significant amounts for low-income housing undoubtedly contributes to the inefficiency of the whole process of providing shelter. Those whose incomes are low obviously have a strong desire for improved shelter, and there seems to be a great willingness to save in order to invest in improved housing. If the savers and the investors could get together the whole process could be improved.

Mortgage lending is impeded by the combination of insecurity of the rights of the borrower to tenure and the lack of protection of the lender. The security offered by a mortgage is of little value if the borrower does not have clear title to the property or if the lender cannot take possession of it in case of default. In addition to these problems, which are largely institutional, the use by most governments of credit rationing in one form or another—through restrictions on the type of loan that can be made or on the terms on which loans can be made—means that poor households have usually been kept out of the formal credit markets.

Welfare and the Need for Shelter

In the foregoing analysis of the principal problems encountered in the provision of shelter, constraints upon the supply have been emphasized, and it has been assumed that even in low-income countries the effective demand is great enough to provide adequate shelter, including essential public services, for most of the populations. This does not rule out the possibility of using provision of shelter as an instrument of the redistribution of income or the achievement of other welfare objectives. Shelter programs that have had such objectives, however, have not been notably successful in either developing or developed countries.

One of the reasons they have failed is the tendency to regard the poor as a homogeneous group, when in fact large differences in income and wealth are to be found within groups at or below the poverty level. Programs have thus tended to be too broad, and the attempt has been made to cover groups that were too large. Programs to provide general interest-rate subsidies for low-income housing and those subsidizing a wide variety of public services usually fall into this category. Because to do all that these programs set out to do would require subsidies of tremendous size, the result is that most of the poor are excluded from access to services, as has already been seen in the provision of electricity and water.

⁹*Ibid.*

Household surveys of low-income groups reveal a number of characteristics of the very poor that explain the difficulty of reaching them through the normal provision of shelter and related public services.¹⁰ The lowest decile of the income distribution in any low-income urban settlement contains significant numbers of transients who often show no income at all. In view of the large flow of migrants in and out of cities, it is not surprising to find these job-seekers showing up temporarily at the bottom of the income scale. In addition, much of the lowest decile of the population in income may consist of the "young unemployed, the old unemployables, the aged, and the infirm."¹¹ To these could be added the mentally and physically handicapped.

The problems of groups such as these are too complex to be solved merely by provision of shelter, water supply, health facilities, and other public services. Even if these services are available, many of the poor are not in a position to make effective use of them. These are the welfare problems that exist in all societies, and, particularly in developing countries, they are concentrated at the bottom of the income scale. In traditional societies the poor are given some protection through the extended family, tribal customs, and religious institutions. As the pace of urbanization proceeds, the protective function is being assumed, usually inadequately, by the state.

The importance of understanding the nature and causes of the poverty of those who are at the bottom of the income scale must not be underestimated if realistic programs are to be devised to provide shelter both for this group and for those whose incomes are somewhat higher. All too often laudable welfare objectives are behind programs that not only fail to meet limited objectives in serving those whose incomes are lowest but at the same time cause failures in the system for supplying public goods and services to those groups that can afford them.

Even given the usual social constraints upon the effort to solve the problem of shelter for the lowest 20 percent in the distribution of income, it is possible to develop shelter programs that improve the welfare of a substantial portion of this group. There is obviously some scope for improving the design and financing of shelter programs in ways that make home ownership possible for families in the second decile and still recover costs.

¹⁰The results of most traditional household surveys should be viewed with great caution. Results that show large numbers with no income at all are often meaningless. In poor societies persons with no income could not survive. Similarly, these surveys, because of the problems of defining both income and employment, undoubtedly exaggerate the amount of unemployment and underemployment. In one recent study of this issue, Simon Fass, "Families in Port-au-Prince," mimeographed (Washington, D.C.: U.S. Agency for International Development, September 1977), very little was found of either unemployment or underemployment, although traditional survey techniques turned up unemployment rates of 30 percent or more.

¹¹Rakesh Mohan, "Workers of Bogota," mimeographed, World Bank, Development Economics Department, Urban and Regional Economics Division (Washington, D.C., November 6, 1978), p. 74; same paper read at the annual meeting of the Southern Economic Association, Washington, D.C., 8-10 November 1978.

There are limits, however, to how low an income group can be reached through programs that emphasize self-help or home ownership. Many of those in the two lowest deciles will inevitably rent rather than own their homes. Either the sources of their incomes are not stable enough or their incomes are not large enough to permit them to commit scarce resources to investments in shelter.

Programs that ensure an adequate supply of rental accommodations are most appropriate for this group. In many low-income areas rooms are traditionally rented to members of this group. In both sites-and-services projects and those that attempt to improve existing rental accommodations, renters benefit from the pressures exerted on rents by increases in the supply of rental accommodations and, perhaps more important, from general improvements in the environment, such as improvements in the water supply and in sanitation, and from access to community facilities. It must be realized, however, that without an increase in the total supply of shelter, the result of improvements in quality may be that the poor are priced out of improved shelter.

Those in the lowest 5 to 10 percent of the income scale will realize some benefits from the general improvements in the community, but more often than not their problems are only peripherally related to the inadequacy of their shelter. Their particular problems, such as old age and mental and physical handicaps, must be specifically recognized and addressed.

Meeting the Supply Constraints: The Approach of the World Bank

Resolving the needs of low-income groups for shelter will not be an easy task. The problems, essentially institutional, are rooted in long-entrenched traditions, prejudices, and practices, and to overcome them will require a sustained effort. Reform will be hastened, however, by the changes that are taking place rapidly in the cities themselves, producing both stresses and strains in the social fabric and a growing willingness to experiment with new solutions.

While the supply constraints are clear and can be readily classified, the solutions are not subject to neat compartmentalization. The interdependence of the constraints requires solutions that address all of them. Their complex institutional nature requires that the solutions be as complex and varied as the institutional problems themselves.

The World Bank has found a number of ways to approach the problem of providing shelter for members of low-income groups, and while the approaches are being continuously refined, the elements of the Bank's strategy are on the whole clear. In some instances, the Bank's traditional ways of dealing sectorally with problems of water supply, power, transport, sanitation, and education have been extended by designing projects specifically to reach the lower-income groups with these services. As noted earlier,

members of low-income groups can usually take care of their own needs for shelter itself, but providing them with the complementary services, which they clearly cannot provide for themselves, is of critical importance.

The sector-by-sector approach by itself, however, has been found to have certain weaknesses, and it has been necessary to develop comprehensive, integrated ways of providing shelter to make programs more effective in meeting the needs of low-income groups. Most of the previously mentioned services taken by themselves are important to the provision of shelter, but they are considerably more effective when they can complement one another. The provision of water supplies alone, for example, has only a minimal effect on health unless complementary measures are taken to improve the disposal of human wastes. The removal of stagnant waters and elimination of the danger of flooding by means of drainage projects are of limited usefulness unless there is a system for the removal of solid wastes to prevent the clogging of drains. To bring these services together requires a high degree of planning and integration of investments in urban services that by and large is lacking in most urban areas. Provision of these services is usually fragmented among various agencies and various levels of government, making the coordination of investment haphazard at best. The purely sectoral approach, moreover, does not lend itself to addressing the critical problem of land tenure. As has already been pointed out, the lack of legal tenure is a barrier to the delivery of services to low-income groups, and without secure tenure, neither households themselves nor agencies in the private sector will make the necessary complementary investments.

In the effort to overcome some of these problems, the World Bank has developed an integrated approach to urban development to complement and support the sector-by-sector approach. Integrated projects of the Bank are directed toward specific communities, and the aim is to ensure the delivery of a package of complementary services in accordance with the priorities of these communities. At the same time, the effort is also made to improve the management capacities of cities in order to enhance the coordination of investment programs and to give higher priority to such issues as land tenure.

To improve the provision of shelter and complementary services, the Bank has put its greatest effort into the financing of the upgrading of dwellings in existing settlements and sites-and-services projects for the development of new settlements. The salient feature of these projects has been the coordination of land tenure, public services, and private investment, along with the improvement of employment opportunities. The outstanding element of the policy behind these projects is an emphasis on cost recovery and the development of shelter programs that can be replicated on a large scale. In several projects, such as Calcutta I and II, Mexico I and II, and Korea I and II, the basic attempt to provide shelter has been broadened to include an effort to improve the investment planning and implementation capacities of cities and regions. In every instance the goal has been to prepare

cities to deal with the economic and social problems of their large and rapidly growing numbers of poor citizens.

The Packaging of Services

As noted earlier, the complementarity of services enhances the effect of any one service, and for this reason if for no other there are persuasive arguments for the packaging of services. Perhaps more important, the packaging of services, particularly if they are to be linked to the recovery of costs, requires the involvement and consent of the communities concerned. Without community participation—or consultation with potential residents of new sites—it is unlikely that programs can be implemented successfully or that costs can be recovered. The involvement of the community is a great challenge in the design and implementation of these projects, but the gains can be significant if the energies and resources of the community can be mobilized for meeting their own basic needs.

The packaging of services, particularly when they are linked to provision of land tenure, broadens the scope for cross-subsidies and transfers of income and enhances the prospects for recovery of costs.¹² In many instances it is difficult to charge for these services directly because of tariff policies or other institutional constraints on the supplying agency, excessive costs of collection from small consumers, the communal nature of some services, which makes it difficult to attribute costs to individual households, and differences in the value placed on a service—such as garbage collection—by the individual household and by the community as a whole. When costs cannot be recovered directly they are usually capitalized in the value of the land. Because of the strong desire of households for secure tenure, capitalizing the cost of services offers a significant opportunity for recovery of costs through charges directly linked to the provision of tenure. Despite the scarcity in most countries of dwellings of a quality that the citizens could and would pay for, there are still opportunities to price land differentially so that some of the scarcity rents can be used either to provide communal services or to improve the situation of low-income groups.

Recovery of Costs and Replicability of Projects

The emphasis on recovery of costs is an important aspect of the policy of the World Bank toward provision of shelter for low-income groups. It arises out of concern that solutions to the problem of providing shelter be replicable and concern for the effect of these projects on the pattern of migration from rural areas to the cities. The greatest effort possible has been made to ensure that beneficiaries of the projects will pay for the services that they receive, because requiring that they do so has been judged a criti-

¹²*The term cross-subsidies is something of a misnomer. Here it is the differential pricing of houses according to the income of the purchaser; one whose income is high pays a premium for his house, which makes it possible to sell a house to a low-income purchaser at a discount.*

cal factor in ensuring the replicability of low-cost solutions to the problem of providing shelter. In both developed and developing countries governments have traditionally subsidized low-income housing, generally to the extent of a large share of total costs. The existence of government subsidies has meant that very little pressure was exerted toward the use of appropriate design standards and, by the same token, toward the control of costs. As a consequence, oversized, costly units have been built, so highly subsidized that they have had to be rationed. In the allocation of these units the needs of the poor have often had to give way before the compelling political demands of higher-income groups. These programs have thus fallen far short of providing for the needs of low-income groups. In one survey of housing in developing countries it was found that as many as 60 percent of the population could not afford the cheapest unit of public housing—even with subsidies.¹³ The failure of these costly, highly subsidized programs has been one reason for the suggestion that investment in shelter is comparable to pouring resources into a bottomless pit.

It is in response to the failure of these traditional, subsidized programs that the emphasis has shifted to upgrading of existing shelter, sites-and-services projects, and recovery of costs. A factor in this shift of emphasis is the growing awareness of the tremendous need for additional shelter. Growth in the formation of new households, both because of migration and because of natural growth of the population, and the growth of income together necessitate the provision of additional units of shelter at an unprecedented rate. At such rates of growth, even modest subsidies imply a level of fiscal transfer that may well be beyond what governments are willing to carry out, particularly in the face of the compelling demands of other sectors. Thus, reliance on subsidies to any great extent may endanger the replicability of even low-cost solutions to the problem, such as sites-and-services programs and the upgrading of existing units.

Another concern in the emphasis on cost recovery is reluctance to encourage migration from rural areas to the cities by subsidizing urban settlement. With respect to the motivation of migrants, the evidence is clear: Settlers are coming for jobs, not services, because for the most part they receive no services, subsidized or otherwise.¹⁴ This argument becomes academic when the scale upon which most cities are providing services to low-income groups at present is considered. More important concerns are the inefficiencies and inequities in public investment programs that could arise as a consequence of subsidizing urban settlements. For the most part even the urban poor are better off than their rural counterparts, and large subsidies to benefit the urban poor may divert resources from high-priority programs for the relief of rural poverty. If those in urban areas pay at least for

¹³ See Orville F. Grimes, Jr., *Housing for Low-Income Urban Families* (Baltimore: The Johns Hopkins University Press, 1976), p. 9.

¹⁴ Lorene Y. L. Yap, "Internal Migration in Less Developed Countries: A Survey of the Literature," Staff Working Paper no. 215 (Washington, D.C.: World Bank, September 1975).

what they receive, transfers of scarce resources can be minimized and inefficiencies in investment avoided.

Management of Urban Growth

A third aspect of the approach of the World Bank to the problems of providing shelter is the importance given to the function of the city in managing the problems of urban growth. Providing adequate shelter for low-income groups requires a high degree of coordination and planning at the local level if the programs of cities are to consist of more than a few demonstration projects. Large increases in urban populations during the coming decades are inevitable, and few cities are prepared for the demanding task of absorbing them. To assist the cities in this task the Bank has tried to include in its integrated approach to urban shelter a variety of components—transport, disposal of solid wastes, drainage, and river control, for example—that require improvements in management if they are to be implemented successfully.

Transport, for example, is of vital importance to the efficiency of any city. Decisions having to do with transport are critical to decisions concerning land use with respect to the location of employment and shelter. Similarly, when land-use decisions are made, the costs of infrastructure, such as water supplies and drainage, must be taken into account. Unless cities begin to put these elements together, the process of urbanization will be more costly than it need be, and the poor are likely to bear a disproportionate share of the costs.

To take such an integrated approach is extraordinarily difficult, but it is essential because it addresses the institutional problems that are at the heart of the supply constraints in the shelter sector. The difficulties that have been encountered in projects of the Bank that attempt to improve city management do not indicate a failure of project design; they indicate rather that the appropriate, difficult problem is being addressed. The results so far have been mixed; there have been both successes and failures in the short run, but there is little doubt that in the long run success in meeting the needs of the poor for shelter will depend on the improvements that can be brought about in the management of urban growth.

Chapter 2

Issues and Problems

If costs are to be recovered from low-income families, can they purchase sufficient services to meet their basic needs for shelter? In one form or another this question is the one most frequently raised in any discussion of shelter policy in developing countries. Doubts are continually expressed as to the acceptability of the shelter services that can be delivered if income is seen as the binding constraint.

As noted earlier, experience gained in low-income shelter projects assisted by the World Bank indicates that adequate shelter can be provided within the constraints of income.¹ The question really turns upon the definition of the word *adequate*. Experience has shown that safe water, disposal of human and solid wastes, protection from the environment, and security can technically be provided in quantity and quality sufficient to ensure the provision of a secure and healthy environment at a cost low enough to meet the income constraint of low-income groups. For those at the lowest end of the income scale, this means public standpipes, pit latrines, and traditional forms of housing, built with traditional materials. In Upper Volta, for example, where the income per capita is US\$110, water is being supplied at a cost of US\$30 (at 1977 prices, inclusive of capital and production costs), a household and the shelter unit itself at a maximum of US\$265, for a total of US\$295. If the provision of environmentally sound shelter is technically feasible in this, one of the countries in which costs are highest and incomes are lowest in the world, it should be feasible anywhere.

The problems lie neither in technical feasibility nor in costs, but rather in the social acceptability of the solutions. Acceptability to whom? is one question. In projects of the World Bank it has been possible in every instance to make visible improvements in the situation of low-income groups, and those receiving the improvements have seldom questioned the acceptability of the solutions. They have not always been acceptable to the decisionmakers, however, from the members of the city council to the Ministry of Health. All too often these bodies have abstract notions of what is desirable that reflect more of their own backgrounds and socioeconomic status than they reflect of the desires of low-income groups. Education, persistence, and demonstration projects have all had a significant effect on the at-

¹Some exceptions must be made for the lowest 5–10 percent in the distribution of income, whose principal needs are only peripherally related to the provision of shelter.

titudes of these groups. As recently as 1975 there were few countries willing to contemplate the types of projects that the Bank was sponsoring. Now the Bank has helped finance more than thirty-two projects in twenty-six countries and has projects in preparation in eleven additional countries.

Less tractable problems exist within the low-income communities themselves, few of which can be solved by the expenditure of additional capital. Take, for example, the problem of the disposal of human wastes; it is essential that human wastes be disposed of hygienically if a healthful environment is to be established. It has been found that without hygienic waste disposal the advantages of clean water are by and large lost.² Technically a great variety of environmentally sound, low-cost solutions to this problem exist, but customs and traditions often prevent their being used effectively.³ Children, for example, are the principal victims of infections, sources of which are carried in the excreta, yet at the same time, their lack of early training in hygiene is a significant factor in the transmission of disease. It is common in many developing countries for children to be "allowed to defecate anywhere in or near the house. . . . The problem is primarily connected with attitudes and behavior."⁴

While there is some scope for taking attitudes and behavior into account in the design of projects, considerable effort must often be made to change or modify behavior before improvements in the environment can be effected. This is not something that can be done easily or quickly, nor is it responsive merely to greater expenditures. It is, however, of critical importance in any attempt to meet basic needs.

Shelter and the Poorest

Attention was drawn earlier to the problems of households at the lowest end of the income distribution. To meet the basic needs of this group for shelter the approach now being taken in projects assisted by the World Bank will have to be modified and adapted further. The basis for change can be found in the way this group is being accommodated within existing low-income communities, and the elements of possible new approaches are already beginning to emerge in a number of projects.

In existing communities the needs for shelter of a large number of those whose incomes are lowest are usually met through the provision of rental facilities in which renters share services with households and have access to community facilities. In some instances shelter is exchanged for labor; in others it is provided through a straightforward rental agreement. In new sites and services there is increasing recognition of the need to provide

²Robert J. Saunders and Jeremy J. Warford, *Village Water Supply: Economics and Policy in the Developing World* (Baltimore: The Johns Hopkins University Press, 1976), pp. 35, 36.

³R. G. Feachem, D. C. Duncan, and K. W. Iwugo, "Alternative Sanitation Technologies for the Urban Poor in Africa," a report prepared for the Transportation, Water, and Telecommunications Department of the World Bank (Washington, D.C., July 1978).

⁴*Ibid.*

rental units within the project area. In some countries, such as Tanzania, Korea, and Kenya, there is an established tradition that homeowners rent out rooms. In others, such as El Salvador, the idea needs to be encouraged within existing sites.

In all instances the very poor are likely to be reached only through an increase in the supply of rental units and in the housing stock in general. In the types of market that exist in most developing countries, where all types of housing are scarce, the poor are inevitably relegated to the worst of the stock of housing.⁵ In Nairobi, Kenya, where rents for rooms are high in relation to costs, the second urban project of the World Bank, with its potentially large increase in the supply of rental rooms in sites-and-services areas, is expected to benefit low-income groups throughout the city by reducing their rents and increasing the services that they receive.

Beyond increasing the supply of rental accommodations, there remains the problem of dealing with those living in communities that are being improved whose incomes are very low—a problem that is less acute in new sites-and-services projects, where there is a process of self-selection. As these communities are improved, it is inevitable that some of those who live in them will be unable to afford even a minimal level of improvements. To insist on cost recovery in these instances may force the poorest residents out of the communities.

In projects assisted by the Bank, attempts have been made to deal with this problem in various ways. One is to subsidize some of the lowest-income groups by making higher-income groups within the community bear a greater share of certain overhead expenditures; another is to subsidize them by means of profits from the sale of commercially exploitable plots. These measures have their limits, however, and it may not be possible to keep some residents—usually fewer than 5 percent—from being forced out. In those instances in which land is given in recognition of existing squatters' rights, those who move out are given at least a cash compensation from the sale of their rights.

In the Cartagena, Colombia, project, settlers who were already there will have access to community services, but they will be given access to public-utility connections only when they can afford them. The costs of land preparation and community infrastructure, however, are considered a lien on a plot, and the holder of a plot cannot sell it before he has cleared this charge. As long as he remains on the plot, he does not receive tenure until he has paid the charge, but he does not have to pay it unless he wishes to sell the plot. Thus low-income groups already on the land are accommodated, and at the same time the developing agency retains the capital gains that are the result of improvements that have been made.

There are undoubtedly other ways in which persons of low income who hold land within settlements being upgraded can be maintained in the

⁵Grimes. *Housing for Low-Income Urban Families*.

community—by means of more direct transfers of income or capital from public resources, for example. These have not generally been used in projects of the Bank because of the difficulty of identifying those who should receive the transfers and of administering such welfare schemes. If the administrative problems could be solved, transfers of the sort could effect significant improvement in the welfare of low-income groups in communities that are being upgraded, particularly in higher-income countries, where the resource base is greater. It is not always obvious, though, that transfers of income to support shelter services are the best way of addressing the problems of these groups; their priorities may lie elsewhere.

New Sites vs Upgrading

Given the rate at which most cities of the developing world are growing, it should be obvious that a considerable share of the resources being allocated to shelter ought to be directed toward the development of new sites. This is not always possible within the constraints faced by most countries, however, and for some time to come the needs of low-income families will have to be met by means of programs to upgrade existing settlements. Improving existing settlements is no less important than developing new sites, but it may have the disadvantage of being ultimately costlier and less efficient. Control over the location of settlements and the way in which they are developed, for example, can mean lower costs of servicing. There are many instances of existing settlements that were difficult and costly to improve because of their location on hillsides, on tidal flats, or in ravines. Improvement after settlement, though often inevitable, is a second-best solution.

Again, there are important institutional constraints that are likely to limit the scope of efforts to get ahead of the settlement process. The most important one is land. Land is physically available, but in most countries the mechanisms for urbanizing it and delivering it to low-income groups may not exist. The poor are left with little recourse but to take the land, either by squatting on it or through development of illegal settlements. The government must then give *de facto* recognition to this sort of settlement by improving it at a later date.

In projects assisted by the World Bank in which new sites are being developed, there have been difficulties and long delays in obtaining suitable land. In most instances purchase of the land or instituting condemnation proceedings is too cumbersome. Site development is often confined to the limited amounts of land already under control of the government. Expansion of a new-sites program is likely to be slow and difficult once the land easily obtained has been used.

In addition to the problem of obtaining land, new-sites developments are subject to a number of administrative and institutional difficulties. Projects supported by the Bank that involve new sites and services have seldom been able to reach as far down the income scale as upgrading projects.

Governments seem reluctant to accept standards for new sites as low as those that they will accept for existing settlements. In existing settlements, after all, whatever the situation was, it is being improved, whereas there is great reluctance to repeat the same standards for new sites because of a desire to do "better," and such strong pressures are exerted on designs and standards that it is difficult to reach below the 20th or 30th percentile of the income distribution.

New-sites programs are also more management-intensive than upgrading programs, and they are more demanding of scarce administrative talent in the public sector. In upgrading projects more of the costs of organization can be borne by the community already there; on new sites, no community is there, and much of the effort of design, selection, and organization falls on the public sector. Until more experience has been gained in developing projects of this type and more staff have been trained to implement them, the ability of the public sector to promote them will be limited.

The task of the public sector in developing sites-and-services projects is made more difficult by its inability to develop sites on a small scale. At present intervention by the public sector calls for the mobilization of a substantial administrative apparatus and scarce managerial talents. Efficient employment of these resources requires a project or site of sufficient size to justify their use—perhaps many hundreds of units, or in some instances thousands. It is simply not worth while, for example, to bring government procurement procedures into play for a few hectares of land. The problem of the procurement of land is thus exacerbated; land available in such amounts is likely to be either poorly located or in the hands of a few wealthy landowners, who often have substantial political power.

The result of public intervention with sites-and-services projects is large new communities with their attendant social and economic problems. One real danger, for example, is that those eligible for plots may be limited by design and selection criteria to a fairly narrow band of the income distribution of a city. To some extent this danger can be averted through better design and by the encouragement, through various financial incentives, of some higher-income groups to settle within these communities. Governments and other sponsoring institutions, however, are understandably reluctant to divert their efforts and resources to fulfillment of the needs of higher-income groups.

What these problems indicate is that new large-scale public-sector developments have diverted the urbanization process from its traditional pattern of small-scale filling-in of and marginal additions to existing communities. Projects to upgrade existing communities fit the traditional pattern more closely.

Some of these problems have no obvious solutions. Clearly the public sector has an important task to fulfill in the development of new sites. Yet there is a real danger that the effort may yield limited results unless institutional bottlenecks, often inherent in intervention by the public sector, are

overcome. Incentives are needed for the private sector, the usual source of low-income shelter, to produce the kind of environmentally sound shelter that the poor require and can afford. Intervention by the public sector, particularly when it is either subsidized or is dependent on its unique powers—such as in expropriation of land or in allocation of public services—may discourage private investment in low-income shelter, leaving its provision to the public sector by default. Yet there are few countries in the world in which the public sector is capable of meeting the shelter needs of more than a small fraction of the population.

Self-help

An important concept in the development of both the approaches to the provision of low-income shelter that have been described is that of self-help. Until recently low-income communities were assumed to have many unemployed and underemployed laborers who could be effectively employed in the construction of shelter. The surplus labor of households could be diverted into the production of their own shelter, thereby increasing both the income and the wealth of the households. Experience gained in projects assisted by the World Bank indicates that self-help is important, although its role is somewhat more limited than it was originally thought to be. The amount of surplus labor available within the household seems to be limited, and less self-help is being observed on project sites than was originally anticipated. Unemployment is not high among low-income households, and any underemployment that exists is likely to be more profitably used in the effort to expand employment in the existing occupation than in being diverted into the construction of shelter.⁶ In El Salvador, for example, one of the greatest problems encountered at the stage of mutual self-help was the inability of households to find time to participate in the construction process.⁷

What is being observed is that households are taking on some of the contractual and managerial responsibilities, such as design and organization of materials, but are contracting out much of the labor. The economies to be realized from the division of labor and from specialization apply as well in low-income communities as elsewhere. A householder whose main occupation is street vending is much more likely to increase the time spent selling than to use this time to build his shelter. His opportunity cost as a mason or plumber is obviously higher than it is as a street vendor. The pattern appears to be fairly typical; householders are often engaging others in the community who have the appropriate skills to provide the labor needed for

⁶See Dipak Mazumdar, "The Urban Informal Sector," Staff Working Paper no. 211 (Washington, D.C.: World Bank, July 1975); Rakesh Mohan, "Workers of Bogota."

⁷On the other hand, the community spirit fostered through self-help and mutual help is quite substantial and often invaluable. See Fundación salvadoreña de desarrollo y vivienda mínima, *Unidad de evaluación socioeconómica, a series of reports of the results of the evaluation of the foundation's programs*, no. 13 (San Salvador, July 1977), pp. 4-15 and 4-16.

construction of shelter. The aggregate employment effects are the same, and efficiency is greater. In addition, since jobs are usually contracted to members of the same community, much the same sense of community is thus generated as is encouraged by self-help—and without the bias against female heads of households often found in self-help schemes.

All this has required some changes in the way financing is made available to households. In earlier projects loans were made only for materials, on the assumption that households would employ their own labor. As a result the pace of consolidation was slower than desirable, because households did not have the needed labor available. The present practice is to make loans for both materials and labor, leaving to the individual householder the decision as to the amount of his own labor to be employed in the construction process. In Dandolo, Kenya, for example, households are contracting out the skilled labor and using family labor to provide support.

Employment

The cities of developing countries have generally been characterized as swarming with unemployed and underemployed workers. Increasing employment is considered an essential part of any effort to meet basic needs, and there is increasing emphasis in projects supported by the World Bank on the inclusion of employment-generating components as parts of general shelter projects. The results so far have not been encouraging. These components are difficult to formulate, and it may be some time before significant results can be observed. Part of the problem undoubtedly often lies in unrealistic expectations of what can be achieved within a given project. As a result of recent studies, doubt is beginning to be cast on the assumption that the rapidly growing cities of the developing countries contain large numbers of unemployed and underemployed.⁸ Neither unemployment nor underemployment can be afforded for long by city dwellers with low incomes. What is true is that large numbers of low-income city dwellers work at low-productivity jobs and that their low wages are a consequence of a highly elastic supply of labor.

Part of the confusion arises from the perception of the function of cities in the process of structural change that is taking place in most developing countries. The process of development requires that an increasing share of employment be in occupations other than farming, and these occupations are generally located in the cities. One of the major problems of the rural areas is thus caused by the failure of the cities to generate enough employ-

⁸See Khalil Hamdani, "An Economic Analysis of Street Dwellers," Pakistan Institute of Development Seminar Paper no. 32 (Islamabad, May 1978), pp. 42–43; Johannes Linn, "Policies for Efficient and Equitable Growth of Cities in Developing Countries," World Development Report, 1978 (New York and Oxford: Oxford University Press, 1978), pp. 63–76; Dipak Mazumdar, "The Urban Informal Sector"; Rakesh Mohan, "Workers of Bogota," pp. 28–30. The definitions of unemployed and underemployed are the usual ones; the unemployed are those actively seeking employment, and the underemployed are those working fewer hours than they would like.

ment to absorb the increases in the rural population.⁹ In this sense, then, there is an employment problem.

In almost all studies of migration from the farms to the cities, the overwhelming motivation is found to be economic: People migrate to the cities for jobs.¹⁰ The flow is to a large extent self-regulating. The current of information between the countryside and the city seems to be remarkably accurate, and migratory flows are governed by the availability of opportunities. Thus, the phenomenon of unemployment or underemployment is not likely to be found among those already living in the cities except in the form of cyclical or seasonal unemployment. Rural dwellers cannot afford to migrate if there is a high probability of their being unemployed for any length of time.

Once the problem of unemployment is seen in this perspective, increased migratory flows can be seen as desirable. Every time a new job is created there is at least one person ready to take it, and there are probably several others waiting in rural areas for similar opportunities. This can be quite discouraging to the policymaker who is trying to generate further increases in employment. No matter how many jobs are created, more are needed, and attempts to increase income are confounded by the constant increase in the supply of labor.

From the viewpoint of a city manager, the results can seem disastrous. The growth of most cities is more rapid than can be managed comfortably, and increased employment opportunities are simply translated into more rapid growth—one reason that many governments are trying to divert growth to smaller cities. From this point of view the problem is not one of lack of employment; it is rather one of management of the problems generated by increased employment.

If the employment problem is viewed within this macroeconomic framework, it can be seen that solutions at the city level are not easily arrived at, even less easily at the project level. The pattern and the rates of national and international development are the important governing factors, and what can be done at the city level, within the context of a project, seems marginal at best.

It is important, nevertheless, to include employment components in shelter projects, even if what can be accomplished thereby is limited. As there are to the delivery of shelter services, there are often important institutional constraints to the efficient creation of employment opportunities for low-income city dwellers. Some of these can be dealt with in a project framework. Institutional mechanisms for extending credit to entrepreneurs in low-income areas, for example, are often inadequate if not nonexistent. Credit components are included in shelter projects in an effort to eliminate some of these obstacles. The problems are largely of an institutional nature, however, and it is not possible to move quickly, nor can it be expected that

⁹World Bank, *Rural Development. A Sector Policy Paper* (Washington, D.C., February 1975).

¹⁰Yap, "Internal Migration in Less Developed Countries."

large volumes of credit can be channeled through the medium of a shelter project. The process will be long and arduous and will require a sustained effort before significant results can be observed.

Other factors that complicate attempts to improve employment opportunities for those who are unemployed or underemployed are to be found in the specific socioeconomic situations of some of these groups. Some are young workers just entering the labor force,¹¹ some are educated but temporarily unemployed because of their work preferences,¹² some are physically ill,¹³ and some are female heads of households.¹⁴ General measures to increase the demand for labor will not necessarily alleviate the problems of these groups; specific remedies need to be devised. Basic urbanization projects, in addition to providing shelter and basic services, are focused on community development and community participation and can therefore be of assistance in identifying some of these problems and in devising specific remedies.¹⁵

The employment effects of the whole process of urbanization need to be taken into account, moreover, in any evaluation of the employment effects of basic urbanization projects. They are not insignificant. This process could be considered one of the largest growth industries in any city. The construction of shelter and the provision of related services for populations that double every ten or fifteen years represent an enormous investment of resources and a major source of employment for urban dwellers. Making this process more efficient by improving the systems of delivery of the whole range of urban services cannot help but have substantial employment effects in that it improves the overall capacity of the city to absorb its increases in population.

Subsidies and Transfers of Income

In the discussion of the World Bank's approach to the problem of meeting the needs of low-income groups for shelter, great stress was placed on the replicability of the solution. Closely tied to the concept of replicability are those of affordability and cost recovery. Experience has shown that unless costs can be recovered, programs are seldom replicable. The lack of political commitment to income transfers through these programs is not the only reason some of them have failed. A significant factor in preventing the efficient transfer of income has been the way in which the transfers have been made. They have usually taken the form of transfers of capital to

¹¹ Mohan, "Workers of Bogota," pp. 28-30.

¹² Mazumdar, "The Urban Informal Sector."

¹³ Fass, "Families in Port-au-Prince."

¹⁴ Anna Maria Sant'Anna and others, "Income Distribution and the Economy of the Urban Household: the Case of Belo Horizonte," Staff Working Paper no. 237 (Washington, D.C.: World Bank, June 1976), pp. 15-20.

¹⁵ The community work banks that form part of the Colombia medium-size cities project are an attempt to promote specific community-based remedies for increasing employment opportunities.

cover the whole cost of shelter and related services. Interest rate subsidies and sale prices or rents that are less than cost have been the most common forms.

General subsidies of these sorts do not address the supply constraints, are aimed at too large a target group, and bring about high fiscal costs. They are easy to administer, however, and can have considerable political appeal. Other ways of subsidizing the provision of shelter to low-income groups have not been tried to any significant extent; they may represent more efficient ways of addressing shelter problems, particularly in countries where incomes are higher and some transfers of resources are feasible.

The form taken by such subsidies would have to vary considerably according to the institutional framework of each country, but in general they would be directed toward specific problems found in the shelter sector, rather than being subsidies to cover some part of the total cost of shelter. Those services not of direct benefit to the householder, such as various kinds of community services, and those of whose possible benefits the householder is ignorant, such as various sanitation and health measures, could be selected for subsidization. It would be possible, for example, to conceive of programs in which the digging of pit latrines or new types of building materials would be subsidized in order to encourage their use.

These are just a few of the possibilities; there is an understandable reluctance, however, to push subsidies of these sorts too hard, no matter how well they can be justified. The practical problems of administering them and ensuring that they reach the right groups will often defeat the best intentions. A cautious and experimental approach is clearly required.

Chapter 3

Shelter Needs: Orders of Magnitude, 1980–2000

In the preceding sections of this booklet, some of the difficulties and institutional problems encountered in the course of developing shelter programs for the poor have been highlighted. The institutional difficulties and related supply constraints have not always been considered central to the provision of shelter, which has more often been characterized as a bottomless pit into which scarce resources are poured. This view has colored much of the discussion of shelter policy and has been responsible for a generally pessimistic view of the possibilities for action. The experience of the World Bank in countries in which it supports basic shelter programs negates this pessimism and demonstrates that solutions to the problem can be found even where resources for the provision of shelter are relatively scarce.

Now the experience must be expanded upon and constraints upon resources must be considered on a global scale. As is true of any global estimates, heroic assumptions must be made in putting the results together, and they should therefore be treated as orders of magnitude rather than as firm estimates. In spite of the difficulties of estimation, the results are fairly robust, and they indicate that while obtaining adequate resources is always a problem, it should not be seen as the binding constraint. Of much greater importance are the institutional constraints.

In order to arrive at estimates of the order of magnitude of the resources required for the provision of basic shelter, assumptions have had to be made regarding the size and rate of growth of the group that is in poverty and of its needs for shelter. Goals have had to be set. These goals are, of course, largely arbitrary and may vary considerably from country to country. The goal set in order to derive estimates of the resources that would be required is the provision by the year 2000 of a basic unit of shelter to every household living in poverty. The poverty group is defined as including all those whose incomes are below the rural and urban poverty thresholds, as they are defined by the World Bank, in 1975 dollars. For several countries in which the relative threshold of poverty is more inclusive than the absolute threshold, only the relative threshold was reported and was therefore the only one used in the calculations. In making projections of movement into and out of poverty—to derive the size of the population in poverty in the year 2000—the relative threshold was allowed to increase with time, thereby making it in essence an absolute poverty threshold. The size of the popu-

lation in poverty in 2000 is therefore likely to be overestimated, but even with this bias, the amount of the resources estimated as being required is not unreasonable.

The year 2000 was selected as an end point after some deliberation. It should be feasible, both financially and administratively, to carry out a program that has as its goal the provision of adequate shelter to all members of low-income groups in the course of a twenty-year period. It would obviously be desirable to accelerate the pace of improvements, but it is unlikely to be possible in practice. In some countries the pace can and should be faster; in others it may well be slower. The pace will have to be determined separately for each country, since the principal determining factors will be institutional capabilities and political will. The estimates presented here are orders of magnitude for two decades. Annual programs must ultimately fall back on more detailed analysis of the capacity for implementation, but for the purpose of illustrating the size of the resource constraint, the figure for two decades has been divided by twenty.

The basic unit of shelter is defined as that which can be afforded by a family living exactly at the threshold of poverty. This is to ensure that all shelter programs having the goal of meeting all basic needs will be consistent. Since the poverty threshold has been defined as the level of income at which a family would be able to purchase a minimal package of food, it follows that if this goal is being met, the minimum expenditure for shelter must be consistent with the effective demand for shelter at this threshold. In most instances this basic unit should be more than adequate to meet the minimum need for shelter defined as a secure and healthy environment. If what is selected as the basic unit is that which a family at the poverty threshold can afford, the estimate of the resources required is probably an overstatement of the amount needed just to meet basic needs. Experience gained in projects aided by the World Bank indicates that basic needs for shelter can be met at levels of income below the poverty threshold.

The unit costs of the basic unit are derived by capitalizing the stream of expenditures that households at the threshold of poverty are prepared to make for shelter and related services.¹ The amount of resources required is the product of this unit cost per person or household and the estimate of the size of the population in poverty in the year 2000. In order to take into account the backlog of housing needs that had accumulated by 1980, it was assumed that those living in poverty in this period would have some type of shelter, however inadequate. The cost of improving their dwellings is as-

¹ These expenditures are assumed to be equal to 20 percent of annual household income, discounted over a period of twenty years at the rate of 6 percent a year. It should be noted that "shelter and related services" includes all services that are normally purchased by the household—not just the services of on-site networks of water, electricity, and streets, but also the services provided by off-site infrastructure, the power generator, and the water mains. It is the total amount that the household can afford to spend for these services, but it does not include those social services, such as health and education, that are accounted for separately in household budgets.

sumed to be equal to one half the cost of new units. This is roughly in accordance with the experience of the Bank as to the cost differential between improving existing shelter and providing new shelter. The results are summarized in Table 2.

Table 2

**The Total Investment Required in Order to Provide
Each Household Living in Poverty in 2000
with a Basic Unit of Shelter**
(billions of 1975 U.S. dollars)

<i>Region</i>	<i>In urban areas</i>	<i>In rural areas</i>	<i>Total</i>
Latin America and the Caribbean	62.0	7.0	69.0
Europe, the Middle East, and North Africa	11.0	3.0	14.0
Eastern Africa	6.0	5.5	11.5
Western Africa	4.0	2.0	6.0
South Asia	25.0	20.0	45.0
East Asia and the Pacific	8.0	8.0	16.0
Total	116.0	45.5	161.5

The global estimate of the amount of resources needed, in 1975 U.S. dollars, is between \$160 billion and \$170 billion. Using varying assumptions of growth in income to derive the number of households in poverty has little effect on the overall estimates, although sizable differences are found among the requirements for different regions and countries. An assumption of no growth at all in the per capita incomes of the poor quickly yields unrealistically large numbers, particularly for the poorer regions, South Asia and Eastern Africa. This underscores the general importance of growth in these regions. Without growth in income at a sustained rate, there is no hope of meeting the needs of the low-income groups in these countries for shelter.

The totals given must be interpreted with some caution. They are not the amounts required for investments in shelter by the public sector. They are simply the net amount of resources that a country would have to invest by the year 2000 in order to ensure the existence of a sufficient stock of basic units to provide one unit to each family living in poverty at that time.

Presenting the end results of a program that is expected to require two decades for completion gives little idea of the processes involved in achieving these results. Obviously, the investments will have to be made in the course of the entire period, and the timing and pace of investment will vary considerably from country to country. Setting a goal for the end of the period does not mean that all the needs of the poor during the period will be

met. From country to country there are considerable differences both in capacity for implementation and in the size of the problem in relation to the resources available that could have a radical effect on the timing or pace of a specific program. The pace may be too slow for the richer countries, where a ten-year time frame might be realistic; the poorer countries, on the other hand, will be hard put to reach this goal in two decades. In order to give a better idea of the feasibility of implementing a program of the order of magnitude suggested here, the figures shown in Table 2 were divided by twenty to produce the annual estimates given in Table 3.

Table 3

**The Annual Investment Required in Order to Provide
Each Household Living in Poverty in 2000
with a Basic Unit of Shelter^a**

(billions of 1975 U.S. dollars)

<i>Region</i>	<i>In urban areas</i>	<i>In rural areas</i>	<i>Total</i>
Latin America and the Caribbean	3.10	0.35	3.45
Europe, the Middle East, and North Africa	0.55	0.15	0.70
Eastern Africa	0.30	0.275	0.575
Western Africa	0.20	0.10	0.30
South Asia	1.25	0.10	2.25
East Asia and the Pacific	0.40	0.40	0.80
Total	5.80	2.27	8.07

^aOne twentieth of the estimates given in Table 2.

In taking a twentieth of the desired total investment by the year 2000, a linear pattern of investment expenditures is assumed. The result is that the amounts required in the early years are exaggerated somewhat and those required in later years are understated. It would perhaps be more useful to consider these annual expenditures as the amounts that will be required at the midpoint of the period—that is, about 1990.

The estimate is also a net estimate—that is, an estimate of the housing that will be available to house the families living in poverty. To the extent that some housing may well trickle up to the middle class through improvements, the gross investment required is understated. On the other hand, particularly if poverty-oriented shelter programs of the magnitude suggested here are undertaken, some housing will trickle down from the middle class to low-income families. The amount of the total investment

that will have to be made to ensure that the projected amount of shelter reaches the poor will be a matter of policy. An inadequate investment in shelter for the middle class, for example, will make it difficult to ensure that programs designed to reach the poor will actually reach them.

How realistic are the projected levels of resources to be devoted to shelter for low-income families? On the whole the estimates are not considered unreasonable. There are several ways of checking the feasibility of the programs called for by these estimates against both the resources that are available and the existing capacity for management of such programs.

Shelter Expenditures and National Resources

In the design of any program for meeting basic needs for shelter the demand placed upon the use of national resources must be considered. Investment in shelter is only one of a number of possible uses of scarce savings in developing countries. Other uses, such as food production and education, also have high priority. Obviously any program that suggests a significant shift in the share of resources to be invested in shelter is likely to be difficult to implement, given the competing demands of other high-priority investments.

There are no reasons a priori for designating any particular level of investment in shelter as the right one. For various reasons societies have chosen to allocate different levels of resources to shelter at different times. The three factors likely to have the greatest effect on the share of gross domestic product that is invested in new residential construction are incomes, population growth, and rates of urbanization. The empirical evidence suggests that the relationship between the level of development—gross domestic product per capita—and the share of total output invested in housing exhibits the pattern shown in Figure 1.²

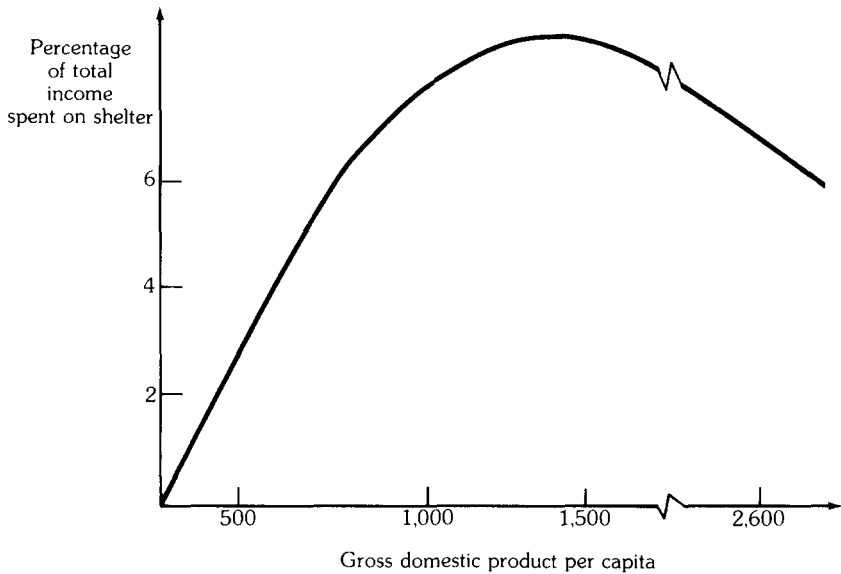
As incomes rise, the share of investment in shelter increases until it is between 6 and 7 percent of total investment, then declines to about 3 percent, the U.S. figure. This pattern is not surprising when the underlying factors are considered. At very low levels of income the high rate of return on alternative investments, such as food, necessarily causes the level of investment in shelter to be low. Growing incomes are likely to be associated with a high rate of household formation and urbanization and, consequently, with greater investments in shelter. When population growth and urbanization become slower as higher levels of income are reached, new investment in shelter as a percentage of total output tends to decline.

Using the estimating procedures of Leland S. Burns and Leo Grebler we developed norms for the *average annual percentage share of housing in to-*

² The analysis that follows is based on an article by Leland S. Burns and Leo Grebler, "Resource Allocation to Housing Investment: A Comparative International Study," *Economic Development and Cultural Change* 25 (October 1976), pp. 95-121.

Figure 1

The Relation between the Level of Development and the Share of Housing Investment in Total Output



tal output and projected them for the six regions served by the World Bank for 1983–86 as follows:³

Eastern Africa	1.7
Western Africa	3.3
East Asia and the Pacific	3.5
South Asia	2.4
Europe, the Middle East, and North Africa	4.1
Latin America and the Caribbean	5.6

These norms should be used with caution. They are simply a reflection of

³Burns and Grebler, "Resource Allocation to Housing Investment." The average annual share of housing in total output is predicted for the period 1983–86, according to the method of Burns and Grebler, from gross domestic product per capita, average rates of growth of population, and rates of urbanization for 1975–80. GDP per capita was obtained from World Bank, *World Tables 1976* (Baltimore and London: The Johns Hopkins University Press, 1976), and the World Bank Development Policy Staff. Rates of population growth and urbanization were obtained from United Nations projections, medium growth, medium variant.

historical trends in aggregate form, and considerable differences can be found from country to country.⁴

It is instructive to compare the levels of investment projected as necessary for a shelter program to meet basic needs with what might normally be allocated to new investment in housing. The following figures show the *average annual investments necessary* for a program to meet basic needs *as percentages of the norms given above*:

Eastern Africa	26
Western Africa	32
East Asia and the Pacific	25
South Asia	28
Europe, the Middle East, and North Africa	7
Latin America and the Caribbean	10

The resulting percentages show a wide range, reflecting both income levels and, more important, rapid growth of population. In Western Africa in particular the percentage is high because of the large and growing share of the population living below the poverty level. In Europe, the Middle East, and North Africa, on the other hand, higher levels of income and a lower rate of growth of population present a much more manageable picture.

These two sets of figures can be interpreted in several ways. In Eastern Africa, for example, of the 1.6 percent of GDP that would "normally" be going into investment in new shelter, roughly a fourth, or 0.4 percent of GDP, would have to be directed toward the investments in shelter of those living in poverty. To the extent that this is not being done at present, it would require either a diversion in the present patterns of investment in shelter toward the poverty group or an increase in the share of GDP that goes into investment in shelter.⁵

The diversion of these resources toward low-income groups is likely to be difficult. Most of the decisions concerning investment and savings are made by the private sector, and there is a strong effective demand for shelter on the part of upper- and middle-income groups. In few developing countries do general monetary and credit mechanisms exist that would make it possible either to shift the supply of credit toward low-income groups or to increase the share of savings going into shelter. In most instances various systems of rationing credit at subsidized interest rates effectively exclude the shelter sector from the formal credit markets, and to the

⁴See, for example, Bertrand Renaud, "Resource Allocation to Housing Investment: Comments and Further Results," mimeographed (Washington, D.C.: World Bank, Development Economics Department, Urban and Regional Economics Division, March 1, 1978). In Korea climatic conditions are probably responsible for the fact that housing constitutes a higher-than-expected share of GDP.

⁵It is difficult in nearly all countries to determine what share of total investment in shelter is directed toward low-income groups. Neither public nor private accounts are adequate for making such a determination, but the existence of growing slums around most cities is a persuasive argument that it is not enough.

extent that such credit does reach the shelter sector, it is heavily biased against the low-income groups.

Increasing the share of GDP that goes into shelter is also likely to be a challenge. It is doubtful that any increase can be brought about without substantial alteration of the existing institutional structures for delivering both the physical and the financial resources necessary to provide shelter for low-income groups. In most countries this cannot be done by increasing public expenditures, because the call upon limited resources is simply too large. To increase the share of GDP that goes into investment in shelter, therefore, would require increasing the savings, the income, or both of the low-income groups. This would have to be matched by efforts to improve the physical and financial performance of the institutions that are responsible for delivering critical public services.

In practice neither kind of effort by itself—increasing the share of shelter expenditures that is directed toward the poor or increasing the share of GDP that goes toward the shelter sector—is likely to work. Some combination of both is necessary, with considerable variation from country to country, depending on the levels of income and institutional development found in each.

Another factor that emerges from these general estimates is the importance of growth in income, particularly for the low-income countries of Asia and Africa. With respect to Africa, the underlying factors are the high rates of growth of both populations and urban centers. The rates of growth now projected, particularly for Eastern Africa, imply that between a third and half of all national resources invested in shelter will have to be directed to the groups whose incomes are lowest. For many countries this means a substantial departure from the present pattern, which is heavily biased in favor of groups whose incomes are high, but without higher rates of growth of income, slower growth of population, or both, such changes may not be possible within the existing framework of political and financial institutions in many countries.

At the opposite end of the spectrum are the higher-income countries of Latin America, Southern Europe, the Middle East, and North Africa. Most of these countries should be able to manage programs to provide the shelter needed by their poor populations easily within the existing constraints of resources and institutions.

Chapter 4

A Strategy for Meeting Basic Needs

Although global estimates of the sort presented in the preceding chapter must be used cautiously, they can nevertheless be used to gain some insights into the nature of a strategy for meeting basic needs for shelter. The application of a strategy in any given country, of course, would require a specific analysis of the situation in that country. What is offered in this booklet is an illustration of a way of making such a country-specific analysis.

The development of a strategy implies some attempt at ordering priorities. One of the first points to emerge from an examination of the data is the tremendous number of new shelter units that will be required in urban areas. In the twenty years between 1980 and 2000 the number of poor households in the cities will double, while in rural areas the number will actually decline somewhat (see Table 1).

Regardless of any doubts with respect to the accuracy of the data, the direction of the change is clear: The provision of new shelter for the poor is predominantly an urban problem. The principal focus of any strategy will therefore have to be on the cities. Besides the projected increase in the numbers of the urban poor, there are other compelling reasons. As discussed earlier, the problems of providing shelter in urban areas are less tractable and less in the hands of households themselves than are the problems in rural areas. Maintenance of a healthful environment is a much more important aspect of urban shelter than of rural. None of this suggests that the problems of providing shelter in rural areas should be ignored; they will merely require less attention.

The resources that would be required for a poverty-focused urban shelter strategy for the next twenty years are estimated to be between US\$120 billion and US\$130 billion, in 1975 dollars, or an annual expenditure between US\$6 billion and US\$7 billion. Considered in relation to national resources these amounts do not seem unreasonable, and although a few years would be required in some countries to develop the capacity to implement them, it should be possible to carry out programs of such orders of magnitude.

Programs for meeting basic needs for shelter, however, must be seen in the broader context of a policy aimed at increasing incomes, particularly in the low-income countries. Redirecting the resources that go to the shelter sector, regardless of the amounts, will be difficult without a concomitant expansion of the revenue base.

The Role of the Public Sector

Most countries have relied on the private sector to provide the bulk of the savings and investments in shelter. Most governments, however, have maintained a monopoly on the provision of many services related to shelter, such as water supply, power, and transportation. The most adverse effects on low-income settlements have usually been from the failure to deliver these services. The two aspects of public investment, the provision of shelter per se and the delivery of public services, will be examined separately in the discussion that follows.

A survey of experience with public programs for providing shelter, in both developing and developed countries, shows more failures than successes.¹ Although the experience varies considerably from country to country, most of the failures can be accounted for by the following:

- Standards have been too high in relation to the ability to pay of the poor, with the result that large subsidies have been required.
- Governments have been either reluctant or politically unable to enforce collection of rents and mortgage payments.
- Shelter units have been built far from sources of employment and often without complementary social infrastructure.
- Little account has been taken of the ways of living of members of low-income communities, and few attempts have been made to involve them actively in solving their shelter problems.

This is a familiar catalogue. Behind all these factors is a basic mistrust—or, perhaps more charitably, a lack of understanding—on the part of many policymakers of the needs and aspirations of the poor. The requirement of standards too high in relation to what is affordable by the poor is often motivated by a real desire to improve living standards. “That is not good enough for our people” is a refrain commonly heard. No matter how laudable the motivation, however, in a shelter program with standards that are too high, very few of the benefits reach the poor.

Is it realistic to expect that sufficient resources will be forthcoming to finance shelter programs for low-income groups? Even with full recovery of costs, there is still a problem of financing, because a long period will be required for repayment. The cost is between 5 and 10 percent of public revenues in all but a few countries in which public revenues are low in relation to gross national product. The purpose of this comparison is to help determine whether a poverty-oriented shelter program is a financially feasible undertaking, not necessarily to advocate a publicly subsidized program. The amount required is not extraordinarily large, particularly considering the fact that a large part of the financing is likely to come from private sources.

¹ Financial Management of Government Housing Projects, by an ad hoc group of experts on the financial management of government housing projects, United Nations Department of Economic and Social Affairs (New York: United Nations, 1976), pp. 8–24.

For the most part the government will be called upon to finance those public services over which it has a monopoly. Typically the amount will be about a third of the total cost of the shelter provided. The government will also be called upon to finance the social infrastructure—schools, health clinics, social services, and the like—that forms an integral part of any acceptable urban settlement. On the basis of experience gained in World Bank-supported projects, this is likely to be an additional investment equal to 10 to 20 percent of the resources estimated at the beginning of this chapter. Combining what the government is likely to be called upon to finance in the way of public services—probably about 30 percent of total expenditures for shelter—and social services suggests that the call upon the financial resources of the public sector is likely to be less than 50 percent of the total investment of any poverty-oriented shelter program. This does not preclude the possibility of public participation to an even greater degree in the financing of the housing unit itself through public-housing banks and other financial intermediaries.

The orders of magnitude of the total investments required to promote shelter programs for low-income groups are such as to suggest that in many countries they could be used as mechanisms for the transfer of income—that is, that making substantial subsidies would be financially feasible. The estimates used here, it will be recalled, were made on the assumption that a “basic” unit would be provided. To the extent that incomes fail to reach even the threshold of poverty—and this explicit assumption underlies the projections of growth in the number of families living in poverty—the provision of a unit that can be afforded only by those who live at this threshold will make some degree of subsidization necessary, for the effective demand will not be sufficient to permit the recovery of all costs. The provision of a so-called basic unit, however, may go beyond what is required for satisfaction of minimal conditions for a sound and healthy environment.

Many countries, nevertheless, can clearly afford to subsidize the provision of shelter for low-income groups, and the provision of shelter is an attractive way of redistributing income. Whether it is an effective way is open to question. The experience gained so far suggests that it is not easy to direct subsidies in such a way that they reach only low-income groups, and the extension of these subsidies beyond the target group quickly leads to programs that are financially infeasible. Some of the difficulties might perhaps be overcome by the more careful use of subsidies, but their efficacy remains to be demonstrated.

If a program is to include an element of subsidy, the effectiveness of the subsidy as a way of redistributing income can be judged by determining whether the program can be replicated on a scale sufficiently large that all of the target group can be covered within a reasonably short period. Such a test must go beyond theoretical financial feasibility and include judgments as to whether it is practical, politically and administratively, to implement the program for the length of time that it would require. The effects of such

subsidies on the distribution of resources between rural and urban areas would have to be explicitly recognized. Even if the resources came from within the urban economy, the effect of the subsidy on migration from rural areas to the cities would have to be taken into account.

Whether the provision of shelter to low-income groups is to be subsidized or not, the public sector will have a critical function in promoting it. At present many of the constraints on the supply of shelter are themselves the result of policies of the public sector, and they can only be changed through changes in public policy. These changes of policy involve much more than merely increasing the share of public resources that is invested in shelter for low-income groups, and unless they are made, the energies and resources of low-income households cannot be effectively directed toward the solution of their own shelter problems.

What the World Bank Can Do

The importance of institutional changes in overcoming the bottlenecks in the supply of shelter suggests that the effect that the World Bank can produce exceeds its limited capacity to finance basic shelter solutions. Through the projects it supports the Bank is in a position to demonstrate the effectiveness of the approaches advocated in this paper. The institutional changes that need to be made in many countries will not be made easily, and the political will to make them will not be there unless there is a demonstrable chance of success.

So far the Bank has been fairly successful in its advocacy of a new approach to the provision of shelter for low-income groups. In the past six years the Bank has processed basic urbanization projects expected to cost US\$1.3 billion and to benefit more than 10 million people. More important is the fact that general acceptance of shelter projects of this type is increasing. As recently as 1972 only a few countries were willing to try these less conventional approaches to the provision of shelter in urban settlements; today the demand exceeds the capacity of the Bank to process such projects. In the first five years of the Bank's efforts in this direction, twenty-nine projects were processed; in fiscal 1978 alone, twelve were processed. The program for the next five years, fiscal 1979 through fiscal 1983, calls for nearly ninety projects, and the trend is upward.

The efforts of the Bank have been aided by the increased emphasis on the provision of basic services contained in projects oriented toward certain sectors, particularly water supply and sanitation. The poverty-directed content of these programs is increasing, and when they are coordinated with projects concerned with basic urbanization, small enterprise, and transportation the result is a powerful mechanism for improving both the efficiency and the equity of the process of urbanization.

Demonstrating the efficacy of the approaches to the provision of shelter advocated by the Bank must go beyond involvement in one or two projects in a country. As noted earlier the process will be long and difficult and will

require the continuous involvement of the Bank throughout a fairly long period. Within the context of a specific project it is not possible to bring about all the desirable changes to the required degree at the same time. Consider the problem of interest rates, for example. Most countries have had a policy of subsidizing the capital to provide housing for low-income groups—and some whose incomes are not so low—and the interest rates in many instances are substantially lower than market rates. In an initial project it has not always been possible for the Bank to move immediately to more realistic rates of interest, and compromises have had to be made. These have been followed up by further changes made in a second project. It has been necessary to follow a similar course for a whole range of issues, from cost recovery to design standards. In some instances the necessary changes can only be guessed at, and experimentation is required before solutions can be reached that are applicable on a larger scale.

It is in follow-up and continuous involvement, particularly when the experiences of the Bank in a great many countries can be brought to bear, that the Bank can be most useful in helping countries devise programs to meet the shelter needs of their low-income populations. Probably a minimum of three or four projects a country—more in larger countries—through a number of years is required. This means that if the Bank is to have any lasting effect on policy, a heavy involvement, both in staff time and in finance, is required.

It is difficult at this point to anticipate any new directions that should be taken as the Bank addresses the problems of sheltering low-income households. In the present approach the importance of experimentation and the development of new ideas and institutions is stressed. There is obviously much yet to be learned, and each new project and each new country presents a new challenge, but the essential features of the approach remain the same: solutions that the countries can afford, recovery of costs, and participation by the community. Careful monitoring of the results, combined with a modest research effort, provides some of the guidance needed for future development and modification of existing projects and programs.

Perhaps the most significant development in recent years has been the growth in many countries of institutions that have as their mandate promotion of shelter programs of the type that the World Bank supports. Through its support of communications among these institutions, the Bank has been instrumental in developing a community of interests, and the sharing of experience and exchange of ideas have done much to promote rapid acceptance of new approaches to the age-old problem of providing shelter.²

How much should the Bank assist in financing the development of this strategy? The answer, of course, is a matter of policy. The actual number of

² One example of this effort is the sponsorship by the Bank of an international newsletter, *The Urban Edge*, published monthly by the Council for International Urban Liaison, 818 Eighteenth Street NW, Washington, D.C.

projects undertaken and the countries in which they are undertaken will naturally depend on analysis of the total program of the Bank in each country. The following calculations are merely illustrative of the possibilities, taking into account the limits to the capacity of the Bank.

The total expenditure throughout the world for a poverty-oriented shelter program is on the order of US\$6 billion, in 1975 dollars, a year. Although this amount is not large in relation to the capacity of the developing countries to finance such a program, it does represent a sizable share of the funds available from the Bank. In any event, the programs are constrained at present by the capacity of the Bank and its borrowers to develop and process such basic urbanization projects rather than by the availability of the necessary financial resources.

In fiscal 1979 the Bank had the capacity to undertake about fifteen basic urbanization projects a year. With an average loan of approximately US\$23 million, the lending capacity implied is about US\$345 million a year in 1975 dollars. Having built up a staff, whose experience is growing, the Bank should be able to develop and manage a program of about twenty-five projects a year by the end of fiscal 1983. The average size of the loans is also growing. Projects now in preparation tend to be larger. If the average size of the projects increases 10 percent in real terms between 1979 and 1983—a not unreasonable assumption in the light of past trends—and the capacity to undertake twenty-five projects a year is developed, the total lending program for projects of this type will amount to US\$625 million, in 1975 dollars, by fiscal 1983. Assuming that on the average 50 percent of the cost of a project is financed by the Bank, US\$1.3 billion out of a total estimated need of US\$6 billion a year, in 1975 dollars, would be supported by the World Bank.³ This should be sufficient to permit the Bank to continue its institution-building function in countries in which projects are already under way and at the same time permit a modest expansion into additional countries.

At this rate the Bank would be involved in some 20 percent of the total effort and would be financing 10 percent of the total. A level of US\$625 million by fiscal 1983—or US\$1 billion in current dollars—would represent 7.3 percent of the lending program, which implies an increase of about 2 percentage points from present levels in the share of these projects in the total program. This is a reasonable goal, consistent with the present effort of the Bank to build up its capacity. Whether this number of projects is actually programmed will depend on the determination of development priorities country by country.

Whether this goal is reached may depend on factors outside the control of the Bank. Many countries are not yet ready to accept the kind of shelter projects being assisted by the Bank. Even in those countries in which they

³ *The commitment deflator has been used to adjust the US\$1 billion in current dollars, which becomes US\$1.3 billion in 1975 dollars.*

have been accepted, time is needed for development of the institutional capacity to undertake such projects on any large scale. In the meantime, there is a real danger that many countries will spend significantly larger amounts of their resources to shelter the poor than are implied by the estimates presented in this paper and still fail to address the problem. Small numbers of excessively subsidized units, built to a high standard, can quickly use large amounts of resources while helping very few poor households.

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