Chapter II

Overview of the Housing Theories and Policies in Third World Countries
CHAPTER II

OVERVIEW OF THE HOUSING THEORIES AND POLICIES IN THIRD WORLD COUNTRIES

2.0.0 Introduction to Theories in Housing in Developing Countries

Housing theory is important because, any policy have coherence and direction only if it is built upon a clear theoretical basis. Without a rational basis of theory, no policy would tend to experience faults such as fragmentation, adhoc crisis management, and inappropriate practice. And thus any theory is also the vehicle for reform. The invasion and success of new ideas have their theoretical elements or along with their access to power and resources. Housing theory is weakened to the extent that it misses its mark or sees only a small part of the nature of housing. The new literature covers a diverse historical, ideological, technical and statistical range.

The studies proceed from contrasting bases in varicus theories in Economics, Sociology or Politics. Some studies are grounded in orthodox theory such as those proceeding from neoclassical economists and others have their origins in less conventional theory, including Neo-Marxist Theory. We can present a straightforward understanding of political economy, though with some cautionary words on how others use the term. The term, 'political economy' enjoins economics and politics. Its thrust is towards the

---

1 Cedric Pugh, Housing and Urbanisation, A study of India, sage Publications, New Delhi 1995 pp.45-47.
policy. Economics is about the ends and means of resource allocation and resource generation. Housing has to cover a complex bundle of considerations. Urban housing has to be seen in a many-sided way. Housing problems require simultaneous solutions in shelter, in social justice, in economic efficiency, in finance and in relationship to a range of public and private services in the urban environment, such as water, sewerage, drainage, shops, educational facilities, recreational opportunities, work, and so on. This, of course, will take housing study into such spheres as economics, finance, social policy, and urban administration.¹

Housing concepts enable us to have an idea of housing theory and political economy of housing. Theory should embrace all housing conditions from pavement space to luxury formal housing. It should have a clear connection with economic and social processes of development. It must recognize the value that extends beyond bricks, concrete and makeshift materials to such things as access to urban services, to rights of tenure and to the various productive activities which are related to housing. These productive activities include the everyday tasks of domestic life, cooking, housekeeping, study, hobbies and recreation, self-building work and so on. Housing and development have important interactive relationships.

2.0.1 Modernization in Developing Countries

The overwhelming purpose in developing countries is to transform the socioeconomic and political nature of society in economic growth. Early dominance in growth theory was taken by adaptations of Keynes's Economic Theories, particularly the Harrod-Domar contributions.

The Harrod-Domar approach emphasized levels of saving and investment. In terms of policy, the thrust was that policy-makers should ensure high levels of saving and investment. This is acceptable and perhaps it is obvious. However, the theory went further by relating investment of growth in a very specific way. What the Harrod-Domar way of thinking did was to place key significance upon capital - output ratios, generally symbolised in the literature as the K:O ratio.

Eventually, Myrdal (1968) and Streeton (1972) criticized this view of economic growth. They observed that in the hands of orthodox, neoclassical economists, the definitions of 'capital' and 'output' are often narrowly based. For instance, human capital investments in education, health, and other social goods are omitted. Housing may have these effects by stimulating education and other things in 'productive' consumption. But housing, in any case, would fair badly under the Harrod-Domar theory. Its output would be measured as the rental values and the capital repayment period, which would be much longer than in other investments. This would bias development investment in favour of industry, commerce, and factories.

---

1 Cedric Pugh, Housing and Urbanisation, A study of India, sage Publications, New Delhi 1995 p.50.
2.0.2 **Harrod Domar Theory**

The Harrod-Domar Theory eventually had to meet two challenges. Among orthodox and neo-classical economists, some placed more emphasis upon markets than upon indicative target planning by the state. They recognised that a more flexible approach was appropriate to market economies. Capital-Output ratios would vary among sectors and growth occurs when market signals transfer capital and labour from less productive to more productive sectors. In the eyes of the market economists, growth should proceed 'naturally'. But Myrdal and Streeton were not convinced that markets alone could produce adequate growth and change. In developing countries there were often cultural, political and institutional impediments to markets, and to change State roles might become relevant in such things as developing social policies, altering the pattern of income distribution and raising the qualities of public administration. Myrdal goes beyond critical commentary by himself contributing a new theoretical ground for development and the Theory of Cumulative Process.

He understands development as proceeding from primary changes, which are often stimulated through public policy and leading to secondary changes. The secondary changes are seen to reinforce the primary changes in a spiral of change. This spiral of change is subject to the underlying force in, incomes, levels of living, technology of production, attitude to work, and effectiveness of public policies.
Good housing policy would take cognizance of the cumulative process development in the general process of modernisation. This is rather general in perspective, mainly because theorists in economic development did not consider housing in a more specialized way. Some housing theorists do start from a ‘housing’ rather than a general economic development position. Some special Contributors are mentioned below.

2.0.3 Housing Theory in the Economic Dimension

New Housing Theory for the developing countries began to emerge in the 1960s. Some of it came from authors with a background in Economics and Social Science, and some from intellectuals whose primary credentials were in Architecture and Town Planning.

Charles Abrams (1964) was one of the key pioneers in Housing Theory for the developing countries. Significantly, he had on-location experience in India, South America, and the Carribean. He was impressed by two realities of the early 1960s. First, squatter settlement was occurring on a massive scale and public housing programmes were contributing very little to fulfilling housing demands and needs. Secondly, the stage organisations such as the United Nations (UN) had not done much in housing other than providing technical missions.¹

Abrams's main contributions were to correct outdated theories and to expose the myths that public housing and the use of authority to clear squatter settlements could serve adequately as housing policy. Housing was in a bad way because it had been ignored in policy development and in administration. Training and skills were lacking. Abrams was aware, as many other Theorists were not, that housing should be linked to the saving

¹ Cedric Pugh, Housing and Urbanisation, A study of India, sage Publications, New Delhi 1995 p.52
investment processes in the economy. He pondered whether policy could take advantage of some self-help processes in squatter housing. He came to the conclusion that it was inappropriate to the nature of city living, to the desire for good standards and to considerations of practicability. Other authors drew different conclusions, arguing that self-help was the way towards solutions to the housing problem. Ultimately, Abrams did not set out any policy programme solutions; but he had given theoretical explanation to the key factors of migration and squatting.

Burns (1964, 1977) further added further economic intelligence to housing theory. He was aware that capital-output ratios were an inappropriate criterion for determining levels of investment in housing. Housing is more, appropriately considered in its wider contribution to the total economy. It can add to income and employment and by raising income and output, it contributes to the reduction of capital-output ratios in other sectors of the economy. In other words, higher output generally will lead to economics of scale and a more efficient use of capital. But the problem is to put some specific measure upon the economy based benefits of housing, which was always a formidable task. Burn's own research was to study whether in various places better housing had led to improved productivity in factories, to better education and health and to lower rates of social deviance. In the economist's jargon this means that social benefits may be extended for better housing by reducing social costs. This improves social efficiency. But these social benefits would not in themselves justify massive investment in formal housing programmes. What they would suggest, however, is that support for upgrading slums and expanding sites and service

---

programmes comes from the theory of economic efficiency as well as from humanitarian and welfare arguments. Some sorts of investment in housing make good economic sense.

Burns offered some further arguments in favour of housing. Spending on housing construction has multiplying effects on income and employment.

2.0.4 The New Wave in Housing Theory

The economic contributions from Abrams, Burns and Frankenhoff scarcely had much impact within Economics, mainly because very few Economists had given much attention to housing in developing countries. This changed in the mid 1970s when the World Bank (WB) became committed to housing-in ideas, theory and loan funds. Economics has, as a consequence, entered centre stage in the development of theory and practice. Until the World Bank began taking initiative, John F.C. Turner whose writing dates back through the last twenty years had led the dominant thinking. Over the course of this time Turner's theory has been adapted and extended by virtue of learning experience and from challenges by his Neo-Marxist antagonist, Rod Burgess. In this process of theoretical modification and extension, the mainstream theory gradually incorporated more social science and economics into its content. Our review will reveal the evaluation of the theory and give some commentary on its weaker areas.

Turner's ideas were greatly influenced by his on-location experience (from 1957 onward) in Central and South America. Writing in
1967. Turner like Abrams, was impressed by the 'spontaneous mobilisation' inherent within the squatter settlements. Self-building could express subtle wants, free of imposed designs represented in public housing. Unlike Abrams, Turner argued enthusiastically that the expression of 'spontaneous mobilisation' of effort and 'subtle wants' should be harnessed to public policy in housing (Turner 1967). Policy should focus upon giving security of tenure on land and accepting 'progressive' (i.e., evolutionary) physical development and not 'instant' (complete) development. This was radical in context to the public housing approach, which constituted the accepted orthodoxy. Turner took his ideas a few steps further in his next publication. He castigated public housing as bankrupt in ideas and effectiveness. Its standards of development were inappropriately middle class. The urban poor took a hold in the cities as 'bridgeheaders', between their older rural and their prospective new urban lifestyles. For many, the bridgehead stage was temporary, and it was to be followed by the poor becoming 'consolidators' who had secure occupations and could begin to find a more permanent location and construct a hutment. Policy could harmonise with this by providing sites and services, enabling families to self-build their housing on land with a legal title1.

Housing and urban services have been under-allocated and the allocations have structurally favoured the managerial and technocratic elite, a class dominant in socialism. The working classes have the residual

allocations and much socialist high-rise housing is remote from human and personal values, even though rents are relatively low.

Flaws in both the Turner school of thought and in sociality housing are seen. Turner takes self-help to be an excessively romanticised virtue, neglecting to argue that it needs a basis in the economy, in social organisation, and in new professional ways of doing things.

2.0.5 Problems of the Third World

The dominant problem that characterises the cities of the Third World is the meager financial resources of the majority of their citizens and in the public coffers, coupled with unprecedented rates of population growth. A great deal has been written about the ‘push factors’ which drive peasant farmers to the city from impoverished, overpopulated or unproductive agricultural areas. A great deal has also been written on the ‘pull factors’ of the economic and social alternatives and opportunities offered by urban life that attract people from the countryside. Rural improvement programmes, family planning campaigns and similar projects are long-term remedies that are unlikely to make a noticeable effect on the rate of growth of urban poverty.

Most of the cities and towns of the Third World have public sector programmes intended to assist their poorer citizens with their housing; but there are only one or two outstanding exceptions, such as the City-State of Singapore and the Colony of Hong Kong.

---

1 Bogue D., Internal Migration, in the study of population P. & Dunkin O., (Editions) University of Chicago Press, 1959, p.11.
The aim of the analysis is two fold. It acquaints the design team with the nature and scale of a city's housing problem and it reveals areas within the city that need a more detailed diagnosis (areas of housing stress). An analysis of the locations, demographic and economic factors that describe the city's housing problem proceeds the preparation of a phased programme for the relief of housing stress. Simultaneous with this, the users' priorities of demand for housing can be established. The various demands expressed by households of different client group are examined and are subsequently complied.

The design team's response to the various problems stated in these briefs form the basis of a number of outline proposals to be examined in terms of their feasibility before being assembled into potential strategies. The resulting alternative strategies are evaluated against public resources as well as public constraints in order to develop those most suitable in terms of benefits and costs to the community. The evaluation continues into the stage of implementation in order to provide the feedback for future analysis as well as to influence future proposals. The whole process is seen as a continuous cycle, in which the results of subsequent stages change the assumptions, predictions and intentions of previous operations. Each strategy is treated, as an integral part of an on going process that has no end.¹

2.0.6 Housing Targets of the Third World

The urban housing stock is substandard and areas of slums and shanties are easily recognised by their appearance. But there are likely to be other sections of the housing stock where living conditions may be as bad or worse due to overcrowding and lack of servicing or inadequate public amenities. Such areas may go unnoticed by not being so obvious, but data on them are usually available, though they are rarely brought together and compared. Another task of problem analysis is therefore to collect and relate all the available indicators that can help to describe and compare different degrees of housing stress throughout the City. Such indicators should include the distribution of infrastructure, access to public transport, shopping facilities, schools, clinics and areas for recreation as well as the age and condition of dwellings, residential densities and occupancy rates. This list could obviously be extended though it is dependent on readily available data as there is neither time nor much advantage in conducting extensive surveys of the general urban housing problems.

2.0.7 Housing Demand of Third World

This procedure for the identification of urban housing problems gives a general picture of the impact of the problem (who is affected); the size of the problem (how many); the nature and location of the problem (what and where). It is not a sufficient basis for action to alleviate bad housing conditions or to provide housing for newcomers to the City. Only

---

1 Bogue D., Inernal Migration, in the study of population, P.&Dunkin O, (Editions) University of Chicago Press, 1959, p.15
The users of housing or the clients can write a client's brief. The information used so far was entirely second-hand. Municipal standards deem a dwelling overcrowded, if the occupancy rate of people per room exceeds an arbitrary norm. A building may be condemned as 'temporary' if its walls are made of mud; a household may be considered unable to pay for housing on the basis of one member's income, regardless of other member's earnings and contributions and so on. The criteria used to judge the suitability of housing for its occupants are established by civil servants and professionals, not by those experiencing the extremes of housing stress, nor those in need of public sector assistance with their housing. The demands, values, and aspirations of urban newcomers and other low-income clients of public housing are often very different from the assumptions of those responsible for the design of housing programmes.

The UNCHS Nairobi, aimed to identify the major obstacles for extending housing finance to low income group. It shows ways how the Government can take measures in this field and recommends on how housing institutions can operate with a market orientation. A report was drawn on quantitative and qualitative data in the Case Study upon five Third World Countries. The survey of the design team exposes experiences which have clear positive and negative lessons for developing countries.

1 Bogue D., Inernal Migration, in the study of population P., & Dunkin O., (Editions) University of Chicago Press, 1959, p.15
2.0.8 Special Commissioned Report on Housing Finance Institutions in Kenya

Only in the Kenya Case Study there is an indication of two private-sector institutions which count the rent from rented rooms as income for eligibility purposes. This approach implicitly recognises the difference between low-cost and low-income housing. Regrettably, the same criterion is not used by the public sector, where site-and-service schemes and 'council housing' are still the common way of delivering shelter. Allocations are anything but fair, and those getting a site or a house/flat can immediately sell/rent it and cash in on a windfall profit, if they choose.

Interest rates in private-sector Housing Finance Institutions are no longer controlled in Kenya. Even so, local authorities and the National Housing Corporation (NHC) significantly below those of Commercial Banks and Finance Companies do charge them. The highest interest is offered by Government/Treasury bonds, which carry rates about twice those offered by HFIs. The result is a very large investment by HFIs in these Bonds instead of in houses.

Taken together, the two sources of funds make it possible to keep interest rates on mortgage loans relatively low and steady. There has been no reason to increase deposit rates in order to attract individual savings, since regular small savers do not invest in gilts. Institutional investors go for the highest rates in the market provided the investment is as safe as in HFIs. In
present circumstances, institutional investors are, therefore, nearly all beyond the reach of HFIs.

A few countries continue to provide HFIs with funds out of tradition and ostensible concern for housing. But in Kenya there is a long record of HFIs obtaining funds from Government at below optimum rates through personal contacts. Over the years many of these HFIs were forced to close when the Parastatals were suddenly ordered by the Government to withdraw their considerable deposits.

No secondary market exists for mortgages in Kenya, although it is common for the HFIs to deposit mortgage documents as security for overdrafts from Commercial Banks. This situation has prevented HFIs from offering fixed-rate loans. Efforts are under way to expand the capital market to accommodate securitisation of mortgages and thus enable fixed-rate loans to emerge.

Housing Bonds are a prominent feature in the mobilisation strategy of major HFIs. The Government has not approved smaller Financing Institutions. As it has been pointed out before, these Bonds are issued in large denominations and carry tax-free coupons. This makes them very popular among the high-income group, which receives a significant indirect subsidy. There are no other administrative reasons for not issuing smaller denominations, which would attract also smaller savers.
One of the major HFIs, owned as a joint venture by the Commonwealth Development Corporation and the Government of Kenya, recently offered its Shares to the public through an over subscribed issue of new Shares. This institution has now set up a wholly owned company for making loans to informal housing e.g., higher interest rates, but not necessarily shorter maturities, this new venture should help to fill the void left by the finance company referred above.

The Co-operative Movement has a long history in Kenya. One of the latest endeavours is an institutional arrangement, which lends for shelter to members of Housing Co-operatives on the basis of their collective security. This is a significant development in more ways than one: it assists low-income members to obtain finance without a title deed. Secondly, loans are made on market terms and have surpassed similar public-sector projects in cost recovery. Thirdly, the cooperative approach by nature stimulates community participation, which has aided cost recovery and enhanced owner occupation.

Being new and small, the National Cooperative Housing Union (NACHU) has had problems attracting funds to supplement the initial capital provided by donor agencies and others on confessional terms. Prospects are good, however, that in the longer term NACHU will be able to tap the considerable resources of other co-operatives and/or the Co-operative bank. The latter has a branch network and is specialized in taking deposits from
savings and credit unions, but has no housing-finance arm. Likewise, the National Social Security Fund has shown interest in channelising funds for housing to its members through NACHU.

The regulatory framework in Kenya is strong, but enforcement has been weak. Only after a series of closure of financial institutions, plus pressure from the International Monetary Fund (IMF) has the Central Bank tightened its control to the good of the industry. The Kenyan economy, although temporarily depressed, is one of the more vibrant in Africa. New initiatives and innovative approaches do flourish and housing finance is bound to benefit. The NACHU will stand to gain support from institutional investors by its low operational cost and from its policy of investing in new housing.

2.0.9 Special Commissioned Report on Housing Finance Institution in the United Republic of Tanzania

The fact that the Tanzania Housing Bank (THB) was the only HFI in the country during its era of socialism makes the country a particularly interesting case. According to the Case Study 'all the key institutions are insolvent and the quality of services is very low'. In this respect the THB is typical of the entire financial system. It suffers from a lack of public trust and has played little role in determining the allocation of financial resources

---

because of the Government's policy of directing credit towards its own priority areas.

One of these priority areas was shelter. But even in its priority area soon developed sign of mismanagement misallocation of resources, nepotism, corruption and a general breakdown of thrust and commitment. The initially high ideals of providing adequate housing for all at much less than economic cost ended up because of inadequate shelter for a selected few.

Early attempts to provide sites-and-service schemes and low cost houses were given support by international donors including the World Bank. But problems started when allotment got away with not making the monthly loan repayments. Political forces were brought to bear on the THB and local authorities not to evict or repossess. In many cases this would also has been difficult because the occupants were no longer the owners, but tenants dutifully paying their rents.

As could be expected, funds began to run out when invested capital was not fully recovered and savers were discouraged. Negative real interest rates favoured borrowers who borrowed as much and for as long as they could, whether they needed the amount or not.

The regulatory machinery was of little use. It was weak in structure as well as in implementation. Worse, those to be regulated and implemented by their fellow civil servants drew it up. Economic policies also contributed to the deterioration of standards in financial institutions. Another contributing factor to this effect was the low salaries paid to the Bank Staff,
attracting mainly low caliber people who were tempted to supplement their income by having a second job or by other means.

Major reforms are now under way. In April 1991, the Government introduced a new Banking and Financial Institution Act, which had opened the way for private banks to operate. It is too early to say how the new Act would benefit the housing sector. Land and buildings are still mainly Government-owned and rents are regulated. But there are indications that this is also changing. Given the time and the conditional help from donors there is hope that the Country will be moving towards a new era of optimum use of resources. This is bound to benefit shelter delivery through new HFIs.

2.1.0 Special Commissioned Report on Housing Finance Institution in Chile

Chile has a mixed economy with a very active private sector. Its Housing Policy is recognising this in its reliance on the private sector to produce and finance all kinds of shelter. The public sector's role is to provide infrastructure services and to maintain them, enact regulations and enforce them, plus assist the poor with subsidies.

Like so many policies, the Chilean Housing Policy is a statement of principles, which ought to be followed in order to reach an ideal goal.

---

Since 1978, Chile had an extensive subsidy system, which contributed to over 80,000 units built per year. Some of its characteristics are listed as follows:

It is free of charge, i.e., no reimbursement is expected unless the property is sold within the first five years of purchase. It can only be granted to a family once, and only if that family does not own a house. The subsidy amount is proportionally higher than the lower value of the property, and it can be given either as a lumpsum or in instalments for gradual construction.

Subsidies can be given to individuals, families, or organized groups chosen by an open (public) scoring system conducted for each region.

Each region is allocated a certain amount of money for subsidies depending on: (a) number of applications received, (b) housing shortage and (c) housing production. These factors are given weightages. Scores are also given to each application depending on: 'Self-finance' or Savings, both the absolute amount and the length of systematic saving (minimum of 18 months) are considered loan size, i.e., the smaller the loan applied, the higher the score, number of people in the family, especially children under 18 and family members with a physical or mental handicapped, poverty level and housing need. The Municipality supervised by the relevant Ministry carries out an evaluation of the family's relative poverty and housing need.

The reason for the detailed description of the selection procedure is the crucial nature of this step in a subsidy system, which has limited resources at its disposal. In this respect, the Chilean system is thorough and
fair. It has evolved to this stage over 15 years from a much simpler start and is still undergoing revisions and adjustments.

Applicants also specify a particular category of shelter they wish to acquire (the percentage of direct subsidy is given after each category): (a) incremental housing, phase I, 94 per cent and II, 26 per cent, (b) basic housing, 70 per cent, and (e) others, 7 to 35 per cent depending on price. As pointed out above, the maximum subsidy amount for each category differs and is higher for the lower-cost units.

Since normally no repayment is required, defaults do not arise. One may even question the wisdom of requiring repayment, if the property is sold within five years. Human nature is such that adherence to this clause will be difficult to enforce.

The emphasis on low-income families is noteworthy. Even more laudable is the effort used on establishing the social and physical need of poor applicants. This takes time, but is imperative if the system is to be fair.

The fact that no repayment is expected seems very generous, and one suspects that some of the subsidy is recovered through property taxes over the years. This would be perfectly feasible, given that those housed will be in a position to repay some of this generosity once they are settled.

Another feature of the Chilean Housing-Finance system is the use of indexation to deal with inflation. This approach is quite common in South
American countries, which have many years of experience with hyperinflation.

2.1.1 Special Commissioned Report on Housing Finance Institution in Colombia

Few countries have longer experience with indexation than Colombia. It has carried it to a high level of sophistication and general acceptance, which the Case Study describes in great detail. More important, however, is the impact on the Colombian housing situation of introducing indexation 20 years ago. Two other programmes have also had a positive influence on shelter delivery: (a) the No-deposit Housing Programmes and (b) Social-interest Housing System.

In this presentation the emphasis will be on indexation, alias of monetary correction, alias constant value system, alias UPAC (Unit of Constant Buying Power). It is important to note that there are many other countries where indexation is used in one form or the other - and not only those with high rates of inflation. On the other hand, there are many countries with high rates of inflation, which are not using indexation. They can learn a valuable lesson from the following.

The technique of indexation is one of keeping balances on both savings and loan accounts stable in terms of purchasing power. Thus, an index is used to adjust these balances every day in order to avoid speculation.

in payments to or withdrawing money from these accounts. The obvious index to use in order to safeguard purchasing power would be the CPI (Consumer Price Index).

But there are equally good reasons to use an index for construction cost or for wages paid to unskilled workers, if the UPAC is to be used for the purpose of saving and borrowing for shelter. In Colombia the UPAC has gone through a number of transitions.

The idea of using UPAC for Housing-Finance Institutions in Colombia originated from the Government which saw shelter delivery as "the engine of the economy", because of its high multiplier effect and its capacity to employ unskilled labour, while making 'development tangible to people' in the form of improved housing conditions. These are now generally accepted views, but practical steps to transform words into action are still timid and sometimes controversial. This was also the situation in Colombia 20 years ago. The idea of creating UPAC met with solid resistance from many quarters, not least from financial institutions.

Three technical aspects of the UPAC ought to be pointed out.

i) When the loan balance is adjusted, the monthly payment on a Fixed-Annuity Loan also changes.

ii) Indexation is a substitute for higher interest rates which would otherwise be necessary to ensure a positive real interest for both savings and loan balances. Negative real interest rates are a
disincentive to save and an incentive to borrow. The short indexation keeps interest rates lower than they otherwise should be.

Because of the daily adjustment of all balances it is necessary to have computerised accounting systems. They can execute the adjustment in matters of minutes and they automatically compare the total of all adjustments with the factor of adjustment. The index factor used from day by day varies but is normally less than 1.

But the fact that housing finance was normally done over periods of upto 25 years made it different enough from other forms of finance, from the other institutions and that it was decided to go ahead with it in two private-sector institutions highly regulated by the Government. At that time, interest rates were strictly controlled and the Government also determined the UPAC.

The success achieved by the UPAC is indisputable. It currently manages 37 per cent of the Country's financial savings in 6 million accounts, in a country of 32 millions. This performance must be seen against the background that other financial institutions did not apply the UPAC, but attracted funds from the public by offering higher interest rates. The main attraction of the UPAC, however, was the graduated repayment of loans it offered to low-income families which would otherwise had a subsidy system and a no-deposit housing-loan programme, that had contributed to the above success.

It is worth nothing that it is not so important whether the index used for adjustment is identical to the rate of inflation or to the escalation of
the building cost or wage index. The solution to the affordability dilemma is that borrowers are offered a repayment schedule with more or less the same profile as their income over the repayment period. And if adjusting loan balances does that, saved balances must be similarly adjusted.

In Colombia, as elsewhere, sceptics fear that the indexation of loans and savings by its very nature adds to the rate of inflation. There is no evidence of that. But if it becomes a major obstacle to accepting indexation, there are at least two ways around it: (a) use an index which is less than the CPI; or (b) fix an interest rate and use the difference between that and the average of rates charged by other Financial Institutions.

2.1.2 Special Commissioned Report on Housing Finance Institution in Pakistan

With 110 million people and growing at the rate of 3.1 per cent per annum, Pakistan is also one among the poorest of developing countries. The rate of urbanisation is among the highest at 7.2 per cent and urban population stands at about 25 per cent of the total. The current housing shortage is estimated at 4 million units. In addition, Pakistan has 3 million refugees from Afghanistan.

The House Building Finance Corporation (HBFC) which was established by an Act of Parliament in 1952 as semi-autonomous federal body finances by far the major part of housing. This status implies that it's present lending rates. Instead it gets annual loans from the State Bank which it has to repay after 10 years on a 'profit/loss' sharing basis. This is an

Islamic-Banking concept where interest on loans is not accepted, but repayment is. Since operating costs are also recognised, repayments include earnings, less deduction of operating costs.

HBFC's effective return on housing loans ranges between 6.5 per cent and 15 per cent (averaging 9-10 per cent) depending on the amount of loan, the size of the unit, the location of the property and the income of the borrower. The bigger the loan, the higher the interest rate. But the return to the State Bank has averaged 2 to 4 per cent only. With this considerable operational margin, it has lent approximately Rs.1.2 billion per year for 20,000-25,000 Units. The rest being financed by individual households or developers from personal or other sources such as Commercial Banks and employers.

One typical source of housing finance in Pakistan and some other Asian countries is the repatriated funds from nationals working abroad, particular in the Gulf States. Funds are regularly deposited with Commercial Banks and the houses are bought outright when enough money has been accumulated. These are not low-income houses. HBFC's building records also indicate a majority of loans to upper- and middle-income groups. This affects the poor who find themselves with little or no access to housing finance.

However, the Case Study does contain some valuable ideas on property taxation, which are applicable in many other countries. Like a two-edged sword, property taxes can cut through several of the problems of urbanisation in a poor country.
First, they can raise revenue in a progressive way, which is relatively easy to implement. Secondly, they can help accessibility to housing finance by spreading front-end fees and charges over the life of the property. Both aspects are justified when considering how economically valuable property becomes with time.

In Pakistan, tax is levied on Gross Annual Rental Value (GARV) of the property less 10 per cent for maintenance. This should bring in far more money than it does. The reasons are infrequent valuations, irregular assessments, and lack of efficient means of collection and of dealing with defaulters. The political will is needed to put long overdue measures into effect.

The following steps were recommended:

i) Reassessment to be undertaken by all Municipalities on the basis of current market values;

ii) A more scientific approach for valuation through preparation of model schedules based on a point system;

iii) Municipalities to demarcate the urban area in accordance with the model schedules of standardised rates;

iv) To achieve a gradual increase in taxes, the assessment should be realistic from the start, while the rate can ebb or fall.

At least 15 per cent of property taxes (net of collection charges of 2 per cent) is to be retained by provincial administrations. The question of how much should be raised in property taxes can be illustrated by a few examples
provided by an Asian Development Bank (ADB) study: Karachi collects about $0.90 per capita, while Ahmedabad collects $3.40, Bombay $5.30, Chennai $2.40 and Colombo $7.50. By law, rates and fees in Pakistan are not allowed to rise more than to cover cost of a particular service, but are often found to be inadequate in this respect by not recovering the cost of the initial investment. There is room for improvement on both fronts.

Many of the Housing Finance Institutions in the developing countries have policies that hinder the accessibility of low-income groups to Housing Finance. Unfair market situations and removal of strict Government regulations can eliminate this. The majority of Third World population should be accessible to and afford housing finance without any hindrance. Hence the authorities should create an enabling situation in this field. More in-depth study could not be done due to the limitations.

In the following Chapters the Policies towards housing and housing finance in India, in general, and in Tamil Nadu in particular, is dealt with.