Section I
Introduction and Objectives

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.

2
The Evolving Objectives and Outcomes of World Bank Shelter Assistance

The Bank's Evolving Shelter Objectives

The Bank's involvement in shelter was based on the idea that urbanization was one of the inexorable imperatives of development, and that the process involved enormous dislocation of urban residents. The poor, as they moved to cities, were thought to be adversely affected by this process. While experience has shown that urbanization is essential to achieve the sorts of specialization that lead to higher levels of development, it is also a disruptive, dislocating process (Chenery and Syrquin 1975). Following former World Bank President Robert McNamara's 1975 speech in Nairobi on urban poverty, considerable Bank resources were allocated to helping the poor deal with the costs of these dislocations, particularly with respect to living conditions and basic services such as water, sanitation, and shelter.

The 1980 Bank paper *Shelter* describes the ways that the Bank encouraged borrowing countries to adopt more modest approaches to housing, after earlier studies identified the shortcomings of country approaches. A paper by John Turner, Robert Fichter, and a number of associates (1972) argued that the public housing programs adopted by most countries missed the target group, were generally overdesigned, were excessively expensive, and perhaps most problematically, did not encourage the poor to use their own resources to improve their shelter situation. A 1993 World Bank paper echoed many arguments made in the Turner and Fitcher paper, and added one major additional concern about housing policy:

> "The housing sector cannot attain many of the stated norms without appropriate interventions by public authorities. However, intervention can be a two-edged sword. Appropriate housing policies can help achieve the goals of a well-functioning housing market. Inappropriate interventions stifle the sector, block supply and frustrate demand, reduce quality and choice, increase costs and damage the economy as a whole" (World Bank 1993, p. 18).

In other words, the interventions of the public sector, if not well-structured, may be more than just inefficient. Indeed, such interventions may well be worse than doing nothing. In other words, badly-designed policies could have such adverse effects on the way housing markets worked they hurt the larger numbers of the poor who did not receive assistance than the limited number of those who did receive assistance. This view received some currency in other multilateral institutions, as shown by Rojas' (1995) Inter-American Development Bank (IDB) study. Given this perspective, the 1993 World Bank review spent a great deal of time explaining how the housing market works so that an objective basis might be established for reconciling the interests of the different sector participants. As a result of the extensive discussion of the way the housing market operates, this book does not review the fundamentals of housing market functioning, nor does it review the nature and magnitude of the slum problem. Issues surrounding the measuring the size of slums are profound and are only beginning to be dealt with. Instead, this book discusses the Bank's experience with low-income housing interventions. Rather than make problematic estimates of the number of people who live in slums, the likely trends in these numbers, and the extraordinary costs of addressing these issues, as has been done by a number of studies, this study will focus on the fact that in most large cities in the developing world, highly congested, low-quality housing is pervasive and long-lasting. Strong equity and efficiency arguments can be made for public interventions to improve market outcomes in what is a ubiquitous problem that at the very least is getting worse in many cities. The following section reviews the Bank's experience in slum upgrading and places these projects in historical and country context.

Urbanization—More Idiosyncratic than We Thought…

In many ways and in many places, urbanization trends have not followed the logistic, positively-sloped pattern underlying the trends depicted in figure 2.1a (page 79), which describes the urbanization process as one in which countries urbanize as their income levels increase. Often, perhaps most notably in many Sub-Saharan African countries (see figure 2.1b, page 81), the opposite has taken place. That is, as the economies contracted, sometimes deeply and for many consecutive years, the share of the urban population appears to have increased. As described by Fay and Opal (2000), urbanization without growth characterized the 1990s in many Sub-Saharan African countries, creating a new type of housing demand in a much more urbanized, if poorer, world.[1] However, as Kessides (2005) argues, even in Sub-Saharan Africa, the economic growth that took place in the 1990s was located in urban centers, and the forces driving rapid urbanization will continue.

In other places, such as the already highly urbanized European transition countries, the positive relationship between income and the share of the population living in cities was maintained. In many of these countries, however, protracted recessions in the 1990s were accompanied by reductions in urban population (in other words, de-urbanization). Certainly, the urbanization process is more complex now than it was during the Bank's early efforts to address urban and shelter problems. This change in environment resulted in changes in approach beyond the concerns described by the 1993 review, which focused on the more traditional urbanization perspective. As the next section details, the Bank's approaches to shelter assistance have also changed, sometimes rather markedly. To review the Bank's experience, it is useful to begin at the beginning.

The Bank's Experience—The Beginnings

The Bank's experience in housing for the urban poor began with sites-and-services projects in the 1970s in Africa, Latin America, and Asia. The first housing sector review spoke of "the growing recognition of urban development and particularly the need for equitable development…" and recommended that "squatter upgrading and site-and- services continue to be the prime instruments for improving the housing conditions of the poor." At the time, many slums were located in city centers and served as temporary bases for poor migrant families, where they could secure a job before moving to what were essentially illegal settlements to build more permanent shelter (Turner and Fichter 1972). The early sites-and-services projects were designed to meet the demands of those poor people who had built up some savings and sought more formal housing solutions. In some cases, projects were targeted to specific groups, such as civil servants (in Malawi, for example), or for specific purposes, such as relocating slum dwellers from hazardous sites or private property (for example, in Peru).

Sites-and-services projects blossomed in the 1970s and early 1980s; between 1972 and 1987, as detailed in the chapter 3, they accounted for 49 percent of all housing-related loans. Relatively successful large-scale sites-and-services programs include those undertaken in Peru in the late 1970s and in Burkina Faso in the early 1980s. Over time, these projects have relied, to varying degrees, on participation of the community and individual beneficiaries through labor and various cost recovery mechanisms.

Diversification of the Shelter Portfolio

Although donor agencies other than the Bank also supported sites-and-services and slum upgrading projects, in many respects the timing was bad: many of these projects were being launched as the financial crises of the early 1980s unfolded. As is discussed in subsequent chapters, the absence of policies designed to deal with informal settlements frequently blocked the way for improvement, and the Bank began to move away from sites-and-services and slum upgrading and toward dealing with the policy issues. Sites-and-services and slum upgrading projects together made up only 15 percent of shelter lending in the 1987–2005 period, losing ground to policy-based loans, which viewed the project as a way of embodying accompanying policy changes in a specific investment.[2] An example of such lending is the Mexican project of 1992, which focused on reforming local housing market regulations to make housing finance more affordable.

The Bank's shelter portfolio continued to diversify away from urban upgrading as disaster-related projects involving slum upgrading or sites and services were successfully implemented in El Salvador and Mexico City in the 1980s. The share of disaster relief projects increased from 11 percent during the first 15 years shelter lending to 25 percent during the last 18 years. Disasters in Latin America, the Caribbean, and Asia indicate continued growth in demand for assistance in dealing with disasters of all types. The tsunami of 2004 brought these demands into stark relief as shelter projects were rapidly prepared in four of the most seriously affected countries.

The Bank began a fourth type of shelter project in 1982 in Zimbabwe with a project that gave central emphasis to the method of financing the investment. This type of lending expanded rapidly during the 1980s, perhaps most notably with a $250 million loan to the HDFC Company of India, which is now one of India's leading financial institutions and which has become the center piece of a largely private housing finance system. A central accomplishment of these loans was the marked improvement in loan recovery relative to earlier projects. Not surprisingly, in retrospect, such "good" loans have become an active line of IFC business; in recent years, IFC has made more than 45 such investments.

In sum, over time the Bank's sites-and-services and upgrading projects have been gradually displaced by housing finance and policy-oriented projects, which have experienced better outcome ratings (see the next section of chapter 2 for discussion of ratings). In many ways, there are good reasons for supporting these other approaches. However, it is not clear whether resources should be shifted away from urban upgrading. For instance, while progress by developing countries was made in the 1990s, as urbanization continued, the disparities within formal urban areas and their informal settlements has often remained, and in many places expanded. Indeed, as table 2.1 shows, despite significant progress over time, the lack of infrastructure connections remains widespread in developing regions.

Outcomes of the Bank's Shelter Portfolio

Since 1972, the Bank has supported 278 projects, which provided over $16 billion in housing-related assistance to over 90 countries.[3] The shape and size of these loans has varied considerably, but urban housing has continued to be major part of urban development loans provided by the Bank.

Table 2.1 Infrastructure Connections in Slums and Surrounding Overall Urban Areas, for All Developing Regions, 1998
percent

Water	Informal settlements	37.2
	Overall urban	75.8
Sewerage	Informal settlements	19.8
	Overall urban	64.0
Electricity	Informal settlements	59.1
	Overall urban	86.5
Telephone	Informal settlements	25.4
	Overall urban	52.1

Source: UN-HABITAT (2003b).

Broad Development Trends

First, similar to other Bank lending, the context within which housing-related lending has been provided has undergone a sea change in the past 30 years (see World Bank 2004b). Perhaps the most notable changes since the 1993 review are with respect to the level of urbanization and to the spatial dimension of poverty in the Bank's client countries. Urban population has doubled since 1975, to 3 billion in 2002. It is expected that urban population will further increase to 5 billion in 2030, and that the world will become primarily urban in 2008. Furthermore and more pertinently, most of this urban growth will be in developing countries. For example, in 1975, there were only four cities with a population of over 10 million, of which two were in developing countries. In 2003, this number had risen to 20, of which 16 were in developing countries. However, even with the emergence of large urban centers in the developing world, the bulk of urbanization in many countries is happening in nonmetropolitan urban centers.

Second, the Bank's client countries have become far more heterogeneous in terms of level of unbanization: Latin America is currently over three-quarters urban, while Sub-Saharan Africa and South Asia are just over a quarter urban. This diversity also extends to huge differences in per capita income and financial sector development among the Bank's client countries. For instance, average per capita income in South Asia and Sub-Saharan Africa is less than $500, while in Latin America it is over $3,500. Similarly, private transactions financed through financial intermediaries range from less than 5 percent of GDP in Sierra Leone to almost 60 percent in Malaysia (Beck, Demirguc-Kunt, and Levine 2000).

Third, the spatial distribution of poverty has changed dramatically. Though the majority of the world's poor continue to live in rural areas, poverty is rapidly becoming an urban phenomenon. Today, unlike in 1985, most of the poor in many of the Bank's biggest borrowers—including Brazil, Mexico, and Russia—already reside in cities. The scale of urban poverty has become deeper and more widespread, and it continues to expand. By some estimates, over fifty percent of the world's poor will be living in cities by 2035; in Latin America and in the Bank's Europe and Central Asia region this is already the case.[4] In such an environment, it is not surprising that urban slums are not being absorbed into the formal housing sector. In fact, as a result of the inexorable process of urbanization in many countries, slums are often becoming permanent housing settlements. Surveys in Brazil and India, for example, indicate that in many places slum dwellers are no longer temporary participants in a demographic transition process. Many of the 100,000 pavement dwellers in Mumbai, for instance, are second generation residents (SPARC 2002; Baker et al. 2004), as is the case in Rio's favelas (Perlman 2002).

Finally, in recent years, two changes in the approach to development assistance have taken place which have implications for shelter strategy. First, greater accountability for aid has been embodied in a series of quantitative development goals, the Millennium Development Goals (MDGs), which include a target of improving the lives of 100 million slum dwellers. Second, the structure of official development assistance (ODA) has changed in both composition and level.[5] In the more globalized world economy, ODA accounts for a smaller share of international credit flows, and within that lower overall level of assistance, support for infrastructure investments declined sharply in the 1990s, as shown in table 2.2. Bank shelter assistance, however, has not followed the overall trend in ODA or in infrastructure lending, and has actually increased in scale since the last review.

Sectoral Perspective

Partly in response to the changing environment described above and partly in response to lessons from research and previous project experience, the Bank's shelter portfolio has evolved over the last thirty years. First, as noted earlier, the Bank's urban shelter lending has shifted away from sites-and-services and slum upgrading projects to broader housing policy and housing finance loans. Second, the regional focus of the loans has shifted away from Sub-Saharan Africa to the transitional economies of Europe and Central Asia and the Middle East and North Africa. The middle-income countries of Latin America continue to be prominent borrowers, and many countries in South Asia, after experiencing a hiatus in the 1990s, are undertaking Bank-funded shelter and land sector projects. Finally, the Bank's housing portfolio not only continues to grow but has experienced much-improved performance during the 1990s, making it one of the strongest-performing sectors in the World Bank.[6]

Table 2.2 Amount and Rate of Satisfactory Outcomes of World Bank Loans to Various Sectors[1]

		1972–81	1982–91	1992–2004
Infrastructure	Amount (2001 US$, millions)	68,656.13	83,985.42	59,804.80
	Satisfactory rate[2]	79	71	83
Water supply and sanitation	Amount (2001 US$, millions)	7,634.00	9,644.23	9,443.46
	Satisfactory rate[2]	66	57	71
Urban development	Amount (2001 US$, millions)	4,399.46	10,922.39	9,943.32
	Satisfactory rate[2]	78	78	88
Urban development without housing	Amount (2001 US$, millions)	2,132.37	4,973.19	5,089.47
	Satisfactory rate[2]	71	73	88
Shelter[3]	Amount (2001 US$, millions)	2,301.50	6,006.17	6,893.29
	Satisfactory rate[2]	84	82	83

Source: World Bank loan data.

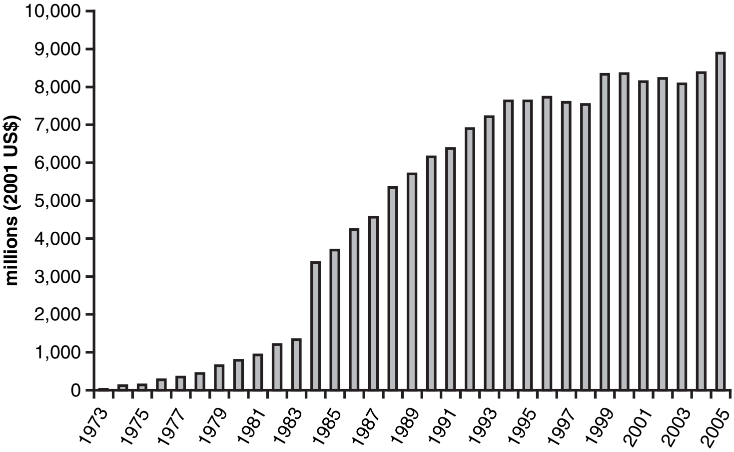
1. Figures include active and closed loans as of June 2004. The amounts are commitment amounts, not disbursed amounts. Infrastructure includes energy and mining, global information/communications technology, and transport. However, satisfactory rates apply only to closed loans.
2. Satisfactory rate is by amount (not as a percentage of number of loans), in dollar-adjusted terms, in percent.
3. IFC loans are excluded from the shelter loans.

Shelter Projects

The Big picture. The $14.3 billion disbursed in shelter lending since 1972 is spread over 278 projects with an average size of almost $50 million (in 2001 dollars).[7] Each year an average $422 million was disbursed, although there was a wide variation in the annual disbursements: from approximately $28 million in 1972 to over $1.1 billion in 1999 (see figure A.1 in the appendix). On average, the Bank sponsored almost eight projects per year, but again, there was wide annual variation; in some years, only 2 projects were started, while other years as many as 14 projects were started. In figure 2.2 we see the evolution of the portfolio of housing loans from what might be termed a banking perspective. That is, the figure shows the size of the outstanding portfolio on a year-to-year basis. It essentially subtracts loan repayments from new loans and then adds this figure to the remaining amount of loans outstanding. As the figure shows, the portfolio peaked at $8.3 billion in 2000 and again at $8.8 million in fiscal year 2005.

Figure 2.3 carries this analysis a step further by looking at the volume of shelter lending relative to Bank lending for infrastructure, water and sanitation (WSS), and nonshelter urban lending by splitting the 30 years

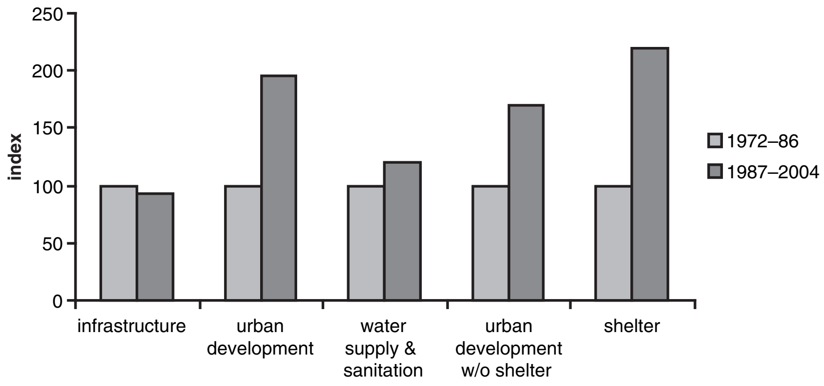
Figure 2.2 World Bank Shelter Lending Portfolio



Source: World Bank loan data.
Note: See the appendix of this book for the methodology used to calculate these figures.

of lending into two periods.[8] It shows that both shelter and other urban lending countered the broader tide of sharply contracting support for infrastructure. Rather than declining slightly as overall infrastructure lending did, or growing slightly as WSS did, both urban and shelter lending increased dramatically.

Figure 2.3 Growth in World Bank Lending for Various Infrastructure Components



Source: World Bank loan data.
Note: Figures for 1987–2004 include only closed loans. Infrastructure includes energy and mining, global information/communications technology, and transport, leaving out water supply and sanitation and urban development. The first period is normalized to a base of 100. All figures are in 2001 U.S. dollars. All amounts are based on commitments.

Table 2.2 provides an alternative perspective by breaking up this period into three periods: 1970s, 1980s, and 1992–2004 (the final period is the time since the last review).[9] This table captures the sharp decline in infrastructure spending from the 1980s to the 1990s. Here we see that urban development, water supply and sanitation, and shelter experienced declines, though the drop in shelter lending was less dramatic than the drop in other sectors. To some extent this is not a surprise because housing loans, as discussed earlier in this chapter, moved from infrastructure projects such as slum upgrading and sites and services into more policy-oriented and housing finance loans. In other words, shelter lending shifted from the "bricks and mortar" of traditional infrastructure projects to policy- and institution-building loans.

Table 2.2 also shows the trend in the performance of the loans between 1972 and 2004. The reduction in lending in the 1990s coincided with an improvement in overall loan performance, as it did for the Bank generally. The housing sector continued to be one of the strongest performers, with 83 percent of lending having a satisfactory outcome.

Trends in shelter lending. As discussed earlier, the Bank's earliest shelter projects were usually designed to help develop sites and services in low-income countries.[10] As documented in the first Bank housing policy review in 1980, in most developing countries, public housing agencies produced expensive and heavily subsidized housing that could only meet a fraction demand. Housing agencies also regularly demolished squatter settlements. The overarching idea of housing assistance at the time was that rather than attempting to replace the informal sector, or seeing the sector as a "problem," public assistance could be used so that the strengths of the informal sector could be built upon. Over time the types and locations of shelter assistance have changed, beginning with the shift to upgrading of existing slums rather than developing entirely new sites in the early 1970s. This change was recommended by the Bank's first paper on the topic, *Housing* (1975).[11]

The second change was to move from projects focused on one city to national programs, as occurred in the Tanzania project in 1978. Nationwide orientation then became a common feature of subsequent sites-and-services projects. A third type of shelter project, policy-based loans, started in 1980 and became increasingly important through the decade. This type of project viewed the project itself as a way of embodying accompanying policy changes in a specific investment and, as documented by the World Bank, policy-based lending became an increasingly popular Bank instrument (World Bank 2004b).[12] An example of such lending is the Mexican project of 1992, which focused on reforming local housing market regulations to make housing finance more affordable.

A fourth type of shelter project was begun in 1982 in Zimbabwe, when a project was designed which gave central emphasis to the method of financing the investments. The project was financed through privately-owned building societies which carefully monitored loan recovery. Private sector involvement contributed to a significant improvement in loan recovery relative to earlier projects. As noted earlier, housing finance projects have become a significant portion of both Bank and IFC shelter assistance.

Finally, in the late 1980s and early 1990s, following earthquakes in Mexico and the Islamic Republic of Iran, shelter assistance for countries hit by disasters became more than just an occasional Bank project. Besides lending assistance, the Bank is now developing a program that attempts to reduce housing vulnerabilities before disasters occur, as demonstrated by a 1999 project in Turkey.

In sum, when the last low-income shelter strategy was written in 1993, over two-thirds of the 98 Bank shelter projects and almost 50 percent of all urban projects were largely for sites-and-services projects or slum upgrading. A few years before that review, two new types of loans—for housing finance and to encourage policy change—were introduced. Finally, though the Bank has carried out occasional disaster relief projects since 1972, disaster relief became a regular component of the shelter loans in 1986, and now accounts for approximately 25 percent of annual shelter assistance.

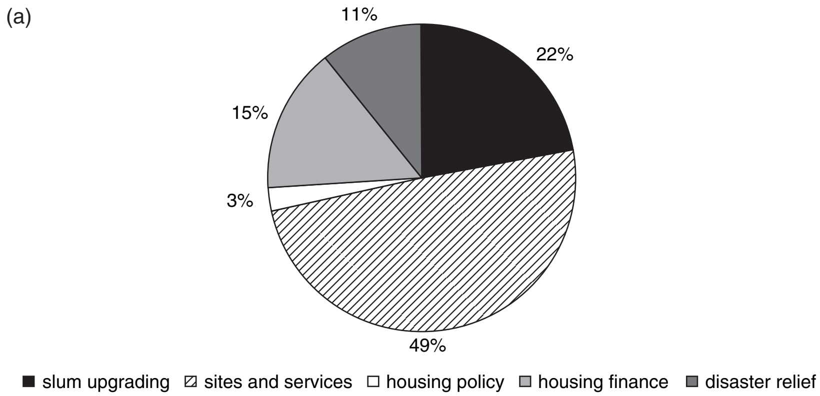
This story is portrayed in figures 2.4a and 2.4b. From 1972–86, sites-and-services projects and slum upgrading projects made up more than 70 percent of total shelter lending. However, this changed dramatically in the 1980s. From 1987–2005, such lending fell to only 15 percent of the shelter loans. On the other hand, housing policy loans increased from 3 percent to 11 percent of total shelter lending, while housing finance loans increased from 15 percent to 49 percent.

In other words, a major shift in project structure occurred over the last decade and a half. The increase in housing policy and housing finance loans signaled a dramatic shift from limited project-based loans to loans that addressed the whole sector, whether in terms of creating an "enabling" environment or in terms of creating the institutional framework for a sustainable housing finance sector (World Bank 1993).

Table 2.3 provides a decade-by-decade breakdown of the portfolio and captures the improvement in project performance in the 1990s. In the first decade, (1972–81) housing projects did reasonably well, with an average satisfactory rating of 85 percent. The second period (1982–91) showed deterioration in loan performance, with sharp decline in outcome ratings for loans involving slum upgrading and sites and services. This deterioration may in part have contributed to the shift to the more successful finance and policy loans.

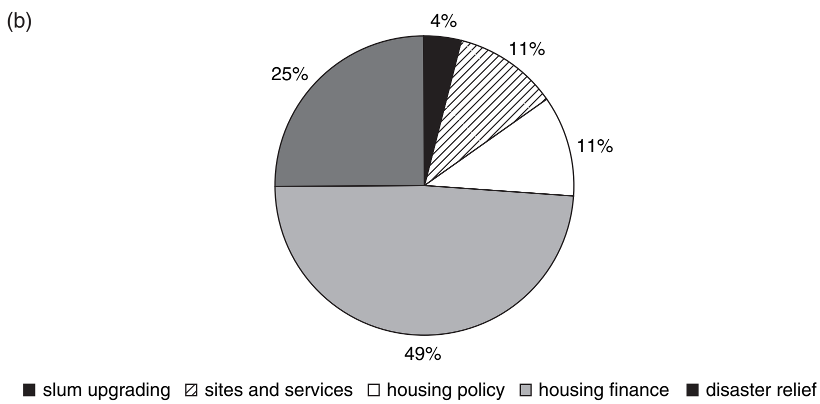
Table 2.3 also shows that over the 34 years of lending, 83 percent of the amount lent had satisfactory outcomes, a rating that is considerably higher than the Bank's overall performance over this period. The table also underlines the following trends, as identified earlier:

Figure 2.4a Composition of World Bank Shelter Lending, 1972–86



Source: World Bank loan data.
Note: Total loans for 1972–86 were $4.4 billion (2001 US$).

Figure 2.4b Composition of World Bank Shelter Lending, 1987–2005



Source: World Bank loan data.
Note: Total loans for 1987–2005 were $10.3 billion (2001 US$).

- A dramatic decrease in lending for sites-and-services and slum upgrading projects, despite improved performance since the last review;
- A greater than tenfold increase in the volume of policy-based lending occurred over the last decade, from $95 million in the 1980s to over $1 billion in the 1990s; and

- Lending for disaster relief experienced a steady rise in volume, rising from $121 million in the 1970s to over $2 billion in the 1990s.

While beyond the scope of this analysis, perhaps a word of caution should be applied to Bank ratings of disaster relief projects. For almost $3 billion in what are necessarily hastily implemented emergency projects to have experienced a 97 percent satisfactory outcome suggests that at the very least, these findings should be subjected to more detailed analysis.

Table 2.3 World Bank Shelter Loans by Type and Performance

	Project type	*Amount (2001 US$, millions)*[2]	*Satistactory rate (by amount, dollar adjusted; in percent)*	*Satisfactory rate (by number of projects; in percent)*
1972–81	Slum upgrading	827.00	88	88
	Sites and services	1,136.49	83	86
	Housing policy	30.60	100	100
	Housing finance	36.74	100	100
	Disaster relief	121.49	72	75
	Subtotal	2,152.32	85	84
1982–91	Slum upgrading	234.80	31	65
	Sites and services	1,620.56	69	64
	Housing policy	95.31	98	80
	Housing finance	2,745.24	91	76
	Disaster relief	716.01	97	93
	Subtotal	5,411.92	82	72
1992–2005	Slum upgrading	338.38	64	57
	Sites and services	505.83	86	60
	Housing policy	1,057.49	36	60
	Housing finance	2,711.93	86	86
	Disaster relief	2,173.31	97	95
	Subtotal	6,792.30	84	80[1]
1972–2005	Total	14,356.55	83	77

Source: World Bank loan data.

Note: The loan amounts include open and closed loans, as well as IFC loans. For closed loans, only actual disbursals are counted. For open loans, commitments are counted, since final disbursements are not available. The satisfactory ratings are based only on disbursed amounts for closed loans. See the appendix of this book for details on how the dataset was constructed.

1. Two more projects—not included in the above calculations—are in the process of finalizing their implementation completion reports with satisfactory ratings. Including these projects would improve the satisfactory rating for projects to 81 percent.

Table 2.4 provides a breakdown of shelter lending by region and highlights the following trends:

- Lending in Sub-Saharan Africa dropped rather sharply, from approximately $500 million in the 1980s to approximately $80 million in the 1990s;
- Lending volume North Africa and the Middle East climbed steadily over time, to $100 million per year, as the number of loans to the region also increased;
- In the reforming socialist economies, an essentially new line of business arose in the 1990s, going from no lending during the 1980s to almost $900 million in the past decade; and
- After over 30 years of lending, nearly a billion dollars (or more) of loans has been made to each region (Latin America, with over $4 billion, has received the most of any region) and more than 90 countries have received shelter loans.

Discussion

The first question that arises from a review of these trends is what prompted this shift in design and regional focus of housing loans. Chapter 1 suggested that evolution in the design of shelter loans might be explained by the Bank's focus on major historical events, in addition to research findings and experience. To be slightly more speculative, we suggest that the 1970s focus on slum upgrading and sites-and-services projects was driven by an attempt to address the needs of the poor directly. This meant that the Bank focused on projects with limited reach but resulted in discernible improvements in the shelter conditions for those affected by these projects.

In the 1980s, many of the Bank's borrowers and much of the world's financial system became embroiled in a debt crisis. Many Latin America countries experienced runaway inflation and financial instability. It became apparent during this time that the Bank needed to address broader sectoral concerns if it was to address poverty on a sufficiently large scale. The Bank's interest in housing finance grew because it had become increasingly apparent that it was not just the asset being financed that was important, but also how effectively funds were being mobilized to support the demand for these assets. In a sense, the shift recognized that in virtually all developing countries, not only were the assets of affordable dimensions inadequate—that is, there was not enough low-cost housing—but also that there was no system of finance to support the funding of these investments.

Finally, in the 1990s, with the fall of the Soviet Union and the adoption of market-oriented economic policy in China and India, the central planning approach to policy was largely discarded. Most countries began to rely on a public policy approach that augmented and complemented market processes rather than substituting for them. This was accompanied by a growing

Table 2.4 Regional Breakdown of World Bank Shelter Loans by Type and Decade

Approval decade	*Region (2001 US$, millions)*	*Slum upgrading (2001 US$, millions)*	*Sites and services (2001 US$, millions)*	*Housing policy (2001 US$, millions)*	*Housing finance (2001 US$, millions)*	*Disaster relief (2001, US$, millions)*	*Total (2001 US$, millions*	*Lending to region as % of total lending*
1972–81	Sub-Saharan Africa	172.77	305.26	11.03	9.76	0.00	498.82	23.18
	East Asia and Pacific	412.11	277.80	10.79	10.00	0.00	710.70	33.02
	Europe and Central Asia	0.00	0.00	2.93	0.00	0.00	2.93	0.14
	Latin America and the Caribbean	107.22	431.95	0.00	0.88	121.49	661.53	30.74
	Middle East and North Africa	31.23	41.14	0.00	3.74	0.00	76.11	3.54
	South Asia	103.68	80.34	5.85	12.35	0.00	202.22	9.40
1972–81 subtotal		827.00	1,136.49	30.60	36.74	121.49	2,152.32	
1982–91	Sub-Saharan Africa	55.42	231.85	12.55	82.12	27.50	409.44	7.57
	East Asia and Pacific	2.84	434.43	2.22	800.73	35.90	1,276.14	23.58
	Europe and Central Asia	0.00	0.00	0.00	0.00	0.00	0.00	0.00

	Latin America and the Caribbean	101.81	645.27	1.63	1,076.04	450.18	2,274.92	42.04
	Middle East and North Africa	35.10	90.11	23.09	322.68	182.49	653.47	12.07
	South Asia	39.63	218.90	55.81	463.67	19.94	797.95	14.74
1982–91 subtotal		234.80	1620.56	95.31	2,745.24	716.01	5,411.92	
1992–2005	Sub-Saharan Africa	42.42	16.32	2.57	17.04	2.92	81.26	1.20
	East Asia and Pacific	40.78	35.80	36.12	439.05	33.92	585.66	8.62
	Europe and Central Asia	10.61	16.46	311.34	235.20	305.37	878.98	12.94
	Latin America and the Caribbean	128.97	0.00	656.73	1,584.89	397.34	2,773.29	40.83
	Middle East and North Africa	94.42	358.26	48.37	290.43	549.82	1,341.31	19.75
	South Asia	21.18	79.00	2.37	145.32	883.95	1,131.81	16.66
1992–2005 subtotal		338.38	505.83	1,057.49	2,711.93	2,173.31	6,792.30	
Total		1,400.19	3,262.88	1,183.40	5,493.90	3,010.82	14,356.55	

Source: World Bank loan data.

Note: Loan amounts include open and closed loans, as well as IFC loans. For closed loans, only actual disbursals are counted. For open loans, commitments are counted, since final disbursements are not available. See the appendix of this book for details about how the dataset was constructed.

consensus in empirical research on the importance of correcting policy distortions. For example, OED's 2004 *Annual Review of Development Effectiveness* indicates that countries that improved their policy environment grew twice as rapidly as those that did not. The importance of this kind of view to shelter lending was synthesized in the 1993 Housing Policy Paper, "Enabling Markets to Work" (World Bank 1993), which showed that land use regulations, such as rights of way, set backs, and the amount of land provided for community facilities, could cumulatively increase costs markedly, making housing affordable only for high-income groups. Ultimately, the 1992 study suggested that projects that did not consider the broader policy dimensions could become enclaves that were not replicable.

For the Bank, these emerging lessons resulted in a new emphasis on policy and institutions as fundamental aspects of project support. While these emphases had always been an important aspect of Bank shelter projects (see box 1.1 in the previous chapter), they received more attention in the 1990s. Unfortunately, however, as projects moved away from pure infrastructure, the emphasis on slum improvement and sites and services declined. The volume of such lending fell to less than half the level of the previous two decades.

Some of the regional trends in housing loans that we have identified can also be at least partially explained by considering the interaction of history and the peculiarities of client countries. For example, the continuing importance of Latin America in the shelter portfolio should not be surprising given that it is the most urbanized region among the Bank's borrowers. The increasing importance of the Middle East and North Africa in shelter lending may well owe to the fact that this region, along with Sub-Saharan Africa, experienced the most rapid urbanization in the world during the 1970s and 1980s. But this explanation, in turn, raises the question of why one region increased and the other declined. Finally, after the collapse of the Soviet Union, Eastern Europe and Central Asia became prominent Bank client as countries in the region transitioned to market-oriented economies. In many ways, then, the regional trends we have observed are mostly what should have been expected given the peculiarities of urbanization in these regions.

The only exception is the sharp fall in shelter lending to Sub-Saharan Africa, which is particularly troubling since Sub-Saharan Africa is the most rapidly urbanizing region in the world and has been for the past 30 years. At this point, we can only speculate about the fall in shelter lending in Sub-Saharan Africa. First, and most obviously, the decline is what the borrowers wanted. In recent years, decentralization has became increasingly important in the region, and rather than continuing with shelter assistance, shelter support was in effect replaced by greater emphasis on municipal assistance.[13] Second, there was a secular decrease in all urban development loans to Sub-Saharan Africa even though urban development loans in the 1980s performed quite well, and in fact better than many other infrastructure sectors.

Box 2.1 Development Effectiveness and Urban Lending in Sub-Saharan Africa: A Thought Experiment

Suppose that in 1986, the Bank and Sub-Saharan Africa policy makers used outcome ratings over the previous 15 years as general predictor of the likely development effectiveness of Bank-supported assistance. These policy makers would have been confronted with satisfactory outcome ratings of 87 percent for shelter, 84.3 percent for urban, and 60 percent for all lending in the 1972–86 period. Shelter made up 2 percent of all lending in this period. From 1987–2004, shelter lending fell to 0.5 percent of all lending. If the policy makers had used ratings information to guide them and shifted 1.5 percent of the resources provided to nonurban lending to shelter loans (to maintain a 2 percent shelter lending portfolio), based on past performances they would have expected overall outcomes to have improved from 60 percent to 65 percent. However, they obviously, and no doubt correctly, did not use this sort of allocation, and overall outcomes were 0.5 percent less satisfactory at 64.5 percent. If they had shifted 9.5 percent of the resources provided to nonurban lending to shelter loans (for a 10 percent shelter lending portfolio), based on past performances they would have expected overall outcomes to have improved to increase from 60 percent to 67 percent.

Source: Authors.

To some extent, then, the trends we have observed are consistent with what appears to be a well-thought-out Bank approach. In other areas, however, they appear to be the result of either increasing demands on the nonshelter dimension of urban lending or a more general sense that development effectiveness required a shift in loan composition.[14] But has the pendulum swung too far? Is there a need to refocus on slum upgrading and sites-and-services projects now that new and better tools of community participation and microfinance, which have developed apace in recent years, can provide the opportunity to improve the outcomes of such project-based loans? This is a question to which we will return in chapters 3–5. Before turning to the various instruments through which the Bank can affect shelter policy, first consider the following lessons learned.

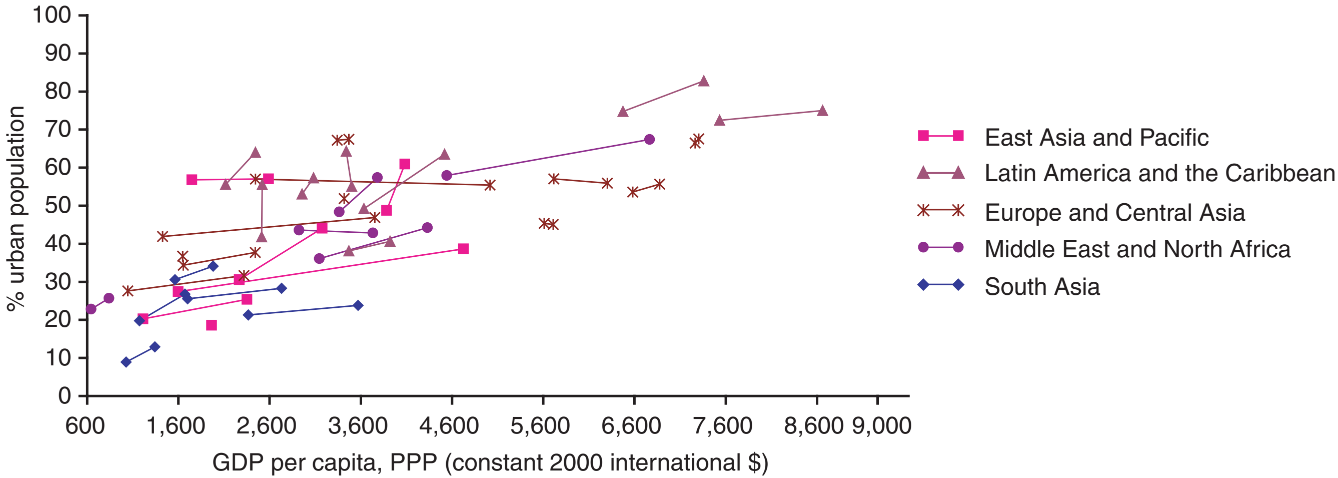
What Worked…

At the broadest level, shelter lending worked: it evolved with changing circumstances, engaged the private sector, was resiliently demanded, and perhaps most basically, performed at a very high level. Indeed, except perhaps in Russia, shelter lending outperformed other Bank loans, even in countries in which performance was relatively weak.

…And What Did Not Work

At the broadest statistical level, the reduction in lending for urban upgrading, particularly in Sub-Saharan Africa, seems to be the result of strategic choice. However, the reduction does not appear to be warranted from a development effectiveness standpoint, particularly when the MDGs are placing renewed interest in slum alleviation. At the same time, it should be pointed out that the measures developed thus far to track performance of this MDG are themselves deeply flawed.

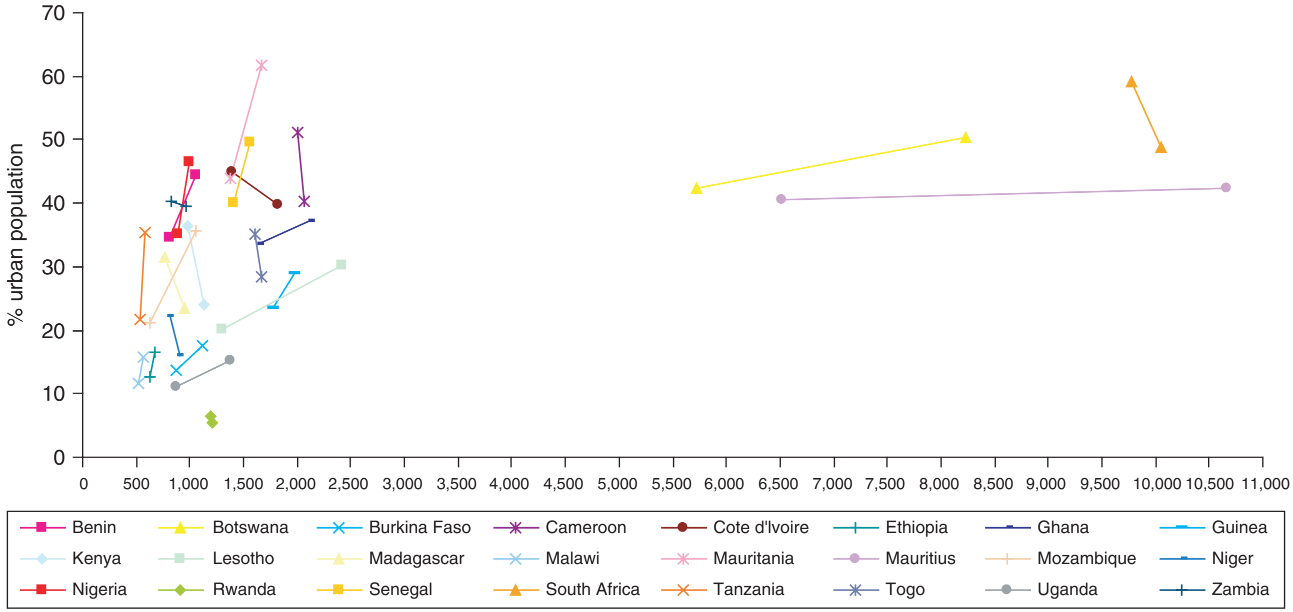
Figure 2.1a Per Capita Income and Urbanization for Non-African Developing and Transition Economies, 1990–2003



Source: Kessides (2004).

Note: The left point of each line segment in the figure shows per capita income and urbanization for 1990 and the right point shows per capita income and urbanization for 2003.

Figure 2.1b Per Capita Income and Urbanization for Sub-Saharan African Countries, 1990–2003



Source: Kessides (2004).

Note: The left point of each line segment in the figure shows per capita income and urbanization for 1990 and the right point shows per capita income and urbanization for 2003.