FINANCING PROBLEMS OF HOUSING PROGRAMS IN DEVELOPING COUNTRIES

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I. Introduction

Before considering the financing problems of housing programs in developing countries, certain general points or conditions need to be enunciated. These points will either indicate the limits of, or add perspective to, the discussion which follows.

To begin with, references to housing will be to urban housing. In 95 out of 100 cases today the factors and situations in urban housing are so greatly different from those in rural housing that they are for all practical purposes two different subjects. It is conceivable that developments might alter this picture in the future. But for the present rural and urban housing are not only of different color, they are different animals. Except where noted, this paper deals only with urban housing.

The second condition relates to the content of the term "housing" as it should be viewed in the urban context and particularly in terms of the financial problems it poses. The strictest, most limiting definition of "housing" or "housing cost" includes three elements: (a) the structure itself, (b) the plot of ground on which the structure stands, and (c) the utility elements, i.e., water pipe, sewer pipe, etc., that are placed in or upon that plot. From the standpoint of the homeowner or the tenant this is, of course, the biggest part of his cost. But the street in front of his residence, the highway to which it leads and a number of other public or community services are frequently incorporated either into his housing cost or his taxes. Some of these charges or taxes are for repayment of capital investment, others are for maintenance and operation. Certain of these services or facilities are essential to urban housing, whether it is in an advanced or a developing country. The sewer, water and road networks, for example. Sometimes these investments or expenses, or a part of them, are not charged to the user or one who benefits but are met out of general tax revenues. In any event, these community or neighborhood facilities are essential to the individual housing units, and their capital costs are treated here as one part of the housing finance problem of developing countries. This is an increasingly common practice.

A wider perspective and appreciation of the content of the term "housing" and, consequently, the companion terms "housing cost" and "housing finance", can be gained by momentary reflection on the industry side of the housing process. It is easy to concentrate on the financing problems of the home-buyer or of the investor in rental housing, which, of course, are crucial. But the home-builder (the production side of the process) is also in need of financial assistance, particularly if he is to build housing units on a scale which will produce lower prices and provide the needed quantities. As contrasted to the financial needs of home-buyers, this is a short-term money need. Nevertheless, in the housing process it is an important requisite, and no long-term housing program can be successful if it does not meet this demand. In developed countries, it is not uncommon for the construction financing for the home-builder and mortgage financing for the home-buyer to be part of the same financing package.

Another activity that frequently poses housing finance problems is the preparation of land. This generally includes land purchase, grading, survey and plotting, placement of local roads, sewer and water system, etc. In some cases the financing of this activity is merged with construction financing, particularly in very large developments. And a final financial problem for housing is the capital cost of developing, expanding or improving building materials industries.

Although the treatment here will go beyond the financing problems of the home-buyer or the investor in rental housing, it cannot and does not pretend to cover all of these financing problems cited. Its principal preoccupation will be with long-term financing for home-buyers and, to a lesser extent, for investors in rental dwelling units. This is the supreme problem. Were it not for this aspect, the housing market would not be different from dozens of other consumer-good markets. Because of this aspect, the housing market is singular and incredibly more complex. The urbanite seeking to buy his own home has a market position on the demand side that is somewhat analogous to the supply position held by the small, independent farmer seeking to sell his crop in a free market. It is not at all strange, therefore, that governments all over the world have intervened in these two broad areas to provide a measure of balance and economic justice that pure market forces have not been able to effect. In the case of the housing market, it is noteworthy that in market economies government intervention has been very largely in the specific area of finance.

This paper does not have as one of its objectives the computation of an estimated dollar expenditure which over a period of ten, twenty or thirty years would put the world population into good or decent housing. In most respects this would be a fruitless exercise. Nevertheless, some idea of the dimension and the potential burden of housing finance to developing countries is helpful for perspective. There are considerable reliable data available from advanced countries that are useful for this purpose.

In the United States in 1963, Gross National Product (GNP) totalled $583.9 billion.(1) Residential non-farm construction - or urban housing construction - in that year was $32.6 billion or 5.6 percent of GNP. Of gross private fixed domestic investment in 1963, residential non-farm construction represented almost 31 percent of the total.(2)

*The views expressed by the author are his own and do not necessarily represent the views of the Department.

Based on annual investment, housing is the most important industry in the United States. According to national wealth data compiled by Raymond Goldsmith, housing represents more than 25 per cent of the national wealth and is the largest single component.(3)

In Europe, particularly Western Europe, housing's relationships and importance are closely analogous to that of the United States. In the period 1954-1956, for most West European countries, housing represented 4.5 to 5.8 percent of GNP. Investment in housing as a percentage of gross domestic fixed investment ranged generally between 19 and 25 percent.(4) In the USSR during this same period, housing investment as a percentage of gross fixed investment was reported in excess of 20 percent.(5) By any standards, these economic data for the United States and Europe are impressive. In light of the economic and financial significance of the housing sector, it is not surprising that the United States and other advanced countries have in the past used home-building as a counter-weight to recession-inducing forces.

As the foregoing indicates, the proportions of annual gross domestic investment that go into housing are large. The place of housing in the GNP is also important. For developing countries that are desperately short of capital, these proportions appear very high.(6) Yet a United Nations ad hoc group of housing experts representing every part of the globe has suggested that the underdeveloped areas of the world require rates of house-building substantially in excess of the rates maintained in Western Europe and shown in Table I.(7) An annual dwelling unit rate of more than 10 units per 1,000 inhabitants is considered an exceptionally high rate of housing construction. In Table I, covering selected Western European countries, only Western Germany, which is a special case, shows rates of over 10, their highest rate being 11.0. All other countries are substantially below this rate. The UN expert group, however, estimated that urban housing backlogs along with annual incremental needs would require rates of 13 and 13 to 16 dwelling units per 1,000 for Asia and Latin America respectively, and this for a period of thirty years. The efforts and the investments implied in these estimates for developing countries are staggering and under past and existing circumstances appear also to be impossible. The expert report itself concludes that "It is evident that, in order to sustain an adequate rate, housing construction would absorb practically the entire investment resources of developing countries."(8)

II. Domestic Considerations and Possibilities

It is customary to talk about "developing countries" as though they were a more or less homogeneous group. But in fact their only common characteristic is that they are all considered to have low levels of real income per capita relative to the standards of North America, Europe, Japan and Australasia. Within the group of developing countries differences are sometimes greater than between some advanced countries and some developing countries. Walter Rostow through his book, The Stages of Economic Growth, has helped put a proper focus on these differences. A 1957 UN publication which provides per capita net national product data for 55 countries adds additional concrete emphasis to this point. The developing countries included in this study had a per capita annual net national product (NNP) ranging from $50 to $540. Several of these developing countries had per capita NNP as high or higher than 5 European countries.(9) This circumstance, which in some albeit different measure persists today, tends to suggest that the definition of development level should include other factors, eg, levels of education, political and organizational stability and the like. For our purposes it is enough that those differences are appreciated and that it is understood that the considerations and possibilities being discussed will have uneven applicability.

The very large shortages of urban housing and related facilities that have been referred to above pose very important policy questions for governments of developing countries. Each government must decide first what role it should or must play. In many cases the social and political pressures have helped to formulate this decision and have put governments into a key formal role. In other cases, governments have resisted serious involvement in housing. The following, an official statement of the Government of India, is one example:

> "The reason why the provision is inadequate for housing and will continue to be so for quite some time is clear. Government will have to concentrate first on improving the standard of living of the people so that they can, amongst other things, pay if not the whole of the economic rent of a dwelling, at least a good portion of that rent. Raising the level of living means increasing agricultural production; exploring and exploiting the mineral wealth; promoting basic industries ... and developing the irrigation, power and transport potential of the country. These and other developmental activities thus come to get a higher priority in national planning."(10)

But though a government of a developing country can put off or delay serious involvement and a key role in housing finance and production, for most, eventual involvement and a key role seem inevitable.

The point has already been made that in the average market place housing does not fare well. Some of the factors responsible for this state of affairs have been mentioned. Additional information and discussion on this aspect is available in a number of good references.(11) It is appropriate, nevertheless, to mention briefly the most important single causal factor, namely rapid urbanization. The extraordinarily fast growth of cities in developing countries gives them problems of scale and urgency that did not face advanced countries in their take-off and maturity stages of development in the last century and the first couple decades of this century. For an excellent perspective in brief compass on the 20th Century phenomenon of rapid urbanization and its impact on developing countries, the reader is referred to the report of the Committee on Urban Development at a White House Conference on International Cooperation held late last year.[12]

Once a government of a developing country accepts the burden of a key role in housing it must then face additional important policy questions. It must consider the ingredients that are required - land, labor and capital - and must consider how much of each of these productive factors should be allocated in the short term and the long term to the task of supplying housing and essential related facilities. It must also consider the process or processes whereby housing is produced and take steps to strengthen and promote the efficiency of these processes, including the provision of needed institutions, legal framework, etc. In the consideration of housing policy decisions, and this applies strongly to the housing finance area, developing countries should relate housing and proposed policies and programs stemming therefrom to other policies and programs and to overall national objectives.

The first critical policy question concerns the allocation of resources. Of the total investment capital available for a given period, how much should be devoted to housing and related facilities? It soon becomes clear that no adequate answer is possible to this key question until a large number of complex aspects or sub-questions are examined, relationships determined and decisions on these are reached. Private as well as public resources must be considered. Existing programs and existing resources currently employed in this field must be examined from the standpoint of possible appropriate changes or of making resource use more efficient and productive. Are there resource possibilities or potential which are not being exploited? To what extent should these resource possibilities or potential be utilized for housing? What are the institutions or programs necessary to improve productivity or to exploit unrealized potential? Should resources be transferred to housing from other areas, or should increases in resources be earmarked for future housing use? These and many more knotty questions require answers. If they are not specifically examined and answered, they will nevertheless be answered implicitly or by default through the operation of the programs which implement adopted policy.

In consideration of an appropriate national government policy and role in housing, governments of developing countries quickly reach the question of national budget: How much of national revenues can or should be expended in programs for housing and related facilities? Uppermost in the minds of policy-makers, of course, are the shortages of available capital and the existing large demands for capital in other fields, some of which may not be wholly met. As the central agent in the national development program, the national government faces, consequently, weighty decisions and pressures. Governments of developing countries, moreover, face a disadvantage relative to advanced countries, in terms of their share of national income. Governments of richer countries generally secure a significantly larger proportion of annual national income than do the governments of less industrialized nations. Advanced nations not only have a larger per capita income, but their governments also capture a larger proportion of this income.[14]

Commitment of large amounts of public funds to housing by developing countries should not be done certainly without careful study of the experiences of other nations. Expenditures by governments for construction of new housing, and, where this housing is government operated, for the maintenance of an ever growing stock can be a large and serious burden on government budgets. How burdensome these expenditures can become may perhaps be best depicted by the experience of Eastern European countries. In the period after World War II, the governments in these states quickly took upon themselves the major burden of providing housing (confined initially almost wholly, and still very largely, to urban housing). The housing produced was rental housing. In accordance with what was described as Marxist principle the rents charged were not economic rents. In the USSR, for example, rents currently cover only about one-third of maintenance costs and provide nothing whatsoever for depreciation and thus recovery of the initial investment.[15] But the very heavy burden of new housing construction plus ever increasing maintenance costs has forced changes on several Eastern European countries and further changes are anticipated. Since 1959, the policy in Yugoslavia, represented by several increases in rental charges, has been to get closer and closer to an economic rent. Czechoslovakia and Poland followed this lead in subsequent years, raising rent payments. New policies have been instituted in virtually all Eastern European countries (USSR included), permitting greater private financing of housing, particularly through the promotion of cooperatives with the State providing land, loans and other assistance. Some idea of the importance to individual states of these measures to reduce the size of the housing finance burden may be gathered by reference to the situation in Poland (which, however, may be extreme). For new flats (apartments) the cooperative occupant in Poland pays six times as much as the renter of a new flat built by a peoples' council.[16]

Having touched upon certain considerations which weigh upon the possible decision of a developing country to use significant public funds for housing, the next problem that emerges is: "In what way should these funds be used?"

Direct government construction of houses, whether by private contractors or by the government's own work force, is a program used by countries in various parts of the world. This provides the greatest measure of control over the rate, timing and location of the units so constructed, over the selection of housing occupants and of the type of housing provided. Another technique that can be used is government lending. This also permits a large measure of control. A third technique for government funding of housing is one that has been developed largely by developing countries themselves and has been used with varying success by countries in Africa, Asia and Latin America. This technique has been called "land and utilities" or "site and services." Under this scheme, the government makes building plots available in surveyed and plotted, new or recently cleared areas. Utilities have also been made available, along with streets and pedestrian-ways. Generally the building plots are small and the services provided are minimal. Water taps, for example, may be at street-side, and one tap may serve four to eight dwelling units. Sometimes the service provision may be on a more ambitious scale.

This program requires the individual family to take responsibility for construction of the shelter. It is used most frequently as a means of providing better services and an organized neighborhood to squatter families. Where the government already owns the land, the costs entailed are survey, grading and provision of utilities and streets. When accompanied by some control of the structures built on the plots provided (and perhaps through the provision of some building materials at cost to the building families) this scheme has produced improved - frequently adequate -housing at low per unit costs to the government.

In each of the three programs briefly mentioned above, it is possible for the government to recover its expenditures. The housing directly constructed by the government could be rented at economic rents or be sold at cost. Similar conditions could be applied in the case of government lending. And the site and services plots could be transferred to families under conditions requiring payments to the government over a period of time which would offset the government expenditures incurred. As a matter of practice, however, this seldom occurs. Very frequently programs of the type described are launched on a recognized subsidy basis. Rents may be less than economic rents; homes may be sold to buyers at prices which do not include utility installation costs or land costs; loans may be made at interest rates significantly lower than interest rates paid by the government for its borrowing. In addition to these accepted subsidies, substantial implicit or concealed subsidies may be encountered. Rent collections may be poor and political pressures may make insistent collection or eviction unpalatable. Monthly payments of home-buyers may be forgiven for similar reasons. Maintenance and operating costs of rental units may soar due to unsophisticated tenants and poor administration. Developments as these may significantly increase the size of actual subsidies, and the burden on the government exchequer can balloon in magnitude.

For these and for other reasons, direct government funding of housing should have limited attractions to developing countries. Only the site and services program appears to have advantages which are not offered by alternatives. Government direct construction and direct lending for housing would appear to be best confined to special cases, or as pilot or demonstration efforts. The broadly fruitful area for government subsidy and financial assistance appears to be in another direction, in the stimulation and support of private efforts.

Reliance on private enterprise and private financing in developing countries may appear to be risky indeed, supporting one's self on a weak reed. And to be sure, as has been pointed out, the private market place has been unkind to housing. However, a partnership of government and private resources is a different matter. Herein lie many possibilities, some only fractionally exploited, others still to be discovered.

Private financing (as well as public financing) rests basically upon per capita income. Mention has already been made, in another context, that in the mid 1950's per capita annual income for a representative group of developing countries ranged from $50 to $540. Somewhat later estimates (1955-57) extend the upper limit of this range to $700 per capita per annum.[17] But only 9 of the 100 countries and dependent areas listed in this latter source had estimated per capita annual income of over $300. And a full 75 of the countries and territories had per capita annual income under $200.

These data, in many cases admittedly crude estimates, are nevertheless derived by responsible people in as responsible a fashion as the limited and faulty data on many developing countries permit. At first blush the data appear to make the task of financing housing in these countries all but hopeless. But, as any statistician or economist worth his salt knows, aggregate data have their uses, these uses are quite limited, and there is an unfortunate tendency, particularly by the statistically untutored, to draw conclusions from aggregate data that are unwarranted. The particular point appropriate here is that these per capita national income data are deceptive and not necessarily applicable to housing.

How applicable are these per capita income data, for example, to the millions of rural families over the world who for centuries have constructed their own homes and still do today? The house in such case is the product entirely of local materials and family labor, and neither in whole nor in part does the dwelling unit enter the market place. Since the emphasis and concern of this paper is on urban housing, however, it is the considerations applying to urban housing that merit attention.

The first and obvious point is that national per capita income data include both rural and urban income. Productivity and income of the agricultural segments of developing countries are far behind that of urban areas. Income in urban areas is frequently double (or more) that in rural areas, and in the large metropolitan areas average per capita income is frequently three, four or five times average per capita rural income. In Peru, for example, overall annual per capita income for 1961 was estimated at $123. In the Sierra, however, in which area a large part of the population live, average per capita income was estimated at $48; the coastal region (including Lima) had an estimated per capita income of $244; and Lima itself had an estimated per capita income of $400 to $500.(18)

A second important factor to consider with respect to income is that the social customs and practices make family income a much more meaningful and logical statistic than per capita income. In many developing countries it is the rule in urban areas for the lower and middle income families to have more than one gainfully employed person.(19) The capacity to pay rents or to purchase homes is obviously much greater when viewed from the standpoint of family income than from the standpoint of per capita income.

A third pertinent factor bearing on income statistics in developing countries is the question of distribution. It is widely recognized that the distribution of national income in developing countries is quite sharply skewed relative to income distribution in advanced countries. Over time it has become popular to talk about three income groups: a very small and very affluent group at the top, a somewhat larger but still quite small middle income (middle class) group, and a third, huge group comprising low-income families. In the minds of many this bottom group, representing as many as 80 to 90 per cent of all families, is a mass of destitute, poverty-stricken families who possess little or nothing in the way of capital resources or of earning power in excess of subsistence needs. This view is just plain wrong and does not fit most developing countries. In most cases the lower income group shows a wide range of incomes and a surprisingly large proportion whose earnings must be considered significant and clearly above subsistence levels. The size of the error in this conventional wisdom is considerably greater when only the urban population and their incomes are considered. Annual per capita income for Ethiopia, for example, has been estimated at less than $50. A carefully derived distribution of family income for Addis Ababa, however, reveals a quite regular curve, albeit skewed. A full 35 per cent of the families were included in a group with incomes ranging from zero to $240 per annum. But fully 50 per cent of all families were in groups having annual incomes of $720 or more.(20) Family income data for squatter settlements in Peru provide additional evidence that the lower income group incorporates wide income differences. Squatters in Peru are very probably the lowest urban income group in the country. Yet according to 1962 data collected on selected squatter settlements containing over 35,000 people, the modal income group had average family income of about $440. Moreover, almost 50 per cent of the families enjoyed family incomes of $600 or more per annum. (21) Income data for Nicaragua provide a final example that, for meaningful analysis, it must be recognized that significant income differences exist within the lower income group. The survey data for Managua, the capital, are reported in Table II. About 70 per cent of Managua's population are covered. This very large "sample" covered occupants in low and middle class housing. It discloses that the modal group, 23 per cent of the total, had an annual family income of about $1100. At the top of the distribution, 7 per cent of the families enjoyed average annual income of over $4,000 per annum.(22)

Before leaving the subject of income distribution and what are meaningful income statistics, a conjecture or alert is in order. It is suggested that more often than not the income statistics reported by households in developing countries are apt to be understatements. When the opportunity presents itself, the researcher or scholar should attempt to make some check on their validity. Sometimes salary and wage data from employers can be useful for this purpose. Processed applications for public housing or for purchase of homes under favorable terms of a government supported program may be especially helpful.

The preceding paragraphs suggest that in developing countries, despite low national per capita data, there are indeed large numbers of families who have relatively substantial income. It is reasonably obvious that in a great many cases the income of these families is in excess of subsistence needs. The tropical or near tropical climates which almost all developing countries have helps make this possible.(23)

There is, of course, a great deal of independent evidence from economic history and from economic development experience which reports the existence of family savings or savings potential in developing countries in temperate as well as tropical climes. This savings is the key to economic development. Our concern and interest is in savings, realized and potential, that may be put to housing needs.

It is clear that under even the most adverse circumstances people will save for housing purposes. In a number of developing countries, for example, savings have taken the form of building materials, e.g., concrete blocks. When the household has accumulated a sufficient amount of building materials another portion of their home or an addition would be built.(24) This kind of saving is, however, wasteful and inefficient, both from the standpoint of society and the household. The hoarding of money, gold or silver is, of course, also uneconomic and undesirable. To counteract these wasteful practices and to put immobile assets to work, popular savings institutions can be created. Whether the savings thus collected should be put to housing purposes, in whole or in part, is a subject unto itself. It is understood that the paper by Professor Burns will deal with various aspects of this topic.

One of the most successful popular savings institutions is the savings and loan association. There are several variations in name, in practices and in ownership. All, however, are institutions geared primarily if not wholly to the financing of housing. A few short years ago the United States Government and the savings and loan industry of the United States began to give substantial technical assistance and encouragement to existing and proposed savings and loan associations in Latin America. The record is pleasing. In 1961 net savings on deposit in free savings and loan associations in Latin America amounted to $2 million. In 1965 net savings totalled $120 million.[25] And if a burst of optimism may be forgiven, this is still only a small fraction of the potential.

Most of the savings and loan associations now operating in Latin America are very new. Their ability to mobilize such a large amount of savings in such a short time indicates that they met a genuine need. Their establishment, requiring legislation for their chartering, supervision to protect the public interest, etc., depends generally upon friendly and positive action by national governments. At the same time, such savings institutions may pose an imaginary or real threat of competition to established financial institutions, which may resist their proposed establishment. The key role in such situation is played by the government.

The establishment and supervision of a new financial mechanism may, however, commit the conscientious, dedicated government to other policies and actions to ensure or to maximize success of the new instrument. In the case of savings and loans a deposit insurance plan, protecting depositors from loss, might be very desirable to create the psychological climate propitious to early success of a fledgling institution. Some government deposits in new institutions, particularly from Social Security or pension funds, might be another positive aid. Some means to provide liquidity to these institutions at times of stress is another possible and generally desirable action on the part of the government. The report of a UN Mission to Kenya, for example, recommended in light of Kenya's experience that some liquidity mechanism be provided for unusual withdrawals.[26]

Current experience in the United States illustrates the kinds of problems that can develop for savings and loan associations or other financial institutions mobilizing savings and investing these savings in long-term home mortgages.[27] Several economic factors, precipitated in recent months by Federal Reserve Board changes in regulations applicable to commercial banks, have led to greatly increased competition for savings. As a result interest rates for savings deposits have moved up sharply.[28] For savings and loan associations and savings banks which are so heavily invested in long-term home mortgages, this has resulted in the classic squeeze between relatively fixed income and rising costs. Higher interest rates are being paid on all deposits, most of which are represented by mortgages bearing relatively low interest rates that reflected the old market conditions. In developing countries when savings institutions run into this or similar problems, governments should be prepared to provide necessary assistance.

Although the role of governments with respect to the establishment and promotion of housing finance institutions is very important, there are many other areas wherein government action may eliminate roadblocks, redirect efforts to better purpose, or stimulate existing activities. One major problem in many countries which has been poorly handled by most governments is the high cost of urban land. Small improved building lots in urban areas of developing countries often sell for incredibly high prices. As a result, the cost of land represents in many cases an inordinately high proportion of the total housing cost or price, often ranging between 30 to 60 percent of the total price.[29] Various reasons account for this situation, but the principal ones are tradition, fear of inflation and speculation. Governments in almost every case have the means at their disposal to modify greatly the cost of urban land, thereby reducing the costs of housing and lightening housing finance problems. Improved urban property tax systems, penalizing vacant land and speculation, and recovering the costs of improvements from landowners, is a powerful weapon that has been too little utilized. Appropriate condemnation laws, perhaps relating prices paid for land to tax assessments, is another readily developed tool. Re-establishing an appropriate balance and relationship between land-costs and other factors in the housing picture in developing countries would in a great many instances upset long-standing practices and encounter powerful opposition. Yet no other course appears feasible.

The indirect benefits to housing finance problems from the institution and operation of an adequate property tax system are considerable. But they are certainly matched by the direct benefits that accrue. Property taxes could provide funds for the local provision and maintenance of community facilities and services. To the extent that these local services are financed out of national budgets - and this is quite common - the national exchequer is benefitted as well.[30]

Since the task of financing housing exceeds by far the resources being devoted to it, governments of developing countries should attempt to exploit all feasible possibilities, even though the possibilities individually are not in themselves impressive. In many developing countries, foreign companies are charged with responsibility for housing local employees. If this assigned responsibility is made under reasonable terms and without malice, the practice cannot be faulted. In many of these same countries, domestic employers - generally those exceeding a certain size - are also charged with some responsibility for housing their employees.[31] There are dozens of ways in which this can be done. Companies may build housing for their employees, which housing may then be occupied rent-free or at agreed rentals. Or alternatively, companies may pay payroll taxes to a municipal board which constructs housing and allocates this housing to the work forces of different employers according to formula. Loans may be made to employees under favorable terms, loans from other sources may be guaranteed, contributions to rental or amortization payments may be directly made, etc. Governments frequently permit employers tax benefits of various kinds to lighten burdens imposed by this housing assistance or to induce maximum participation.

In this country, company housing has a bad name and is frowned upon by labor unions and corporate bodies alike. Circumstances in developing countries are radically different and many of the programs have little of the disadvantages normally associated with company housing.

One of the most intriguing - and controversial - government actions supporting housing finance activities is the adoption of a link-index system to counteract the impact of inflation. Israel has been operating such a system for a number of years. In Israel it is not confined to housing but covers industrial and agricultural activities as well. Following the Israeli example a number of Latin American countries have incorporated the essential aspects of the Israeli system into their housing finance operations and others are considering it. The link-index system has also been recommended to developing countries in other continents.

The basic concept of the link-index system is quite simple. The objective is to overcome the capital erosion effects of inflation. Few people will save and continue to save when the purchasing power of their savings is sharply reduced through price inflation. Instead, the funds they have remaining after meeting their daily needs will tend to be converted into land, durable or consumer goods, precious metals or gems, etc. In brief, inflation induces investment in tangibles, in equities which generally rise in value along with inflation. Deposits or certificates of indebtedness do not, however, rise in value with inflation and thus saving and lending is hard hit by inflation. The link-index system attempts to correct this imbalance by periodic elevation of the explicit monetary value of savings and investments in accordance with the movement of some agreed price index.

Brief examination of a crude example will show the main elements and intended effects of this scheme: A savings institution has $100,000 in savings. This $100,000 is invested in home mortgages. At the close of the agreed period (quarterly, semi-annually or annually) the price index governing the link-index scheme shows a 20 per cent inflation. Accordingly, the $100,000 of deposits is raised by 20 percent, yielding a new total of deposits of $120,000. But the means of repaying the deposits and of paying the interest on savings are the outstanding mortgages. So it is necessary also to raise the $100,000 of outstanding mortgages by 20 percent. Both sides of the ledger have received the same treatment, and the books are in balance. Because of the link-index scheme, savers have been insulated from the effects of inflation. Thus incentive to save remains unimpaired. The homebuyer paying off the mortgage made possible by the savings has been able to purchase a home because savings have not dried up. The face amount of his mortgage and his resulting amortization and interest payments rise, but, of course, this is part of the mortgage contract to which he agreed. Moreover, at the same time the mortgage value and payments are escalated, wages are also raised by the same formula.

Link-index systems for specific purposes have a long history; most frequently they have been connected with the issuance of bonds, particularly by governments. Not too long ago, based presumably on Israeli experience, a proposal was made to produce an "inflation-proof economy", recommending adoption of link-index plans by inflation-prone countries which would apply to all elements of an economy. Receivers of wages, salaries, rents, interest, pensions and other transfer payments would all have such payments subject to escalation by the same index.[32]

The writer was in Israel earlier this year and spent some time discussing link-index operations in Israel.[33] Wages, housing loans, industrial and agricultural loans and bank deposits are covered. The operations, however, are by no means all-encompassing. Increases in wages and salaries for example, are limited and apply only on the first $165 earned per month. This, of course, penalizes the higher wage and salary earner. Not all bank deposits are covered, either. In many cases there is no linkage or only partial linkage. With respect to industrial and agricultural loans, a fixed annual charge of 4 percent substitutes for inflationary possibilities, and the government assumes the linkage risk. The arbitrary premium is paid by the bank to the government, and the government reimburses the bank should the annual inflation rate be high enough. The link-index scheme operates when annual inflation reaches 3 to 5 percent, the figure varying in different cases. Last year, 1965, the inflation was between 4 and 5 percent; over the last ten years it has averaged 6 percent per annum. The law governing link-index usage permits linkage for loans over 24 months. There is consequently a rather high percentage of bank loans for a 25 month period.

The link-index system in Israel for the housing sector began with linkage to a cost of building index. Subsequently, a linkage system to foreign exchange rates was utilized, a more or less natural result because of the large amount of foreign borrowing. Currently, two indexes are used, a cost of living index and a cost of housing index. The Government Housing Saving Scheme is linked to the cost of housing index which rises much more rapidly than the cost of living index, thus making the government scheme more attractive to savers. The housing saving plans promoted by banks utilize the cost of living index. Under both government and private bank savings schemes, the saver who saves for certain periods and meets the general terms of the plan becomes eligible for a loan. Among those made eligible for a loan, there is a lottery to select loan recipients. The number of lottery winners depends upon the number of flats available. The basic interest rate paid by the lottery winners is 8 percent plus linkage.

In recent years the Government decided that linkage under its loan program would be only 70 per cent. In special cases which the Government wished to promote, the Government also agreed to restrict linkage on loans to 50 percent. These conditions, obviously, involve elements of subvention. It is not clear how these terms would apply to housing because the Government also has special housing loans in connection with development schemes. Interest rates as low as 3½ percent are charged, grace periods before linkage begins are permitted and moratoria of 5 to 10 years before repayment may be granted. The private or semi-private banks do not participate in these schemes and for their housing loans they require 100 per cent linkage.

The writer was told in Israel, by banking experts that the link-index system had indeed succeeded in inducing people to save. Through it, a favorable attitude toward saving in the entire populace had been created. There were, for example, hundreds of thousands of savings accounts for school children. These accounts were growing although they were not covered by link-index adjustments. But the system is controversial and appears to have proponents and opponents in Israel as well as out. Inflation is feared by bankers throughout the world, yet the impression exists that not all Israeli finance men are happy living with the link-index system. The large (perhaps overly large) role of the government in savings schemes and the considerable amount of government regulation may be factors.

Some of the benefits of the link-index system have been made clear. What then are the disadvantages? Whether in Israel or elsewhere, the link-index system poses several disadvantages. To begin with, the plan almost automatically entails government subsidy. In the crude example described earlier of how the scheme works, 100 percent of savings was represented by a like amount of mortgages. This is an impossible situation. There must be reserves and cash in the till for example. Consequently, perhaps 15 to 25 per cent of savings will not be represented by mortgages. When savings and mortgages are readjusted, someone must accept the burden of escalating this 15 to 25 percent reserve or cash portion of deposits. In Israel this expense is assumed by the Government. But Israel's inflation has been relatively mild. Could this expense have been as readily assumed if inflation had been at a much higher rate? And, of course, if the total amount of mortgages represented a very high monetary figure? In Latin America, for example, some of the countries adopting this system or considering it have experienced cost of living rises of 20 to more than 100 percent in one or more years in the past decade or so, and annual exchange devaluation of as high as 25 to 600 percent.[34] Also to be considered is that Israel has special access to foreign loans and grants which other developing countries do not have. This subsidy cost, regardless of who bears it, is over and above the cost and effort of administering the system.

Another difficulty that faces the link-index system is the adjustment impact on the mortgagor. The principal value of the mortgage and the amortization payments are raised in accordance with the index. What happens when the mortgagor's income has not risen proportionately? In some countries there are covered industries which almost automatically receive periodic wage benefits related to cost of living indices. Other workers in different industries, however, may receive adjustments in haphazard fashion at best. Small tradesmen, self-employed, small establishments and some white-collar employees may or may not receive these adjustments. Obviously a 20 to 30 percent increase in mortgage payments might be an insurmountable escalation for some homeowners. If another escalation without equivalent income gain were to be imposed the following year, these homeowners would indeed be in a very tight, likely impossible squeeze.

One of the strongest objections made to the link-index scheme is that it treats a symptom and neglects the major cause. Inflation is a major economic malaise. Governments should take the necessary budgetary and tax measures to eliminate it. A continuation of inflation accentuates maladjustments and adds to national economic problems. For example, if housing is the only protected sector, capital may tend to flow into this sector to the detriment of other sectors. Almost everyone has heard about the very large amounts of capital that have taken flight from developing countries and are on deposit in Switzerland, London, and other western financial centers. Given political and economic stability, this capital would be at home making important contributions instead of adding to the affluence of advanced countries. This argument continues by pointing out that any success secured by link-index use simply postpones the day of reckoning by easing temporarily the pressures on the national government.

Another disadvantage of the link-index system is that government actions - and even the index itself - are subjected to much political pressure which is very difficult to resist. In 1965, for example, the Israel Government postponed an adjustment reportedly because of the imminence of an election.

The pros and cons of the link-index system have by no means been exhausted in the above discussion. Some day, perhaps, there will be a careful study of the scheme in its various aspects and in light of Israeli and Latin American experience. Such a study would have great interest.

Before moving from the subject of how governments of developing countries can profitably assist and encourage private enterprise to do a larger and more effective job in the housing field, one more possibility merits mention. This is assistance to non-profit or limited dividend rental housing. In urban areas, in all continents, there is a wide demand and need for rental housing for lower income families. The segment of the urban population that can afford rental facilities is much larger than the segment that can afford to purchase a home. The capital and land costs of rental units are lower than for home purchase. Yet in a number of countries, notably in Latin America, little effort is made to encourage or assist the rental sector. One reason may be that some developing countries have had poor experience with rental housing, such as poor rent collections and excessive neglect by tenants.

It would appear inescapable, however, that for many decades in the future large amounts of urban rental housing will be needed. Through government assistance, including some subsidy, it would appear that significant quantities of rental housing could be built. Such housing could be built under non-profit, limited dividend or cooperative aegis. Political difficulties could thus be minimized while at the same time the support and resources of the government could be utilized with important effect. In this connection it might be pointed out as an obiter dictum that the administrative and technical difficulties of a link-index system are probably much less with rental housing than with purchase housing.

III. External Financing.

External financial assistance to developing countries may come from two broad sources: Bilateral aid or country-to-country, and international aid that comes from multilateral organizations or arrangements. Dealing first with multilateral assistance, one may generalize safely and state that until the last five or six years, multilateral financial assistance for housing was very limited. Since that time the situation has changed significantly.

The preeminent international organization, of course, is the United Nations. Its headquarters organization and the United Nations Development Fund (which results from the merger of the Special Fund and the United Nations Technical Assistance Organization) provide technical assistance, aid in the establishment and financing of pilot projects and also finance very useful pre-investment or feasibility studies. These activities are performed not only for housing but for all economic and social development projects or programs. They are essentially teaching, "how-to-do" and pre-investment activities which are very important but provide little investment assistance. In the United Nations family, but essentially independent, is the International Bank for Reconstruction and Development, commonly known as the World Bank. The World Bank and a subsidiary, the International Development Association, have made a few loans for urban projects, principally for water and sanitation improvements.

In the main, the World Bank has made it quite clear that it is very reluctant to play an important role in the housing/urban field. Recently, however, it has shown greater awareness of the housing/urban field and has included housing or urban specialists on its country teams. It should be noted that the World Bank has always been willing to consider including funds in its loans for housing purposes in special cases. For example, if an oil field or a hydro-electric site is to be developed in a remote area, the World Bank may well regard housing facilities as part of the necessary facilities. Without satisfactory housing, supervisory and key personnel may not be attracted to or remain at the site.

A second subsidiary of the World Bank (its "third window") is the International Finance Corporation. Unlike the other two members of the World Bank family this body can engage in equity financing. Its financial assistance in the housing field to developing countries has been confined to a relatively small amount of funds loaned to building materials companies.

The important multilateral financial assistance given to developing countries in the past half-dozen years has come from a rather new regional organization, the Inter-American Development Bank. Founded in 1959, this Bank has rapidly become a very important institution for Latin America. Its authorized loans already exceed $1.5 billion, and these loans are for economic and social projects which have estimated total cost of $4.2 billion.[35] Fully 40 percent of the Bank's current portfolio, or loans amounting to $600 million are for housing.[36] An additional $288 million has been loaned for 59 separate projects to improve water supply and sewage disposal systems. This is a remarkable record of financial assistance for housing and community facilities, particularly when viewed in relation to World Bank Group commitments for 1963-65, wherein 3.6 percent of commitments were for housing and related community facilities.[37] It is no wonder that Latin American countries are the envy of developing nations in other continents.

A potentially important development in multilateral financing of housing is a proposed meeting of experts on finance, to be convened under UN auspices, and to consider carefully policies and programs of both domestic and international financing of housing and related urban facilities. The object of the meeting would be to bring potential lenders and borrowers, independent financial experts, and development economists together to explore exactly what real possibilities exist for providing additional funds to this sector and for increasing the effectiveness of funds currently being employed. The proposal for such an expert group was made by the UN Economic and Social Council's Committee on Housing, Building and Planning. The superior body of this Committee, the UN Economic and Social Council, had this proposal on its July 1966 agenda for consideration and appropriate action.

A number of advanced countries provide important bilateral assistance to developing countries. In few cases, however, has housing loomed importantly in these programs. The United States bilateral assistance program was begun in the late 1940's. Since its inception it has been the largest and most important among world bilateral programs. However, housing/urban programs have until recently played a relatively small role. In recent years, the U.S. Congress has taken keen interest in housing/urban conditions in developing countries and has taken legislative initiatives which have increased substantially the United States bilateral assistance in housing. A great deal of this assistance has been directed to Latin America and has been made part of the hemisphere Alliance for Progress. The encouraging success of savings and loan associations, referred to earlier, has been aided greatly by United States seed-capital loans to various Latin American countries, as well as technical assistance. Cooperative housing has also received important assistance, including some loans.

One of the major programs providing financial assistance for housing, whether multilateral or bilateral in nature, is the United States bilateral program of investment guarantees for housing. The executive agency for this program, as well as for all United States bilateral assistance programs, is the Agency for International Development (AID). The very large part of this program to date has been for the guaranty of investment in housing projects in Latin America. Only one or two projects in Asia and Africa have been initiated or are at the point of initiation. Other projects are under consideration, however. As of May 31, 1966, 16 projects were authorized and underway in Latin America. An additional 16 projects had been authorized but were not as yet under contract. Together these 32 projects for Latin America represent an investment in housing of $179 million and will provide 32,000 units. In 1965, the United States Congress expanded the authority of AID to guaranty investments in housing projects in Latin America, providing new authorization of $150 million. Revised criteria and regulations are being developed by AID which are intended to give the investment guaranty program a new emphasis.

The operations of the investment guaranty program are basically simple. An United States sponsor, perhaps in partnership with a Latin American firm, submits an application to AID proposing to build housing in a Latin American country. The financing must be part of the application, and to date financing has come from insurance companies, commercial banks and pension and retirement funds of AFofL/CIO unions. If all aspects of the proposal meet the criteria, the guaranty is issued for the full amount of the outstanding principal balance of the loan. An annual guaranty fee, on the unpaid balance and payable monthly is charged. This varies up to a maximum of 2 percent. For this fee the financial intermediary providing the funds secures an "all-risk" guaranty which covers almost every conceivable possibility of loss except fraud.

The currently tight capital market in the United States suggests that funds for investment in housing under the AID guaranty may be considerably harder to find in coming months than has been the case. The Housing Act of 1965 provided authority for the first time for Federal Savings and Loan institutions to participate in this program. These associations are now authorized to invest up to 1 percent of their assets in loans for housing projects in Latin America which have been guaranteed by AID. Given the squeeze that has affected savings and loan associations (mentioned earlier) the amount of funds from this source will probably be little for a time.

There is one small housing finance program of AID that has interest and potential far beyond the money involved. This is a $10 million loan to the Central American Bank for Economic Integration (CABEI). This loan, completed in accordance with a commitment made by the late President Kennedy, was granted to CABEI for the express purpose of establishing a secondary mortgage financing facility. In November 1963 the Home Loan Department of CABEI was formally established. Its successes to date, its problems and its overall experience are of great value to developing countries and to all who are interested in international finance. Here is a unique experience: an international secondary mortgage facility, regionally based, serving five developing countries. Readers interested in international finance or in housing finance may find its operations of interest.(38)

United States bilateral programs in housing assistance have made their marks and on some occasions have earned criticism. The writer sees little purpose in adding up possible pluses and minuses earned in the past. Certainly good as well as dubious results have emerged from the various programs. Currently, however, and for some time, the writer has felt that the US bilateral program in the housing/urban sector has been deficient by its almost complete disregard of rental housing. If the program is seriously directed at developing country needs, it cannot continue to ignore rental housing. It is not enough to promote housing for purchase. Laudable though this ojbective is, and much as the writer favors home ownership, the hard realities are that the greatest mass of low-income urban families in developing countries are logically renters. Yet programs locally initiated to meet some of this need are either lacking or grossly inadequate. Important programs of external origin that place the stress wholly on home-ownership would appear accordingly to be courting the dangers of imbalance. Some AID professional housing officers see the incongruity in their housing programs. It has been suggested, for example, that a portion of the investment guarantee program might be used for rental housing projects. The writer approves of this kind of thinking.

In the discussions immediately above relating to international financing of housing, nothing was said about the propriety or logic of international investment for housing. Housing, after all, is a local product, built by local labor, on local land, with largely local materials and for local use. Recognizing that the total international capital needs of developing countries far exceed the available supply of funds, how can one justify international loans for housing?

The answer to this question cannot be simply made. The fact that substantial international financing of housing is taking place and that serious people continue to consider additional assistance suggests that economic, social and political reasons for such action do exist.

In the brief examination to be given this question at this point, we may safely begin from the premise that external financial assistance is not intended to carry the bulk of the burden. Only a few zealots would disagree with this premise. "Housing is fundamentally a national problem requiring national efforts to solve it."(39) External financial assistance, therefore, is essentially of a "seed", psychological or generative nature. Viewed in this light, with appropriate purpose and sharply reduced proportions, even the purist becomes less outraged at the prospect of foreign lending for housing. One argument that is raised in opposition to foreign lending for housing points to the overwhelmingly large domestic component (domestic labor, materials, etc.) and continues that at most, foreign lending should cover only the foreign exchange component, which, depending upon the country and the housing standard varies between 5 to 15 percent of the total construction price. This argument possesses some validity but must be considered essentially non-germane if the lending is intended to generate or "seed" local effort.

Care and consideration are obviously in order, however, from the standpoint of the foreign payments burden that is shouldered when external loans are accepted for housing purposes. Dollar loans repayable in dollars place a future lien on export earnings. Unless export earnings increase, and by more than the indebtedness and service needs of other activities, the balance of payments can be expected to take an unfavorable turn. This in due course can jeopardize a country's international credit and the stability of its currency. Housing, of course, does not earn foreign exchange. As foreign loans become due, the borrowing institution must enter the foreign exchange market as another claimant for foreign funds. If the exchange situation should be tight, it will be made tighter and more serious. And many, if not most, developing countries have a more or less perennial shortage of foreign exchange.

Despite these serious considerations, a negative attitude relative to foreign loans for funding housing programs may be in error. The application of most economic principles, after all, is quite uneven and varies case by case. Realities, practical facts of circumstances, attitude and practice must be carefully weighed. Although it has already been conceded that domestic funds should be utilized in the very great part for domestic housing programs, these funds may simply not be available. In all too many cases, the institutions and habits that are prerequisites for mobilizing these resources may be lacking. The very first use of foreign funds for housing purposes may be to promote new institutions, new concepts and new methods which ordinarily have scant opportunity to command domestic money. And while these new institutions, concepts and techniques are in the formative period, it would appear that there may be good and sufficient reason to borrow abroad in order to hasten the initiation of a housing program. When there is gross inability to secure domestic funds for housing in competition with other domestic activities, foreign borrowing may play an especially strategic role.

Viewing the problem from the borrowing country one must recognize that certain sources of foreign funds (e.g., the Inter-American Development Bank) have been established with important objectives in the social field. Conditions and terms of financial assistance from these sources are very favorable, differing greatly from ordinary loan conditions. Loans and technical assistance available from such sources can promote housing programs with a minimum of balance of payment complications or other difficulties.

The impact of the balance of payments problem can be greatly minimized under proper safeguards or conditions attendant to the loan. The procedure adopted in the AID dollar loan to the Home Loan Department of the Central American Bank for Economic Integration (CABEI) is an example. The dollar funds from CABEI pass through the Central Banks of the countries concerned. The Central Banks, in turn, give local currency to the borrowing domestic institutions, which is what the local fiduciary needs. By previous agreement between CABEI and the Central Banks, the dollar funds retained by the Central Banks are utilized to support national development, particularly the support of export industries or industries which will lead to reduction in foreign exchange needs. Ensuring prudent use of foreign currency balances acquired from foreign loans for housing does much to remove what are otherwise important and valid objections.

IV. Conclusions

Implicit in this effort to cover such a broad subject as our title has been the necessity to pick and choose those aspects to be covered. The attention and space devoted to each aspect has also required arbitrary judgment. The views and interests of the writer were the sole criteria. Included among those interests was a hope that some of the provocative aspects touched may be picked up by other scholars and researchers as profitable areas for further research and study.

The writer cannot accept the deep pessimism that is expressed by some development planners when they view the potential financial ramifications of housing programs. This kind of attitude suggests inadequate understanding and an inexact focus. Improvement in the housing of developing countries is truly a long-term task of grand proportions. The housing finance aspect is one of the more difficult components. But there will be framed in the future better programs and answers, and these will be based on the lessons and successes of past and current programs.

TABLE I

Investment in Housing in Selected Western European Countries, 1953 - 1956

COUNTRY	ITEM	1953	1954	1955	1956
Austria	A	18	21	24	23
	B	4.4	4.6	4.4	4.2
	C	24	22	18	18
	D	5.5	5.8	6.0	6.0
Belgium	A	16	17	17	17
	B	3.8	4.1	3.7	3.4
	C	24	25	22	20
	D	4.5	5.1	5.0	4.9
France	A	16	16	17	17
	B	3.8	4.0	4.3	4.2
	C	24	25	25	24
	D	2.7	3.8	4.9	5.4
Greece	A	12	14	14	15
	B	4.3	4.5	4.9	4.9
	C	37	31	35	33
	D	6.6	5.9	6.7	6.9
Italy	A	19	20	20	21
	B	4.0	4.7	5.3	5.4
	C	21	24	26	26
	D	3.2	3.7	4.5	4.8
Sweden	A	20	20	20	20
	B	4.6	4.9	4.8	4.9
	C	23	24	25	25
	D	7.4	8.2	7.9	7.9
United Kingdom	A	14	14	15	15
	B	3.7	3.6	3.3	3.2
	C	27	26	23	21
	D	6.5	7.0	6.4	6.1
Western Germany	A	20	21	23	23
	B	5.4	5.8	5.8	5.7
	C	27	28	25	25
	D	10.5	10.9	10.7	11.0

Key: Item A - Gross Domestic Fixed Investment as percentage of GNP
Item B - Investment in housing as percentage of GNP
Item C - Investment in housing as percentage of Gross Domestic Fixed Investment
Item D - Number of dwellings completed per 1,000 inhabitants

Source: Financing of Housing in Europe, United Nations, Economic Commission For Europe, Geneva, 1958, pages 10-11.

TABLE II

SELECTED DATA ON FAMILY INCOME AND RENTS FROM THE DECEMBER 1960 SAMPLE SURVEY OF MIDDLE AND LOW-CLASS HOUSING IN MANAGUA, NICARAGUA

- In Cordobas* -

A. Average Monthly Income of Family	No. of Families	Per Cent
1. Less than C$ 150	1,316	3.9
2. C$ 150 to 250	3,873	11.4
3. C$ 150 to 250	6,201	18.2
4. C$ 350 to 500	7,302	21.4
5. C$ 500 to 750	7,897	23.2
6. C$ 750 to 1,000	2.949	8.6
7. C$ 1,000 to 1,250	2,050	6.0
8. C$ 1,250 to 2,000	1,417	4.2
9. C$ 2,000 to 3,500	911	2.7
10. C$ 3,500 and up	165	.5
	34,081	100.0

B. Families Broken Down by Monthly Rent Paid	No. of Families	Per Cent
1. No rent**	8,036	23.6
2. To C$ 25	721	2.1
3. C$ 25 to C$ 50	3,911	11.5
4. C$ 50 to C$ 75	7,252	21.3
5. C$ 75 to C$ 100	4,560	13.4
6. C$ 100 to C$ 150	3,569	10.5
7. C$ 150 to C$ 200	2,548	7.5
8. C$ 200 to C$ 250	1,327	3.9
9. C$ 250 to C$ 400	1,381	4.0
10. C$ 400 to C$ 700	716	2.1
11. C$ 700 and up	60	.2
	34,081	100.0

C. Families According to % of Income Paid for Rent	No. of Families	Per Cent
1. Less than 7.5%	1,110	4.3
2. 7.5% to 10.0%	1,264	4.9
3. 10.0% to 12.5%	1,940	7.4
4. 12.5% to 15.0%	2,555	9.8
5. 15.0% to 17.5%	3,364	12.9
6. 17.5% to 20.0%	3,560	13.7
7. 20.0% to 25.0%	5,277	20.2
8. 25.0% to 30.0%	2,502	9.6
9. 30.0% to 35.0%	1,512	5.8
10. 35.0% to 40.0%	1,272	4.9
11. More than 40%	1,689	6.5
	26,045	100.0

* C$7 equals U.S. $1.
**Includes Home Owners.
Source: NICARAGUA: Housing Finance and Related Aspects, Stanley E. Smigel, Rex G. Baker, Jr., and Lyndon R. Day, US Agency for International Development, December 1963, Table VI.

References and Footnotes

1. Economic Report of the President, 1965, Table B-12

2. 17th Annual Report, Housing & Home Finance Agency, 1963, Table B-38

3. Business in Brief, No. 22, Sept-Oct, 1958, Chase Manhattan Bank, New York

4. Financing of Housing in Europe, United Nations, Economic Commission for Europe, 1958, pp 10-11. (For specific figures for selected Western European countries, see Table I)

5. Ibid., Table II, p. 19

6. The Capital Development Needs of the Less Developed Countries, United Nations, 1962, esp. Chaps. I and II

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11. a) Finance for Housing & Community Facilities in Developing Countries, E/C.6/32/REV 1, Jun 1, 1966, UN ECOSOC Committee on Housing, Building & Planning, CH V, pp 46-60

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14. a) Ibid, Vol I, p 45 & Vol II, Table B-1

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16. Ibid, p 123

17. Hoffman, Paul G, One Hundred Countries, One and One Quarter Billion People, Albert and Mary Lasker Foundation, Wash, DC, 1960, p 18

18. Housing in Peru, Pan American Union, Washington, D.C., 1963, pp 584,585,651,644

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20. Housing in Ethiopia, Country Report Series, Department of Housing & Urban Development, Wash, DC, 1965, pp 7, 31-32.

21. Housing in Peru, op cit, pp 588-591

22. NICARAGUA: Housing Finance & Related Aspects, Stanley E. Smigel, Rex G. Baker, Jr., & Lyndon R. Day, US Agency for International Development, Wash, DC, Dec 1963, Table VI

23. There are those who argue persuasively that the tropical climate itself may be a key reason for the underdeveloped state of many developing countries.

24. Financing of Housing & Community Improvement Programmes, United Nations, New York, '57,p8

25. Statement of the President, 7th Annual Meeting of the Board of Governors, Inter-American Development Bank, Apr 26, 1966, p 23

26. United Nations Mission to Kenya on Housing, Lawrence N. Bloomberg & Charles Abrams, United Nations, New York, Dec 1964, pp 31-32

27. The previous emphasis on savings & loan institutions is for illustrative purposes and does not imply that other savings institutions (e.g., savings banks and mortgage banks) may not be equally desirable, or in some instances even more suitable to local conditions of developing countries.

28. Although general references are to interest rates, it should be recognized that mutual savings institutions have "shareholders" rather than depositors and receive "Dividends instead of interest; but for all practical purposes, the differences are in terminology only.

29. a) Financing of Housing and Community Improvement Programmes, op cit, p 51

    b) NICARAGUA: Housing Finance & Related Aspects, op cit, p 14

    c) Housing/Urban Situation in Central America, Stanley E. Smigel, Survey for US AID, Housing & Home Finance Agency, September 1964

30. a) Housing/Urban Situation in Central America, op cit, pp 3-4

    b) Financing of Housing & Community Improvement Programs, op cit, pp 99-100

31. a) United Nations Mission to Kenya on Housing op cit, page 5

b) *Financing of Housing & Community Improvement Programs*, op cit, pp 38-39;49;22-23;9

32. Morag, Amotz, "For an Inflation Proof Economy" *American Economic Review*, March 1962, pp 175-185

33. The writer regrets greatly that the pressures of time prevented all but surface examination of this truly interesting subject. The writer's comments on the Israeli system and the specific facts given, therefore, should not be considered definitive.

34. a) *Fourteen General Questions Concerning the Establishment of an International Home Loan Bank to Promote and Finance Savings and Loan Systems in Developing Countries*, National League of Insured Savings & Loan Associations, Wash, DC, Jan 64, p 7

b) *Capital Formation for Housing in Latin America*, Editors: Walter D. Harris & James Gillies, Pan American Union, Wash, D.C. 1963, p 102.

c) In Chile, an adjustment of 35 percent for cost of living index increases was reportedly made on June 30, 1964

35. *Scope and Problems of the Inter-American Development Bank*, speech by T.G. Upton, Executive Vice President, March 16, 1966

36. Statement by Felipe Herrera, President of the Inter-American Development Bank, Jan 24, 1966 (Meeting on Municipal Financing.)

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38. The background and operations of the Home Loan Department of CABEI are covered in *The International Secondary Mortgage Financing System in Central America*, Stanley E. Smigel. US Housing & Home Finance Agency, Wash, DC March 1965. An article based on the above report and bringing the subject up-to-date is to be published shortly in the magazine, *Desarrollo Economico.*

39. *Financing of Housing & Community Improvement Programs in Latin America*, UN, UN/TAA/LAT/7, New York, Oct 11, 1956, p 26.