
1

Introduction

Plan of the Book

The book is divided into three parts. In the first part, a brief introduction provides a background on Bank project evaluations and the policy instruments used to support shelter lending. It is followed by a chapter on Bank objectives and outcomes, as described in more detail in box 1.1. It also provides context for the rest of the study by reviewing the outcomes of various types of Bank-supported shelter projects. Section II focuses on policy instruments. It is subdivided into four chapters which correspond to the various policy instruments Bank projects have employed.

Each of the chapters in Section II considers a different policy instrument—land market policy, housing finance, housing subsidies, and direct low-income housing assistance projects, respectively. Box 1.2 describes these approaches more fully. Chapter 3 focuses on what we have learned about urban land markets and identifies some of the remaining weaknesses in our understanding of how these markets work. Its main message is that political economy constraints appear to be the key explanation for why many seemingly straightforward reforms are not implemented. It suggests that without better-functioning land markets, the wealth of the poor, as well as the effectiveness of many other shelter policies, will continue to be severely circumscribed. Chapter 4 describes how financial liberalization, if developed prudently, can significantly benefit both the housing conditions of the poor and the broader financial system. Chapter 5 documents that as market-oriented perspectives on housing policy have become more widely adopted, there is still no “silver bullet” for improving the efficacy of fiscal transfers for housing. Nevertheless, progress has been made, and many national housing subsidy programs are being restructured. The final chapter in section II, chapter 6, reviews the evolution of the Bank’s efforts in directly affecting low-income housing through sites and services and slum upgrading projects. It traces the fits and starts that have characterized these efforts, highlighting some of the best practices as well as some of the more problematic experiences.

In section III, the final chapter brings the discussion together in a number of recommendations.

Box 1.1 Outcomes and Objectives

The World Bank's Operations Evaluation Department (OED) uses an objectives-based evaluation approach. This approach has three major advantages:

- It enhances accountability by focusing attention on the extent to which objectives agreed to by the Bank's Board of Executive Directors have been achieved;
- It promotes efficiency by relating the use of scarce resources to the accomplishment of specific outcomes; and
- It allows comparisons by applying a common metric across the wide array of sectors and countries for which the Bank provides financing.

OED evaluates development interventions by assessing how their results stack up against their own stated objectives. At the project level, this methodology focuses on outcomes, sustainability, and institutional development impact of Bank operations. In this study, we focus exclusively on the first of these measures, outcomes, which is the most frequently used measure.

Because we rely on OED evaluation measures to measure performance, an important aspect of this measurement is with respect to the objectives of the projects. In this connection, the Bank's earliest shelter prescriptive paper gave the following as the main objectives (World Bank 1975):

- The government should have a commitment to help the urban poor;
- The government should guarantee land tenure to project beneficiaries, either in slum improvement or sites and services projects;
- The government should improve pricing policies for housing and land and should reduce subsidies so that projects can recover their costs;
- The government should agree that projects should be integrated within a broader approach to urban planning and investment.

Source: OED Web site.

Box 1.2 The Changing Instruments and Policy Environment of World Bank Shelter Assistance

Perhaps the most positive change since the last review is that we have learned much about what constitutes appropriate policy. At the time of the last analysis, the events following the breakup of the former Soviet Union were just beginning to demonstrate how poorly nonmarket approaches to the provision of shelter had performed.¹ Since then, the evidence has become considerably clearer. Transition countries in Eastern Europe and, among others, China, India, and Mexico, have moved to a market-based system for housing delivery, showing that a market-oriented approach to housing policy is far more effective at improving the housing circumstances of the poor. Buckley and Kalarickal (2005) provide a more complete discussion of both the evolving policy environment and evidence of the efficacy of greater reliance on housing markets.

Land markets. Within the broad acceptance of the importance of the private sector in shelter provision, and the need for a delimited public sector to complement and enhance that role, there is little understanding or support for treating land as an important input in the provision of housing services. When extensive public land ownership is combined with the constraints commonly placed on land usage, land cannot serve its important role in the provision of affordable housing. When the input market for land is severely disrupted, as it is in cities such as Addis Ababa, Dhaka, and Mumbai (where the cost of housing is prohibitively high), market outcomes have become politically unacceptable.² In these cities, slums proliferate, demolitions and encroached infrastructure become the norm, and frequent, usually non-transparent, public interventions substitute for market processes. In such cities, it is not unusual for urban housing transactions to take place in a savage market environment, with ill-defined property rights that are illegally enforced often by gangsters.³ Hence, in many ways, and in many places, urban land markets remain the most pervasive binding constraint on the provision of shelter for the urban poor.⁴

Finance. Chapter 5 deals another important and remarkable change in the policy environment in recent years: the speed with which market-based housing finance has spread to most of the world's population.⁵ Only a few years ago, most citizens of Ireland, Portugal, and Spain, not to mention China, India, Mexico, and Poland, could not borrow to finance housing. While market-based housing finance is now available to most middle-income people, it is not available in most countries or for most poor people. These underserved families and countries represent an

enormous audience for potential Bank assistance, where development of formal housing finance is in a nascent stage.

Although there is a great deal of productive institution building that can be realized in this area, it is also important to note that for most of the world's poor, development of housing finance will offer very little direct benefit. Moreover, many of the countries where formal housing finance is not available also do not have housing markets which would be hospitable to the development of finance.

For these families, mortgage finance remains a distant reality even if market-based finance is available. Often, when mortgage finance does become available, land market regulations are so restrictive that the finance simply feeds sharp house price increases rather than resulting in more housing (Shiller 2005). This problem has plagued many developed economies, and has come to be seen as an important macroeconomic risk for both developed and developing countries.⁶ The World Bank and the international donor community have a large role to play in disseminating the lessons of how to develop sustainable housing finance, as well as in fostering housing microcredit institutions which could bring banking services and forms of consumer finance to millions of underserved poor people around the world.

Subsidies. While finance is an important part of improving the housing conditions of the poor in developed countries, in developing countries, which usually have very small housing finance systems, a potentially more important instrument is the use of subsidies. In recent years, a number of the Bank's largest borrowers have engaged the Bank in discussions and projects—either currently underway or under preparation—on how to improve the targeting and effectiveness of their public shelter assistance. There is clear agreement that improving the efficacy of subsidies can improve the effectiveness of public expenditures significantly, particularly if these subsidies are combined with effective community participation.⁷ There is also, however, clear recognition of just how complex and politically weighted these sorts of reforms can be.

Source: Authors.