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# THE URBAN POOR

AND BASIC INFRASTRUCTURE SERVICES  
IN ASIA AND THE PACIFIC

*Volume II*



*A Regional Seminar*

*January 22-28 1991 - Manila, Philippines*

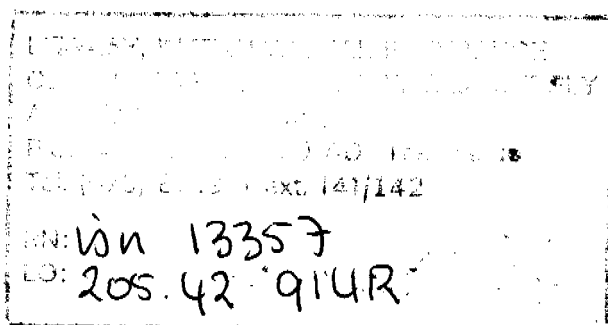
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# The Urban Poor and Basic Infrastructure Services in Asia and the Pacific

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*Regional Seminar  
Volume II*



A report on the Seminar held on  
22-28 January 1991  
in Manila, Philippines

**Asian Development Bank**

**Economic Development Institute**

**The Urban Poor and Basic Infrastructure Services in Asia and the Pacific.** Report on the Seminar held on 22–28 January 1991, in Manila, Philippines, organized by the Asian Development Bank and the Economic Development Institute of the World Bank.

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**PART C**

**COUNTRY PAPERS**

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# Bangladesh

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# Bangladesh

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## EXECUTIVE SUMMARY

As recently as 1961, Bangladesh had a relatively small urban population of less than 3 million. But the rapidly rising population during the 1970s prompted both the Government and individual builders to increase activity in urban housing development. After the country's independence in 1971, the rapid increase of low-income populations, especially in Dhaka, Chittagong and Khulna, began to be recognized as a new phenomenon. Rural-urban migration accelerated the rate of urban growth. The number of the urban poor is expected to grow from 11.45 million in 1990 to 22.72 million in 2010. The total urban population in 1990 is 22.9 million, and is expected to grow to 56.8 million in 2010.

The public sector's performance in housing delivery has not been encouraging although there is a long history of housing development activity in the country. After the partition of India (1947), hundreds of thousands of Indian refugees were settled at Dhaka, Chittagong, Khulna, Jessore, Saidpur and other places. In 1971, schemes were undertaken to rehabilitate about 10 million additional refugees in various parts of the country particularly in the cities of Dhaka, Chittagong and Khulna. Crash programs have also been undertaken in the aftermath of natural calamities like cyclones and floods.

The usual sites-and-services, resettlement and slum upgrading projects prepared by government departments and some local authorities have proved to be riddled with problems of funding, cost recovery and maintenance. Despite best efforts, no tangible results have been achieved. Homelessness, a proliferation of slum areas and squatter settlements have been the net result. In Dhaka, the

problems of the poor have so far been accentuated with increasing numbers of the floating population.

This paper presents two case studies: one is a squatter resettlement scheme implemented by government agencies and the other is a cooperative society formed by poor people to undertake economic activities and to improve their neighborhood. In the former, it will be seen that having access to serviced land can induce the poor to gradually improve their own houses, thus creating space for small businesses and household growth. In the latter, it is shown that even very low-income people engaged in operating rickshaws and other similar activities can save and eventually venture to buy raw land for their resettlement.

Public sector programs, implemented primarily by central government agencies, are constrained by a lack of financial resources. A decentralization program has been implemented, although local governments are weak and need strengthening. The lack of public sector resources and the tremendous scale of needs call for a complementary approach involving both government agencies and the private sector.

The emerging policy options include motivation of private, individual builders and associations of housing companies and cooperatives in projects. In this approach, land, finance and use of indigenous, improved building materials have been identified as the key issues. Provision of raw and serviced land to the private sector can generate employment, building and maintenance of housing. In this pursuit, the recommendations of the UN Global Strategy for Shelter are being followed gradually.

Provision of housing finance has proven a problem as the existing institutions are weak and housing has not until now been considered a priority sector. Proposals have been made to create a new, private sector housing finance company and to strengthen the House-Building Finance Corporation. Local bodies are being motivated through conferences and seminars to increase their resource base and improve their collection performance. Their financial performance is being carefully monitored to ensure continued financial strengthening.

## COUNTRY BACKGROUND

### Economic Context

With a population in 1990 of 113 million, Bangladesh is the eighth most populous country in the world. It has several large cities (Dhaka, with a population of 6.8 million, Chittagong, 2.1 million and Khulna, 930,000) but nevertheless is one of the least urbanized countries in the region. The country's urban population represents 20 per cent of the national population compared to India (25 per cent), Pakistan (27 per cent), Sri Lanka (21 per cent), Malaysia (38 per cent) and Indonesia (25 per cent).

The urban population has increased dramatically since the mid-1960s as may be evident from Table 1 below. This was caused primarily by accelerated rural-urban migration, resulting from increasing levels of rural landlessness, frequent natural disasters and related crop failures. In a sample of 34 cities, it was found that more than half of all urban growth was caused by such migration (Urban Development Directorate, 1985).

Bangladesh has a per capita GDP of \$170, one of the lowest in the world. There is no unsettled land, and population densities are extremely high. As a result, the number of rural households without land has increased in both number and incidence – from 2.9 million (35 per cent) in 1960 to 6.2 million (45 per cent) in 1985. It is expected that rural landlessness will continue to increase, thereby creating a "push" factor in rural-urban migration and a need for employment and services for the poor in urban areas.

Table 1: Growth of National, Rural and Urban Population  
(1961–1990)

Year	Population (in million)			Per Cent Urban	Urban Growth Rate (pcpa) <sup>a</sup>
	National	Rural	Urban		
1961	50.84	48.20	2.64	5.19	
1974	71.47	65.20	6.27	8.78	6.9
1981	87.12	73.89	13.23	15.18	11.3
1990	113.00	90.40	22.60	20.00	6.1

a/ Per cent per annum.

Note: The years 1961, 1974 and 1981 were census years. The 1990 figures are estimates [Bangladesh Bureau of Statistics (BBS)].

Source: BBS, *Statistical Year Book, 1985*, Table 2.62.

Under the British, the area that is now Bangladesh was divided for administrative purposes into provinces, each with a provincial capital; these were further subdivided into divisions, districts and *thanas*. Each of these tiers of administration had headquarters in cities or towns. After the creation of Bangladesh in 1971 the impact of administration on urban dispersal was accentuated. The Government undertook to devolve responsibility and the *thanas* were formally upgraded in 1983 into *upazilas* (counties) with their own councils and decision-making powers. This, in turn, resulted in increased growth of small towns. There are now 460 officially declared cities and towns in Bangladesh including the metropolitan cities of Dhaka, Chittagong, Khulna and Rajshahi. Studies suggest that the growth rates of metropolitan cities may be decreasing compared to the secondary and small towns.

### **Urban Population Projections**

Several urban population projections have been made during the last decade. The Government's urban population projection for the year 2000 is 32-40 million. The World Bank's projection is 30-44 million while other projections range between 36.5 and 43.5 million. Regardless of the specific figures relied upon, it may be concluded that 25-30 per cent of the country's population will live in urban areas by the turn of the century. Some of these will be very large, and many will be growing rapidly. Particularly in the larger cities, high land prices and the consequences of infrastructure improvement schemes are displacing the lower and even the middle-income group to low-rent rudimentary housing areas without adequate services and facilities. Smaller towns are beginning to attract substantial numbers of immigrants, often landless laborers from nearby agricultural areas. Both displaced persons in the larger cities and immigrants in the smaller cities are likely to live in slum areas, and to require improved housing and infrastructure services.

### **Nature and Scale of Urban Poverty Problems**

The World Bank has defined poverty and ultra-poverty as the income levels required for a daily intake of 2,122 calories and 1,805 calories per person per day, respectively. Using this definition and

data of BBS' Household Expenditure Surveys (HES) taken in 1982, 1984 and 1986, the urban poverty line was estimated at Tk 519 (\$17) per capita per month in 1986, while the ultra-poverty line was Tk 331 (\$11) per capita per month (see Table 2). It is estimated that about 56 per cent of the urban population was below the poverty line in 1986.

Table 2: Poverty Line Income

	Poverty Line Income (Tk per capita per month)		
	1981/82	1983/84	1985/86
<b>Poor (under 2,122 cal/day/capita)</b>			
<b>Poverty Line Income</b>			
- National <sup>a</sup>	202	319	354
- Rural	192	300	331
- Urban	300	439	519
<b>Ultra poor (under 1,805 cal/day/capita)</b>			
<b>Poverty Line Income</b>			
- National <sup>a</sup>	142	222	257
- Rural	140	216	250
- Urban	175	268	331

a/ Derived as a weighted sum of urban and rural poverty line incomes using respective population below the poverty lines as weights.

Source: BBS Household Expenditure Surveys.

According to the Center for Urban Studies (CUS), households with an income of Tk 3,000 (\$91) per month are priced out of serviced land and adequate housing. Individual owners of land, especially at the urban fringe, have allowed the use of their land by the poor for their housing. While rents in these areas are affordable, their infrastructure standards are grossly inadequate. There is a growing vulnerable group who have no assured income and can hardly find shelter even in the slums and squatter settlements.

A number of projections have been made of the urban poor population, of which the CUS projections are perhaps the most realistic (see Table 3). Even assuming a fairly rapid decrease in the percentage of the urban poor, which may be optimistic, the total number of the urban poor will increase from 11.45 million at present to 22.72 million by the year 2010.



Table 3: Projected Number of Urban Poor

Year	Total Urban Population (million)	Per Cent of Population Below Poverty Line		Total Urban Poor (in million)	
		Poor	Ultra-Poor	Poor	Ultra-Poor
1990	22.9	50	30	11.45	6.87
2000	37.3	45	25	16.76	9.00
2010	56.8	40	20	22.72	10.80

Source: *The Urban Poor in Bangladesh, Phase 1*, CUS, Dhaka, April 1990.

## PAST APPROACHES AND EMERGING CHALLENGES

### Shelter

The overall need for urban housing by the year 2000 has been estimated by the World Bank to be 5.287 million additional units. Officials of urban planning agencies are of the view that the greatest difficulties will be encountered in the metropolitan cities and district towns.

The bulk of housing demand by the poor is met by individual owners but provision of physical infrastructure in areas settled by individuals is very rudimentary. Rural roads are inadequate for needs; in some cases the owners have left spaces for widening these roads but still these are not adequate. Drainage and sewerage lines are either absent or extremely inadequate. Corner shops have cropped up but there is no formal market in these areas for even petty business by the poor. Social service schemes like parks, places of worship and community centers are nonexistent in the poor housing areas. The high density of slum and squatter areas leaves virtually no scope for carving out adequate spaces or land for these services.

The Urban Development Department (UDD) has prepared land use plans for the *upazila* and district towns and earmarked housing estates in each of them. These housing estates vary from 20 to 100 acres (8 to 40.5 ha) and large parts of these have been recommended for lower-income housing made possible through internal cross-subsidization. The Housing and Settlements Directorate (HSD) caters for shelter needs on an organized basis. The functions of HSD include construction of houses and flats, development of sites-and-services schemes, rehabilitation of squatters and development of

*upazila* headquarters. The Public Works Department (PWD) is one of the oldest organizations for providing housing for government employees. There are many autonomous bodies like the Bangladesh Railway which build houses for their employees. Although the HSD projects are intended to form a program, the rapidly rising needs of lower-income groups and various funding problems have prevented a breakthrough.

In order to make projects in the shelter sector more cost-effective, a number of studies and pilot projects are being undertaken with the assistance of UNDP/UNCHS, IBRD and ADB. UNICEF has helped establish a low-cost sanitation program and the Grameen Bank has developed a loan program for financing house improvements in rural areas.

### Water Supply

The task of water supply and sanitation in both urban and rural areas is entrusted with the Department of Public Health Engineering (DPHE) except in the Dhaka and Chittagong metropolitan areas where the water and sanitation agencies (WASAs) are responsible for this job. Table 4 shows the present position.

Table 4: Urban Water Supply Position, 1990

	Total Production <sup>a</sup>	Per Cent of Households Relying on			
		House Connections	Standposts	Tubewells Other Sources	
Dhaka	120	50	5	2	43
Chittagong	35	30	6	2	62
District Towns	55	16	8	20	56
Other Municipalities	n/a	3	—	20	77
<i>Upazila</i> Centers	3	3	—	21	76
Average	n/a	20	4	13	63

a/ Total water production in imperial million gallons per day (imgd).

The above table reveals that currently 63 per cent of urban dwellers are outside the public water supply program. This figure is planned to come down to 26 per cent and 11 per cent by the end of 1995 and 2000, respectively. Water supply for the urban poor is provided through public standposts and street hydrants. At present,

however, only 4 per cent of the urban poor benefit from this facility which is provided free of cost. The coverage of this facility is expected to enhance to 11 per cent and 15 per cent by the end of 1995 and 2000, respectively. The revenue foregone by the agencies for supplying water through public standposts and street hydrants is borne by the Government as a subsidy provided in the form of grants-in-aid.

### Sanitation

The present status of public urban sanitation is given in Table 5. Only about 24 per cent of all urban households rely on sewerage or septic tanks. The rest use pit or bucket latrines, rivers or open fields.

Table 5: Urban Sanitation Position, 1990

	Per Cent of Households Relying on				
	Sewerage	Septic Tank	Pit Latrine	Bucket Latrine	Others
Dhaka	15	40	15	—	30
Chittagong	—	31	5	15	49
District Towns	—	22	16	26	36
Other Municipalities	—	11	21	18	50
<i>Upazila</i> Centers	—	6	16	—	78
Average	3	21	15	12	49

UNICEF and WHO have been assisting DPHE to develop a sanitation program based on production and sale of water-seal latrine components. Though during the initial stage the program experienced a somewhat low demand, an evaluation conducted by WHO shows that use and maintenance of the latrines has improved greatly. The present capacity of 760 existing production centers is well over 200,000 units per year. Due to widespread demonstration, production and sale of latrines from government centers over the years and promotion of sanitation through sustained communications, social mobilization and an integrated approach to water and sanitation, a very favorable situation has been created for an accelerated sanitation program. There are now roughly 700 private

and 80 NGO production and selling centers which produce latrines following the approved design. Local leadership is now gradually becoming aware about the importance of sanitation and are urging people to improve their sanitation and personal hygiene practice. Following an integrated approach, all water supply projects now have a component for sanitation. Nevertheless, the limited use of safe drinking water combined with poor environmental sanitation leads directly to high rates of diarrheal diseases and parasitic infections among children.

## CASE STUDIES

### Resettlement of Squatter Families at Mirpur, Dhaka

The purpose of the scheme, started in 1977 and completed in 1990, was to resettle 2,600 squatter families and involved the development of serviced plots with core houses on each plot behind a flood protection embankment. As the site of the project was below normal flood level, the area was raised. The components of the project included land (37.4 ha), landfill and construction of roads and footpaths, storm water drainage, water supply and sanitation systems, street lighting, garbage disposal, community facilities, e.g., market and mosque, and core houses. Each of the plots measured 450 sq ft (41.80 sq m) and the core houses measured 96 sq ft (8.91 sq m). Thus the lot and house size standards were relatively modest. The average cost per plot was Tk 78,335 (\$2,374), or about five times the average income of the beneficiaries. The plots were allotted on a hire-purchase basis with subsidy of the land element. The internal rate of return has not been calculated, but the comparison of costs and incomes of the beneficiaries indicates that the project might not be financially replicable.

On the other hand, a survey of nine households who have settled in the scheme revealed that the project had an immediate and positive effect upon them. Eight of the nine households had extended their houses, some to add living space or facilities and some to provide space for a shop. Most of the beneficiaries were self-employed in the informal sector. Their household incomes ranged from Tk 450 (\$14) to Tk 3,000 (\$91) per month but clustered around

the area of Tk 1,200 (\$36) to Tk 1,500 (\$45) per month, putting them all below the urban poverty line.

### **Provati Bastee Kalyan Samabaya Samity**

A community-based slum improvement scheme was initiated by a small group of poor slum dwellers at Khilgaon, a low-lying area located in the eastern part of Dhaka. The area was settled spontaneously by persons moving into the city from rural areas. The lands were owned by small and marginalized farmers who had no access to loans with which to develop their lands. Some settlers purchased their land from the owners while others leased it. Many of the settlers were single males who rented their housing from other settlers.

The people formed a joint venture cooperative named "Provati Bastee Kalyan Samabaya Samity" (Slum Welfare Co-operative Society). The Society decided, through discussions, negotiations and motivation among themselves, to raise funds. Monthly subscriptions, initially at Tk 1.00, were deposited in the Society. This money is kept in a commercial bank. The Society now has 537 members and a liquid fund of about Tk 0.35 million (equivalent to \$10,300). The present area under the Society measures 0.3 acres, or 0.12 ha.

The rental dwellers and owner-occupied households in their struggle for better shelter undertook jointly to do the following:

- improve their shelters;
- construct on-site, affordable infrastructure, particularly services like water, access roads, drains, sanitary latrines and energy supply; and
- acquire land elsewhere to resettle other members of the Society.

Infrastructure improvements did not occur easily as the renters were afraid of higher rents. However, some lanes were paved, and a water hydrant was provided by Dhaka Municipal Corporation. Electricity was also provided. The area still lacks adequate water supply, drainage, gas and street lighting. Many of the houses are,

however, gradually being improved by their owners. In addition, a small plot of land has been purchased on another site for resettlement of some of the members.

In order to improve the economic ability of its members, the Society has undertaken to provide skills development for men and women (repair, workshop, sewing, basket and packing materials, knitting and carpentry) and helps its members purchase rickshaws for commercial use. Other important activities included creation of small-scale business enterprises and construction of a roadside *khas* used for the Society office and as a garage for rickshaws and auto rickshaws.

Table 6 illustrates the position of the Society and its living environment as found through a sample survey and discussions with its members.

The following conclusions can be drawn from the case study of Provati Bastee Kalyan Samabaya Samity:

- the Society has succeeded in mobilizing funds in spite of the low income level of its members;
- employment generation and household income have been increasing, partially as a result of the activation of the Society;
- however, there has been only a minimum improvement in living conditions of the slum dwellers.

Table 6: Condition of the Society and its Households, 1990

Total number of members	537
Total fund	Tk 0.35 million (\$10,300)
Average monthly income/household	Tk 1,814 (\$53)
Food intake	806 grams per person/day
House improvement expenditure	Tk 55.70 per month/household
Number of	
— Rickshaws	45 units
— Auto rickshaws	10 units
— Skill development centers	1 unit
— Sanitary latrines	1 unit
— Water hydrants	1 unit
Streets/lanes	90 meters

The Society has accomplished significant results with only a small contribution from the Government. It presents a financially replicable approach, although its organizational form appears to constrain its willingness to undertake infrastructure improvements.

## **ROLES OF DIFFERENT LEVELS OF GOVERNMENT**

Bangladesh faces an extremely rapid growth of cities of all sizes, resulting from a high level of rural-urban migration caused in part by increasing landlessness in rural areas. In the face of this pressure for development, services are inadequate and housing programs, in particular, are ineffective. Public sector programs have been implemented on only a small scale, the formal private sector is held back by a lack of financing, and NGOs are only just beginning to be active.

Theoretically the sites-and-services schemes are directly aimed at improving the living conditions of the urban poor, but these are unlikely to be sustainable because resources can hardly meet the needs of the burgeoning urban poor. The following lessons are noted:

- First, man traditionally has been able to build and own his habitat. Given the opportunity to own land and have employment, he is able to build his own.
- Second, the financial crisis makes the public sector unable to cope with the increasing needs of housing the poor.
- Third, left to the people themselves, the individual builders would only create slum areas without proper access, water, sewers and sanitation. (Electricity is made available, in most cases, in slum areas.)
- Therefore, public sector agencies should perform the role of promoter and provide housing-related services to all classes of people at cost.

Urban local governments have inadequate numbers of planners, financial analysts and service engineers, and are therefore

institutionally unprepared to take up planning and development responsibilities. Financial management is weak and resource mobilization is relatively low. The local bodies are not fully aware of their potential for taking up development projects.

Bangladesh has a decentralization policy for strengthening urban local governments, supported by a Local Government Engineering Bureau (LGEB). International assistance is being provided for institutional strengthening of urban local governments.

There is a widening gap between the political commitment and technical support on the one hand and the felt needs of the poor on the other. "Home for All by the Year 2000" is the joint slogan of the leaders and the technocrats. But in reality the gap between the need of shelter and related services and the delivery of these services have been increasing all the time. Unless the shelter process is accelerated, there is little hope for achieving the goal.

A national human settlements policy has not yet been formulated and the responsibilities of agencies at the local and central levels have not yet been defined with regard to providing shelter.

## **NON-GOVERNMENTAL INITIATIVES**

Given the financial shortcomings of the Government, it seems reasonable that both the private and public sectors should play complementary roles.

We have seen in the two case studies, viz., Mirpur Resettlement Project and the Provati Bastee Kalyan Samabaya Samity, that there is enough scope for both public sector and the private sector participation in the urban sector. The Dhaka Urban Infrastructure Project of HSD, financed by the Government and ADB, and the Chittagong Area Development Project of HSD, financed by the Government and IDA, provide examples of new approaches to housing with private and public sector participation.

The Global Shelter Strategy of Habitat has suggested that the services of NGOs and social workers are useful and necessary to motivate private individuals, housing companies and cooperatives to build better housing and related services.

Provision of land, credit and training in the use of improved indigenous building materials would promote self-help and utilization of private savings by the poor and even the middle-income



groups. The informal private sector may help in generating funds, as the members of the Provati Bastee Kalyan Samabaya Samity are doing.

## **FINANCING MECHANISMS, CONSTRAINTS AND FUTURE MOBILIZATION**

### **Housing Finance**

At present funds for the better-off are mobilized through the House-Building Finance Corporation (HBFC) and commercial banks which have not been able to cope with the demand. For the commercial banks housing is not profitable because recoveries have not been satisfactory. The identifiable constraints for funding housing for the poor are:

- shrinking capital of the HBFC because of the lack of timely recovery and dependence on the sale of debentures for which ceilings are imposed by the Bangladesh Bank to check inflation;
- an inability to mobilize private savings; and
- lack of access by the poor to raw and serviced land.

During the 1980s several studies were carried out to identify ways to improve the housing sector. Two proposals have been made: creation of a new private sector housing finance institution and reorganization of the HBFC.

The main features of the changes proposed for HBFC are:

- to shift lending down-market from serving the upper-middle and high-income groups to lower-middle and low-income groups;
- to operate on market rates of interest for both loaning and borrowing of funds;

- to start project financing for middle to low-income projects and finance the buyers;
- to lend funds for production of low-cost building materials; and
- to attract long-term national and international funds.

The reorganization effort for HBFC may be assisted by the shelter sector planning and development agencies of the Ministry of Works. Technical assistance may also be provided by agencies such as UNDP, UNCHS, IBRD and ADB.

### Local Government Finance

Local governments in Bangladesh can be broadly divided into two categories — urban and rural. While city corporations and municipalities fall in the first category, the *zila parishads*, *upazila parishads* and union *parishads* can be considered as rural local bodies.

All local government bodies are authorized under law to raise funds from the sources enumerated in their respective taxation rules. However, the capabilities of the local governments in terms of financial resources vary depending on the resource base of the locality. While urban local governments (city corporation and municipal bodies), by virtue of their location, are in a better position to generate sizeable funds from their own resources, the rural local bodies, generally speaking, are not financially sound and they are more or less heavily dependent on the central government for allocation of funds from the central budget or annual development program for implementation of various uplift programs.

Besides the three city corporations, there are at present 97 municipalities located at district headquarters and *upazila* townships. These municipal bodies are classified as A, B and C depending on the size of their revenue collection as follows:

Class A — Municipalities with income not less than Rs 6,000,000	26
Class B — Municipalities with income between Rs 2,500,000 and 6,000,000	32

Class C — Municipalities with income  
of at least Rs 500,000

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The need for greater emphasis on mobilizing local resources, needless to say, is paramount. Since local governments are elected bodies, it is of critical importance that they themselves should first be aware of this and explore all potential sources of revenue to augment their income. The prevailing attitude of dependence on the central government for continuing support needs to be changed.

Some policy reforms are now underway to increase mobilization of urban local resources. They are:

- motivating local bodies through conferences, seminars, etc. to increase their resource base as well as emphasizing the collection of taxes and fees which they are empowered to realize under law;
- reduced allocation of grants from central government to the local bodies;
- the Government is actively considering an amendment of the relevant statute to enable it to supersede the municipalities in case their performance in tax collection falls short of the prescribed target; and
- a new procedure for lease of *hats* and bazaars through sealed tenders in lieu of the existing system of open bids has been finalized.

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# People's Republic of China

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# People's Republic of China

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## EXECUTIVE SUMMARY

This paper attempts to follow the same format as the other country papers, in order to facilitate easy analysis and comparison. In fact, however, it is hard to follow the given format, particularly when urban poverty issues are discussed, because of the historical and traditional conditions prevailing around the period of the founding of the People's Republic of China (PRC).

Prior to its independence PRC was a very poor and backward country. The situation has been greatly improved through continuous efforts over several decades, however, from 1949 to the present. The economic reforms adopted in the 1980s have helped accelerate the pace of progress.

Some of the goals of PRC's centrally planned economy have been to remove the social inequality left over by history, to eliminate exploitation, to bring the initiatives of the people into full play for production and to pursue the common goal of improved living standards for most people. Therefore, relatively speaking, there is only a slight income difference among urban people and between urban and rural people. If compared internationally, most urban dwellers would belong to the low-income group.

Since 1979, new economic policies have been carried out in PRC. A household contract and responsibility system was established in rural areas while private industry and commerce were permitted to develop in the cities. The incomes of both urban and rural residents have increased rapidly but more in urban areas so that the difference between urban and rural has gradually increased. Nevertheless, there are no great disparities and the number of people who may be called rich or poor are very few.



It is difficult to reflect correctly the situation of basic infrastructure services in PRC's cities as there are insufficient systematic records about the poor in general and the urban poor in particular. However, there are two ways in which to clarify the position: first, through an assessment of the general situation of basic services (surveyed as completely as possible, because infrastructure has been weak in PRC cities); and second, through the urban housing program, which also represents the level of urban basic infrastructure services. Housing reflects basic urban infrastructure conditions and fits well with the actual Chinese situation.

In PRC, urban housing construction includes not only the house itself, but also water supply, drainage, lighting, gas and heating as well as municipal facilities such as roads, public transport, sanitation, planting of trees and grass and social, economic and cultural facilities, e.g., kindergartens, schools, clinics, community services and community activity centers.

Recent changes in urban housing construction practices have increasingly emphasized the function of the whole community. Not only are households provided with completed apartments but also with municipal facilities and social, economic and cultural facilities so that general living conditions are improved.

It is expected that greater emphasis will be placed on the improvement of housing in which living conditions are very poor. There are programs to renovate and upgrade old city areas. Devastated housing, shanty towns and poor housing have been put on the agenda of municipal governments in many cities. This naturally includes upgrading of the condition of urban basic infrastructure services in these areas.

## **COUNTRY BACKGROUND**

The most important and basic characteristic of PRC is the size of its population. In 1949, the country was the most populous country in the world with a population of 542.5 million. In the following 40 years, the number had increased to 1,112 million (a net growth of 570 million). The annual population growth is presently as high as 15 million (Table 1).

Table 1: Population and Its Composition from 1949 to 1988  
(million)

Year	Total	Male		Female		Urban Total		Rural Total	
		(million)	(%)	(million)	(%)	(million)	(%)	(million)	(%)
1949	561.67	281.45	52.0	260.22	48.0	57.65	10.6	484.02	89.4
1950	551.96	286.69	51.9	265.27	48.1	61.69	11.2	490.27	88.8
1960	662.07	342.83	51.8	319.24	48.2	130.73	19.7	531.34	80.3
1970	829.92	426.86	51.4	403.06	48.6	144.24	17.4	685.68	82.6
1980	987.05	507.85	51.5	479.20	48.5	191.40	19.4	795.65	80.4
1988	1,096.14	564.73	51.5	531.41	48.5	543.69	49.6	552.45	50.4

Notes: The figures in this table include the population of 29 provinces, municipalities directly under the central government and servicemen. The "urban total" population refers to the total population within the urban area, while "rural total" population refers to the total population in counties, which exclude towns. After 1984, the measurements of establishment were adjusted, and newly established towns grew much more. Since 1984, there has been a rapid increase of population in cities and towns. The numbers after 1982 were deduced from the 1982 census and data of annual population sampling.

Source: *The Yearbook of Chinese Statistics (1989)*, compiled by the State Statistics Bureau. Beijing, Statistics Publishing House, 1989.

The national income in 1955 was 78.8 billion yuan or 129 yuan per capita. In 1988, it rose to 1,177 billion yuan or 1,081 yuan per capita (Table 2).

Table 2: National Income, 1952-1988  
(billion yuan)

Year	Total Value of National Income	National Income by Subsector					Per Capita National Income (yuan)
		Agri-culture	Industry	Con-struction	Transport	Commerce	
1955	78.8	41.7	17.9	3.0	3.3	12.9	12.9
1960	122.0	33.2	56.5	7.9	8.4	16.0	18.3
1970	192.6	77.8	78.9	8.0	7.4	20.5	23.5
1980	368.8	132.6	180.4	18.5	12.4	24.7	37.6
1988	1,177.0	381.8	543.2	78.8	48.8	129.9	108.1

Note: The numbers in this table are calculated according to the prices of respective years. The exchange rate between yuan and the US dollar was as follows:

1982	1983	1984	1986	1987	1988	1989
1.72	1.92	1.98	3.20	3.72	3.72	4.75

Source: *The Yearbook of Chinese Energy Statistics (1989)*, compiled by the State Statistics Bureau. Beijing, Statistics Publishing House, 1990.

PRC is the most populous country in the world and has the most abundant labor force as well, amounting to 49.6 per cent of the total population. Because the economic structure of the country has been reformed, the State permits individuals to take part in industrial, commercial and service trade activities in order to enhance urban and rural economy. Hence, employment opportunities grow more than ever. Laborers in primary industries accounted for as high as 83.5 per cent of the total labor force in 1952, but by 1988, the ratio decreased to 59.5 per cent. This big change is a result of industrialization and modernization in China as well as an indication of PRC's urbanization process.

Urbanization of PRC has been difficult. Table 3 shows that 1949 to 1960 was a period of rapid urbanization. The population in cities and towns increased from 10.6 per cent of the total successively to 19.7 per cent. The period between 1961 and 1964 was a period of abrupt urban population decrease. Because the population in cities and towns in the last few years of the 1950s exceeded the capacity that agriculture could support, the State formulated a number of policies and measures to bring down the population increase in city and town areas. In 1964, the population in cities and towns was divided into two groups: total population and non-agricultural population. A careful analysis of the two-pronged program can help clarify the real situation about Chinese urbanization in this period and can also clear up the confusion caused by the use of non-uniform demographic methods or definitions.

The concept of the total population in cities and towns cannot really reflect Chinese urbanization. From 1964, each city has included subordinate counties and towns with administrative status, including agricultural people whose socioeconomic benefits and treatments are determined by rural policies. In 1985, about half of the population in cities and towns were originally agricultural population.

Table 3: Illustration of Urbanization Process of PRC (1949-1985)

Year	Urban Population (thousand)	Urban Population as a Percentage of the Total Population	Rate of Urban Growth (per cent)	Non-Agricultural Population in Cities and Towns (thousand)	Non-Agricultural Population as a Percentage of the Total Population
1949	57,650	10.6			
1950	61,690	11.2	+0.6		
1955	82,850	13.5	+0.2		
1960	130,730	19.7	+1.3		
1965	130,450	18.0	-0.4	101,700	14.0
1970	144,240	17.4	-0.1	100,710	12.1
1975	160,300	17.3	+0.1	111,710	12.1
1980	191,400	19.4	+0.4	134,130	13.6
1985	378,200	36.1	+4.2	175,470	16.7

Source: Lin Zhiqun. "China's Urbanization Trend", *Science*, Vol. 38, 1986 (modified in 1990).

The term "city" includes centrally administered municipalities, municipalities and towns established through administrative institution. The first and the second are called "city" while the third is called "town". But they are quite different from each other socially, economically and culturally. First of all, city and town have different sizes. A town will have a population counted in thousands, while a city's population will be in units of ten thousands or hundred thousands, or even more.

In the 1980s, a large number of farmers engaged in cultivation were obliged to leave their original occupation to seek other employment opportunities. State policy permits them to establish township enterprises in order to support the rapid development of towns established through administrative institution (or with administrative status) to hold excess agricultural labor. This policy has effectively avoided the impact upon the metropolitan city brought about by the onrush of jobless agricultural people.

Forty years' experience has proved that the speed of PRC's urbanization depends on how many non-agricultural people in cities and towns agriculture can serve and how much labor the agricultural trade can bring in. The non-agricultural urban population is expected to grow from 175 million in 1985 to 350-480 million, or 28-35 per cent of the 1.25 billion total national population projected in the

year 2000. In towns, the non-agricultural population is expected to increase from 57.20 million in 1985 to 130-188 million in the year 2000. The ratio of non-agricultural population in cities and towns may rise from 48 per cent of the total population in cities and towns in 1985 to 72 per cent in the year 2000. It is admittedly costly to develop new towns with administrative status on a large scale. However, options are few.

After the establishment of PRC in 1949, great efforts were made to foster the economic growth of the hinterland to encourage balanced development in different regions. One of the outcomes of this effort was that the percentage of the urban population in the interior went up from 34.7 per cent in 1947 to 53.7 per cent in 1985.

The number of cities was 136 in 1949 and 424 at the end of 1988. The proportion of the population of metropolitan cities with a population of over one million rose from 25 per cent in 1949 to nearly 40 per cent in 1978.

The difference between rural and urban areas is reflected not only in the higher income of urban residents, but also in better facilities for city dwellers than for rural people. A ratio of 2.5:1 between the consumption expense of urban and rural residents has remained generally stable in the past three decades.

## **PAST APPROACHES AND EMERGING CHALLENGES**

Political turbulence which occurred during the period 1949 to 1978 has seriously hindered the economic development of the country and the betterment of living conditions. But the implementation of the new economic policy since 1978 has led to a continued increase of production and sustained the upgrading of both rural and urban areas. A study of urban households clearly shows a rapid increase in urban family incomes in the 1980s. The improvement of urban infrastructure has been closely related to economic progress as a result of fluctuations in social and economic development over the past 40 years.

## **Housing**

Thanks to continuous economic growth, housing construction in both rural and urban China experienced a ten-year sustained development since 1979. Powered by the tremendous increase in urban housing, urban infrastructure improvement also accelerated although investment in it does not match the investment in housing.

With the reform in the rural economic system and the emergence of the family contract system in the early 1980s, rural households once again became the basic unit of economic activity. To accommodate to this change the State adopted in 1982 the policy of one rural household owning one plot to build on. The system of "home ownership" makes it possible for farmers to enjoy legal status for the house as private property and to construct a house on the basis of priority and affordability. The policy encourages farmers to build a house with their own funds and resources. Rural housing construction thus became the main force of the enormous housing development in PRC in the 1980s. It not only ensured a continued upgrading in rural housing but also contributed to the steady development of agriculture and even to the rapid growth of the national economy as a whole.

In 1980, the Government visualized that urban housing was possible for citizens to buy or build as well as rent. Meanwhile the State also expanded the channels for housing investment, authorizing enterprises and institutions to appropriate capital from their own social welfare funds for housing and collectives and individuals to mobilize resources for residence construction. Under this new policy, a marked increase of finances for housing development occurred. According to the State Statistics Bureau, investment in urban housing construction was 7.8 billion yuan in 1979, of which capital construction funds took up 7.7 billion, accounting for 98.7 per cent, while in 1988 investment in urban housing went up to 38.5 billion yuan, out of which capital construction was only 19.8 billion yuan or 51.4 per cent of investment in housing construction. Other sources of funds were: renovation fund, 9.4 billion yuan or 24.4 per cent; collective fund, 2.6 billion yuan or 6.8 per cent; and individual fund, 6.69 billion yuan or 17.4 per cent. For long-term development, three parties of the State (namely, governments at different levels), collectives and individuals will be directed by State policies to share urban housing construction investment in a reasonable way. In the past,

the housing construction fund in cities and towns was shouldered mainly by the State. The reform in the 1980s enhanced the sense of responsibility of collectives and some enterprises to become the main providers of housing construction funds in place of the State (see Table 4).

Individual funding has been increasing and is expected to continue to increase in the 1990s. The burden of the State will continue to diminish, the contribution of individuals will gradually grow and collectives will remain in the lead position in housing investment. Currently, a large portion of nearly three quarters of the newly built housing stock are invested and constructed by collectives and individuals. But the rate of co-construction of housing is below 5 per cent. The main beneficiaries of housing construction by collectives, including enterprises and other institutions and individuals, are people of different social status and with different income levels. They are mainly a large number of State employees and their dependents. Houses of government officials are provided by the State.

Underlying the mechanisms of housing construction is city planning. It is a necessary prerequisite to list the housing construction projects of an enterprise as basic inputs to the construction and planning of a city, so that the corresponding land supply, construction materials and other necessary requirements could be acquired. Everything mentioned above cannot be settled through market channels. In theory, co-housing shares the same requirements as production by enterprises and institutions. As a matter of fact, it is harder to implement simply because the element of cooperation in house construction is a new concept that is difficult to operate in the existing planned system.

From 1979 to 1988 PRC spared no effort in house construction. During this ten-year period, investment in rural and urban housing development increased rapidly. Such an intensive effort indicates the deep concern of the public and the Government for the challenging task in upgrading housing conditions for urban residents. The noticeable improvement in the shelter situation resulting from 10 years of hard work does not necessarily deal effectively with the large number of ill-housed households, including the homeless, overcrowded households (floor area per capita averaging less than 4 sq m) and crowded households (children of opposite sex over 13 years old or two couples sharing one room). Samples from the State

Statistics Bureau show that in 1982, 1984, 1986 and 1988 ill-housed urban households accounted for 33.56, 26.63, 18.49 and 14.86 per cent, respectively, of the total urban households in the current year (see Table 4).

These two measures can be taken to represent the part of urban residents who enjoy little or very little urban infrastructure and services. Based on the number of the ill-housed households of the nation, the natural increase of urban households in the 1990s and other factors, the Ministry of Construction predicts that the need for new urban housing in the coming ten years is 1.65 billion sq m. In the first phase (1991-1995) 750 million sq m will be completed averaging 150 million sq m yearly and in the second phase (1996-2000), a total of 900 million sq m needs to be finished, averaging 180 million sq m annually. The total investment required in housing construction is estimated to equal 2.85 per cent of GNP.

### **Other Infrastructure**

Daily water consumption of cities in China in 1985 averaged 151 liters per person, and the piped water coverage was 81.1 per cent. Average water consumption per person and piped water coverage, varying with the sizes of the cities, range from 173 to 129 liters a day. By the year 2000 the average water consumption per person and the tap water coverage of cities with populations of over 1 million, will reach 200 liters per day per capita, a policy target. Cities in China are all equipped with water plants. At present, about one-third of flats can enjoy independent kitchen and toilet facilities with their own piped water system. The rest of the residents use either the public indoor or outdoor water system.

The charge for tap water in Chinese cities is very low. In 1989, the annual tap water cost per urban resident was 3.08 yuan, about 0.25 per cent of his living cost. Citizens with different incomes see little difference in their spending on tap water.



Table 4: Urban and Rural Housing Conditions

Index	1982	1983	1984	1985	1986	1987	1988
<u>Urban</u>							
1. Housing Conditions							
a. Average per household							
Useful Area (sq m)		32.20	32.08	39.08	41.76	43.25	43.47
Living Area	23.34	24.10	25.52	29.18	30.90	31.92	31.89
Supporting Area		7.9	7.46	9.90	10.86	11.33	11.58
No. of Rooms		1.9	2.06	2.24	2.39	2.39	2.37
b. Average per capita							
Useful Area		7.9	8.17	9.97	10.85	11.47	11.99
Living Area	5.61	5.9	6.32	7.46	8.04	8.47	8.79
Supporting Area		2.0	1.85	2.51	2.81	3.00	3.19
2. Percentage of Households Classified as Ill-Housed							
a. No-house Households	2.53	1.81	0.97	1.50	0.69	0.48	0.38
b. Crowded Households	21.76	19.93	16.07	12.54	10.20	7.92	6.71
c. Inconvenient Households	<u>9.27</u>	<u>10.00</u>	<u>9.59</u>	<u>8.71</u>	<u>7.60</u>	<u>7.55</u>	<u>7.77</u>
Total	<u>33.56</u>	<u>31.74</u>	<u>26.63</u>	<u>22.75</u>	<u>18.49</u>	<u>15.95</u>	<u>14.86</u>
<u>Rural</u>							
1. No. of rooms per household	-	-	-	-	5.11	5.36	5.45
2. Average per capita	-	-	-	-	17.34	18.08	19.57
a. Useful Area	-	-	-	-	-	-	-
b. Living Area	-	-	-	-	14.70	16.00	16.58

Source: State Statistics Bureau, "The Yearbook of Chinese Statistics". China Statistics Publishing House, Beijing, 1989, p. 756.

There is a State policy regarding urban sanitation, described in the "Guidelines of Technical Policy Concerning Urban Development" promulgated by the State Council on 24 May 1986. Under these guidelines, the development of the city's environmental sanitation facilities should be speeded up and that management in this respect should be strengthened as follows:

- Environmental sanitation facilities make up one of the important sections of a city's comprehensive planning. Plans

should be drawn up to renovate and build environmental sanitation facilities such as garbage chutes in buildings, garbage collection stations, public latrines, septic tanks, excreta disposal stations, garbage disposal stations and landfill waste sites, as well as maintenance stations for vehicles used for such purposes.

- Gradually, different types of containers should be used for the collection of different types of garbage and garbage transportation should be mechanized. Appropriate equipment and instruments should be developed to suit the conditions of different cities. Study should be made in large cities concerning the feasibility of generating heat by burning garbage.
- Garbage from urban areas will be mostly used as landfill or treated by high temperature composting. Hospital solid waste especially should be collected and incinerated. Human wastes in urban areas should first be treated before being used as fertilizer on farms.
- Management of environmental sanitation and relevant regulations should be strengthened. The collection and recycling of toxic waste materials in cities need to be improved.
- Trips by urban residents are mainly shouldered by public transport means as bus and trolley bus while bikes, especially in medium and small-sized cities, make another important mode of transportation.

In PRC, with the subsidy from the State to public transportation in cities, urban residents actually spend very little on transportation. In 1989, the average annual expense per urban person for in-city transportation was 2.65 yuan, about 0.22 per cent of his living cost. There exists little difference in transportation spending among various income groups. Being controlled by the Government, the price of a monthly commuter ticket for public transit is usually lower than its real cost. In Beijing, for example, the price of such ticket in 1989 was 37 per cent lower than the actual cost.

## **ROLES OF DIFFERENT LEVELS OF GOVERNMENT**

PRC being a country with a mainly centrally planned economy, the central, provincial and local governments have different functions in its social and economic development.

- The Central Government is primarily responsible for decision making in planning, programming, drafting of principle and policy, formulation of law and regulation and establishment of financial and taxation systems.
- The provincial government, including that of provinces, autonomous regions and centrally administered municipalities, as an organic unit in the programming and planning of national economic development, is accountable to and administers on behalf of the Central Government. The provincial government is vested with certain powers to make local laws, decrees and policies, which may not contradict those of the Central Government.
- The local government, under the leadership of the central and provincial governments, sees to the implementation of the social and economic development plan in its administrative area, carries out the related policies and regulations, and organizes and manages the routine production and operation.

In regard to the work of urban infrastructure and public facilities, there are established procedures and principles for framing rules and enforcing the city plan, besides the jurisdiction of assignment of the central, provincial and municipal governments. The City Planning Law stipulates that every city should formulate a Master Plan taking into account the local environment, resources and history to determine the priority, targets and scale in accordance with land use distribution guidelines, zoning, overall layout of urban infrastructure and construction projects and to make the laws and regulations for the continued development of the city. The city Master Plan is to be worked out by the city itself and that of a small city should be submitted to the provincial government for approval while that of the provincial capital, of a city with a population over

one million and of a city of special significance such as a historical and cultural city should be submitted with the agreement of the provincial government to the central government for approval. The Master Plan is implemented by the city itself.

According to statistics cleared by the Urban Planning Department of the Ministry of Construction (MOC) in February of 1990, master plans had been made in over 95 per cent of the established cities and authorized for implementation. The content of such a Master Plan includes the following items:

- city and town layout and infrastructure service system
- size, population and scope of land use
- structure of traffic systems
- general structure of urban public utilities and their targets for development
- installation of water systems, planting of trees and grass
- disaster prevention planning
- preservation of scenic spots and ancient relics, with special care for the preservation and rehabilitation of historical sites
- reconstruction of old city and town areas
- agricultural production base
- evidence of comprehensive planning techniques, procedures and methods
- immediate period program (next five-year plan) for construction.

Regulations concerning the Master Plan procedures are also stipulated: (i) written documents of planning and related documents are needed, that is, explanation and basic data should be given; (ii) drawings should be attached, including existing city struc-

ture, regional area planning, town master planning, urban traffic planning, professional facility planning and immediate construction. Based upon the Master Plan, zoning and detailed planning can also be added according to necessary demands. It is the responsibility of city governments to undertake city planning and put it into practice. The day-to-day working practice is up to the Urban Planning Bureau in respective cities. Before major changes can be made in a Master Plan, the government or municipality files a report with the Municipal People's Congress. If the Congress agrees, it can be delivered to the original authority organs for approval. At provincial level, the construction commission of a provincial government is the organ for urban planning instruction and coordination work. In the Central Government, the MOC is responsible. A city Master Plan is the legal document for various construction works in the city which must comply with the requirements of the Master Plan, zoning plan and detailed plan. Since the 1980s, the Government has been enforcing the policy of "general planning, reasonable structure, comprehensive development and infrastructure construction" as the guidelines for urban construction. Urban comprehensive development has gradually come into being in quite a lot of cities; residential areas are fully serviced and even integrated with the traffic system. The comprehensive development policy of the construction department matches the requirements of housing construction to infrastructure service provision.

Central governmental agencies involved in urban infrastructure development and management are as follows:

- the State Planning Commission is in charge of the framing of the national social and economic development plan and annual plan, including construction projects and investment.
- the Ministry of Finance is responsible for the formulation and implementation of financial, monetary and taxation plans and policies nationwide.
- MOC concentrates on the provision of policy direction and professional management guidance to local departments in the fields of urban planning, urban development and the design, construction and running of the basic infrastructure,

including housing. Under MOC, there are specialized academies, institutes and centers that are engaged in the investigation and research of quota and standard, technical codes, program and plan, principle and policy related to urban infrastructure.

Under the provincial government are the provincial Planning Commission, Financial Bureau and Construction Commission which resemble the State Planning Commission, the Ministry of Finance and the Ministry of Construction in function.

In each city besides the Planning Commission, the Financial Bureau and the Construction Commission, specialized bureaus of urban planning, urban construction, environmental sanitation, public transportation, gardening, real estate industry and so on are set up to organize and manage the development and production in different skills, including exercising leadership and administration over grass-roots units for respective fields such as cooperatives and firms engaged in water supply, gas production, urban bus service, etc. which offer direct services to consumers.

Since the founding of PRC, especially since 1979, correct policies carried out by different levels of authorities and renovation of the old economic management systems have resulted in tremendous progress in the provision of urban infrastructure. During the last decade, there has been reform of the investment management system. Based on practice in the 1960s and the 1970s, management autonomy has been further decentralized. After the mid-1980s, provincial and municipal authorities began to assume responsibility to decide on urban infrastructure projects and explore investment sources, to enable them to effectively arrange projects according to their capability and demand.

To reform the present system of excessive subsidies, the state councils have set up a program of Urban Housing System Reforms. About 49 cities from 19 provinces have officially formulated their reform plans.

The organization and implementation of demonstration projects of urban housing planning, design and construction have been put into different groups to be carried out at different stages. In the first group, three neighborhood demonstration projects, one each for Wuxi, Jiangsu Province, Jinan, Shandong Province and Tianjin, have been completed. The experience obtained shows that

this kind of neighborhood demonstration project, initiated by MOC and organized and carried out by municipalities, functions as a guide to the application of new technologies and techniques of planning, design, construction, materials and equipment to house building and construction of urban infrastructure, improvement of performance and raising investment efficiency. The construction of model neighborhoods is the responsibility of the municipal government, which organizes the departments concerned, to propose a program for the construction of the neighborhood. After modification by the MOC, the program is implemented by the city development company. Top priority is given to planning and pricing by the government which is the main director, inspector and policy supporter. Before the completion of a project, personal participation is limited to listening to opinions on the improvement of the neighborhood planning and designing. After the community project is finished, a neighborhood management committee is established to strengthen the work of regular housing maintenance management, environmental sanitation and security guarantee. So far, this procedure has been successful and is to be extended. It is required that each province, autonomous region and centrally administered municipality implement such demonstration projects so as to contribute to promoting better housing and appropriate infrastructure services.

State agencies carry out systematic investigation and research projects concerning urbanization, building standards for the development of different types of urban infrastructure, and methods of evaluating and analyzing the socioeconomic efficiency of urban infrastructure.

In 1990, in the light of housing development activity throughout PRC, MOC pointed out that the focus of housing should be on relief to the ill-housed and squatter households and the redevelopment of devastated houses. It is required that the problem of particularly ill-housed families, whose living space is under 2 sq m per capita, should be solved by 1992. Many cities have made a lot of efforts to fulfill the requirement and obtained useful experience in the past few years.

## NON-GOVERNMENTAL INITIATIVES

In PRC, before the 1980s, the private economy used to be strictly restricted due to political reasons. The restriction was not only on urban infrastructure services, but also on other operations and social employment as well. The 1980s' economic reforms started with household contract responsibility in rural areas, following which other private enterprises were permitted to establish and develop in small cities or towns. Then, household or private enterprises were extended to larger cities. They mainly involved small commodity businesses, peddlery and services otherwise known as self-employment. Because of preferential policies for the self-employed, their convenience to the people and imperfections of the tax collection system, quite a large number of self-employed made much more money than workers and officers in public enterprises and organizations. As a matter of fact, these self-employed have enough money to improve their living conditions.

On the other hand, since the founding of PRC, infrastructure including urban housing was almost entirely provided by Government. Because of constraints of government resources, infrastructure provided can only meet the basic needs of the main labor force (such as employees in state-owned enterprises or institutions and social administrators like public servants at different levels of authorities). Since the income of employees was rather low, it was necessary and reasonable for the State to provide its people with welfare and infrastructure services. It was the residents' social status rather than their income level which determined the quality of infrastructure services including housing, which had been considered the main characteristic of this welfare system: (i) whether the resident was an urban inhabitant with an urban registration card; (ii) whether the resident was a worker or public servant employed by a state-owned enterprise or institution or government agency, or employed by a *danwei* (work unit); and (iii) what position or equivalent position did the resident hold.

*Danwei* is a basic element in socioeconomic life in cities and towns. Its significance is very similar to that of households in rural areas which were regarded as the basic unit of rural socioeconomic life. The economic system reforms in the 1980s have strengthened the role of the *danwei* because the governments decentralized some autonomy to *danwei*. Now it is the *danwei* rather than the govern-



ments which take the responsibilities for their employees' housing, supporting facilities, medical care and even subsidies for non-staple food and so on. Among China's NGOs, *danwei* are organizations with superiority in both numbers and capability, which maintain flesh-and-blood ties with the residents. While performing tasks of administration, government agencies will represent the interests of the State. On the other hand, if they are asked to deal with and tackle problems concerning their staff's welfare, the government agencies like the *danwei* represent the interests of the staff. The products of comprehensive development of urban construction and commodity housing initiated in the 1980s are mostly sold to *danwei* which have the permission to build their own houses, but this is not extended to individuals and the well-off self-employed. PRC does not allow market systems yet in housing, land ownership or construction materials but the *danwei* may acquire land and build on it. To sum up, the characteristics of *danwei* can be described as follows:

- All kinds of enterprises, institutions and government agencies are generally referred to as *danwei* or work units. They are commonly characterized by an organization, not an individual, although different *danwei* may play different roles. In terms of funding sources, enterprises mainly rely on their earnings, while institutions are financially supported by government budgets at different levels and further supplemented by other incomes such as operation revenues and contribution of members and so on. As for government agencies, they are all dependent on the state budget appropriations.
- *Danwei* takes all responsibility to solve housing and relevant infrastructure problems for staff or members at different income levels, even for those who are in economic difficulty.
- *Danwei* are not housing cooperatives. The latter have been formed because among all the inhabitants (of the area), some may be jobless or self-employed, that is to say they are not enrolled in any *danwei*; some of them are just working for employers who are both politically and economically weak, hence cannot get enough funds or be listed in the city plans for housing construction. These *danwei* of individual

inhabitants are, therefore, voluntary organizations which can seek financial assistance from city authorities or stronger *danwei* and try to get themselves listed in the city plans for housing construction.

- In urban China, the present requirement or system that *danwei* provide their staff or members with housing and other social welfare is a transitional means for governments to reduce their direct responsibility to the inhabitants by having *danwei* share the responsibility for their staff's welfare. The advantage of this system is to lighten government's burdens. But there are disadvantages, conflicts of interests between each *danwei* and governments caused by transfer of responsibility from governments to *danwei* which often makes it difficult for government policies to be implemented; on the other hand, the increased burdens on *danwei* have inevitably put negative influence on work efficiency and economic benefit of *danwei*. This has been a very complicated socioeconomic problem which is difficult to solve.

State policies may allow relaxation of the restrictions on the private investment in housing construction. Some new ways to solve housing problems have been explored, of which various kinds of housing cooperatives have already won initial success and gradually spread to every part of China.

## FINANCING MECHANISMS, CONSTRAINTS AND FUTURE MOBILIZATION

With respect to urban infrastructure services, there exist problems of financing mechanisms and accompanying constraints, two of which, many Chinese experts think, should be solved as soon as possible. Firstly, the cost recovery system is weak. Thus *danwei* institutions and different authorities concerned are burdened with large financial problems. On the contrary, individuals bear little financial and less psychological burden. Consequently, the improvement of existing living conditions is just a subjective requirement of *danwei* institutions and government agencies at almost no

cost to the individual. Secondly, financing sources of other urban infrastructures are much fewer than for housing. Besides, the cost of services has been charged at lower than their real cost for a long time, making it difficult for agencies to make ends meet. Service quality has, therefore, been negatively affected making it difficult to expand.

The most serious problem existing in financing mechanisms for China's urban housing is the lack of balance between macro-economic standards and social affordability in the house building industry. Unfortunately, the housing problem has been attributed only to the low rent. In practice, if standards exceed affordability, then house rents will no doubt be much higher. For example, in Beijing, the market price of employees' housing is about 2,500 yuan per sq m of floor space. On average, the space of a unit of high-rise apartments in Beijing is 64 sq m, while a unit of multi-storey or walk-up houses amounts to 55 sq m. The market price of the former would be as high as 160,000 yuan per unit and that of the latter 137,000 yuan per unit. According to the *Yearbook of Beijing Municipal Socioeconomic Statistics* (1989), in 1988, the annual income per capita in Beijing was 1,437 yuan. The sale price per unit of high-rise and walk-up housing is far beyond the means of an average family.

Tremendous social subsidies for house building have been concealed, including all kinds of explicit or implicit subsidies borne by the State and collective enterprises. Not until recently did the experts work out the tremendous social subsidies. The total social subsidies for urban housing in 1978 were about 1.31 per cent of GNP. From 1981 to 1988, the subsidies were 2.03 per cent, 2.50 per cent, 2.78 per cent, 3.41 per cent, 3.86 per cent, 4.15 per cent and 4.47 per cent of GNP, respectively. The subsidies for each year were even more than the investment in house building for the respective year. Taking the year 1988 as an example, the subsidies for house building were 51.45 per cent higher than the investment in the field.

Subsidies for urban housing from a society are usually reflected in house building and distribution, and regular operations, management and maintenance as well. To be specific, housing and relevant infrastructure have been built with investment from the State and *danwei* and distributed to the staff and employees, from whom a rather low rent is collected. At present, the monthly rent of urban public housing in the country only averages 0.15 yuan per sq m, which accounts for half the expense for housing maintenance or less,

so that the recovery of investment, in terms of both principal and interest, is completely impossible. Rent collected for high-rise housing cannot even meet maintenance and management fees of elevators. In the recent decade, expenditure for urban housing on average accounts for a very small proportion of the total household expenditure. This proportion is still decreasing, from 1.39 per cent in 1981 to 0.96 per cent in 1985 and 0.73 per cent in 1989. The gap between tremendous annual investment in urban housing and limited rent paid by inhabitants is filled through various channels by the State and different *danwei*. The state policy for housing intends to reduce excessive subsidy by various organizations and to balance burdens between the State and *danwei* and individuals through housing system reforms.

### The Shanghai Financing Model

The proposal for housing system reforms prepared by the Shanghai Municipality is complete and comprehensive and accepted by the people of Shanghai. The proposal includes the following five points: (i) collection of Central Providence Fund (CPF). Following the Singapore model, from 1991, 5 per cent of each employee's monthly income plus 5 per cent of equivalent from *danwei* will be lumped together to form housing funds with in-built flexibility; (ii) purchase of public housing securities requiring residents to buy housing securities at a rate of 20-80 yuan per sq m of construction area, with an annual interest rate of 3.6 per cent and a repayment period of five years, which is actually a kind of low-interest rate deposit, when they move to new houses or are resettled; (iii) escalation of rent with subsidy. First of all, rent for the city's public houses will be raised to a unified "standard" rent, to be doubled later on. The doubled rent can equal the cost of maintenance. Meanwhile, the staff will be provided with subsidy accounting for 2 per cent of their salary so that temporary burdens imposed by rent escalation can be alleviated; (iv) sale of houses cross-subsidized for the poorer people at a favorable price of 250 yuan per sq m of construction area, which is only one third of the construction cost of houses to be sold. It is the buyers' *danwei* which will cover the remaining two-thirds of the construction cost; and (v) establishment of a housing committee, responsible for managing the city's housing system reforms and making the reforms lasting. After putting the described reforms into

practice, expenditure on housing by those who move to new houses will account to 5 per cent of their income, substantially above the present level.

The greatest benefit from the proposed reforms could be to initiate a flexible and dynamic mechanism for adjusting rent and sale prices of houses according to changes in circumstances. All citizens may be involved in such important decision making since their opinions on the proposal have been invited. It is expected that the proposal to be prepared will be carried out from 1991. With the establishment of housing CPF, Shanghai will set up a Center for Central Provident Fund which is responsible for the management of CPF and other housing funds, proposals for deposit of CPF, determination of interest rates for both loans and deposits with banks, arrangement of utilization of CPF, and so on. For the time being, the Department of Real Estate Credit of the Shanghai Branch of China's Construction Bank is appointed to take the responsibility for depositing and lending CPF. In the future, a specialist housing savings bank will be formed. In the author's opinion, the idea of developing housing financial institutions in Shanghai is more comprehensive and has greater vitality than in any other city in the country.

### **Local Government**

The PRC governments including both central and local authorities are exploring ways to mobilize funds for urban construction and have made many useful attempts. Progress in the reform of funding urban construction has been initiated. The ways to mobilize urban construction funds are as follows:

- (i) Beijing Municipality has been permitted to collect construction fees of four kinds of on-site public utilities (water, electricity, gas and heating) when buildings including residential housing are under construction or to be constructed. The rate of the fees is about 60 yuan per sq m of construction area.
- (ii) Different systems of user fee collection are allowed for urban infrastructure. For example, in Sichuan Province, there is a charge for the use of Yangtse River Bridge by

vehicles; the Guangdong Provincial Government stipulated that 5 per cent of capital investment of a project should be extracted as a municipal construction fee; Gansu decided to charge those who make use of sewer facilities 0.07 yuan per cu m of water; it has been decided that Huangshi City can collect 20-40 yuan as complementary construction fee of municipal facilities for 1 sq m of newly constructed space; Shanghai Municipality decided to issue 1,000 yuan equivalent of Gas Construction Bonds to each new gas user and so on.

- (iii) In most cities, real estate development corporations can sell houses at market prices from which complementary construction fees of municipal facilities will be extracted.

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# India

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# India

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## EXECUTIVE SUMMARY

Urban population in India has been growing steadily. It is expected that the total country population by the turn of the century will be 1 billion with an urban population of about 350 million as compared to the 1980 figure of 160 million. During the decade 1971-1980 about 40 per cent of the increase in the urban population has been due to natural growth and another 40 per cent due to migration. Over a quarter of the population are in large cities which have more than a million people.

In India the poverty line is defined on the basis of minimum calorie intake and estimated through National Sample Surveys conducted periodically. It is estimated that there are over 40 million people below the poverty line in the urban areas.

There is increasing recognition that calories and essential goods are not sufficient indices and urban poverty has to be assessed on other criteria relating to quality of life. Slums and squatter settlements are regarded now as a physical manifestation of poverty. Similarly poor water supply and poorer sanitation are the more serious visible aspects of urban poverty. The urban poor also have very low access to public health facilities or to educational facilities. An additional factor for consideration is that the rate of growth in employment has been decreasing from 2.8 per cent in 1973-1978 to 1.6 per cent in 1983-1988. There has also been an increasing proportion of people who are casually employed. Therefore the definition of urban poverty cannot be restrictive. The critical importance of gender issues in proper assessment of urban poverty has also been highlighted.

Until recently the response of the Government to the phenomenon of urban poverty was generally inadequate and nar-

rowly sectoral. In the earlier plan periods housing was perceived to be the main problem and slum clearance and rehabilitation as the solution. This approach of slum removal slowly gave way to slum improvement in the 1970s and sites and services in the 1980s. Some recent responses like the Urban Basic Services (UBS) program and Self-Employment for the Urban Poor (SEPUP) have attempted to address other aspects of urban poverty.

A major thrust to programs for urban poverty alleviation has been given by the Government of India in the past two years with a number of schemes which include an expanded UBS program to be implemented in conjunction with physical improvement of slums, a low-cost sanitation scheme aimed at eliminating manual scavenging and the multicomponent employment scheme for the urban poor entitled "Nehru Rozgar Yojana". The effort is to bring about a convergence of programs, of investments and of implementation for alleviation of urban poverty.

Institutional arrangements for the design and implementation of poverty alleviation programs continue to be inadequate and fragmented. At the town level the involvement of the local bodies is, as yet, limited. Special purpose agencies at the state or city level are now responsible for administering the program. Community-based organizations are becoming increasingly active but instances of city-wide NGO operations are very few.

Instances of private provision of public services continue to be few, such as in transport and some services for limited segments of the population.

The political endorsement now given for urban poverty alleviation programs and the modest increases in the funds secured for such programs, constitutes a major breakthrough. However, a number of problems persist in the matter of implementation. The role of local bodies as a platform for convergence of the different components of a program and their coordinated implementation continues to be unclear. While numerous voluntary agencies have been working on particular aspects of poverty alleviation, a coherent strategy for NGO involvement is yet to emerge.

The quantum of external assistance in urban poverty alleviation program has been limited but it has been useful in project design, particularly in adhering to a target group orientation for the urban poor.

## COUNTRY BACKGROUND

Urban population has been growing steadily in India. At the beginning of the century about 10 per cent of the country's total population of 238 million was urban. In comparison the 1981 census has returned an urban population figure of 160 million, i.e., about 23 per cent of the total population of 685 million. The criteria for treating a place as urban are as follows:

- (i) all statutory towns, i.e., all places with a municipal corporation, municipal board, cantonment board or notified town area, etc.;
- (ii) all other places which have a minimum population of 5,000 and in which 75 per cent of the male working population are engaged in nonagricultural (and allied) activity;
- (iii) a population density of at least 400 per sq km (1,000 per sq mi); and
- (iv) a town with a population of 100,000 and above is treated as a city.

The decadal changes in urban population are indicated in Table 1.

The levels of urbanization within the country vary considerably in different States and Union Territories. Goa, Gujarat, Karnataka, Maharashtra, Punjab, Tamil Nadu and West Bengal have significantly higher levels of urbanization. Some of the Union Territories like Delhi, Chandigarh and Pondicherry are virtually city provinces. The Northeastern States are also undergoing rapid urbanization marked by a significant change in the nature of settlements.

The components or determinants of urban growth vary considerably. For the country as a whole, out of a net increase of about 50 million persons in urban areas during 1971-1981, 20 million was contributed by net in-migration (40 per cent), 21 million by natural increase (41 per cent) and the rest by reclassification. The share of net in-migration was high in fast industrializing or urbanizing States like Karnataka, Gujarat and Maharashtra. This merits careful attention from the employment point of view. It is also to be noted that

Table 1: Total and Urban Population  
(1901-1981)

Year	Population			
	Total	Decadal Change (per cent)	Urban	Decadal Change (per cent)
1901	238,396,327	n/a	25,851,873	n/a
1911	252,093,390	+ 5.7	525,941,633	+ 0.35
1921	251,321,213	- 0.3	128,086,167	+ 8.27
1931	278,977,238	+11.00	33,455,989	+19.12
1941	318,660,580	+14.2	244,153,297	+31.97
1951	361,088,090	+13.31	62,443,709	+41.42
1961	439,234,771	+21.51	78,936,603	+20.62
1971	548,159,652	+24.80	109,113,977	+38.23
1981	685,184,692	+25.00	159,727,357	+46.38

Source: *Census of India, 1981.*

even in a State like Bihar where pressure of population is intense and urbanization is slow, net in-migration accounted for about 38 per cent of urban growth.

An analysis carried out as part of the 1981 census indicates that employment and shifting of the family were the main determinants of migration. Employment is the more important factor in the case of inter-state migration. To female migrants, marriage is the main factor accounting for about half the migration.

In the Indian Census, metropolitan areas are not defined separately, but contiguous urban areas are described as an urban agglomeration. Most of these have a population of a million or more. As per the 1981 census, there are 12 such agglomerations with a total population of 41.29 million, a little over a quarter of the country's urban population. However, this does not mean that urban growth has been limited to these metropolitan cities only. The number of Class I cities (cities of more than 100,000) increased from 148 in 1971 to 218 in 1981 and their share of the urban population rose from 49 to 53 per cent. Most of these Class I cities are State or District headquarters, industrial or trading centers and in several cases they are also prominent regional centers in less urbanized regions. The area, population and growth rate of metropolitan cities are given in Table 2.

Table 2: Area, Population and Growth Rate of Metropolitan Cities (1971-1981)

Name of Metropolitan City/Urban Agglomeration	Area (sq km)		Population (million)		Population Growth Rate (per cent) 1971-1981
	1971	1981	1971	1981	
Calcutta	662.40	852.20	7.72	9.19	23.90
Greater Bombay	437.71	437.71	5.97	8.24	38.07
Delhi	446.26	540.78	3.65	5.73	57.09
Madras	530.77	571.93	3.17	4.29	35.31
Bangalore	177.30	365.65	1.66	2.92	75.56
Ahmedabad	108.24	98.51	1.75	2.55	45.40
Hyderabad	28.24	N.A.	1.80	2.55	43.83
Pune	324.52	344.18	1.14	1.69	48.55
Kanpur	298.98	298.98	1.28	1.64	28.53
Nagpur	236.80	263.93	0.93	1.30	39.94
Jaipur	258.57	210.09	0.64	1.02	59.42
Lucknow	127.66	145.94	0.81	1.01	23.79
Total	3,907.72	4,129.93	30.21	42.12	39.42

Source: *Census of India, 1981*.

Most Asian countries perceive themselves to be predominantly agricultural and India is no exception. The very significant sectoral shifts in employment and contribution to the economy do not, therefore, receive adequate attention. In 1972/73, 74 per cent of workers were engaged in agriculture and allied occupations but the proportion declined to 65.5 in 1987/88. This relative shift from the agricultural sector has been matched by a corresponding increase in employment in each of the other sectors. A shift from agricultural to non-agricultural occupations has taken place even within the rural areas; agricultural employment declined from 85.5 per cent in 1972/73 to 77.8 per cent in 1987/1988. Another major shift, which is very relevant to issues of poverty, is the increase in the proportion of casual labor relative to the self-employed and regular, salaried wage workers. In both rural and urban areas casual labor increased from 23 to 30 per cent and self-employment declined from 61 to 56 per cent.

Employment is periodically monitored in India by the National Sample Survey Organization (NSSO). For 1987/88, unemployment was estimated to be 12.43 million according to "usual principal status". The unemployment rates are much higher for the urban than for the rural areas and for women than for men.

The absolute magnitude of unemployment as also open unemployment rates have been rising in recent years from 2.77 per cent in 1983 to 3.77 in 1987. The NSSO data also indicate that per 1,000 households, self-employed are 335, wage earners and salaried are 442 and casual labor are 127. But there has been a decline in the unemployment rates by daily status criterion from 8.25 per cent to 6.09 per cent over the same period. This seems to indicate that the structure of unemployment seems to be shifting from underemployment towards open unemployment. It may also be seen from studies that the unemployment rate as per "usual principal status" has been rising faster in the case of women both in urban and rural areas.

The UN Global Strategy for Shelter (UNGSS) estimates project India's total population in the year 2000 at a low of 946 million and a high of 1,006 million. The National Commission on Urbanization, after considering the estimates of the census authorities, has forecast a total urban population in the year 2000 of 350 million as compared to the 1981 figure of 160 million. While India will thus have one of the largest urban populations in the world, it will still be regarded as predominantly rural as 65 per cent of the population will be living in villages. The UNGSS projection going beyond 2000 estimates India's urban population as 454 million in 2010, 600 in 2020 and 660 in 2025. Inevitably, the pace and dimension will vary within the country. States with very large rural populations may witness a much higher urbanization rate in future years. Large city growth may continue to be pronounced: there will be at least 40 cities with more than a million people by 2000, as compared to 12 at present.

## **URBAN POVERTY AND PAST APPROACHES**

While previous five-year plans were concerned with economic development including the question of equity, it was in the Fifth Five-Year Plan (1974-1979) that poverty removal was addressed as a principal objective. For the first time the document recognized that despite the sizeable gains of economic development and improve-

ment in the living standards, consumption levels of the bottom 30 per cent of the population accounted for only about 14 per cent of the total private consumption and there were wide disparities in the consumption levels, posing a "potential threat to the unity, integrity and independence of the country". However, the Fifth Plan did not formulate any special strategy for poverty removal; it sought to reduce its incidence through the economic growth processes and ongoing programs like the Minimum Needs Programme, public procurement and distribution of essential goods, etc. The Fifth Plan also made no distinction between rural and urban poverty.

The question of defining a poverty line was first addressed by a Working Group set up by the Planning Commission in 1962. The Task Force on Minimum Needs and Effective Consumption Demand set up by the Planning Commission in 1979 considered the age, sex and activity profiles of populations together with average calorie norms as recommended by the Nutrition Expert Group and the Indian Council of Medical Research. The requirements were placed at 2,400 calories for rural areas and 2,100 for urban areas. In 1973/74 prices this worked out to a per capita monthly expenditure of Rs 49.09 (\$6.54) and Rs 56.64 (\$7.55) for rural and urban areas, respectively. At the price level of 1989/90, the poverty line would be Rs 153.04 (\$8.50) for rural and Rs 176.65 (\$9.81) for urban areas.

The relevance of caloric intake as the only criterion for determining poverty has been questioned as it does not take into account regional variations and leaves out other manifestations of poverty such as lack of access to basic amenities like water and services like health or education. Therefore alternative methodologies focusing on the quality of life have to be evolved.

Based on the 1974 Task Force criteria, the NSSO has reported that about 220 million (about 28 per cent) of the country's population are below the poverty line. Out of these about 39 million people are in urban areas. The estimates for different years from 1977 to 1988 are given in Table 3.



Table 3: Population Below the Poverty Line, Adjusted

Year	Total		Rural		Urban	
	(million)	(per cent)	(million)	(per cent)	(million)	(per cent)
1977/78	306.8	48.3	253.1	51.2	53.7	38.2
1983	223.5	30.9	184.1	33.6	39.4	22.4
1986/87	234.2	30.1	192.6	33.6	41.6	19.8
1987/88	221.0	27.8	182.2	31.1	38.8	18.5

Sources: (i) Based on NSSO, "National Sample Survey (32nd, 38th, 42nd and 43rd Rounds)" and National Accounts Statistics (various years).

(ii) S. R. Hashim, *Monitoring Poverty - The India Experience*, Table 15.

It is important to note that the above table is based on data on private consumption expenditure obtained quinquennially and also for individual years which ranks household members according to the size of the per capita total consumer expenditure of the household. The data is obtained from a sample and is then extrapolated for the country. Another set of data on poverty estimation is available from the National Accounts Statistics (NAS) of the Central Statistical Organization which is compiled on an income basis taking into account imputed rents of households owning the dwelling, expenditure of non-profit institutions and other factors which are normally not considered in a household expenditure survey. In the official estimates on poverty, NSSO consumption expenditures are adjusted to NAS figures pro rata by an adjustment factor. However, the difference is still substantial. Researches using the unadjusted NSSO data have estimated that the quantum and percentage of population below the poverty line is much higher as will be seen in Table 4.

Table 4: Population Below the Poverty Line, Unadjusted

Year	Total		Rural		Urban	
	(million)	(per cent)	(million)	(per cent)	(million)	(per cent)
1977/78	352.0	55.1	289.0	58.5	63.0	44.8
1983	383.3	52.9	309.2	56.4	74.1	42.0
1986/87	382.6	48.9	309.7	54.0	72.9	34.9
1987/88	360.1	45.3	292.3	50.0	67.8	32.2

Sources: (i) Based on NSSO, "National Sample Survey" (32nd, 38th, 42nd and 43rd Rounds) and National Accounts Statistics (various years).

(ii) S. R. Hashim, *Monitoring Poverty - The India Experience*, Table 15.

For the year 1987/88 the adjusted figure for urban poverty is 38.8 million as compared to the unadjusted figure of 67.8. It is to be noted that whatever be the difference in the two estimates about the magnitude, both indicate a significant decline in the incidence of poverty in both rural and urban areas, though the degree of reduction is much less if the unadjusted figures are considered. Official estimates also draw attention to the Seventh Plan proposal which sought a reduction in urban poverty incidence from 27.7 per cent in 1984/85 to 19.3 per cent in 1989/90. As compared to this it is pointed out that the incidence has come down to 18.5 per cent in 1988/89.

A major question, therefore, arises whether the definition of poverty as presently used based on calorific intake and some essential goods is appropriate, particularly in urban areas where the physical or environmental manifestations of urban poverty are obvious. These aspects are discussed in further detail in a subsequent section.

Irrespective of the problem of definition of urban poverty and whether this has been significantly reduced, in absolute numbers the magnitude of poverty is very high in certain States of India. Figures are available only for 1983/84 which indicate that in many States whether urbanizing slowly or otherwise, the percentage of urban poor is as large as 40 per cent in Uttar Pradesh, 37 per cent in Bihar and about 37 per cent in Karnataka, Kerala, Madhya Pradesh and Tamil Nadu.

## NEEDS OF THE URBAN POOR

There is very little data on the nature and dimensions of poverty in different States, or in the different population classes of cities, suggesting that the city effect on the nature of poverty has not been separately examined by urban scientists and scholars (Mathur). However, slums and squatter settlements have been regarded universally as a physical manifestation of poverty. Though there is evidence about the rising income of individual households in long-established slums of large metropolitan cities such as Dharavi in Bombay or Tondo in Manila, there is no denying the fact that the bulk of the households in the settlements do not have access to safe water or other services. Evidence in India suggests that the larger the city the greater is the proportion of slum population, as given in Tables 5 and 6.

Table 5: Estimated Slum Population by Size-Class of Cities, 1981

Population Size-Class of Cities/Towns	Percentage of Total Slum Population of the Country	Percentage of Slum Population to Total Population of the Size-Class of Cities/Towns
One million and above	43.27	30.78
0.5 – 1.0 million	13.33	20.58
0.3 – 0.5 million	6.47	17.74
0.1 – 0.3 million	14.23	18.12
50,000 – 0.1 million	7.55	12.16
Below 50,000	15.15	10.04
All Classes	100.00	18.75

Source: "The Challenge of Urban Poverty – A Background Paper", NIUA, Delhi, January 1990.

Table 6: Estimated Slum Population in Metropolitan Cities, 1981

Cities	Total Population (million)	Number (million)	Slum Population as a Per Cent of Total Population
Calcutta	9.19	3.03	32.9
Bombay	8.24	2.83	34.3
Delhi	5.73	1.80	31.4
Madras	4.29	1.36	32.1
Bangalore	2.92	0.31	10.4
Hyderabad	2.55	0.50	19.6
Ahmedabad	2.55	0.54	20.3
Pune	1.69	0.27	16.3
Kanpur	1.64	0.61	37.5
Nagpur	1.30	0.42	31.9
Jaipur	1.02	0.29	29.1
Lucknow	1.01	0.28	28.3
Total	42.12	12.25	29.1

Source: *A Compendium on Indian Slums, Government of India, Town and Country Planning Organization, 1985.*

Poor water supply and poorer sanitation are the more serious visible aspects of urban poverty. In India, as elsewhere, the population in any settlement is treated as covered if there is some water supply scheme or other in that settlement. Per capita water supply figures are only arithmetical averages of the total installed capacity of a water supply scheme divided by the population. Data about the serious inequities in supply level within a city or the actual availability of water to lower-income groups are just not available. Specific case studies in the slums of different cities, however, indicate that for the bulk of the slum dwellers water supply available may be less than 20 liters per capita per day. As for sanitation, only about 36 per cent of urban households have access to toilets. Private toilets are limited to 15 per cent of the households and community toilets to another 21 per cent (see Table 7).

Table 7: Type of Facility Used by Poor and Low-Income Urban Households, 1988 Size-Class of Cities

Population Size-Class	Sampled Households	Per Cent of Households Using				No Response
		Private Toilets	Community Toilets	Open Space	Others	
More than 500,000	6,007	14	42	41	2	1
100,000 - 500,000	5,223	22	19	55	2	2
50,000 - 100,000	3,036	72	5	79	3	1
25,000 - 50,000	2,891	11	21	65	2	1
10,000 - 25,000	3,368	11	13	73	2	1
Less than 10,000	2,738	12	8	78	neg.	2
Total	23,263	15	21	61	21	

Source: National Institute of Urban Affairs.

Based on field surveys and the reports of individual researchers, a recent review of urban poverty concludes that despite better availability of health services in the urban areas, the health of the urban poor, particularly of women and children, is much worse than that of the rural poor. In the slum areas public health facilities and services are usually absent. Poor health care combined with lack of public awareness, unhygienic habits and bad sanitation have resulted in high rates of morbidity and mortality. This was amply brought out in a gastro-enteritis epidemic in several Delhi slums as recently as 1988. Some of the field studies indicate that birth and

death rates in slum areas are higher by 40 to 50 per cent and infant mortality rates higher by 1.8 times as compared to non-slum areas.

Similarly in the case of education, despite remarkable expansion of facilities, illiteracy in slum areas is as high as 70 per cent compared to 43 per cent in urban areas of the country. In a revealing study of several squatter settlements in Delhi slums, as much as 91 per cent of the squatters were found illiterate and 80 per cent of the parents wanted their children to help in domestic work and earn more income rather than go to school.

In both rural and urban areas, self-employment has increased slightly, regular wage employment has declined and casual employment has risen significantly. The formal wage sector which accounted for a little more than half of the total urban employment in 1972/73 did not expand to absorb the increasing urban force: even self-employment, usually considered a major feature of the urban economy, declined.

Data on the nature and characteristics of self or salaried employment in the urban areas are not easily available. A recent study of the urban poor indicates that the dominant occupations are as follows (Tables 8 and 9):

Table 8: Distribution of Workers by Category of Employment  
(per cent)

	Rural			Urban			Total
	Male	Female	Total	Male	Female	Total	
<b>Self-Employment</b>							
1972/73	65.9	64.5	65.4	39.2	48.4	40.9	61.4
1977/78	62.8	62.1	62.5	40.4	49.5	42.4	59.3
1983	60.4	61.9	61.0	40.9	45.8	41.9	57.3
1987/88	58.6	60.9	59.4	41.6	47.1	42.8	56.3
<b>Salaried Regular Employment</b>							
1972/73	12.1	4.1	9.2	50.7	27.8	46.4	15.3
1977/78	10.6	2.8	7.8	46.4	24.9	41.7	13.2
1983	10.3	2.8	7.5	43.7	25.8	39.9	13.7
1987/88	10.0	3.6	7.7	43.4	27.5	40.2	13.7
<b>Casual Wage Employment</b>							
1972/73	22.0	32.4	25.4	10.1	23.7	12.6	23.3
1977/78	26.7	35.1	29.7	13.2	25.6	15.9	27.5
1983	29.2	35.3	31.5	15.4	28.4	18.2	28.9
1987/88	31.4	35.4	32.8	14.7	25.4	17.0	29.9

Source: NSSO, sample surveys of various years.

Table 9: Fifteen Main Occupations of the Poor, 1988

Occupations	Workers		Monthly Income Range (Rs)
	(number)	(per cent)	
Weavers	299	8.3	200 - 1,200
Sweepers	233	6.5	200 - 1,200
Laborers	228	6.3	140 - 1,000
Street vendors	195	5.4	100 - 1,500
Construction workers	191	5.3	160 - 600
Rickshaw pullers	189	5.3	250 - 900
Peons	149	4.1	300 - 1,000
Domestic servants	126	3.5	45 - 300
Petty shopkeepers	116	3.2	125 - 1,600
Agricultural laborers	109	3.0	100 - 500
Ragpickers and <i>kabadiwallas</i>	100	2.8	75 -
<i>Bidi</i> makers	96	2.7	100 -
Motor vehicle drivers	93	2.6	350 - 1,300
Petty salesmen and assistants	78	2.2	150 - 1,000
Clerks	67	1.09	300 - 1,500
<b>Total</b>	<b>2,269</b>	<b>63.1</b>	

Source: "Profile of the Urban Poor: An Investigation into their Demographic, Economic and Shelter Characteristics". Research Study Survey No. 40, NIUA, 1989.

Another study by the National Institute of Urban Affairs (NIUA) focusing on female workers indicates that in certain activities the proportion of women may be larger such as construction workers (12.3 per cent), domestic servants (5.3 per cent) and shopkeepers (15.8 per cent). The study which covered 500 slum households in a new industrial town near Delhi called Faridabad also brings out that the participation rate is higher among women in the labor force, that the share of women's earnings to household income is significant and that women are adversely affected in a segmented urban labor market in regard to the nature of the job as well as wages paid. Another comparative study of five cities draws the same conclusion and points out that a very large percentage of low-income households have at least one female worker: the figure is highest in Bangalore where 93 per cent of low-income households have one working female. These studies emphasize the crucial im-

portance of gender issues in proper assessment of urban poverty as well as the design of programs for poverty reduction.

## ROLES OF GOVERNMENT

"The official response to the phenomenon of urban poverty," in the words of the National Commission on Urbanization, "has been generally unimaginative, inadequate, halfhearted and narrowly sectoral." In the early Plan periods the urban poor were equated with slum dwellers and housing was perceived to be the main problem. From removal of slums and rehousing the approach shifted to slum improvement as in Calcutta in the 1970s and Sites and Services as in Madras, Bombay and Delhi. Apart from this Urban Community Development (UCD), Integrated Child Development (ICDS), Urban Basic Services (UBS), Self-Employment for the Urban Poor (SEPUP), etc. are the other very recent responses which are still in their early experimental stage. As yet, they cover only a limited proportion of the urban poor. However, these schemes reflect a relatively better understanding of the problems of the urban poor and merit proper trial, monitoring and evaluation.

### Slum Improvement

The slums in Indian cities are not always squatter settlements. The *chawls* of Bombay and the *ahattas* of Kanpur are really low-income, low-cost tenant settlements built by private developers and let out on very low but economic rents to the migrants who come to work in the dockyards, metal industries and textile mills of these cities. Squatting and shanty towns were later phenomena in the wake of further industrial and commercial development after independence. In the first three Five-Year Plans slum clearance was the favored approach but the costs of rehousing were high and the process of building storied tenements and shifting of slum dwellers (more importantly, ensuring the tenements do not change hands) proved time-consuming and complex.

Slum improvement on a citywide basis was taken up first in Calcutta in 1970. The improvements envisaged provision of water supply points, community toilets, storm water drainage, pathways, street lighting and, wherever possible, provision of some open

spaces for playgrounds and recreation. In 1975/76, the scheme was rechristened Environmental Improvement of Urban Slums (EIUS) and treated as one of the nine priority items forming part of a national effort to secure minimum needs. The Minimum Needs Program (MNP) was continued in the Sixth Plan with increased budgetary provisions but from the Seventh Plan onwards the MNP was transferred as a budgetary item of the States with the stipulation that the outlay on these items would constitute a first charge on the resources.

The long-term objective of the Sixth Plan was to achieve total coverage of the slum population by 1990. At that time the slum population was estimated to be about 33 million. Current estimates, however, place the slum population in the urban areas at about 50 million. The coverage achieved so far is about 25 million. The per capita cost for carrying out of the various physical improvements is about Rs 300 (about \$16). Field studies indicate that the physical improvements carried out had significant success in the slums. However, given the elementary nature of the improvements carried out, there is very little distinction between capital works and maintenance. Poor maintenance of even simple improvements can result in a rapid deterioration of the physical environment. Besides, because of the overall inadequacy of services in the city it is seen that even minimal improvements in water supply, drainage or sanitation cannot be carried out and sustained in the slums in isolation from significant improvement in citywide infrastructure.

It is widely recognized, however, that the improvement of slums undertaken on a large scale have brought to a large number of slum dwellers some basic physical amenities. It is also considered a good interim solution to full-scale redevelopment of slums. The conferment of title, particularly in squatter slums, has also been an important feature of the slum improvement program as in Madras. In some cases pilot projects for upgradation of the shelter itself on a neighborhood basis has been taken up in Bombay and Delhi. It is too early to conclude whether this constitutes a viable and replicable approach.



### **Urban Basic Services**

The Urban Basic Services (UBS) program was sponsored by the Government of India in 1986 for the promotion of the welfare of women and children through immunization, child care, preschool education, low-cost water supply and sanitation and other community welfare activities. Though some of the components are similar to the EIUS the main thrust of the UBS is on developing a community structure for eliciting the felt needs of slum dwellers and ensuring their participation. The expenditure is shared by the Government of India, State Governments and UNICEF in the ratio of 20:40:40. The scheme has been implemented so far in 168 towns in 37 districts of the country. Under the scheme more than 300,000 children received nutritional supplementation; about 3,000 Literacy Centers were supported; about 300,000 slum dwellers participated in health education; about 200,000 children immunized; about 24,000 improved kitchen stoves provided; and about 27,000 women trained in income-generating activities. The overall expenditure under the scheme has been about Rs 16 crores only (about \$9 million) but the major accomplishment of the scheme has been its ability to mobilize community support.

Based on the experience gained during the pilot phase of UBS the National Commission on Urbanization strongly urged the universalization of the program. Since April 1990 an expanded program has been undertaken called "Basic Services for the Urban Poor" incorporating the features of the UBS scheme and seeking to implement the same in convergence with the scheme of Environmental Improvement of Slums. It is expected that about 225,000 urban poor beneficiaries will be covered under the program during the year 1990/91.

### **Sites and Services**

The Sites-and-Services Program has been taken up in many of the metropolitan cities as a measure to promote self-help housing for the urban poor. In the case of Delhi and Calcutta such efforts were made in the 1950s mainly to assist the large number of refugees who came into the city after partition. In Delhi nearly 80,000 open developed plots were provided ranging from 25 to 50 sq m even though the target group could not be regarded entirely as poor. The

provision of sites and services as part of a conscious shelter strategy for the poor has been included as a component in many of the World Bank-assisted projects as well as a Government of India scheme for development of small and medium towns and schemes assisted by Housing and Urban Development Corporation (HUDCO). Together, these schemes have resulted in the provision of about 634,000 plots.

The evaluation of the sites-and-services projects carried out in different cities has highlighted various problems. These include the limited practice of self-construction, spending being much more than what affordability estimates suggest, turnover of the plots for renting or sale, limited public participation, etc. The implementation process is highlighted by poor coordination between different utilities, delay in allotment of plots, poor access to transport, poor recovery of installation and user charges, elaborate documentation and transaction costs, conflict of specifications with local municipal codes, etc.

The sites-and-services approach is yet to emerge as a deliberate and definitive part of shelter or city planning strategy. Very few cities have attempted to anticipate the type or magnitude of migration of the poor and delineate areas to receive such migrants. The sites-and-services locations have, therefore, served existing populations rather than the migrants and here again it has not been possible to ensure that the plots are accessible to the desired target group.

### **Low-Cost Sanitation**

The about 760,000 service privies or bucket latrines in India's urban areas are serviced manually by a very large population of scavengers. The elimination of such manual scavenging has been long regarded as an important social objective. The liberation of scavengers and their rehabilitation in other occupations has also been considered important as a poverty elimination measure. For this purpose the replacement of the service privy by low-cost sanitary latrines (pour-flush, leach-pit type) funded through a mix of central and state government grants as well as loans has been under operation since 1980/81. However, budgetary provision for the scheme has been rather inadequate and until 1989/90 a total of 313,000 of service privies have been replaced in 226 towns and about 10,000 scavengers have been rehabilitated in other occupations.

The scheme has now been stepped up with the objective of totally eliminating manual scavenging on a whole town basis. The funding pattern has been rationalized limiting subsidies to low-income families. The program aims at rehabilitation of scavengers in 500 towns annually.

### **Self-Employment**

The Self-Employment Program for the Urban Poor (SEPUP) was launched in September 1986. It covers all towns with populations of 10,000 or more. The scheme, operated through public sector banks, envisages an amount up to Rs 5,000 (\$270) with subsidized interest for the poor whose family income does not exceed Rs 600 (\$32) per month. Self-employment in petty trades, repairing and service activities are assisted. The unit cost of the enterprise is determined locally. The loans are supported by group guarantee. About 350,000 people have received loan assistance annually under this program. The average loan is about Rs 4,000 (\$216).

Madhya Pradesh was the first State Government to launch a program to support self-employment and training to acquire skills. Started in 1984, the program provided a maximum subsidy of Rs 12,000 (\$650) and bank loans to poor urban families with annual incomes of less than Rs 7,200 (\$405). Usually the subsidy was about a third of the total assistance given. About 84,000 families have received such assistance since the program's inception which was merged into the Nehru Rozgar Yojana in 1989.

The Nehru Rozgar Yojana (NRY) is a multicomponent scheme for urban poverty alleviation. The scheme drew upon the experience available from other ongoing schemes for improvement of physical amenities, upgradation of shelter and employment promotion. Launched in late 1989 the scheme was intended as a package of measures for urban poverty alleviation to be implemented by local authorities. The package comprised three major components. One is the scheme for promoting micro-enterprises. Similar in many respects to the SEPUP this component envisaged financial assistance of loans up to a maximum of Rs 25,000 and subsidy up to Rs 4,000. The type of enterprises to be supported covered what is included in SEPUP as well as a variety of other small manufacturing activities. The second component of the package for urban wage employment provides wage opportunities to the urban poor by utilizing their

labor for construction of useful public assets. This scheme is applicable to urban settlements below 100,000 population. The material-to-labor ratio was fixed at 60:40 to be calculated at the district level. The third component of shelter upgradation aims to provide wage employment as well as upgrade the skills of the urban poor through housing and construction-related activities. A loan up to Rs 3,000 plus a subsidy of the Rs 1,000 is provided under this scheme at concessional rates of 6.25 per cent per annum to economically weaker sections. The assistance is to upgrade the existing shelter to a limited but essential extent. The financial outlay and the quantum of employment expected is indicated in Table 10.

Table 10: Nehru Rozgar Yojana

	Financial Outlays, 1989/91 (Rupees in crores)			Target for Employment
	Budgetary Support	Institu- tional Finance	Total	
Urban micro-enterprises	110	330	440	150,000 beneficiaries
Urban wage employment	62	-	162	16,000,000 man-days
Housing and shelter upgradation	68	206	274	27,000,000 man-days
Training	30	-	30	70,000 persons
<b>Total</b>	<b>370</b>	<b>536</b>	<b>906</b>	

## INSTITUTIONAL ARRANGEMENTS

Urban services are a State subject. During the first four Five-Year Plan periods, concern for the subject was limited to specific towns particularly some State capitals. But action in this regard was considered to be mainly a municipal responsibility. Assistance from

the Central Government was limited to preparation of master plans for which the Town and Country Planning Organization, a technical agency of the Central Government, administered some grants. The Central Government's intervention came first in Calcutta because of the city's very serious deficiencies and the political unrest. The problem could no longer be characterized as local. In 1970 a special infrastructure improvement program was formulated for the metropolitan area and financially assisted by the Central Government. Pursuant to the Calcutta initiative, integrated urban development projects focusing on infrastructure were launched by the Central Government for some other cities.

During the Sixth and Seventh Plan periods there was a general tendency to shift the financial outlay and responsibilities for various centrally sponsored schemes to the State Governments. In keeping with this general tendency, schemes such as Environmental Improvement of Slums, Integrated Urban Development, etc. were transferred to the State sector. A modest scheme for the development of small and medium towns, however, continued under central assistance on a 50:50 basis. External assistance has also been an important source of funds though limited to some cities. The responsibility for formulating and implementing such externally assisted schemes is mainly that of State Governments and local authorities.

Local authorities are regarded as creatures of the State Governments and derive their powers and responsibilities entirely from the States. Over the years there has been a steady erosion of the financial base as well as responsibility of the local authorities. Specialized bodies at the State or regional level for water supply and sanitation, housing or area development have taken over such responsibilities while municipalities handled only limited functions such as street cleaning, enforcement of building regulations, etc. A consequence of this process of erosion has been that municipalities have lost much of their status and importance and are unable to attract or hold competent professional staff in any field. In 1989, a parallel initiative was taken to give constitutional recognition to both rural and urban local bodies, ensure regularity of elections, delineate functions and responsibilities and also provide for statutory Financial Commissions to determine revenue-sharing between States and local bodies. In the course of the extensive discussions which preceded the formulation of the Constitutional Amendment, most of the local bodies sought a role in urban poverty alleviation. The initiative also

included a significantly new provision for the creation of special planning bodies at the metropolitan level with the participation of Central and State Governments as well as local authorities.

The Nehru Rozgar Yojana, launched in 1989, was envisaged as a financial initiative parallel to a political/legal initiative. However, the political response to these initiatives was divided. One major objection was that while there was a strong need for decentralization from the State to the local authorities, there was also a need for decentralization from the Center to the States.

At the commencement of the NRY, Central Government funds for the program were made available directly to the larger town administrations, i.e., the Municipal Corporations (about 70). With the change of government in December 1989, this arrangement was reviewed and in May 1990 it was decided to channel all funds under NRY through the State Governments. The present arrangements envisage a department or office designated as the nodal agency at the State level for all urban poverty programs, a District Urban Development Agency (DUDA) similar to the District Rural Development Agency presided over by the District Officer for formulating the schemes and handling the funds and Committees at the local body level for assessment of needs and selection of beneficiaries. For the shelter upgradation component, the Housing and Urban Development Corporation (HUDCO) is the techno-financial agency providing a blend of loans and grants to local authorities, housing boards or slum improvement boards for implementing the schemes. During the financial year 1989/90 a sum of Rs 1,460 million (\$80 million) has been made available for the NRY program; the provision for 1990/91 is Rs 1,200 million (\$64 million). The institutional arrangements devised for the program are new and are yet to stabilize.

## **NON-GOVERNMENTAL INITIATIVES**

In considering efforts to alleviate poverty the tendency to club all initiatives outside the Government should be avoided. The role of the profit-making private sector in providing infrastructure services is different in nature and magnitude from what voluntary organizations seek to do. In many Indian cities, the private sector is involved in provision of services either citywide or for parts of the city but not necessarily targeted towards the urban poor. Public

transport is the most visible example. Except in Bombay and Madras, in most other metropolitan cities private operators ply regular buses, minibuses or para-transit vehicles covering a significant portion of the total travel volume. In Calcutta, for example, private buses account for nearly 60 per cent of the trips in the core area and almost the entire area in the rest of the metropolis. In regard to water supply, private sector operators provide bulk supplies in Madras to supplement city water services while vendors in the informal sector do much the same in some of the slums in Calcutta. Private sector involvement is also noticeable but not significant, in health care and education in the low-income areas. Whatever is the case for involvement of the private sector in the provision of urban services there is very little evidence available in the Indian experience to indicate that such services are being provided for the urban poor on any meaningful scale.

As regards the work of non-governmental organizations (NGOs) these may broadly be categorized as those originating and operating at the neighborhood levels and those operating at city or other levels. Sports or youth clubs are the organizations generally found in slums and other low-income settlements. These organizations do not take a direct role in the planning and delivery of services though they may be involved in one or two specific activities like nutrition, immunization or adult education. The creation of neighborhood committees (NCs) or voluntary bodies specifically for the purpose of delivering services to the urban poor is a recent phenomenon. In the UBS as well as the Integrated Child Development Services (ICDS) programs such an effort is a part of the scheme strategy itself.

In the UBS program there are arrangements for resident community volunteers (RCVs) to be trained and engaged in the UBS/ICDS activities on a part-time basis. For children in the 0-2 age groups *anganwadis* or child care centers are set up where immunization and nutrition work is done. For older children in the 3-5 years of age *balwadis* provide preschool education and organized women and children health care and other community services. At the *bustee* or neighborhood level committees are set up to help organize the work. The experience in Andhra Pradesh with such committees appears to be quite positive. In this State, NCs consisting mainly of RCVs took the responsibility for planning and implementing the program in their localities. Each RCV is expected to be in touch with

about 20 households for promoting awareness about the UBS program and ensuring that the women and children participate in the activities. Prasad reports that in the past five years 350 NCs were constituted with more than 3,200 RCVs in 16 towns in Andhra Pradesh under the UBS program. The RCVs are guided and supported by Community Organizers and Project Officers under the overall charge of the Municipal Commissioner. An important feature of NCs in Andhra Pradesh as well as in Orissa is that these committees consist entirely of women. The women volunteers also get training in various skills including maintenance of handpumps; the NCs also administer a small fund for the community for helping people in distress conditions.

Similar RCV and NC arrangements exist in other cities where UBS programs are run. Ongoing evaluation studies by the National Institute of Urban Affairs (NIUA) indicate that the RCVs are usually middle aged people, literate and with a stable income. The community development organizers appointed by the Government or the municipal authorities usually interact with these RCVs. In many cases the neighborhood committees or *bal vikas mandal* as they are called have a predominance of women though this varies from town to town.

These arrangements at the country level are used for running both UBS and ICDS programs. Usually the *balwadi* or *anganwadi* is the physical nucleus for the purpose. The crèche or day-care center for children in the 0-2 age groups in areas where casual, migrant or agricultural female workers gather is a feature of many *anganwadis*. There are about 35,000 of them in the country of which 40 per cent is estimated to be in urban areas. The number of *balwadis* catering to slightly older children are about 1,400 in urban areas. In each of them at least one trained worker who can handle pre-school education and other activities is recruited and compensated on a part-time basis. Usually they are appointed by the State or town authorities.

The examples of NGO actions at the city level are limited. Voluntary organizations widely recognized all over the country such as the Ramakrishna Mission are entrusted, in Calcutta, with administering the *balwadi* scheme in 10 municipal wards. In some other cities *mahila samitis* or women's groups (also citizens' groups) may be engaged likewise in the setting up of a few NCs, recruiting RCVs and helping in running the UBS activities.



Many of the citizens' groups or voluntary organizations in urban areas are activist groups concerned usually with environmental issues, planning and building controls, architectural conservation, etc. A comparative study on participation of citizens' groups in urban management reviewed the experience of three towns, i.e., Baroda, Rajkot and Indore. Of the three important organizations studied at Baroda, one was concerned with preservation of the architectural and cultural heritage of the city, another with air, water and noise pollution and a third, the Baroda Citizens Council, with improvements in the quality of life of the slum residents. The Council has taken up an integrated community development package comprising health, immunization, nonformal education and other activities similar to UBS as well as improvement for physical facilities in the slums. The Council works in about 40 different slums and mobilizes its funds from government external assistance agencies as well as its own contribution. It has a professional staff of nearly 50 persons and operates through community action groups in different localities. In the case of Rajkot a family trust and similar organizations have been running the *anganwadis*. Similar activity can be seen in Indore where 15 voluntary organizations are involved. In comparison the study found the Baroda Citizens Council particularly to be a successful example mainly because of its citywide approach, its professional setup and its ability to associate a number of local groups.

Such a federative or associational approach between voluntary organizations is not always easy to establish. The difference in the composition of the various organizations, the strong connections to particular activities or particular localities and the apprehension about a loss of identity run counter to the prospects of such an effort. In the case of Calcutta arduous attempts were made later in the 1970s to create a federation of numerous grass-roots organizations working in the slums of Calcutta so that the federative type of organization could emerge to address more effectively the common problems of slum dwellers. The effort did not succeed.

The pressures on the local government systems and the changes taking place also have their effect on urban community development. Many of the city corporations like Calcutta and Allahabad were in the vanguard of the struggle for independence. It is an unfortunate part of the country's political history that in the years after independence, the urban local bodies have been stripped of

their resources and powers; about half of the larger city governments, i.e., municipal corporations have been superseded at any given time and most have fallen into a morass of financial and functional bankruptcy.

Some efforts have been made in the southern states of Gujarat, Maharashtra and West Bengal, in the past decade, to revive urban local bodies. Regular conduct of elections, reservation of seats in the municipal council for women (in some States reservation of the municipal chairperson's post) and rationalized formulas for grants-in-aid are some of the important steps taken. But these measures, though much needed, are not in themselves enough to promote citizens' participation. The interaction between neighborhood groups or voluntary organizations and the elected municipal councillor in a given locality cannot be free of political implications. In Calcutta, for example, the municipal councillor's position is formally acknowledged to be superior to any other group in decisions about infrastructure services in a neighborhood; in Gujarat a citizens' group as in Baroda may have the same access as a municipal councillor to the city council or the State Government. The emergence of non-political voluntary organizations is an evolutionary process and its growth is facilitated or inhibited, as much by the initiative of the community as by the openness of the city administration. Where community development offices are dormant and slum leadership biased, politically or otherwise, the delivery of urban services continue to be administered in a bureaucratic manner (Bijlani).

## FINANCING MECHANISMS

Budget outlays in India, as in many other countries, are allocated and administered along sectoral lines. Expenditures in regard to the urban poor are usually to be found within the broad budget head of Social Services. In this category, allocations for water supply, sanitation, health and education are clubbed for rural and urban areas. In the case of housing and urban development allocations have been quite small: during the Third Plan period (1961-1966) it was about 1.5 per cent of the total outlay, 1.7 per cent during the Fourth Plan (1969-1974), 2.9 per cent in the Fifth Plan (1974-1979) and 2.6 per cent in the Sixth Plan (1979-1984).

Reference has been made earlier in this paper to the Minimum Needs Program which emphasizes the provision of basic needs for low-income and poor households across the country. Out of the nine items covered under this program only one, i.e., improvement of urban slums, is designed specifically for the urban poor. The size of allocations for the different items during the Sixth and Seventh Plan periods is indicated in Table 11.

Table 11: Minimum Needs Program:  
Sixth and Seventh Plan Outlays

Subject	Plan Outlays (Rs in million)	
	Sixth Plan	Seventh Plan
Elementary Education	9,050	18,300
Adult Education	1,280	3,600
Rural Health	5,770	10,960
Rural Water Supply	20,070	34,540
Rural Electrification	3,010	4,970
Rural Roads	11,650	17,290
Housing for Landless Workers	3,540	5,770
Improvement of Urban Slums	1,520	2,700
Nutrition	2,190	17,320
<b>Total</b>	<b>58,090</b>	<b>109,450</b>

Note: \$1 = Rs 18.5 approx.

It may be noted that while water supply is regarded as a basic need in rural areas there is no such priority for the urban areas. It will also be noted that compared to all other items the increase in the allocation for the improvement of urban slums has been the lowest.

This paper has to emphasize that the problems of the urban poor are not limited only to lack of income or irregular and poorly paid employment. Lack of physical amenities, poor shelter and sanitation, deprivation of education and health, criminalization, alcoholism, drug addiction, etc. are all very real and unfortunately increasing aspects of urban poverty and call for a multi-pronged strategy. The Seventh Plan marked the beginning of such a strategy which included the provision of gainful employment particularly of

women and youth, raising the earnings of the self-employed and improving the access of the urban poor to basic amenities. However, financing and institutional mechanisms for employment strategies continue to be limited and sectorally fragmented.

Such experience as the country has in cost recovery is limited to the shelter schemes. In the case of sites and services, land and on-site improvement costs are usually recovered by down payments and installment charges. Since serviced sites for the poor usually form part of larger layouts, cross-subsidization is attempted through differentiated price, interest as well as repayment schedules. Recovery from the beneficiaries of HUDCO, which finances many such schemes, varies widely from 30 to 90 per cent. In the case of slum upgrading, recoveries are attempted only where the title of the plots is conferred or shelter upgradation loans are given. Collateral mechanisms such as group guarantees as well as cooperatives have been tried out. Experience indicates that in regard to shelter the problem is much more of effective recovery rather than affordability per se.

User charges, if any, for urban services are limited to water supply but for other urban services local authorities depend on property taxes. In a comparative study of experience in 20 cities it is seen that only 7 can meet operations and maintenance costs for water supply and only 2 can meet both O&M as well as debt servicing. As regards indirect methods of cost recovery these are usually limited only to property taxes levied by local authorities. The widening gap between increasing property values on the one hand, and the shrinking proportion of property taxes realized by the local authorities on the other, continues to be a serious problem in the urban areas of India. Even where the yield from property taxes rises these are swallowed by increasing staff costs and are not applied to the provision of services, far less, services for the poor. Schemes for the urban poor are, therefore, usually financed through state and central government allocations.

The World Bank-assisted urban development projects in Calcutta, Madras, Bombay, etc., the Habitat projects financed by the Overseas Development Agency (ODA) in Hyderabad, Indore and Vijayawada and the UNICEF assistance to the UBS/ICDS schemes comprise external assistance to development schemes for the urban poor. In addition, some bilateral donor agencies also assist NGOs as in Baroda in UBS/ICDS schemes. There are 12 projects, ongoing,

assisted by the World Bank in the nature of water supply and sanitation or urban development projects. While the urban development projects include improvement components such as sites and services and slum upgrading, water supply and sanitation projects are for augmentation and improvement of the city system as a whole though some special provision is made for improving services in low-income areas. Out of the 12 projects 6 are designed for metropolitan areas, i.e., Calcutta, Bombay, Madras and Hyderabad and the remaining are multicity projects in the States of Tamil Nadu, Gujarat, Kerala and Uttar Pradesh. Together the project costs total Rs 2,965 crores (approx. \$1.6 billion). About half the amount is expected as reimbursements from the World Bank. As compared to the total Seventh Plan outlay of about Rs 4,230 crores this amounts to a little more than 5 per cent.

The real significance and value of external assistance in these projects have been mainly in project design and adherence of the target orientation for the urban poor. For example, in the Tamil Nadu Urban Development Project, covering several towns in the State, about 55 per cent of the plots in the sites-and-services component would be affordable to very low-income families, at or below the poverty level in the 10th to 40th percentile of a given city's income distribution. Another 20 to 25 per cent of the plots would be accessible to the 40th to 60th percentile. Similarly, about 70 per cent of the slum upgrading beneficiaries would be below the poverty line. In the case of Bombay the project design envisages nearly full-cost recovery for the serviced sites and upgraded slum units from beneficiaries through charges for land, infrastructure and loans for home improvements in the form of cash down payments and monthly installments. These are but two examples of project agencies in the country working closely with external assistance agencies, in shelter and slum upgrading design. However, in the provision of other urban services external assistance has not been able to accomplish much of a difference. Apart from a scheme for income support for slum dwellers taken up in Calcutta, World Bank-assisted projects do not include such schemes elsewhere.

The ODA-assisted Habitat schemes focus mainly on slum upgradation. There are four ongoing projects at present with a total cost of about Rs 188 crores (\$10.16 million). Unlike the World Bank pattern, ODA reimburses 100 per cent of the costs. The projects are very much a continuation of the ongoing program of environmental

improvement of urban slums combined with UBS. As yet, no other external assistance agency is involved in a multicomponent package for the urban poor.

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# Indonesia

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# Indonesia

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## EXECUTIVE SUMMARY

From 1976 to 1987 the absolute number of urban poor in Indonesia has remained constant at approximately 10 million people. In percentages, however, the poor have declined from 40 per cent of the urban population in 1976 to 20 per cent in 1987.

In rural areas the achievements have also been dramatic with sharp declines of the poor both in numbers and percentages over the same period (from 44 to 20 million and from 40 per cent of the rural population to 16 per cent, respectively).

Although the number of urban poor has remained constant, the people involved have not. The towns seem to attract large numbers of migrants from the rural sector and this influx maintains the number of urban poor which otherwise would decline. This implies that many of the urban poor are actually in the transition phase from rural poor to urban low and middle-income groups. This notion has important implications for the Government's response to the urban poverty problem.

Expenditure patterns of the poor and the near-poor are strikingly similar. Up to the 75th percentile income group, more than two thirds of household expenditure goes to food. This country report, therefore, addresses both the urban poor and the lower-income groups when discussing land, shelter and infrastructure provision.

The urban poor and lower-income groups need low-cost shelter in a safe environment strategically located near sources of work, or within reach of reliable and cheap transportation. Urban land close to places of work is scarce, if at all available. In the urban fringes such land may be available but access to reliable and cheap transport is then a problem. As a result, large numbers of the urban poor and lower-income groups live in crowded neighborhoods. To a limited

extent squatting takes place on public land and areas unsuitable for occupation.

Most land available for occupation by the lower-income segments of society is not covered by formal title but is handed over to individuals according to the *hak adat* or *girik* rules. The transfer is generally witnessed by local officials (*camat/lurah*) and the new owner is required to pay land taxes. Over the years tenure security will increase because tax receipts and proof of paying public charges are considered for compensation assessment in case of (public) eviction. Over the years some landowners may even acquire formal titles (*hak milik*, etc.).

Strategies for provision of urban infrastructure in Indonesia have focused on supply of urban land and in-situ community upgrading. Innovative approaches in land management with the focus on access to urban land for low-income households have been implemented. The Kampung Improvement Program (KIP) is directed at improving living conditions in urban low-income neighborhoods and has benefited the poor. The water supply program has failed to achieve its objective of supplying water to the poor and near-poor in the numbers required (50 per cent of the supply population). The number supplied by public taps or other public facilities are more on the order of 5-10 per cent of the supply population.

The challenge for the coming period will be to maintain the present self-provision momentum for urban land and shelter for the low-income groups.

The public sector's role will be more that of an enabler and stimulator of initiatives by the private sector and individual households. A Physical Planning Act will give the Government the legal basis for improved land management. Efforts will be made to increase community participation through non-governmental organizations (NGOs). The Integrated Urban Infrastructure Development Program (IUIDP/P3KT) and the Regional Development Account (RDA) will encourage the strengthening of local governments and provision of financing to them. Community-based schemes for financing small-scale infrastructure improvements may also be considered.

## COUNTRY BACKGROUND

Indonesia is an archipelago of 13,500 islands, comprising a total land area of nearly 2 million sq km. With an estimated population of over 180 million in 1990, Indonesia is the fifth most populous country in the world. Although strenuous efforts to limit the population growth rate have resulted in an appreciable fall to below 2 per cent per annum, the large-base population below 15 years of age still implies appreciable growth in the future.

The distribution of population in Indonesia is very uneven. The islands of Java and Bali, covering just over 7 per cent of the total land area, contain almost 65 per cent of the total population. The Government seeks to alleviate population pressure on these islands through a voluntary resettlement or transmigration policy, opening up undeveloped land in scarcely populated regions and providing it with basic infrastructure. This policy, together with the family planning program, has resulted in reducing the proportion of the total population in Java and Bali.

The urban population is projected to grow from 33 million (22 per cent of the total population) in 1980 to 76 million (36 per cent of total projected population) in 2000, an annual growth rate of about 4.3 per cent compared with an estimated average population growth rate of 1.8 to 1.9 per cent per annum. About two thirds of the 1980-2000 population growth will accrue to urban areas requiring approximately one million hectares of rural land to be transformed into urban land.

Agriculture and mining are the dominant economic sectors. Agriculture remains the largest single source of income and employment opportunities. Deregulatory measures have stimulated the non-oil export sectors, allowing Indonesia to overcome the sharp decline in oil prices in the 1980s. The manufacturing sector expanded during the last 20 years, and this was also due to economic reforms.

The provision of adequate employment for the rapidly growing labor force is a key economic policy objective and strong preference is given to development projects with a high potential for employment-generation. During the 1970s the unemployment rate was substantially reduced, but it has been on the rise again since the early 1980s.<sup>1</sup> During the current Five-Year Plan period (Repelita V, 1989-1994) the labor force is expected to grow at an annual average rate

of 3 per cent, from 74.5 million in 1988 to 86.4 million in 1993. The Government anticipates that a real GDP growth of at least 5 per cent per annum will have to be achieved to absorb the increase.

Wage rates in Indonesia are among the lowest in Asia. The lowest wage levels occur in the estate sector and in the heavily populated rural areas of Java and Bali. Higher wages are paid in the mining and manufacturing sectors and in the urban areas of Java. The highest wage rates can be found in some of the less populated islands of Indonesia, particularly where there is a strong demand for specialized labor for new investment projects.

## PAST APPROACHES AND EMERGING CHALLENGES

### Nature and Magnitude of the Problem

The earliest estimates of poverty in 1970 indicated that 60 per cent of the population or about 70 million Indonesians were living in absolute poverty. Since then the conditions have significantly improved and presently the number of people living in poverty has declined to less than 20 per cent or about 30 million Indonesians. The CBS Poverty Line is based upon a minimum daily calorie intake and an allowance for other basic necessities. The minimum daily calorie intake is set at 2,100 calories. The other basic necessities component allows for differentiation between urban and rural.

Table 1: Number and Percentage of People  
Below the CBS Poverty Line  
(1976-1987)

Year	Number of Persons (million)			Per Cent of Population			Urban as Percentage of Total
	Urban	Rural	Total	Urban	Rural	Total	
1976	10	44	54	39	40	40	19
1978	8	39	47	31	34	33	20
1980	10	33	42	29	28	29	22
1981	9	31	41	28	27	27	23
1984	9	26	35	23	21	22	27
1987	10	20	30	20	16	17	32

Source: Mackie and Sjahrir (1989), p. 8. Derived from CBS (1989a).

The salient point of the above table is the constancy in the number of urban poor compared to the steady decline of the rural poor. Although supporting data are missing, it seems reasonable to expect that significant numbers of rural migrants have been accounted for as urban poor during the transition period of becoming urban citizens. Urban immigrants have faced a period of decline, while adapting to urban rules and acquiring urban skills, after which most of them have obtained more or less stable jobs and have risen above the poverty ranking. Cities are still absorbing the rural poor and upgrading them into lower and middle-income urban citizens.

The differences in income and living conditions between the poor and the large masses of urban people just above the poverty line are small. When the poverty line criteria are raised by only 35 per cent the combined number of poor and near-poor almost doubles.

### **Needs of the Urban Poor for Infrastructure Services**

A large part of the urban poor are marginalized rural immigrants. They move to the towns as unskilled labor and without knowledge of urban rules. Living costs in towns are far higher than in rural areas and the immigrants have to meet those costs with the small wages from insecure jobs as daily laborers. The basic problem is that in rural areas bartering of goods and services is acceptable, while in the urban areas everything has to be paid for in cash.

Most of the rural-urban migrants, therefore, face a deterioration of circumstances in the early periods of staying in urban areas. But they learn fast and with the help of family, friends and acquaintances from the same village, they manage to acquire stable jobs. They learn new skills and gradually they are able to improve their income and living conditions. However, not all have the endurance to go on, especially the handicapped, physically disabled, illiterate, widows or single parents.

Given the above, we will have to differentiate approaches between the poor still in the process of transition from rural to urban and those that have failed for one reason or another, who have become the hard-core urban poor without the urge (or ability) to improve.

Shelter is of prime importance to begin with. Land is scarce and extremely expensive in the center of the towns near job oppor-

tunities. The alternative, moving to the urban fringe, offers some relief in the costs of land and shelter, but greatly increases inconvenience and adds transportation costs.

Many immigrants end up staying with relatives or friends, crowding small dwellings, till they find stable jobs and are able to move to the urban fringe. Those without relatives or friends and the hard-core urban poor are forced to look for alternative solutions. They often occupy or encroach on wastelands that are not suitable for development such as steep slopes, flood-prone lowlands, borders of railroads and canals, cemeteries, etc.

Construction of dwellings in towns is more expensive than in villages because cheap building materials (sand, gravel, stones, bamboo, wood) are scarce and must be paid for in cash. Furthermore, building regulations increase the costs (roof tiles instead of thatched roof, etc.). But gradually neighborhoods with temporary constructions develop into semi-permanent and even permanent settlements. In this transition process, the poor start with limited access to infrastructure services (see Table 2).

Table 2: Percentage of Households Occupying Dwelling Units with Selected Characteristics by Income Class

	Household Income (Rp '000 per month)				
	0-49	59-99	100-199	200-399	400+
Has own kitchen	85.6	87.0	93.8	97.4	98.2
Has access to bath	79.3	88.6	92.8	96.7	99.6
Power supply $\geq$ 450 watts	30.6	45.0	60.9	83.0	91.4
Water piped into unit	14.7	14.6	20.8	43.3	71.7
Garbage collection	18.6	29.2	33.6	52.2	69.5

Source: "Urban Housing Studies", The Urban Institute/Hasfarm Dian Konsultan, March 1989.

New urban migrants look for wells for their drinking water and for rivers/corals for bathing and washing. Rivers and corals in towns are often polluted, however, and particularly in high-density *kampungs*, where toilet pits are too close, wells are also often polluted, inhabitants of such areas, therefore, often depend on piped water or buy water from private water vendors. Both solutions require cash payments which is a difficult situation for the poor.

Sanitation facilities built without adequate supervision are very unsatisfactory and tend to contaminate drinking water supplies.

In high-density *kampung*s space for composting and/or burning and burying garbage is lacking and the sheer amount of garbage produced forces communal collection and external disposal. Generally, garbage is thrown into drains, canals and rivers. As a result, densely populated areas are regularly flooded because of clogged drains.

Scarcity of land often forces the urban poor to occupy marginal lands subject to flooding or with poor drainage subjecting them to risk of drowning, disease and damage to their houses which can cause a failure of the economic development process for these people. Due to urbanization and high densities, rainwater runoff on urban areas has increased dramatically. Natural watercourses are often unable to manage such shockloads. The indiscriminate discharge of garbage into the drains and waterways, furthermore, adds to the failure of drainage.

For transport most urban poor walk but pedestrian facilities are limited and the absence of walkways, protected crossings, etc. make life for the urban pedestrian very unpleasant. Public transport is, when compared with its operation costs, cheap and abundant. However, for the poor the aggregated cost easily reaches 10 to 20 per cent of their monthly income, while during peak hours often there is a long wait. These services have to be provided to the poor but only at the level where they can afford them and thereby absorb the benefits.

### **Past Strategies for Access to Infrastructure Services**

When concentrating on urban infrastructure and services the following areas require further elaboration: urban land, housing and infrastructure provision.

Regulatory measures to curb land speculation are urgently required and the Government hopes to create the legal basis for improved land management through the forwarding of a Physical Planning Act. The need for land is huge, however, and asks for action at this stage. Some pilot projects have been implemented to address the urban land scarcity problem although the legal framework is pending.



In a number of provinces, Land Consolidation (LC) projects have been started or implemented. In these projects landowners bring in unserviced land on a voluntary basis. With government assistance, development plans are made for the total area, and reservations are made for public land for infrastructure services, while some plots are reserved for selling to outsiders to cover the development costs. The owners get back a smaller portion of land, which now is serviced and has a higher value than before. In some instances, the voluntary approach has worked, but clearly the opinion is that reluctant or greedy owners/speculators should be forced by law to participate in such schemes.

DKI Jakarta has developed a Land Betterment Tax to reap profits from the land price increases caused by improvements/new infrastructure developments with public funds. An assessment is made of the increase in land value due to the improvements and a tax is levied in case the owners sell their land to reap the enhanced value.

The Guided Land Development (GLD) project proposals are also based upon the betterment principle and betterment taxes are used to cover the development costs of the main urban grid. The expectation is that the poor can occupy the inner grid area and can connect to the main infrastructure systems paid for by the increased price of the land adjacent to access roads of the main grid. Implementation is imminent in the Jabotabek and Medan metropolitan areas.

The provision of housing stock has largely been a private sector affair with the Government in an enabling or pioneering role. An analysis of urban housing needs indicated that the urban housing stock developed from 2,155,000 units in 1961 to 6,450,000 units in 1983. It also concluded from the census data that the quality of the housing stock improved from a temporary/semi-permanent/permanent subdivision of 55/25/20 per cent in 1961 to an estimated 30/32.5/37.5 per cent in 1983. The rapid increase of the housing stock and the gradual improvement of its quality are supported by an annual development program that tries to meet the demand. The annual demand has been calculated as given in Table 3.

Table 3. Development of Urban Housing Stock until 2000  
(million)

Year	Stock	Replacement	Households	Backlog	Growth	Total
1980	5.570	0.279	6.170	0.033	0.309	0.620
1985	7.440	0.372	7.875	0.033	0.394	0.799
1990	9.780	0.489	10.050	0.033	0.503	1.025
1995	12.722	0.636	13.827	0.033	0.641	1.310
2000	16.431	NA	16.371	NA	NA	NA
Total		1.776		0.132	1.847	1.864

Source: "Rapid Urbanization in Indonesia - Technical Answers and their Affordability", W.B.M. Stolt, 1985. Paper for Dies Natalis XXXVI of Technical Faculty, University of Indonesia.

The public contributions to the above development efforts have been restricted. The state housing firm Perum Perumnas using Bank Tabungan Negara (BTN) mortgage funds has a target of providing annually 25,000 units and 5,000 sites-and-services plots during Repelita V.

The Government hopes to stimulate the private sector to build an additional 60,000 units and 5,000 plots (S&S) per year for the medium, moderate and lower-income groups using the subsidized BTN and PT Papan Sejahtera (PTPS) mortgage funds. In the 12 metropolitan and large cities, the Government intends to stimulate production of 4,000 rental units annually by the private sector. When including urban renewal efforts and provision of housing units to government personnel and military, the public provision may be in the order of 10 per cent of the required one million units in 1990.

Only the higher-income groups can afford formal housing, be it public or private sector developments. In a recent presentation the following supply grouping and distribution target was proposed (see Table 4).

Table 4: Target Groups in Repelita V

Target Group	Percentile	Supply
Very low income	0-20	<i>Kampung</i> improvement
Low income	20-70	Core housing
Moderate income	70-90	Low-cost housing
Medium income	90-98	Medium cost
High income	98-100	Luxurious

It was stressed in this presentation that the increase in income is slower than the price increase of formal housing and that, therefore, the formal market can serve only higher-income groups in 1989 compared with 1985.

Infrastructure provision by the public sector has hardly reached the urban poor. Only the *Kampung Improvement Program* (KIP) has been directed at improving the living conditions in urban villages. Although the moderate-income group may have benefited most from the improved economic opportunities (see above), the low-income and poor inhabitants have benefited from improvements in the safety of their living environment, the health situation and the environmental conditions. The KIP program has consequently been extended to the over 300 metropolitan, large and medium-size cities and towns throughout Indonesia. It has covered over 43,000 ha and served more than 6 million urban inhabitants.

The KIP program is conceived as a *perintis* (stimulus) program with fixed central government grants of Rp 2.8 million (\$1,500) per ha. The idea is that communities, local governments and others would provide their share of the cost of the program. The cost for bringing a moderate-density (200 persons/ha) neighborhood to an agreed level of basic services was estimated at Rp 4 to 6 million (\$2,150 to \$3,250) per ha in 1980. Inflation has substantially increased the costs and presently a similar improvement package requires Rp 12 million to Rp 20 million (\$6,500 to \$11,000) per ha. The central government contribution has thus been reduced from 50 per cent in 1980 to 15-25 per cent in 1990. Additional funding was expected from community, private sector, local governments and donors.

A survey of KIP impact in Botabek and Cirebon found that the community invested Rp 1.9 million in private improvements for

every Rp 1 million invested by the Government. Private sector contribution has hardly been pursued, while local government participation has been sporadic. Budgetary regulations made it very difficult for the local governments to commit finances to match the central government agencies and often the local governments contributed by financing development programs in adjacent neighborhoods.

The strategy used for water supply has been to provide public standposts. Fifty per cent of the supply area population was to be served by public taps. Implementation has, however, been very different from the above goal. Water firms have faced problems in providing water to more than 30 per cent of the urban populations. High water losses and decreasing source production combined with poor management did not achieve reliable provision of water to the customers, while connection costs were such that only a small portion of the population were able to afford house connections. Nominal fee-paying social connections are considered by most water companies as placing too high a financial burden on their operations. As a result public standposts serve only about 10 per cent of the supply area population, and many of these are in disrepair. Through installation of PDAM (local government water firm) Management Development Units (PMDUs) the provincial governments are trying to improve the performance of water firms.

Human waste management is considered by the community as a private affair and to a substantial level (77.8 per cent) private (full or shared) sanitary facilities are available. The urban poor have less access to such facilities (62.6 per cent) and make more use of communal bathing, washing and toilet facilities (MCKs) (7.1 per cent). However, a large portion (30.3 per cent) has no facility at all. Under the KIP programs public toilets are provided as part of more integrated (MCK) facilities. The number of these is limited because the communities do not want public facilities, thus, problems occur in obtaining land to build. Shared facilities (MCK *keluarga*) for three to five households are smaller, less public and more easy to place and have found, therefore, a better reception by the community. But poor construction by the contractors and lack of operations and maintenance have led to substantial abandonment dates of these facilities long before the technical write-off date. Human waste management programs in small towns have therefore, emphasized motivating families to construct their own facilities, while suggest-

ing construction of MCK facilities in public places such as markets and bus stations. Credit schemes are being considered but are still in an experimental stage.

A number of pilot sewerage schemes, either conventional or using appropriate technology, are under construction (Jakarta, Bandung, Medan and Cirebon) or recently concluded (Tangerang). These projects have, however, met with substantial technical, financial and institutional problems. Connection payments and monthly fees are such that only through heavy public support and cross-subsidization may a small part of urban poor be reached, thus, replication seems difficult.

Solid waste collection and disposal is a combined effort of the individual family (composting, burying, burning), the community (collection and disposal) and the public sector (collection at plot or transfer station, transport and final disposal). Public programs support local government (Tingkat II) garbage collection and disposal agencies with provision of facilities (receptacles, transfer stations) and equipment (bins, carts, trucks, etc.). Assistance is also given to the strengthening of these agencies. Provision of collection facilities and equipment is done under the KIP and sanitation programs, while through information campaigns and special training institutional strengthening is being pursued.

Flood protection and management of surface water are handled by the Directorate General of Water Resources (DGWR) through their local offices. In urban areas management of rainwater is complementary to the DGWR activities. Substantial funds have been used by the Directorate General for Human Settlements (DGHS) to develop in close cooperation with local governments secondary and tertiary drains based upon detailed plans. Quaternary drains are addressed by the local governments as part of their ongoing Kampung Improvement Programs. *Kampung*s are often overlooked or considered too expensive to be included in drainage improvement programs.

The urban transportation network is extensive and served by fleets of double-decker buses, *microlets*, *bajajs*, *becaks* and taxis. Up to 80 per cent of the urban population makes use of the public facilities available. The bus companies in the metropolis have become near-public enterprises. Through subsidies, deregulations and tax exemptions, strong stimulus is given to the private companies to upgrade their fleets. Special lanes for public transport reinforce

efforts to increase the efficiency of public transport. The fares are still very low because gasoline prices have remained moderate but this may not be for long. The urban road and transportation system is growing at a record of 4.3 per cent per year. Existing networks have to be expanded and upgraded, while new networks have to be developed. The urban poor hardly benefit from road development and betterment activities. Only a few reap the economic opportunities of improved access and improved transportation for their produce. More often the poor are victims of development activities which deprive them of part or all of their plot to make way for new highways and roads. The projects hardly address the relocation issue but just commit compensation funds for the affected.

### **Future Policy Challenges**

Infrastructure development, their operation and maintenance is the responsibility of Tingkat II (local) governments. The Tingkat IIs will have to take over from central and provincial governments the task to analyze local conditions, to formulate development programs and to design and implement the required improvements.

The provincial governments will provide technical assistance to Tingkat II for implementation, while monitoring their outputs. The central government will concentrate on formulation of policies and strategies and on negotiations with foreign and domestic donors. But a substantial part of more complex and technically difficult projects still have to be prepared and implemented under the direction of provincial and central government offices. In the present decentralization drive, a corresponding challenge will be to maintain the focus on alleviating the plight of the (urban) poor. Strategies developed at local level may give priority to other development sectors that may only indirectly benefit the urban poor.

With regard to the management of urban land, the challenge will be to see the Physical Planning Act passed. Formulation of by-laws and regulations that are to give the law its executive tools will be the next challenge. Priority should then be given to the issue of access to urban land for the urban poor at locations near to sources of work. Land consolidation and guided land development schemes should pay sufficient attention to the position of the lowest-income groups.

Where the formal sector has difficulties in reaching below the 50 percentile group new approaches will have to be developed. Stimulation of housing cooperatives through issuance of permits and bank guarantees may be explored. On the rental market provision of units or rooms in row constructions (*rumah gubuk* and *rumah petak*) may be supported in order to create better living conditions at affordable prices.

In water supply programs, the challenge will be to include the poor group so that internal cross-subsidization becomes possible without endangering the viability of the water firms.

Credit schemes seem to be the most obvious tool to meet the challenge of improving the sanitary facilities of the lower-income groups. The lowest-income groups, however, may require public facilities, but then the negative aspects of the present MCK-*umum* will have to be addressed first. Community solid waste collection should be stimulated further and the complementarity with the public system should be stressed and translated in attuning both systems. Cross-subsidization should allow the urban poor to participate for little or no fee.

The challenge in drainage will be to serve the living areas of the urban poor and also to address the problem of satisfactory relocation.

## **ROLES OF DIFFERENT LEVELS OF GOVERNMENT**

### **The State as Provider and Enabler of Services**

The causes and consequences of poverty are multidimensional and require attention and actions on almost all levels and on all segments of the nation. To obtain the most optimal effect of the actions envisaged the State should take an active role by enabling the community and the private sector to address the share of the problems they are able to solve, while assuming its role as provided for those problems that are considered the responsibility of the State. The coordinating function, followed by formulation of policies and strategies and hopefully resulting in action by all involved, entails active management at all levels of government.

The Government of Indonesia is strongly committed to the cause of poverty reduction. It also acknowledges that, apart from

direct poverty alleviation programs (e.g., economic development and creating of job opportunities), improvement of health care, education, suitable land, shelter and infrastructure creates the basis for the poor to make the most of offered opportunities.

Improved health care and especially education have strong potential to strengthen the chances of the poor to move to higher-income levels. The land, shelter and infrastructure sectors that are the focus of this country paper, however, are very important to sustain the impact of better health care and improved education. Poverty alleviation has been added as a separate topic to the urban policy agenda. This entails that government actions in these three sectors are especially targeted on the poorer sections of society. As such, poverty alleviation programs will have to be strengthened within the following general framework of urban infrastructure development policies:

- (i) Development of urban infrastructure, including operations and maintenance, is within the authority and responsibility of local governments, with the assistance and guidance of the provincial (Tingkat 1) and central governments.
- (ii) Planning, programming and implementation of investment priorities for urban development by all levels of government will continue to be improved by means of a decentralized and integrated approach which has started through the Integrated Urban Infrastructure Development Program (IUIDP/P3KT) system.
- (iii) In order to develop local government responsibility for providing urban infrastructure services, the emphasis will be on local resources mobilization and the improvement of the capability of local governments to optimize the use of such resources. Local resources to be mobilized include revenues from local taxes, fees, tariffs and other charges as well as more effective utilization of community participation and private sector partnership in the provision, operations and maintenance of urban infrastructure services.
- (iv) To improve the financing system of local governments, the following steps will be taken:



- (a) strengthening the central-local government borrowing scheme to enable local governments to meet the effective demand for urban infrastructure investment;
  - (b) making the central-local grant system more responsive to social, economic and strategic policy requirements; and
  - (c) providing incentives for local resource mobilization.
- (v) The capability of provincial (Tingkat I) and local (Tingkat II) governments will be enhanced to enable them to perform efficiently their increased responsibilities in the area of urban development through institutional development, procedural improvement and training in the framework of a coordinated program of local government institutional and manpower development.
- (vi) Coordination and consultation between the various agencies and levels of government (central, provincial and local) involved in urban development will continue to be strengthened for the smooth implementation of development activities and to provide a mechanism for review and formulation of future sector policy recommendations.

Land policy and housing issues are not covered under the above policy statement and have to be addressed separately. It should, however, be clear that for these two sectors, the Government of Indonesia has opted for the role of enabler, leaving it largely to the market forces to direct these sectors.

Provision of suitable land is left to the individual household or the real estate developer, with the Government in a monitoring role. Formal titles to land and its use are limited to 20-25 per cent of the urban areas, but the remainder is covered under *adat* rights (see Table 5) that include traditional rights of full ownership evidenced by tax receipts.

Table 5: Land Rights Established Under the Basic Agrarian Law (BAL)

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<b>I. <i>Hak Atas Tanah</i> (Land Rights)</b>	
<b>A. <u>Primary Titles</u> (derived directly from the State)</b>	
1. <i>Hak Milik</i>	right of ownership
2. <i>Hak Guna Usaha</i>	right of exploitation
3. <i>Hak Guna Bangunan</i>	right of building
4. <i>Hak Pakai</i>	right of use
5. <i>Hak Pengelolaan</i>	right of management
<b>B. <u>Secondary Titles</u> (granted by other titleholders)</b>	
1. <i>Hak Sewa</i>	right of lease
2. <i>Hak Usaha Bagi-Hasil</i>	right of sharecropping
3. <i>Hak Menumpang</i>	right of lodging
4. <i>Hak Gadai</i>	right of land pledge
<b>II. <i>Hak Jaminan Atas Tanah</i> (Security Rights)</b>	
1. <i>Hak Tanggungan</i>	right of security

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Source: "Urban Housing Studies", The Urban Institute/Hasfarm Dian Konsultan, March 1989.

When land rights are transferred from the old to a new landowner, this in general takes place in the presence of local officials such as *camats* and *lurahs*. Such transfers are considered legal and form the basis for collection of land tax by the *camat/lurah* thereafter. For the new landowner the tax receipts will become the proof of ownership.

Even transfer of squatting rights are monitored by *camats* and *lurahs* and here, too, contributions for public rights or services (e.g., payments for garbage collection) may create anti-eviction rights and provide, over time, some security of tenure.

Applying for formal titles is not common as shown by the overall coverage of formal titles, partly because of the time and money-consuming procedures (0.5 to 4.5 years) and the number of

supporting documents required as stated in the draft Housing Policy Studies (The Urban Institute and Hasfarm Dian Konsultan, 1989).

*"The high quality requirements both for the unit and related infrastructure services and land title place the costs for formal housing beyond the reach of most households at the time of unit development. However, as the years pass some households are able to improve their units and to strengthen their land title to the point at which they at least approximate the standards of the formal sector."*

The housing market, similarly with the land market, is largely a private affair, with the Government having an enabling and to a limited degree also a stimulating/provider role. More than one million new units are required each year to maintain the urban housing stock, overcome the backlog and to meet the demand of the added urban population. Housing mobility (both for owners and for renters), however, is limited because continued occupancy accords to the occupants specific rights that accrue with the duration of the occupancy.

The Government has a responsibility in ensuring that all citizens have access to shelter (basic human rights). But the application of high quality standards, building permit and formal land titles requirements would, as stated before, place costs beyond the reach of most households. The Government condones development of appropriate and affordable standards.

Through Bank Tabungan Negara (BTN), the Government provides capital to Perum Perumnas for building low-cost housing and even core house units in an effort to lower the threshold for obtaining a house in the formal sector.

Both Perum Perumnas and the formal building sector (developers) serve the market segments above the 50 per cent percentile group and are very hard pressed if they have to cater to clients below that level. This is aggravated by the fact that income increases have been slower than price increases of the formal housing sector. This means that only higher-income groups can be served in 1989 compared with 1985 (Menpera, 1990).

The State is the provider of infrastructure services to its communities in water supply (30-45 per cent), drainage (75-90 per cent), human waste management (10-20 per cent), solid waste management

(45-60 per cent), access and circulation (60-80 per cent) and transportation (45-60 per cent).

Contributions of the community focus on on-plot services (human waste services, water supply) and on services in the neighborhood (solid waste collection and disposal, and operations and maintenance of neighborhood facilities).

The private sector is involved in transportation and to a limited account, in provision of access roads and provision of roads and services in estate developments.

### **Institutional Arrangements and Strategies for Land Management, Housing and Infrastructure Services**

With the establishment of the Badan Pertahanan Nasional (BPN), the Government has made it clear that it intends to develop improved monitoring mechanisms to the land management issue and improve tax revenues from land and building taxation (*pajak bumi dan bangunan*). BPN is the former Directorate General Agraria from the Ministry of Interior and has deconcentrated offices in the provinces and in the *kabupatens* and *kotamadyas* (Level II local governments).

The GOI has acknowledged the role of the individual family and of the private sector in housing by establishing a Coordinating Ministry of Housing. The Ministry provides the platform for the community (individuals, housing cooperatives, renter organizations) and for the private sector (landlords, real estate developers) to discuss housing issues with involved government agencies. The Ministry also stimulates innovative approaches to the provision of housing and rental units and tries with other government agencies to provide a fertile ground (both in terms of finance and permits) for new developments. BTN and Perum Perumnas are actively trying to reach lower income levels than has previously been achieved. One of the new strategies under Repelita V is the target of 50,000 units (25,000 via Perum Perumnas and 25,000 via private developers) in the form of serviced plots. BTN has expressed its willingness to assist housing cooperatives through preferential treatment when they apply for loans. On a pilot case basis a guarantee fund is under consideration for a group of cooperatives in Bandung that would lower the access threshold to loans and mortgages for cooperatives.

When considering the public activities in the development of infrastructure and provision of services, we have to refer back to the six-point policy statement earlier stated. This was necessary to reverse the existing strategies for developing the sector. Till the start of the Integrated Urban Infrastructure Development Program (IUIDP/P3KT), infrastructure development was the responsibility of the sectoral directorates within the Department of Public Works and their deconcentrated offices in the provinces and at local level. A similar approach also existed with other sectoral departments for their development responsibilities (communications, agriculture, etc.). Provincial and municipal agencies were left with the task to operate and maintain the provided facilities and to meet local demand or fill provision gaps with their own scarce resources.

Central approaches to infrastructure provision have proved too remote from the local conditions to effectively provide services to those communities. Given the geographical distances and lack of knowledge of local conditions, tailor-made solutions were not possible. The centralistic approach also hampered the assessment of local needs, of the willingness of potential clients to participate in the program and of their ability to pay for the provided services.

The continuing demand for infrastructure, however, stimulated local and regional governments to develop the skills to assess needs, to formulate infrastructure programs and to operate and maintain services themselves. Building on these experiences the pressure mounted to adopt alternative approaches to the provision of infrastructure and to transfer responsibility to the Tingkat II agencies.

The adaptation of the new policies for urban infrastructure development has given the formal fiat to the implementation of this new approach and the IUIDP/P3KT presently directs the government agencies at all levels to provide the infrastructure services as required.

The integrated approach includes:

- (i) physical integration of the various infrastructure sectors. When providing piped water, access roads or a sewerage system, this has to be combined with discharge of wastewaters, drainage and garbage collection. Sectoral integration is a keystone to the present policies and the requirement that development proposals are accompanied

by impact analysis strongly supports implementation of the policy;

- (ii) financial integration which should lead to the merging of funds in one basket, the so-called Regional Development Account (RDA) of central, provincial and local government sources together with contributions from private sector, community and donors; and
- (iii) institutional integration where efforts are undertaken to have the managing institutions review the whole process of infrastructure development and service delivery.

### Centralized vs. Decentralized Approaches

With the Government adopting a policy of restraint towards enforcing quality standards and requesting legal titles and permits, the sectors of land provision and shelter provision are monitored by the *camats* and *lurahs* with the local offices of the BPN acting as registration offices for formal land titles only.

Bank Tabungan Negara and Perum Perumnas are trying to extend their services with more branches and sites. It may, however, be questioned if provision of mortgages should not be deregulated and also other banks be allowed to extend subsidized mortgages.

In the policy statement on urban infrastructure development the position of the local (Level II) government as manager of the development process is clearly stipulated: provision of infrastructure at adequate levels is the responsibility of the Level II governments and their communities (Article 1 of Policy Statement).

The Level II governments are responsible for identifying the level of existing services, assessing further needs for services, determining appropriate action and generating funds for construction. Above all, responsibility for operations and maintenance of infrastructure facilities and development of a qualified staff to undertake the abovementioned tasks rests with the local governments.

Furthermore, implementation of the IUIDP policy is the duty of local government agencies. Although most local Level II governments have the potential to develop the skills to implement the above activities over time, they still lack manpower, ability and experience.

Technical assistance is, therefore, extended by provincial and central governments, either by detached staff or by consultancy services.

An important policy issue is the expansion of cities over administrative boundaries. In the past the provision of infrastructure was limited to the administrative settlement area. Due to the rapid urban expansion, however, many settlements have outgrown their administrative boundaries. In the transition phase from rural to urban, many poor migrants settle in urban fringe areas where land for housing is still available. However, these pioneering developments on the urban fringe are usually uncontrolled and incidentally may have negative environmental impacts.

Repelita V allows for addressing developments in urban fringe areas and allows for the use of infrastructure provision as a tool to influence urban growth. As such infrastructure may become an important instrument in realizing physical development in accordance with development plans.

## NON-GOVERNMENTAL INITIATIVES

### Role of the Private Sector

The role of the informal private sector in the provision of land is substantial. Individual families and estate developers are actively trying to obtain suitable plots, while land agents (*calo tanah*) and speculators are trying to bring together sizeable lots to either subdivide for individual purchase or transfer as a whole to larger developers. Rural landowners distrust strangers and developers. This has opened the way for the land agents, who liaise first with the *camat/lurah* before approaching the individual landlord, often accompanied by the *camat/lurah*. The negotiations then take place in a sphere of trust and legality. The land agents, speculators and developers often only pay the landowner part of the agreed price as an option. The remainder is paid when the buyer has been able to bring together a sizeable lot suitable for on-sale or for development. Where information on the land market is difficult to obtain by the individual family or smallholder, this system, although creating extra levies on the price, reduces the risk of falling into the hands of land sharks and, therefore, is preferred by both the landlords and the individual households.

The formal private sector caters primarily for the medium and high-income groups, both in the selling and the renting sectors. Government regulations require that estate developers build for each villa, three middle-income and six low-income houses. The low-income units, however, already exceed Rp 5 million per unit, requiring repayments of over Rp 50,000 per month in case of rent-purchase contracts. Only the 75th percentile and higher-income groups can afford the purchase costs or the rent-purchase monthly dues.

A substantial number of the urban poor have to depend on rental houses for shelter. Overall more than 40 per cent of the households are renting a dwelling or room for which, remarkably, more than 40 per cent does not have to pay rent (shelter provided by family, relatives and friends, or by employer for specific services). Given the demand for rental shelter quite a number of individuals make available space in their own dwelling for renting-out, or add a room to their house also for renting-out purposes. A special individual initiative is the construction of *rumah gubuk*, *pumah petak* and *pondoks* by retired officials, pensioners or employers to provide shelter for the poor or their employees. With regard to this market segment the Urban Housing Studies project of The Urban Institute/Hasfarm Dian Konsultan reports:

*"Rental units seem to be a good investment and one with a variety of actors participating. The conversion of a room or construction of a gubuk is attractive for even the small owner, while the high demand and high rate of return makes it attractive for more large-scale owners."*

The private sector is strongly involved with infrastructure provision as consultant or contractor for activities where the state acts as provider of services, and in the transportation sector, where the private sector has an active role. Official policy is to increase the role of the private sector in infrastructure provision and efforts are underway to have the private sector develop water sources (springs) or even whole water supply systems on a build-operate-transfer (BOT) basis.

Partnership between the private sector and the Government may be possible. The Jakarta Waterfront Development Project may become the first public-private partnership (PPP) contract arranging



for transfer of the profits from sale of reclaimed coastal land to the costs of tackling flooding problems in the *kampungs* on the old land.

### **Role and Capacities of NGOs**

Non-governmental organizations (NGOs) in Indonesia are involved in a wide range of poverty alleviation programs. Due to their flexibility and knowledge of the community, such groups can often reach the poor more effectively than large-scale public programs. Furthermore, the active involvement of NGOs in government programs increases local acceptance of government programs, thus stimulating active participation. A recent study identified four categories of community organizations in Indonesia:

- (i) *LSM (lembaga swadaya masyarakat)* include village cooperatives, mosque committees, traditional savings groups (such as *arisan*) and mutual work arrangements (such as *gotong-royong*). They assist water users' associations, local family planning groups and nonformal education groups and the poor with social services and income-generating activities.
- (ii) *LPSM (lembaga pembina swadaya masyarakat)* are agencies that promote self-help groups. There are over 200 private LPSMs in Indonesia; some are religious groups and some are technically oriented. They also focus on diverse aspects of development such as cooperatives, appropriate technology, environmental issues and poverty. However, most of their activities are aimed at stimulating community participation in development.
- (iii) *Other community-service and social organizations*, such as religious institutions, university-related institutes and local foundations. (A notable example is the KKN program administered by the universities: all university students must spend two months in a village doing community development work.)
- (iv) *Semi-governmental organizations*, aimed at promoting community participation. LKMD (Village Community Resilience Institution) is an official community develop-

ment forum, while PKK (Family Welfare Movement) is a nationwide women's organization. These are intended to help village leaders mobilize the population as the basic units for bottom-up planning.

Some NGOs, especially housing cooperatives, are involved in acquiring lots for development, but the impact of NGOs in this area is limited.

Cooperatives are also active on the housing market although their share of the market is very small (less than 1 per cent). High inflation and interest rates create a poor climate for cooperatives and a lot of cooperatives have been disbanded during the periods of hyper-inflation between the 1950s and 1970s. Presently with inflation below 10 per cent, cooperatives have started again and are gradually generating trust. The pilot project in Bandung, where a Guarantee Fund will support BTN mortgage fund applications by cooperatives, is a prudent approach necessary in this field.

The local umbrella organizations LKMD and supporting organizations as LSM, LPSM, etc. (see above) are strongly involved in upgrading the direct living environment of their communities. Small developments or rehabilitation projects are selected, designs and calculations are made, whereupon the community decides to go ahead with community contributions, or when necessary with additional support from the local government. Public contributions cover only one quarter to one third of such projects and may be in the form of materials (cement, etc.) and cash.

With regard to shelter, most housing of the lower-income groups and the poor is done by the individual families themselves, supported by hired laborers. The family acquires building materials over a number of years and then has a (core) building constructed under their own direction to be improved incrementally.

Table 6 is a good example of the types of improvements made while it also records the survey results that one out of eight families is annually working on the upgrading of its shelter.

**Table 6: Percentage of Households Undertaking Dwelling Improvements in the Last 12 Months and Average Cost of Work Done by Type of Improvement**

Item	Percentage of Households Undertaking Item	Average Cost of Work Done (Rp '000)
Improvement of walls, roof, floors, etc.	9.1	310
Upgrading/installing walls around unit, garden, etc.	0.7	560
Addition/expansion of living space	1.6	808
Upgrading/installation of kitchen	1.6	901
Upgrading/installation of toilet or bathing facilities	0.7	177
Others	2.3	382
Any of above	13.8	513

The Kampung Improvement Program including the Supratman Project in Surabaya was originally based upon this approach. However, with increased pace of KIP, the time allocated for participation of the community has been reduced to information campaigns only, with the LKMDs requested to rubber stamp proposed developments. As a result, land provision by the communities has declined and operations and maintenance of provided facilities has largely been neglected.

The pendulum is coming back, however, and proposals for continuation of the KIP (JUDP III) or for the Community-Based Development (IKIDP) projects strongly favor adequate time provision for the involvement of the community in planning, implementation and operation stages with NGOs assisting as motivators and agents for the community. This new approach is in line with the general guidelines Garis-Garis Besar Haluan Negara (GBHN) and the Repelita V policy statements that require efforts to better involve the communities in the provision of shelter in a healthy environment.

### **People's Own Initiatives**

When addressing the role of the community words like community involvement, community participation and community-based development are in use.

Community involvement means that the community, upon being informed of public developments, contributes the required land (for free) and upon delivery of the works assumes the task of operations and maintenance.

Community participation assumes more involvement of the community in the planning of the public developments, during implementation either through monitoring or active cooperation and upon delivery by indeed seeing to a proper operations and maintenance.

Community-based developments are developments planned and financed by the community, where the public sector has a stimulating and motivating role and may support the developments by providing off-site facilities or by connecting community developments to off-site infrastructure systems.

With regard to urban land the initiative lays with the individual family to acquire a plot either directly from a landowner or from an intermediary (agent, speculator, developer). The transfer will be registered with the *lurah/camat* and over the years tenure security will increase through payment of service charges or land taxes (*girik*) or even through acquisition of formal land titles (*hak milik*, etc.).

A substantial number of the urban poor have to depend on rental houses for shelter. Overall more than 40 per cent of the households are renting a dwelling or room for which remarkably, more than 40 per cent does not have to pay rent (shelter provided by family, relatives and friends or by employer for specific services).

Given the demand for rental shelter quite a number of individuals make available space in their own dwelling for renting-out, or add a room to their house also for renting-out purposes. A special individual initiative is the construction of *rumah gubuk*, *rumah petak* and *pondoks* by retired officials, pensioners or employers to provide shelter for the poor or their employees. (A *gubuk* is a one-room rental unit in a single-storey structure with three or more units. Toilet facilities are either shared with other renters, provided in public facilities or lacking. A *petak* is otherwise the same as a *gubuk* with two to three rooms per unit. A *pondok* is a large room shared by employees, circular migrants, *kaki lima*, etc., sometimes with their families.)

With regard to this market segment the Urban Housing Studies project reports:

"Rental units seem to be a good investment and one with a variety of factors participating. The conversion of a room or construction of a gubuk is attractive for even the small owner, while the high demand and high rate of return makes it attractive for more large-scale owners."

The individual family will see to on-plot infrastructure and will manage operations and maintenance of neighborhood facilities at community level. At both levels the family will have to interact with the public sector that offers possibilities to hook-up to the citywide systems. It is especially in this area where issues of community involvement, community participation and community-based developments have to be solved.

The interaction is, however, substantial and Table 7 provides insight in the results the cooperation of public and private sector has had on various types of neighborhoods.

Table 7: Percentage of Households Rating Infrastructure in Their Neighborhood as Having Been Improved in Recent Years by Type of Neighborhood

Type of Improvement	Neighborhood Types <sup>a</sup>			All
	Low-Income	Mixed	High-Income	
Streets	43	43	38	42
Footpaths	8	15	16	12
Electricity	41	30	14	34
Water supply	20	22	12	20
Sewerage	26	27	16	25
Drainage	32	34	19	32
Memorandum item:				
Distribution of households	52	39	8	100

a/ Neighborhood types based on interviewer observation and classification. Types listed above contain the following classifications used by interviewers:

Low-income - *Kampung, kampung* improved by KIP, other low-income area;

High-income - Perumnas/BTN, real estate housing area developed by developer without BTN-financing, middle-income area, high-income area;

Mixed - Mixed middle-low area, mixed middle-high area, mixed high-low area.

Source: "Draft Final Report on Urban Housing Studies", The Urban Institute/Hasfarm Dian Konsultan, March 1989.

## Replication of Non-Governmental Initiatives

Most non-governmental initiatives are governed by market principles and will continue when the present public policies of condoning developments and stimulating gradual qualitative and legal improvements continues.

The Government, however, also is looking for a more active involvement in those areas that are less influenced by market principles. Support for the development of housing cooperatives by reducing the threshold level for obtaining mortgage loans is one of those areas, while public-private partnerships are another, but totally different, example of ways the Government may be involved.

Returning to the principles of supporting community efforts, as in the present KIP (JUDP III) and Community-Based Development (IKIDP) projects, may lead to positive effects and may create opportunities for replication on nationwide scale.

Support may be given to improving rental housing for the poor by supplying public facilities, but such approaches have to be developed very carefully, because public intervention may easily result in deteriorating conditions (eviction, increase of rent, etc.) for the target population group.

## FINANCING MECHANISMS, CONSTRAINTS AND FUTURE MOBILIZATION

### Sources of Financing and Institutional Arrangements

Given the present non-interference policy in land and housing needs for the lower-income groups the poor have to obtain informal financial resources which are accessible to these segments of the population. Most improvements are achieved by using cash savings, sales of property or assets, *arisans* (savings societies)<sup>3</sup> and gifts from family and friends. Access to loans or mortgages is still underdeveloped. Overall, only 9 per cent of urban households use such loans to help finance the purchase of land and house, while the percentage is even lower in the lower-income segments of society. Indonesian society is in general, not familiar with formal institutions to provide loans and mortgages, but depends strongly on the employer and family to extend such loans. For the medium and

higher-income groups the role of cooperatives and the formal institutions (banks) becomes more pronounced (see Table 8).

Table 8: Income Distribution of Households Borrowing Funds for Home Purchase from Major Sources

Source	Monthly Income (Rp '000)				
	1-49	50-99	100-199	200-399	Over 400
Formal institutions	0.7	5.6	30.3	41.9	21.5
Cooperatives	-	10.3	36.7	43.2	9.8
Employers	1.5	10.0	38.3	34.7	15.6
Families	-	17.1	35.8	30.5	16.6
All borrowers	3.7	22.7	40.9	23.0	9.6

Source: The Urban Institute/Hasfarm Dian Konsultan, "Draft Final Report on Urban Housing Studies", March 1989.

With formal loans and mortgages playing a minor role, financing land and housing depends almost entirely on financing from sources which typically include cash savings, selling gold and durable goods (motorcycles, radios and cassette records), agricultural assets held in villages, *arisans* and *tabanas*, a government-sponsored national savings scheme. Table 9 shows the types of savings accounts used by household at different move levels.

Table 9: Percentage of Households Using Different Types of Savings Accounts: Overall and Most Important Type

	Savings Account Type				
	<i>Tabanas</i>	Other Bank Deposits	Credit <i>Arisan</i>	Union	Others
Uses this form of Savings	46	18	47	20	39
Most important form of savings <sup>a</sup>	35	13	16	9	26
<b>Income</b>					
Less than 100	25	2	30	6	36
100-199	30	6	21	12	31
200-399	45	11	11	8	23
More than 400	38	34	6	5	16

a Thousands of rupiah per month.

Source: "Urban Housing Studies", The Urban Institute/Hasfarm Dian Konsultan, March 1989.

*Arisans* especially are an important savings instrument for lower-income households (monthly incomes under Rp 100,000) and on average 10 per cent of income goes to this type of savings. Few other sources of financing for land and housing purchase are available to the urban poor. One option is to purchase the site on an installment basis from the seller. This appears to be fairly common practice, although interest rates are extremely high. Another popular source is the *kupedes* lending program of the Bank Rakyat Indonesia (BRI). Under this program small loans with maximum maturities of 24-36 months are made available with only modest collateral requirements for loans up to Rp 400,000. The maximum loan is Rp 3,000,000 and annual effective interest rates are about 30 per cent. Acceptable collateral includes a sales agreement for a house which is witnessed by the village head but which is not officially registered.

The formal mortgage finance market is dominated by two government-assisted institutions, namely, Bank Tabungan Negara (BTN) and PT Papan Sejahtera (PTPS) which are meant to serve lower and moderate-income households with subsidized loans.



However, these institutions have not been able to reach the majority of the urban poor.

With regard to infrastructure development the community will depend on the same sources as for development of land and housing. Private sector developments are presently still limited but are considered a potential as yet untapped. However, first steps are under way to entice their contributions via BOT (build-operate-transfer) and PPP (public private partnership) contracts. The public contributions to urban infrastructure development is largely channeled through the Integrated Urban Infrastructure Development Program. This program integrates the funds from local, provincial and central governments with the co-financing sources from the various donors.

In an effort to reduce central government financial involvement the Government is adopting a counterpart approach, whereby local governments are expected to play an increasing role in financing and planning of urban services. The counterpart approach emphasizes the mobilization of local revenues through local taxes, cost recovery and local government borrowing. To facilitate local resource mobilization the Government has enacted various programs and reforms related to local taxation, land consolidation, central-local grants, a consolidated regional government loan fund, and guidelines on user charges for urban services.

To further strengthen the revenue base of local governments a new land building tax (*pajak bumi dan bangunan* or PBB) came into effect in 1986. In the context of this paper it is interesting to note that, for equity reasons, there is an exemption for all buildings with a capital market value up to Rp 3.5 million. This exemption excludes from the tax base most rural housing and a large number of low-income urban housing and allows the tax office to concentrate on higher-value properties.

The Government has taken initial steps to establish a Regional Development Account (RDA), or consolidated loan fund for regional governments and regional government enterprises. It is expected that all future loans to regional governments or regional government enterprises will be channeled through this new loan fund. The RDA is expected to achieve the following objectives:

- (i) encourage local authorities to develop and increase their revenue-generation capacity, promote cost recovery and impose realistic service charges;

- (ii) rationalize and simplify present regional government loan schemes and procedures. The new loan fund would consolidate, coordinate and control all regional government development loans;
- (iii) provide a standard channel for local and foreign aid donors to finance local government projects;
- (iv) provide a revolving fund which would become self-generating, thus limiting contributory support by the central government;
- (v) provide an alternative source of funds to enable local authorities to instigate an integrated planned program of development;
- (vi) encourage local authorities to become less dependent on central Government and more involved with planning, programing, budgeting and financing development projects; and
- (v) provide a vehicle for mobilizing and channeling private sector funds for local government programs.

Public investments for urban infrastructure development during Repelita V are estimated to be in the order of Rp 1.5 trillion. Co-financing by multilateral and bilateral donors is expected to be in the order of 80 per cent with four major donors expected to supply up to 75 per cent of the total contribution in the urban infrastructure sector.

### **Innovative Financing Approaches**

Reaching down to the lower-income groups and especially to the urban poor has proved to be very difficult for the public sector. When trying innovative efforts officials and decision makers have to keep in mind that the present condoning situation facilitates in particular the development of urban land and housing for the lower-income groups and urban poor. Government interference, if not

directed, may have adverse effects, resulting in price and rent increases and house evictions of these groups.

Loan and mortgage funding seems to be an area that allows for extension when compared with neighboring countries. The efforts of the BTN may be recalled here, where they have tried to lower the collateral thresholds and criteria concerning the legal title and construction quality. The chances of reaching people below the 50 percentile group are, however, slim.

A somewhat more promising approach may be the pilot project for housing cooperation in Bandung. Here a guarantee fund may allow for lowering the collateral requirement and may result in lower interest rates because of the higher security of repayment via cooperatives (see also Lall, 1991, in this report).

In the infrastructure sector, credit schemes and revolving funds managed at local level and intended to finance small on-plot and neighborhood development may induce the communities to actively participate. Such approaches may reach the lower-income groups (the near-poor) and give them incentives to improve their living conditions. The real poor, however, can only be reached by subsidies and public-funded facilities.

The new RDA will be an improved tool in channeling funds to Tingkat II and as such will strengthen the more tailor-made developments as envisaged in the IUIDP approach. Better use of funds may allow for better attention to the specific plights and to the need for infrastructure of the lower-income groups and urban poor in Indonesia.

#### NOTES

1. Partly as a result of the increased absorption of the younger age groups into the education sector and partly as a result of the high economic growth recorded during the second half of the 1970s, the unemployment rate, as measured by the proportion of the labor force seeking employment, was substantially reduced from 8.8 per cent in 1971 to 1.7 per cent in 1980.

2. Present 17th draft of the Act is under discussion and it is assumed that the discussions will be concluded in early 1991. Consequently, the Act will be forwarded to the Parliament in June 1991 for legalization.

3. *Arisans* are congregations of 30-50 members that at specific dates convene and pay contributions. A lottery will then be held and the total will be handed to the winner. The *arisan* continues until all members have won and then may start again.

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# Republic of Korea

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# REPUBLIC OF KOREA

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## EXECUTIVE SUMMARY

Since the 1960s, rapid economic growth and urbanization have been taking place in Korea. In this process, many farmers have given up farming and moved to urban areas, settling often in squatter areas or slums.

The Korean Government's policies regarding the poor were focused mainly on livelihood assistance programs in the past. As such, the needs of the urban poor for access to infrastructure services, which require large amounts of resources to develop, were neglected by the Government.

In the past, the Government's policies regarding infrastructure services in poor urban areas consisted primarily of the clearance of these areas, compulsory resettlement of the inhabitants and redevelopment of the area in order to enhance its appearance. These policies harmed the residential stability of the poor and increased their housing expenses.

Since 1988, the Government has also begun to allocate large resources for developing and improving existing infrastructure services in poor urban areas. It has also implemented livelihood assistance programs for the poor and introduced a national pension program, a medical insurance system, and a minimum wage system in response to societal pressures to provide basic services to the destitute segments of the population. At present, the policies regarding infrastructure services in poor urban areas can be categorized into four: (1) redevelopment through the joint efforts of the poor themselves and private construction companies; (2) improvement of existing basic infrastructure services; (3) upgrading of homes through the provision of government loans and the sale of publicly owned land to the urban poor for housing; and (4) the construction



of 250,000 permanent rental apartments for the poor, which will cost a total of \$6.6 billion by 1992.

To provide infrastructure services in poor urban areas more efficiently, a couple of problems must be solved. The selection of eligible recipients for livelihood assistance programs must be modified according to proper poverty line standards; infrastructure programs which do not address socioeconomic aspects of poverty must be closely integrated with other welfare programs, especially the ones intended to improve employment opportunities, and coordinated in order to achieve maximum effectiveness; and the guidelines for the programs must be formulated to protect the integrity of the program objectives. The participation of communities and private enterprises in the programs for the poor must be encouraged. Finally, financing for the programs for the poor must be steadily increased rather than radically increased to avert deterioration of the economy.

It is expected that local autonomy will be accomplished in the Republic of Korea, and the administrators and legislators of local organizations will be elected henceforth by local residents. A greater portion of national taxes will be transferred to local revenues to enhance the financial independence of local governments and therefore many unique programs for the poor responsive to the needs of each area will be launched.

## **COUNTRY BACKGROUND**

The ratio of the urban population to the total population in the Republic of Korea was only 17.2 per cent in 1949, but rose to 73.1 per cent by 1989. Such rapid urbanization took place in parallel with successful industrialization programs, first launched in the 1960s, which led to the expansion of employment opportunities in urban areas.

With industrialization, the structure of the Korean economy has changed from one based on agriculture, forestry and fishing to one based on manufacturing and service industries. Table 1 shows the changes over time of the structure of the national economy.

Table 1: Value Added at Current Prices by Industrial Sector  
(per cent)

Sector	1955	1970	1980	1989
Agriculture, forestry and fishing	44.5	26.7	14.9	10.2
Mining and manufacturing (Manufacturing)	12.6 (11.6)	22.5 (21.3)	31.0 (29.7)	31.9 (31.3)
Others	42.9	50.8	54.1	57.9

Source: The Bank of Korea, *National Accounts*, 1990.

With the shift in the economic structure toward the manufacturing sector, per capita GNP rose to \$4,968 in 1989 from a level of only \$66 in 1956 at an average annual rate of approximately 14.0 per cent.

Although rapid industrialization and increasing income levels were achieved, many problems were created by the spatial pattern of economic growth. The Korean Government emphasized economic growth by fostering manufacturing industries in urban areas. To achieve cost-efficiency, many manufacturing industrial sites were designated in specific areas around the nation's capital and along the southeast coast. Due to such policies, gaps in regional economic growth emerged and expanded – between rural and urban areas and between industrialized and non-industrialized areas. In an effort to remedy unbalanced regional development the Government has supported, especially in the 1980s, the construction of industrial sites in relatively less-developed areas.

Nowadays, it is increasingly more difficult to find disparities in urban-rural wage levels and employment rates in Korea. As illustrated in Tables 2 and 3, conditions in rural areas have rapidly improved in comparison to conditions in urban areas. Unemployment in 1988 was only 0.5 per cent among farm households and 3 per cent among nonfarm households.

Table 2: Comparison of Average Income Level Per Year  
(US\$)

	1970	1980	1988
Urban employee households (A)	1,086	4,627	10,795
Rural farmer households (B)	822	4,434	11,128
B/A (in per cent)	75.6	95.9	103.1

Sources: Economic Planning Board (EPB), *Family Income & Expenditure Survey*, 1990.  
Ministry of Agriculture, Forestry and Fishery, *Farm Household Economy Survey*, 1989.

Table 3: Wage Levels by Occupation  
(per cent)

	1975	1980	1985	1988
Average	100.0	100.0	100.0	100.0
Professionals and technical workers	198.1	185.7	175.9	160.7
Agriculture and fisheries workers	65.0	83.4	107.4	86.7
Production and related workers	74.6	75.6	75.2	81.0

Source: Ministry of Labor, *Occupational Wage Survey*, 1989.

Despite such figures, it is generally perceived that living standards in rural areas are much lower than those in urban areas. One possible reason for this perception is the gap in infrastructure services and in economic and educational opportunities between rural and urban areas. Due to the gaps in living standards, it is projected that the urbanization trend of Korea will be continued. The National Bureau of Statistics predicts that the ratio of urban population to total population would rise to 80.6 per cent by the year 2000 and to 82.9 per cent by 2005.

Poverty was not considered a serious problem in Korea because of the relatively even distribution of income (see Table 4) and relatively high level of income per capita, which ordinarily leads to the alleviation of absolute poverty. But in the process of rapid urbaniza-

tion with the mass migration of farmers, the urban poor population has grown, along with the number of people facing unemployment and low wage levels. Recently, the problems of poverty as well as of relative poverty, which originate from the uneven distribution of wealth, have become sources of social conflict.

Table 4: Distribution of Income  
(per cent)

	1976	1980	1985	1988
Proportion of income (%)				
— Highest 20% income bracket	45.3	45.4	42.7	42.2
— Lowest 40% income bracket	19.9	16.1	18.9	19.7
Gini coefficient	0.391	0.389	0.345	0.336
— Urban areas	0.415	0.405	0.369	0.350
— Rural areas	0.327	0.356	0.297	0.290

Sources: EPB, *Social Indicators in Korea, 1989* and Korea Development Institute, *Distribution of Income and Wealth, 1989*.

## THE URBAN POOR AND THEIR NEED

### Definition of the Poor in Korea

The Government defines poverty according to a minimum income level and value of household property necessary for sustaining a decent livelihood. Every year, the Government modifies the standards according to the annual economic growth rate, the inflation rate, and the available resources in the general budget for the poor in selecting eligible recipients of government aid among the poor. The standards since 1975 are shown in Table 5.

Table 5: Poverty Line Determined by the Government  
(US\$)

	1975	1980	1985	1989
Income per capita	87	473	512	965
Income per household with five family members	434	2,364	2,561	4,825
Property per household	1,240	–	3,258	8,042

Source: Ministry of Health & Social Affairs (MOHSA), *Yearbook of Health and Social Statistics*, 1990.

Many surveys and studies on the urban poor have confirmed that government standards for determining poverty are too low to reflect reality. In a research report published by the Korea Research Institute for Human Settlements (KRIHS), the minimum cost of living for a household of five members was calculated at \$7,720 in 1989, which is 60 per cent higher than the government standard. To discuss the infrastructure services for the urban poor, it is necessary to define the poor in a broader concept than the Government's definition. In this context, we define the urban poor as those who live in squatter areas or slums and face the problems of low income and unstable employment.

Table 6: Number of Poor People Determined by the Government

	1980	1985	1989	1990
Number of people (thousands)	1,829	2,273	4,078	3,315
As a per cent of the population	4.8	5.4	9.6	7.7

Source: MOHSA (1990).

In 1990, the Government identified 3,315,000 persons as eligible recipients of government aid of which 39 per cent were urban (see Table 6). Compared to the urban populations, 73 per cent of the entire population, the ratio of urban aid recipients to the total number of recipients can be described as too low. This is primarily because the standards by which the poverty level is determined do

not differentiate between the costs of living in urban and rural communities. Accordingly, rural households which on average earn lower incomes than urban households are more likely to receive aid. This result is largely intentional. The Government favors rural households in order to discourage them from moving to urban areas.

Other studies have demonstrated that absolute poverty has been rapidly decreasing in Korea. According to a study by Dr. Sang-Hok Suh, the level of absolute poverty in Korea was 40.9 per cent in 1965, 14.6 per cent in 1976, 9.8 per cent in 1980 and only 4.5 per cent in 1984. In his study Dr. Suh projected that although absolute poverty would continue to decrease, the problem of relative poverty would become more serious.

### Needs of the Urban Poor for Infrastructure Services

The provision of water to poor urban areas is reasonably adequate. About 95 per cent of households in such areas were served by piped water in 1989. Nevertheless, there are still problems regarding the supply of water. One problem is that many households (about 29 per cent of those in poor areas) still depend on communal piped water supply (see Table 7). Another problem is that the water supply in hilly and mountainous urban areas is interrupted frequently due to the shortage of pressurization facilities and the superannuation of water pipes.

Table 7: Availability of Piped Water Supply in Urban Poor Areas in 1989

City (Population)	Average	Seoul (9,991)	Taegu (2,166)	Seungnam (492)	Chungju (403)	Masan (474)
Per cent served	95.0	98.1	98.9	93.6	90.5	91.3
Per cent with communal supply	28.6	11.5	55.1	20.2	26.2	51.6

Source: KRIHS, *A Study on Policies for the Urban Poor*, 1989.

Since poor urban residences are often occupied by multiple families, the percentage of households with exclusive use of latrines is very low. In 1989, the ratio of households using latrines shared by

at least two households in a residence was 43 per cent, and the ratio of households using communal latrines was 29 per cent (see Table 8).

Table 8: Ratios of Households in Urban Poor Areas According to Latrine Usage

	Average	Seoul	Taegu	Seungnam	Chungju	Masan
Per cent with:						
Exclusive use	27.9	31.6	5.7	33.0	39.7	29.4
Shared use	42.8	40.3	21.7	62.4	59.5	20.6
Communal	29.3	28.1	72.6	4.6	0.8	50.0

Source: KRIHS (1989).

As for increased access to other public services such as transportation, drainage and solid waste removal, there are two main obstacles. One is topographical; in Korea's urban areas, the majority of the urban poor are located on hilly ground. The second is due to the differences in land and house ownership. There have been many complaints about the absence of roads for the passage of fire engines, indifferently maintained drainage systems and accumulation of solid wastes. According to a survey on solid waste removal in the poor urban areas of Seoul, the ratio of households served by municipal authorities on a door-to-door basis is only 56.1 per cent; the remaining households are required to transfer their waste to proper sites themselves or pay servicing companies to remove it (see Table 9).

Table 9: Method of Solid Waste Removal in the City of Seoul

	Are Served by Municipal Authorities at their Residences	Move Wastes to Sites Designated by Municipal Authorities	Are Served by Private Company, etc.
Whole area	89.9	5.1	5.0
Poor area	56.1	26.1	17.8

Sources: The City of Seoul, *Yearbook of Municipal Affairs*, 1990. Korea Institute of Industry and Economy (KIEE), *Survey and Measures on the Urban Poor in Seoul*, 1989.

The problems of land ownership and of housing facilities perhaps affect the urban poor most (see Tables 10, 11 and 12). According to a survey by KRIHS in 1989, only about 46.5 per cent of urban poor households lived in their own residences, lower than the ownership ratio for all urban households. According to another survey conducted by KIIE in 1989, only about 31 per cent of urban poor households possessed their own land and residence in Seoul, and 60 per cent lived on public land. Only about 21 per cent of residences in the poor urban areas of Seoul were licensed in 1989.

Table 10: Percentage of Residence Ownership in Urban Poor Areas

	Average	Seoul	Taegu	Seungnam	Chungju	Masan
Per cent	45.6	32.8	52.5	25.5	49.2	81.0

Source: KRIHS (1989).

Table 11: Land Ownership in the Poor Areas of Seoul

	Private Ownership of Land and Residence	Private Ownership of Land, but not Residence	Public Ownership of Land	Other
Per cent	30.7	8.6	59.9	0.7

Source: KIIE (1989).

Table 12: Types of Residence According to Licensing Conditions in the Poor Areas of Seoul

	Licensed Residence	Unlicensed Residence
Per cent	21.1	78.9

Source: KIIE (1989).

Due to problems related to land and residence ownership, the housing facilities in poor urban areas are substandard as indicated in Table 13.



Table 13: Space and Number of Rooms Per Household

	Average	Seoul	Taegu	Seungnam	Chungju	Masan
<b>Space (sq m per unit)</b>						
All areas	43.6	-	-	-	-	-
Poor areas	36.6	29.4	25.4	33.7	42.2	34.0
<b>Number of rooms</b>						
All areas	2.1	-	-	-	-	-
Poor areas	1.8	1.7	1.6	1.6	2.1	1.9

Sources: EPB, 1985 *Population and Housing Census Report*, 1987; KRIHS (1989).

## PAST APPROACHES AND EMERGING CHALLENGES

### Major Policies of the Past

The problems of providing infrastructure services in poor urban areas did not receive adequate attention from the central Government until 1987, leaving local governments, which had very limited resources, to tend to the most urgent needs. The Government's policies toward the urban poor during 1951-1987 can be classified into two types of programs as follows: (1) demolition and compulsory resettlement, and (2) conservation and rehabilitation programs. Table 14 lists the major policies taken by the Government since 1955.

Table 14: Policies Regarding Infrastructure Services in Poor Urban Areas

Policy	Period
Demolition and relocation	1955 to 1965
Improvement of low quality homes, legalization of unlicensed houses and massive scaled relocation	1966 to 1971
Construction of citizens' apartments	1969 to 1971
Redevelopment by the poor themselves	1972 to 1986
Redevelopment by the poor and private construction companies	1983 to present
Improvement and construction of rental apartments by the Government	1988 to present

Source: Ministry of Construction (MOC), *A Study on Remedies of Urban Redevelopment Program*, 1989.

The City of Seoul undertook the first massive squatter housing clearance project in 1966. The project attempted to clear 130,000 squatter housing units within a three-year period and to construct 90,000 units of public housing in order to resettle the squatters. However, only 16,000 units were built by 1970 although more than half of the squatter units were destroyed. The remaining households were provided with unserviced lands located far from the center of the city. There existed 99 relocation sites in Seoul in 1977, accommodating a total of 83,000 families.

Squatter settlements were simply regarded as social diseases and the people's welfare was totally overlooked. The program was a failure. Although half of the total squatter families were relocated by 1970, the number of squatter settlements increased by 30 per cent in the same year. In other words, many relocated families moved back to the city in search for job opportunities and urban services.

The construction of the City of Seungnam during 1968 to 1971 might be the most striking example of demolition and compulsory resettlement programs. In 1968, the Government designated an area of Kwangju county southeast of Seoul for resettlement of Seoul's poor squatters. From 1968 to 1971, about 100,000 poor were forced to move into that area. Unfortunately, the lack of infrastructure investment in the area made it virtually uninhabitable and the reset-

tlers could not find any work. Most of them returned to Seoul in search of job opportunities. After serious disruption in 1971 provoked by resettlers' complaints about the lack of infrastructure services and land speculation by wealthy people, the Government elevated the status of the town to the status of a city, created the City of Seungnam and began to invest substantial resources in the local infrastructure to improve living conditions and to induce industries to provide job opportunities. Nowadays, the City of Seungnam is a bustling area that does not solely consist of poor resettlers.

Recognizing the early failure of the Seoul model, the Government devised a different approach to the squatter housing problem. The new approach emphasized on-site improvement rather than relocation. The Housing Improvement Law of 1972 was enacted, which stipulated that local governments must provide infrastructure and public services and, that in order to secure legal tenure, squatter families must purchase lands and improve existing structures so as to satisfy minimum housing standards. However, the program was too costly for local governments to sustain and also there was strong opposition from the low-income group tenants for fear of attracting additional rent when their landlords made improvements.

The other main feature of the program was "legalization". However, the impact of this "legalization" approach was also very low. Again, this new approach failed to recognize the fact that the urban poor could not purchase the housing units they occupied without substantial financial subsidies in the first place. Only a few squatter families could meet the improvement costs let alone the cost of land purchase. Consequently, the majority of the squatter families were forced to move out of the settlement areas by yielding their property rights to those who could "buy their entitlement out", and thus, the areas vacated came to be occupied by the middle and upper-income families instead.

### **Reasons for Failure and Emerging Challenges**

There are many reasons for the failure of the government programs, but one of them should be noted. It seems that the government policies ignored the socioeconomic features of communities. The focus was only on providing housing rather than on developing economically viable communities. Thus, squatters were relocated in new low-quality housing developments in areas which

did not have access to infrastructure services and did not support a sufficient number of jobs. Relocated squatters were naturally inclined to leave the resettlement areas and to return to the city.

The imposition of middle-income standards upon the urban poor is inappropriate. As emphasized, a majority of the low-income families cannot afford even the minimum standard housing unit and such an ill-conceived approach to squatter settlement problems has only resulted in worsening the housing situation. One must realize that squatter areas provide the kinds of residential amenities that serve the needs of the poor, including convenient residential locations so that the poor can have easy access to jobs and to urban service.

In the past, the rights and welfare of the poor were largely neglected, while efficiency and appearance were emphasized. But since the launching of political liberalization in 1987, many people have come to defend their rights to better living conditions. With the growing voice of the urban poor, the societal pressures to improve the situation of the urban poor have become greater.

Since 1988, the central Government has given more attention to the needs of the urban poor. The Government began to allocate greater resources in the supplementary budget in 1988 and in the principal budget in succeeding years.

## **PRESENT POLICIES AND MEASURES**

### **The Government as Provider and Enabling Agency**

The role of the Government is important in ensuring the welfare of the poor as it is unlikely that the private sector will take over this role totally. The Government has to continue to implement various assistance programs as well as mobilize private sector resources to help the poor.

There are numerous poverty alleviation programs which include programs to enlarge employment opportunities and to provide social security benefits. The social security policies encompass the medical insurance and medical care system, national pension system, industrial accident insurance system, minimum wage system and livelihood assistance system. The livelihood assistance system, which benefits the poor directly, includes various programs

such as subsistence protection, medical aid, tuition fee assistance for children, vocational training and long-term low-interest loans. In 1990, the number of eligible recipients of the livelihood assistance system was 3,315,000 people (see Table 6).

The Government has, especially after 1988, devised many programs to improve infrastructure services in poor urban areas. The programs can be divided into the following: (i) redevelopment of poor urban areas through the joint efforts of the poor and private construction companies (the joint renewal program); and (ii) upgrading and improvement programs for poor urban areas. The latter in turn can be divided into two parts: (a) the improvement of poor basic infrastructure services; and (b) the upgrading of low-quality dwellings through government loans and the sale of publicly owned land to the urban poor for housing; (iii) there is also a program for construction of permanent rental apartments for the poor; and (iv) a program for provision of land for the poor.

From an overall point of view, the role of the central Government in executing the above-mentioned programs is absolute in terms of policy-making, budgeting and supervising. The local governments execute the programs under the direction of the central Government, which distributes subsidies to the local governments. However, the City of Seoul's high level of financial independence and authority, which is almost equivalent to that of the central Government's ministries, allows the city to devise and execute its own projects. For these reasons, many programs for the poor in the city of Seoul are more progressive than the central Government's programs.

### **Joint Renewal Program**

The joint renewal program, which involves private construction companies in association with owners of squatter residences, was initiated in 1983 mainly to improve infrastructure services without adding substantial financial burdens to the Government. This program differs strikingly from the resident self-renewal program in terms of financing; in the joint renewal program, private construction companies provide financing in advance and residents pay for costs after completing construction of apartments in which they would live; in the other scheme, squatter owners totally finance redevelopment under a resident-self-renewal program. As is evi-

dent, resident-self-renewal programs would be too burdensome for squatter owners and thus, most redevelopment projects after 1983 were executed under the joint renewal program.

Introducing private construction companies to the joint renewal program is possible because the joint renewal program is designed to be advantageous to all parties involved; the private construction companies obtain much-needed land which is a scarce commodity in large Korean cities and they gain profits from constructing apartments; squatters obtain priority rights to move into the newly constructed apartments which means getting a premium in Korea, then they are able to buy publicly owned land at discount prices from the Government; and the Government bears the costs of improving the infrastructure services for such areas and earns revenue from the sale of publicly owned land which squatters once occupied illegally.

This program is typically implemented as follows: First, the residents organize an association whose members consist of the persons (not necessarily all poor) who own land or a house in a specific area. Second, the association contracts a private construction company to build multistorey apartments in the specified area. Third, the Government begins selling publicly owned land for housing in the area to assist the poor. Fourth, the private construction company begins demolishing shacks in the area to replace them with new apartments. Finally, the construction company refunds the apartments to the poor at cost, and sells the remaining apartments and newly built store buildings to other people partly to offset the costs to the poor and partly to earn profit.

The tasks of the Government in this program, all designed to assist the smooth execution of the projects, include selling publicly owned land, designating a certain squatter area for redevelopment, providing reductions and exemptions on land transfer income tax and registration tax, providing loans to the poor (of up to \$7,000 per household with a long-term payment option) and providing guidance to the associations.

From 1983 to 1988, 126 joint renewal projects were completed on sites which formerly were squatter areas. However, many surveys have shown that these units have been occupied primarily by middle-income families and less than 20 per cent of occupants have been former squatters. The general pattern has been that squatters

have sold their priority rights to these units to middle-income families, and moved to other squatter settlements.

Such a cycle of squatters moving to other squatter settlements is due mainly to the profit-seeking behavior of squatters and of private construction companies. The average size of multistorey apartment units in joint renewal project sites is bigger than the national average as shown in Table 15, thus providing above-average resale values.

Table 15: Average Size of Housing in Korea  
(sq m)

	Whole Country	Sadang District (Joint Renewal Area)	Keumho District (Joint Renewal Area)
Before renewal	75.2	49.5-56.1	69.3-82.5
After renewal	75.2	114.5	120.5

Sources: Korea Housing Study, "A Study on Housing Problem in Korea", 1989 and MOC, "A Study on Remedies of Urban Redevelopment Program", 1989.

The private construction companies can earn much more profit from bigger units than smaller units because the unit selling price per sq m of units bigger than 85 sq m (the standard-sized housing unit in Korea) is 16.5 per cent higher than that of units smaller than 85 sq m. Additionally, most squatters also prefer bigger units because the premium is higher, once they have priority rights, for bigger units rather than for smaller units. The market price per sq m of bigger houses, especially for the apartment buildings, is much higher than of smaller ones.

For that reason, the apartment units constructed under joint renewal projects tend to be bigger than the average-sized house, and in turn, this makes payments of former squatter owners to cover the difference between total price of their newly constructed apartment units and the value of their land contributions to associations unnecessarily burdensome.

Even when they are able to manage to pay the difference, the poor still have other problems, including expensive maintenance costs associated with new units which are almost twice the size of their former residences, an unfamiliar living environment, and the

loss of job opportunities which were well-suited to the former squatters and were easily found near the squatter areas. For these reasons most former squatter owners leave the new units and move into other squatter settlements.

Their departure had two effects. Though squatters gained from the sale of their priority rights or apartments, those were generally sold to real estate speculators who then resold them at inflated market rates. Thus, the benefits of the development effort primarily benefited speculators and the supply of affordable housing was not, after all, increased.

Although squatter owners ordinarily had to leave the new units, they were generally better-off selling their priority rights or their new apartments. The situation of former squatter tenants who were not provided with new housing is much worse. Tenants who had to leave their squatter units without immediate compensation demonstrated against the joint renewal projects. Although the Government then provided these people credit towards a single-room dwelling in an apartment unit which has more than two rooms, this adjustment was not adequate for them to live in a single-room with other people in the same apartment unit. Consequently, these tenants also sold their priority rights and moved to other squatter settlements.

For a particular redevelopment policy to be successful, the socioeconomic features of a community and its residents should be considered first. It is time to design more effective redevelopment policy alternatives which benefit the poor who are most in need. Redevelopment policy alternatives should include the components described below.

First, redevelopment programs should focus on shelter resettlement for the poor through construction of more small-sized housing units. The existing programs require that more than 60 per cent of all housing built must be less than 85 sq m. For effective resettlement, however, it seems to be desirable that 70 to 80 per cent of all housing units built under the program should be smaller than 85 sq m, and 35-40 per cent of all units should be smaller than 60 sq m.

Second, the Government should encourage construction of rental apartments by providing financial support. Consistent with the desires of residents, this would help poor residents to resettle where they have lived instead of having to leave. In this context, the municipal authority of Seoul has devised new joint renewal projects



in seven specific areas in 1989. These plans include provision of a sufficient supply of rental apartments for the poor, especially to people who are faced with compulsory resettlement. To provide such rental apartments, the city of Seoul has to buy apartment units from the joint renewal project associations.

Finally, there should be follow-up measures to investigate whether priority rights on new apartments are sold to eligible persons or real estate brokers. Follow-up measures prevent disguised residents from moving into new apartments illegally.

### **Upgrading and Improvement Program**

For all the reasons cited in the preceding paragraphs, the joint renewal project is severely constrained. Therefore, the Government designed a new urban renewal program which was initiated in 1989. The goal of the program is to improve conditions in existing substandard housing communities rather than to clear areas and remove residents.

The objectives of the upgrading and improvement program are similar to those of the program that was attempted in the 1970s. The new program is, however, quite different from the previous one both in substance and in operation. The upgrading and improvement program under the new scheme is that the Government provides financial and technical assistance in order to motivate homeowners to participate in housing upgrading and improvement activities. The local governments are mandated to invest in public facilities, such as roads, latrines, water and drainage facilities and waste removal sites, as well as to provide open space where possible.

According to the Government's infrastructure improvement plan for poor urban areas, more than \$200 million will be invested by the Government by 1992. The Government had identified 344 poor urban areas that need improvement and has allocated the necessary resources in its budget. The amount of \$68 million was provided in the 1989 supplementary budget as loans were distributed to local governments to assist the urban poor. Consequently, the local governments have gained more responsibility for the maintenance of the infrastructure services in poor urban areas.

To alleviate the shortage of quality housing in poor urban areas, "The Act of Temporary Measures for Improving the Urban Poor's Housing" was legislated in April 1989. Under this act, 502 districts

in poor urban areas were selected as special districts in which the dwellers of 163,000 low-quality homes would be given loans of a maximum of \$4,300 per household at a 6 per cent annual interest rate (the official discount rate in Korea is currently 10 per cent) with a repayment period of 20 years. More significantly those who receive these loans are additionally qualified to purchase publicly owned land from the Government. About 60 per cent of residences in poor urban areas are on public land, therefore the sale of such land will be the keystone of the poor urban housing improvement program. The Government allocated \$30 million in the 1989 national budget and \$35 million in the 1990 budget.

To execute the upgrading and improvement program, the Government has not only allocated budget resources and sold publicly owned land, but has also eased restrictions on housing construction standards.

As the volume of government assistance is large enough to reduce the costs of improvement, rents are hopefully expected to stabilize. The upgrading and improvement program seems to be attractive, but few projects have been taken up yet, and it is too early to evaluate the improvement access of the urban poor to infrastructure services.

### **Permanent Rental Apartments Program**

To improve the housing conditions of the urban poor, the Government in 1988 devised an ambitious plan to construct 250,000 permanent rental apartments between 1989 and 1992 to accommodate the same number of poor urban households, which is approximately one fourth of the total number of poor households in the nation (in terms of government standard).

The target groups of the Government's livelihood assistance programs are households whose earnings are less than approximately \$4,800 a year. The eligible households number approximately one million throughout the country with about 40 per cent of them in urban areas, and a quarter in Seoul, Pusan and Taegu. Table 16 illustrates the planned number of permanent rental apartment units and the number of eligible recipient households by area.

Table 16: Permanent Rental Apartments Plan by Area  
(thousands)

	Seoul	Pusan	Taegu	Inchon	Others	Total
Number of units to be constructed	80	50	30	20	70	250
Number of eligible recipient households	84	50	36	17	835	1,022

Source: Yeum, Don-Min, 1990.

The rental units are small in size, ranging from 23.1 to 39.6 sq m, but fully equipped with modern facilities, including a central heating system, separate kitchen and toilet. The design concept is similar to "new town in town", i.e., a self-contained community in which various community facilities are conveniently provided, including retail shops, child care centers, health clinics and gymnasiums. Other facilities include various work spaces where people can work together to earn extra income and where marketable skills can be taught through job training programs. Private corporations are strongly encouraged to collaborate with the community by providing job training and placement.

To complete this ambitious plan, it is estimated that \$7.8 billion must be invested during 1989-1993. The central Government will finance 85 per cent of this amount, and the remainder will be attributed to the tenants in the permanent rental apartments. The central Government's share of \$6.6 billion is to be distributed to the Korea National Housing Corporation as investment and to local governments as subsidies. The central Government has already distributed \$973 million in 1989 and \$1.0 billion in 1990 as shown in Table 17.

Table 17: Permanent Rental Apartments Construction Plan

	1989	1990	1991	1992	1993	Total
Number of units (thousand)	40	60	70	80	-	250
Financial investment (\$ million)	973	1,034	1,400	1,702	1,498	6,607
- National Housing Corp.	701	735	1,020	1,245	1,063	4,764
- Local governments	272	299	380	457	435	1,843

Source: EPB, "A Study on Permanent Rental Apartments", 1990.

In spite of these steps to assist the urban poor, there has been much criticism about this plan from both efficiency and equity points of view. It is very costly in terms of both construction and maintenance, but only a small portion of the urban poor benefit from it. At the same time some believe that the resources required for the program would better be used for strategic infrastructure, e.g., highways, port facilities, subways and so on.

The program provides an enormous income advantage for a selected few. Once qualified for occupancy of a unit, residents graduate from the lowest-income class. The relatively low rent level of the permanent rental apartment (provisionally from \$85 to \$100 per month) provides the selected tenant with benefits equivalent to a government subsidy of \$280 per month. Therefore, the program is expected to suffer from some lock-in effects.

Minor problems related to the permanent rental apartments program have also cropped up. Among the number of eligible recipient households, there is a large number of single-member households which are not permitted to assume tenancy. Therefore, there will be an excess supply of permanent rental apartments in some regions, as well as excess demand in others. Most large cities will experience excess supply and small cities will face excess demand unless the allocation of the planned number of units is modified. The absence of evaluation stipulations and the uniformity of rents regardless of earning levels will also be problems.

### **Providing Land for the Poor**

To improve the access of the urban poor to infrastructure services, providing land for the urban poor might be one of the most important issues. This problem will be taken more seriously when urban poverty is defined as living in squatter areas with insufficient access to infrastructure services rather than as defined by the government-determined poverty line.

The Korea Land Development Corporation, which was established in 1979 by the Government, is developing land and selling it at discounted prices. For low-income groups, the corporation has been providing land for housing at lower-than-construction cost as shown in Table 18.

Table 18: Price System of Land for Low-Income Groups by Korea Land Development Corporation (per cent)

	Ratio of Providing Price to Construction Cost	
	Land For Rental Housing	Land For National Housing
Seoul, Pusan and vicinities	90	100
Large cities	80	90
Other areas	70	80

Source: EPB, "Evaluation on Management of the Korea Land Development Corporation", 1990.

By developing and selling land, the Corporation has earned enormous profits every year as shown in Table 19. Its ratio of net profit to net worth in 1989 was 20.2 per cent which was much higher than those of the manufacturing industry (6.4 per cent), construction industry (5.5 per cent) and real estate industry (14.9 per cent) in the same year.

Table 19: Profit and Net Worth of Korea Land Development Corporation

	1986	1987	1988	1989
Net profit	74	99	191	296
Paid-in capital	282	309	354	551
Earned surplus	338	461	710	915
Net worth	620	770	1,064	1,466
Ratio of net profit to net worth (per cent)	11.9	12.9	18.0	20.2

Source: EPB, Evaluation on Management of the Korea Land Development Corporation, 1990.

Even though it has earned so much, the Corporation has not generously provided land for low-income groups. Between 1980 and 1989, the Corporation has provided 14.6 sq km land for the poor which was only 24 per cent of the land for housing provided by the Corporation to the land market.

To provide more land to the urban poor, many ways were suggested: selling more publicly owned land to the urban poor at discounted prices, increasing subsidies and loans for the poor to enhance their ability to purchase land in the land market, providing long-term land leases to the poor, inducing the private sector to provide land to the poor, and providing new financing from various land taxes to facilitate execution of the abovementioned suggestions. Some of these are already in operation and some not yet. However, the fundamental problem confronting the Government is the skyrocketing of land prices. Without controlling real estate prices, it is hardly reasonable to expect the poor to improve their access to infrastructure services.

### **Organizational Problems and Suggested Measures**

Despite the gradual improvements of infrastructure services in poor urban areas, there are still many fundamental problems in addition to those mentioned previously. Firstly, the selection of eligible recipients for livelihood assistance programs must be modified according to the poverty line standards. In the near future, selection criteria may be a more significant problem to the poor because many of the government policies for the poor are based on the number of eligible recipients.

Secondly, the programs are still physically oriented and less concerned about the socioeconomic aspects of poverty. In fact, with the exception of the permanent rental apartments program, other programs do not specifically target particular segments of the populations. It must be recognized that the socioeconomic profile of the urban poor is changing. They are also relatively mobile and very conscious about their present socioeconomic status, implying that infrastructure programs must be formulated to permit members of the urban poor to move more easily to advance themselves socially and economically. Therefore, programs to improve infrastructure services for the urban poor cannot succeed unless they are closely integrated with other welfare programs, especially the ones intended to improve employment opportunities.

Thirdly, the programs are not coordinated to make them complementary. This is necessary for effective implementation. For example, the permanent rental apartments program can be integrated with the other programs. This way, many of the urban poor

can temporarily stay at the rental apartments units and move back to their original living quarters when the joint renewal program or upgrading activities are completed.

Finally, there is the lack of guidelines for improving infrastructure services. Joint renewal projects have been strongly pushed because landlords and squatter owners can anticipate substantial capital gains once they obtain permits. This encourages demolition of units for redevelopment. Additionally, such projects must be carefully scrutinized when being reviewed for permits because they tend to dislocate squatter residents by raising rents substantially.

A set of guidelines is required that explicitly determines what is to be reconstructed, replaced, and rehabilitated. In other words, it must define the conditions which must prevail in order for a structure to be qualified for redevelopment. This requires housing inspections on a continuing basis. Neighborhood condition surveys must also be conducted regularly to determine the kinds of environment necessary to preserve existing neighborhoods. Minimum standards must be defined a priority if such inspections are to be properly conducted. Inspections should serve as the yardstick to determine what to conserve and what to reconstruct.

## **NON-GOVERNMENTAL INITIATIVES**

In the Republic of Korea, the role of the private sector in resolving the problems of the poor has not been significant. In particular, non-governmental initiatives have been weaker in infrastructure service programs than other programs because of the huge amount of resources required for developing and improving the infrastructure services.

The majority of NGOs in the Republic of Korea were established in the 1950s by religious bodies and other social organizations through foreign aid to run homes for children, the aged and the disabled. Although 80 per cent of their expenditures are financed by government subsidies at present, NGOs are still executing the major role of providing institutional care for the poor. In addition, NGOs' activities in the fields of medical services, home-maid services, nurseries, education, consulting and job mediation have also been of great help to the urban poor. Private enterprises will be strong

sponsors of NGOs in the near future as their investments in social welfare increase.

The Social Welfare Fund (the Fund) works much like the NGOs. Although it was instituted by the Korean Government to complement the Government's livelihood assistance programs, the Fund is financed entirely through private donations. Between 1982 and 1989, the total amount of donations was \$56 million, while the total expenditure amounted to \$37 million, leaving a remainder of \$19 million at the end of 1989.

Although the resources and capacities of NGOs are applied to all the problems of the urban poor, NGOs are concentrating their energies on the weak points of government activities as companions or as front executive organs. To increase the efficiency of NGOs, it is necessary to devise a comprehensive plan to fully utilize and mobilize their resources.

The people's own initiatives have done much to improve the problems of the poor. Major upgrading projects undertaken by the poor themselves include drainage, piped water supply and solid waste removal. Recently, many poor urban communities have introduced shuttle bus services to ferry people to public transportation stations.

So far, sufficient consideration has not been given to community participation in government programs; however, the Government has already introduced a system of social workers who work at village offices and are exclusively responsible for the care of the poor. The number of social workers dispatched to village offices will be increased from 400 in 1990 to 4,000 in 1993. This program will help integrate the poor actively into the Government's programs.

## **FINANCING: MECHANISMS AND MOBILIZATION**

### **Infrastructure Financing Program**

The central Government is the primary source of financing infrastructure for the poor. The amount of resources allocated for the poor by the central Government has been increasing rapidly. The amount of financing has grown at an average rate of 45.8 per cent per annum between 1983 and 1990 which is a much higher growth



rate than that of the total government budget (17 per cent per annum). Especially, since 1988, when the infrastructure services projects were initiated, the budget has been increasing enormously.

Local government projects for the poor are financed mainly through subsidies from the central Government. The subsidy rates for local government expenditure for the poor differ from project-to-project and from area-to-area. For instance, the subsidy rate for the subsistence protection program is 50 per cent in the city of Seoul, while it is 80 per cent elsewhere. In the case of the construction of public facilities, a 50 per cent subsidy rate is applied to all local governments. Fixed subsidy rates aside, the budgeting authority can adjust the subsidy rate up or down by 10 per cent according to the financial position of local government. The remaining share of expenditure is financed through local government revenues. The latter include a legislated central government grant, equivalent to 12 per cent of the national tax revenue. Table 20 shows the composition of local government revenues including self-generated revenues, subsidies and grants from the central Government.

Table 20: Composition Ratios of Local Governments  
Revenues in 1989  
(per cent)

	Korea	Seoul	Direct Jurisdiction	
			Cities	Other Areas
Self-generated revenues	73.7	98.6	93.4	55.7
Subsidies	11.5	1.4	4.6	18.5
Grants	14.8	—	2.0	25.8
Total	100.0	100.0	100.0	100.0

Source: Ministry of Home Affairs, *Financial Yearbook of Local Government*, 1989.

To alleviate poverty and to improve infrastructure services, sizable resources must be provided. In fact, there are many resources available for the poor if the Government is strong enough to mobilize it; potential revenue sources include capital gains from land speculation, increases of taxation on interest income by shifting to a consolidated taxation system and even the enormous amount of

profit from public development of land (as the case of the Korea Land Development demonstrates).

Even though there are many resources available, it does not appear to be desirable to secure them directly for the welfare of the poor. Financing by means of special taxation on capital gains or wealth, and through special public income might be confronted with severe resistance from other interest groups or might conflict with the logic of resource efficiency.

At present in Korea, particularly after 1989, a minimum stock of resources for the poor seems to have been secured by the Government. With the launching of permanent rental apartment projects, the share of the government budget for the poor has jumped and it is hardly expected that the amount allocated to the poor will be decreased substantially even after completing construction of the planned volume of permanent rental apartments. In that case, the condition of the poor can be improved rapidly in the future.

Improving the condition of the poor can be achieved through the growth of economic capacity to fund new welfare programs in conjunction with the determination of the poor to climb out of poverty. However, overburdensome welfare programs such as the permanent rental apartments program should be seriously reconsidered when the Government plans new welfare projects.

The permanent rental apartments program may pose a dilemma for the Government. There is a strong demand for more rental apartments for the homeless. However, the question is whether the Government should construct more rental apartments and perhaps sacrifice efficient resource utilization by neglecting the pressing need for greater resources for social overhead capital. If the answer is yes, then there will be a significant increase of welfare expenditure in the government budget, which in turn may result in lower GNP growth. If the answer is no, the Government will have to endure much blame and criticism from the poor who do not have access to the rental house program.

To mobilize private resources for projects to aid the poor, the Government will have to devise incentives such as tax reductions and exemptions. It will also be necessary for the Government to induce private enterprises to invest more resources to improve infrastructure services in poor urban areas.

In a few years, local autonomy will be granted and the administrators and legislators of local areas will be elected henceforth

by local residents. Under this system, a portion of national taxes will be transformed to local taxes to enhance the financial independence of local governments. If local governments should follow the case of the city of Seoul, many unique projects for the poor will be launched by each local government.

### **Housing Finance Programs**

Housing finance programs also serve an important role in improving the access of the urban poor residents to infrastructure services. Even though the national financing system is well-developed, housing finance is usually accorded first priority during credit rationing. In the case of chronic excess demand for money as currently exists in Korea, housing finance programs cannot meet the demand for housing finance. Therefore, the procedures and terms of housing finance are likely to be highly restrictive, thus rendering housing finance programs ineffective in improving the housing difficulties of the urban poor.

Table 21 shows the conditions of present housing finance programs in Korea. The programs of the Korea Housing Bank, the Citizen's National Bank and commercial banks mainly serve middle-income class people. The programs of the National Housing Fund primarily target the homeless with restrictions on size of housing and with more advantageous terms of financing than those of other sources of housing finance.

Table 21: Present Housing Finance Programs in Korea

Source	National Housing Fund	Korea Housing Bank	Citizen's National Bank	Commercial Banks
Maximum size of housing unit (sq m)	60	85	100	85
Interest per annum (%)	3-10%	11.5%	12%	11.5%
Repayment period	20 years	20 years	10 years	20 years
Credit limit per household	\$13,300	\$28,100	\$28,100	\$28,100
Security on loan	House	House and others	House and others	House and others

Source: Kang, Moon-Soo, et. al., *On the Enlargement of Housing Finance for the Poor*, KDI, 1990.

In 1989, the Fund and banks provided a total amount of housing financing of \$4.5 billion, and the average loan per household comprised approximately 24 per cent of the amount required to purchase a house unit. Buyers had to generate most of their financing independently, a requirement that must be too burdensome for the poor to buy houses. The average monthly income of households which received housing financing from sources including the National Housing Fund in 1989 was \$1,080, which was higher than the average income of laborers' households in all cities (\$830). Among the households which received financing from the Fund, only 37.2 per cent earned a total monthly income below \$830 in 1989.

In addition to these standard housing finance programs, there is a provisional program to finance key money introduced by the Government in April 1990 under which urban poor may borrow a maximum of \$4,210 per household at a 5 per cent annual interest rate with a repayment period of two years and no security besides a recommendation from a ward office head. This program was introduced to lessen the burden on the urban poor of financing their key money which had been rapidly increasing and had developed into a controversial social issue. Many urban poor residents have enjoyed benefits under this program, but it is doubtful that the Government would continuously support provisional key money financing.

There are many proposals to improve the affordability of housing for the urban poor by such means as increasing the amount of housing finance, diversifying housing finance institutions, introducing a mortgage finance system and so on. Most importantly, however, financing must be made more accessible to the poor. Funding for the maintenance and upgrading of poor urban residents' housing should be expanded.

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# Malaysia

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# Malaysia

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## EXECUTIVE SUMMARY

In the past two decades Malaysia has emerged as an urbanized and industrialized country. Before that time, Malaysia's economy had been predominantly agricultural. The rapid industrial growth was accompanied by a significant rural-urban migration, increasing the pace of urban growth and creating a great demand for housing, basic infrastructure services, employment and other social amenities. On the other hand, urban development has to a great extent reduced the level of urban unemployment (although the recent economic recession has been a major setback) and poverty.

In broad terms, the urban areas of Malaysia have seen tremendous development with modern social amenities, good roads and other infrastructure improvements. However, in the urban fringe areas, poverty, inadequate housing (mainly squatters) as well as lack of basic infrastructure services and pollution are still prevalent and cause concern.

The Government has implemented several policies for the eradication of poverty (through the New Economic Policy) and provision of proper low-cost housing and other basic infrastructure. Urban poverty has been successfully reduced from 21 per cent of the population in 1970 to 8.2 per cent in 1984. However, several studies have indicated that there still remain a certain percentage of the urban poor population who may not be able to own even a low-cost house and that settlements of the poor still lack access to some of the infrastructure services.

The main deficiencies in the provision of the urban services are related to the mismatches in the standards of federal and state level agencies as well as supply, maintenance and the funding by the local authorities. Factors considered in planning and designing projects

involving urban infrastructure should include appropriate and reliable technology, enhancing local resource mobilization, improving cost recovery, linking urban development needs to employment and income-earning opportunities, strengthening the capabilities of the implementing agencies and increasing self-reliance at local levels.

The present planning and implementation system does not ensure adequate integration and coordination of urban development activities within the three levels of governments, namely, the federal agencies, state agencies, and local authorities. Planning at federal and state levels (to a certain extent) is well-established, but planning at the local level is somewhat fragmented, with the local authorities (particularly the smaller ones) playing insignificant roles in inter-agency planning exercises.

Since the local authorities are the level of government closest to the people, the local authorities should be given strong support and financial assistance from both the State and Federal Governments, so that they are able to provide good service to the people. Local authorities will need to develop their management capabilities, institutional setup, the apportionment of functions and the creation of formal linkages with other agencies.

Private sector and non-governmental organizations, especially community-based ones, can play an important role in supplementing and complementing government effort, particularly in terms of addressing the basic needs of the urban poor and, opportunities are plenty. Malaysia has received substantial external assistance especially through multilateral financial institutions such as the ADB, but assistance in the urban sector has been somewhat limited. Foreign private participation on joint venture basis may be considered also.

## **COUNTRY BACKGROUND**

### **General**

Malaysia has an area of about 329,746 sq km. It is made up of West Malaysia (peninsular Malaysia) and East Malaysia (northwestern-coastal area of Borneo Island) which are separated by about 531 km of the South China Sea. Peninsular Malaysia covers an area of 131,585 sq km, and comprises eleven states and one Federal Territory (Kuala Lumpur) which is also the country's capital city.

East Malaysia which covers an area of 198,151 sq km is made up of two states (Sabah and Sarawak) and one Federal Territory (Labuan).

Malaysia has an equatorial climate with a high and uniform temperature, high rainfall throughout the year and high relative humidity. Malaysia is subjected to maritime influence and seasonal monsoon winds. The natural vegetation is tropical rain forest, which occupies approximately 55 per cent of the country's land area. The lowland forests have been largely converted for agricultural and urban uses.

### **Population and Urbanization**

The total population of Malaysia in 1990 is estimated at 17.9 million, with an average growth rate of 2.5 per cent per annum. Table 1 provides a detailed analysis of the population growth and the urban-rural distribution of population for the period 1980-1990. East Malaysia (Sabah and Sarawak), which accounts for about 60 per cent of the total land area of the country, has a population of only 2.8 million. The urban population in 1990 has been estimated at 7.3 million or 41 per cent of the total population. Peninsular Malaysia has a larger percentage of urban population (44 per cent in 1990) compared to Sabah and Sarawak (23 per cent). The average growth rate for the urban population for the period 1986-1990 was about 4.2 per cent per annum; a slight decrease as compared to the period 1980-1985. The high growth rate of the urban population has been to a great extent due to rural-urban migration. The major growth centers in the Klang Valley region recorded higher growth rates compared to other urban areas. The population growth rates in small towns have been much lower. Another feature of the urban population is that it is a relatively younger population compared to the rural population, thereby subject to a higher rate of natural increase.

### **National Economy**

Malaysia has an agriculture-based economy. The agriculture, forestry, fishery and livestock sectors together contribute 21.2 per cent of the national GDP, while the contribution from other sectors are 10.4 per cent from mining, 24.4 per cent from manufacturing, 41.9

per cent from services and 3.2 per cent from construction. The overall GDP growth rate has varied from 1.0 per cent per annum in 1985 to 8.8 per cent per annum in 1989 (see Table 2). The GDP per capita increased from M\$3,398 in 1980 to M\$4,197 in 1989.

Table 1: 1990 Population Distribution and Growth Rates, 1980-1990

	1990 Population (million)			Average Annual Growth Rate (per cent)			
	Urban	Rural	Total	1981 - 1985		1986 - 1990	
				Urban	Rural	Urban	Rural
Peninsular Malaysia	6,527.1 (44.7%)	8,078.0 (55.3%)	14,605.2 (100.0%)	4.2	1.3	4.1	1.1
Sabah	388.3 (25.6%)	1,129.1 (74.4%)	1,517.4 (100.0%)	6.4	3.2	5.9	2.6
Sarawak	366.3 (20.9%)	1,388.3 (79.1%)	1,754.6 (100.0%)	4.4	2.3	4.2	2.2
Malaysia	7,281.8 (40.7%)	10,595.4 (59.3%)	7,877.2 (100.0%)	4.4	1.6	4.2	1.4

Table 2: Growth Rate of Gross Domestic Product by Sector, 1985-1990 (per cent)

Sector	1985	1986	1987	1988	1989	1990 (Projected)
Agriculture including forestry, livestock and fishing	2.5 (20.8%)	4.0	7.4	4.7 (21.1%)	3.5	4.6 (18.1%)
Mining and quarrying	-1.4 (10.5%)	7.5	0.1	6.6 (10.4%)	3.9	1.2 (9.2%)
Manufacturing	-3.8 (19.7%)	7.5	12.8	18.0 (24.4%)	13.5	11.0 (20.5%)
Construction	-8.4 (4.8%)	-14.0	-11.8	2.5 (3.2%)	8.5	11.0 (5.3%)
Trade and Services	1.7 (44.2%)	-0.5	-4.8	7.2 (40.9%)	6.7	6.3 (46.9%)
Total	-1.0 (100.0%)	1.2	5.2	8.7 (100.0%)	8.8	10.0 (100.0%)

Notes: The percentage growth rates in GDP are at 1978 constant price levels, based on purchasers value. Figures in brackets indicate the share of GDP.

To tide over the effects of a period of recession between 1985 and 1987 the Government has instituted a strategy of moderate growth to ensure stability and has taken into account the resource constraints in the economy; there was a drastic cutback in the public sector development expenditure during that period. The Government also introduced a number of policy changes in order to enable the private sector to expand its activities especially in the agriculture, manufacturing, construction and tourism sectors.

The Malaysian economy showed high growth in 1988 and is expected to continue to increase to 10 per cent in 1990. The Government will continue to implement policies to encourage private investment, undertake measures to broaden the industrial base and upgrade the level of technology, and refrain from further direct investment in activities best undertaken by the private sector. Emphasis will be on ensuring sufficient provision and maintenance of social and physical infrastructural facilities that will enhance growth of the private sector.

### **New Economic Policy**

The New Economic Policy (NEP) was formulated in 1971 with the long-term objective of achieving national unity through a two-pronged socioeconomic development strategy aimed at:

- reducing and eventually eradicating poverty through raised income levels and increased employment opportunities; and
- accelerating the process of restructuring Malaysian society to the socioeconomic imbalances between the various ethnic groups, while ensuring that no particular group will suffer any loss.

The incidence of overall poverty in Peninsular Malaysia was 49.3 per cent in 1970, targeted to decline to 16.7 per cent in 1990. By 1989, it was estimated that the incidence of poverty in Peninsular Malaysia was 15.9 per cent, achieving the target a year early. Sabah and Sarawak also experienced a similar decline in poverty (see Table 3). This clearly reflects the effectiveness of the various socioeconomic development programs and restructuring of the

society through various other programs, despite the severe period of economic slowdown in 1985-1988. The adverse effects of the recession were somewhat cushioned by the significant subsidies and services provided by the Government so as to meet the basic socioeconomic needs.

Table 3: Incidence of Poverty 1970 to 1989  
(per cent)

Area	1970	1976	1984	1989
Peninsular Malaysia	49.3	39.6	18.4	15.9
Sabah	68.9	58.3	33.1	21.0
Sarawak	73.9	56.5	31.9	17.2

Source: Various.

## PAST APPROACHES AND EMERGING CHALLENGES

### Urban Poverty

Poverty may be expressed in terms of population whose household income falls below a poverty line defined on the basis of identified criteria. Another definition of poverty is relative poverty which captures the inequalities of income distribution. One common approach is using the average income of the lowest four deciles or the bottom 40 per cent of the population.

In Malaysia, poverty has been defined and measured on the basis of a prevailing standard of living in accordance with Malaysian conditions that is sufficient to maintain a household in good nutritional health and provide for conventional basic needs in respect of clothing/footwear, rent, fuel/energy and other services. In monetary terms, the poverty line income is considered about M\$300 per household per month.

Although the incidence of poverty in urban areas is smaller than in rural areas, it is still a serious problem. This problem has become more significant with the accelerated trend of industrialization, which has attracted rural poor people, who often migrate to urban areas with the hope of finding more employment oppor-

tunities . However, these people do not have the means to acquire or rent proper housing facilities.

Tables 4 and 5 show trends in household incomes in Peninsular Malaysia over the period 1970-1984. Table 4 shows that although rural areas are lower than urban areas, the former have recovered more rapidly than the latter. Table 5 shows that the incidence of poverty for the urban sector had declined from 21.3 per cent in 1970 to 8.2 per cent in 1984, whereas in rural areas the incidence of poverty had declined from 58.7 per cent in 1970 to 24.7 per cent in 1984. The following features are worth noting:

- although the total number of urban poor households had increased quantitatively, the incidence of poverty had in turn reduced significantly (it is noted that the total number of rural poor households had decreased). This phenomenon is probably due to the higher growth rate of the urban population;
- the incidence of poverty among the rural population is higher than that of the urban population. As such, most efforts to eradicate poverty have been directed to the rural areas;
- the various socioeconomic development programs had effectively reduced the incidence of poverty among the urban population. These included increasing employment opportunities, through growth in the manufacturing, construction, trade and services sectors. A total of 500,000 job opportunities were created during the period 1981-1985 in these sectors in Peninsular Malaysia, at an annual growth rate of 3.6 per cent. Other strategies, which will be discussed later, included the provision of low-cost housing and improvement of infrastructure facilities and public services; and
- finally, in comparing poverty levels between urban and rural areas, some attention should be given to the differences in living conditions. There are differences in the levels of prices, cost of living and living spaces between urban and rural areas. It is estimated from the Comparative Consumer



Price Index that the cost of living is about 10-12 per cent higher in urban areas than in rural areas. Living space is also more limited and congested in urban areas than in rural areas.

Table 4: Mean Monthly Household Income, 1970 to 1984  
(M\$)

Year	Mean Monthly Household Income	
	Urban	Rural
1970	428	200
1973	492	233
1976	569	269
1979	587	331
1984	695	372

Source: Various.

Table 5: Urban Poverty as Compared to  
Rural Poverty, 1970 to 1984

	Total Poor Households (thousand)			Incidence of Poverty (per cent)		
	1970	1976	1984	1970	1976	1984
Urban <sup>a</sup>	85.9	94.9	97.6	21.3	17.9	8.2
Rural <sup>b</sup>	705.9	669.5	68.5	58.7	47.8	24.7
Total	791.8	764.4	666.1	49.3	37.7	18.4

Notes:

a/ The incidence of poverty for 1970 was based on per capita poverty line incomes whereas those for 1976 and 1984 were based on gross poverty line incomes.

b/ The figures are based on sample survey data obtained from the Department of Statistics, Malaysia, taking into consideration the effects of programs implemented in 1970-1983 and changes in other factors such as prices and costs.

### Infrastructure Services in Urban Areas — Past Strategies and Results

Before discussing the availability and accessibility of basic infrastructure services such as water supply, sanitation, electricity

supply, telecommunications, public transportation, drainage and flood control, solid waste removal and housing facilities to the urban poor, it will be necessary to review the overall levels of services in urban areas and the main deficiencies in each of the infrastructure services concerned.

Generally, it can be said that there is a mismatch in the levels and standards of services for those infrastructure services for which the responsibility rests upon the federal and/or state governments as compared to those infrastructure services which are the responsibility of the local government units. In addition to this, there is generally a geographical imbalance of the public sector investment in the development of various infrastructure facilities.

**Water supply** in urban areas is the responsibility of the respective state governments and is implemented by the respective state water authorities. Urban water supply has been satisfactory compared to that available to the rural population. The overall urban coverage is about 93 per cent. However, in certain states, only 65 per cent of the urban population is provided with potable water supply. It should be noted that part of the urban population is only provided with communal standpipes, particularly in the urban poor areas. This is partly due to the high cost of individual connection and partly due to ownership problems of the household (in the case of squatter areas). Individual connections are only given to legal owners of land.

**Urban sanitation and wastewater disposal**, which is the responsibility of local government, has always received lower priority compared to water supply. It is estimated that only about 5 per cent of the urban population has access to a comprehensive sewerage system and about 34 per cent have flush toilets with individual or communal septic tanks. The remainder have pour-flush, bucket and hanging latrines. Actions are being taken to extend sewerage systems to the congested parts of major towns, tourist areas and townships in water catchment areas, so as to control pollution of the water sources arising from the discharge of poor quality effluents from substandard sewage disposal facilities. Local governments are being required to improve the operation and maintenance of sewerage and sanitation facilities including night-soil and sludge disposal. Since lack of finance has been the most serious problem of majority of the local governments, they have been asked to recover the cost of services through the collection of appropriate

user charges. There is an urgent need to increase public awareness and enforcement to control pollution, particularly from the industries.

**Urban drainage** has been receiving somewhat lower priority compared with other sectors, particularly in many urban areas where poor drainage and flooding is a frequent problem. This is largely due to the inadequate drainage system which is unable to cope with increased runoff from developed areas, adding to the runoff from the catchment areas, as well as poor maintenance of drainage facilities. Provision and the maintenance of adequate drainage systems has been hindered often by the proliferation of agencies involved and the limited funds.

**Electricity supply and telecommunications** have been accorded higher priority compared to other infrastructure sectors. Most urban households, including even those in squatter areas, are now adequately supplied with electricity and an increasing number of remote communities are being connected to the national grid. The only weakness is the local coordination capacity to match the service supply to the emerging demand. In the telecommunications sector, the national capacity appears to be adequate for the foreseeable future. However, the problems in the telecommunications sector include imbalance in distribution of services by geographical regions and quality of lines in certain areas.

**Urban roads** are generally of adequate and good standard, although the standard of road maintenance varies considerably from one town to another, depending on the road authority. Only a few local governments have been gazetted as the road authority, whereas in other localities, the public works department is the road authority. Apart from road maintenance and cleaning problems, the lack of functional road hierarchy gives rise to traffic congestion as well as creates environmental problems. These are the main aspects in urgent need of improvement, especially in the major towns and cities.

**Urban transportation** problems have arisen due to lack of coordinated urban planning compounded by inadequate public transportation facilities, which has rendered urban roads inadequate to cope with the increasing number of vehicles, lack of parking facilities (especially in commercial areas) and poor pedestrian facilities. These deficiencies are clearly reflected in the increase in urban road accidents and continued deterioration of urban air

quality, although both these problems have been kept under good control through public awareness and enforcement activities. There is a need to improve the public transportation system such as the public bus system and mass rapid transport system so as to reduce the use of private vehicles.

The housing needs of the growing urban population has led to the formulation of a National Housing Policy and related programs aimed at ensuring that all Malaysians, particularly in the low-income (poor) group, have access to adequate housing and related facilities. Towards this end, the Government has successfully moderated private sector initiatives and also undertaken public sector housing programs to meet the needs of the population. The public housing program includes low-cost housing and institutional quarters in urban areas and rural land development schemes which have also included low-cost housing.

Table 6: Performance of Housing Programs, 1981-1990

Sector	Units Planned		Units Completed	
	1981-1985	1986-1990	1981-1985	1976-1990 <sup>a</sup>
<b>Public Sector</b>				
Low-cost housing	298,210	120,900	121,740	66,696
Others <sup>b</sup>	100,360	28,100	80,160	20,461
Subtotal	<u>398,570</u>	<u>149,000</u>	<u>201,900</u>	<u>87,107</u>
<b>Private Sector</b>				
Low-cost housing	98,800	134,100	19,520	41,469
Special low-cost Housing program (SLCHP) <sup>c</sup>	-	240,000	-	17,216
Others	<u>280,930</u>	<u>178,400</u>	<u>89,850</u>	<u>78,323</u>
Subtotal	<u>374,730</u>	<u>552,500</u>	<u>109,370</u>	<u>137,000</u>
Total	<u>773,300</u>	<u>701,500</u>	<u>311,270</u>	<u>224,115</u>

Notes:

a/ Achievements for the 1986-1990 period are up to 31 December 1989 only.

b/ Other housing programs involve providing institutional quarters, medium and high-cost housing, cooperative housing, etc.

c/ The Special Low-Cost Housing Program is jointly undertaken by the Government and private sector.

Meanwhile, private sector initiatives are being moderated so that their housing projects have a good mix of low, medium and high-cost housing to meet the need and financial capacity of the various income groups. To supplement these efforts, the Government in 1988 initiated a special low-cost housing program in which the private sector was encouraged to develop jointly low-cost housing projects on state-owned land. However, the shortfall in the private sector program was higher than that of the public sector programs. This could be due to demand and supply factors. Factors which contributed to sluggish demand included difficulties in obtaining housing loans, high interest rate and higher prices of privately built houses (compared to public housing schemes). In response to the sluggish demand, compounded by the increase in construction costs, private developers were forced to postpone their projects. Other factors which contributed to the shortfall included delays in approval for land conversions and building plans, difficulties in obtaining bridging finances and inadequate land for housing.

**Solid waste** collection and disposal services, which are one of the primary functions of local government, have been far from satisfactory, in spite of the high investment allocated to this service. A multiplicity of technical and operational problems are common, particularly in the smaller District Councils, resulting in generally unsanitary practices. Due to inadequate collection services, solid wastes are indiscriminately dumped, resulting in environmental pollution and aesthetic problems. Another serious problem has been improper solid waste disposal leading to open dumping or open burning. Only a few local authorities are using sanitary landfill methods which is the preferred solution under the current economic conditions. Incineration is still beyond the affordable limit of all local authorities. With the increasing rate of industrial development and medical research activities, toxic and hazardous wastes disposal problem has also become of increasing concern. Urgent attention is needed to effectively control disposal of toxic and hazardous wastes, as well as to improve the municipal solid waste management of local authorities, most of which can be achieved with little additional capital investment.

### **Basic Infrastructure Needs of the Urban Poor**

A 1978-1980 study of squatter settlements in the Kuala Lumpur metropolitan area revealed that the squatter population of Kuala Lumpur had increased from 26,500 households in 1968 to 38,079 households in 1978. However, the squatter population was reduced from 32.0 per cent of the total urban population in 1968 to 25 per cent in 1978. There are approximately 1,977 squatter settlements occupying approximately 7 per cent of the area of Kuala Lumpur. Thus, while the number of squatters continued to increase (indicating the continued rural-urban migration of people in search of better livelihood opportunities), the percentage of squatters in the total population had decreased significantly. This is at least partially due to the fact that the areas cleared of squatters are largely within the former city limits and that the rural migrants frequently settled in the fringes of urban areas. Also, the City Hall's low-cost housing program contributed towards the resettlement of a significant proportion of squatter families.

Another study (Fong, 1984) revealed some interesting facts on the characteristics of the urban poor and their access to infrastructure facilities and other public services. The study covered squatter areas, downtown slum areas and traditional villages in Kuala Lumpur, Penang, Johor Bharu and Kota Bharu (see Table 7). The mean monthly income of the sample household was about M\$187 per capita per month, which is significantly lower than the mean monthly household income in urban and even rural areas.

Table 7: Urban Poor Household Sample Survey

Socioeconomic Indicator	Survey Findings
Mean household income	M\$187/capita/month
Percentage of expenditure on food and beverage	62.6
Percentage of children aged 16-19 in school	47.0
Education level of household heads	
— Percentage with secondary education and above	29.9
— Percentage with no formal education	26.3
Percentage of live births delivered in medical facilities	76.3
Mean number of children born per household	3.5

On the average, about 63 per cent of the household income was spent on food, which implies that very little is actually left over for investment in proper housing facilities. It is also noted that about 47 per cent of the children in the age group 16-19 years were in school, which was slightly higher than the national urban average (42 per cent in 1980), indicating the importance attached by urban poor families on higher education as one of the means to emerge from the cycle of poverty.

The educational level of the household head was somewhat low. Only about 30 per cent had secondary level education or above and about 26 per cent had no formal education at all. In terms of health practices, the costs in private facilities are too expensive for the urban poor, while there is still inadequate access to government medical facilities (which provides free medical services to low-income groups). Urban poor households appear to have large family sizes. The mean number of children born per household was 3.5 children, as compared to 3.7 for Kuala Lumpur in 1977.

Table 8 summarizes the status of the studied urban poor areas with respect to access to basic infrastructure and public services. About 86 per cent of households had some form of electric supply (from the national grid or private generators). About 75 per cent had

access to public water supply (either to communal standpipes, mainly in squatter areas, or direct house-connection in other cases). About 70 per cent household had access to telephones (their own phone, a neighbor's phone or a public pay-phone) while 67 per cent enjoyed postal delivery, either to their homes (where proper access roads were available) or to community collection points.

Table 8: Urban Poor Household Sample Survey —  
Households with Access to Infrastructure  
(per cent)

Infrastructure Service	Proportion of Households with Access
Electricity supply	81.9
Piped water supply (communal/ individual connections)	75.4
Flush toilets with septic tanks or pour-flush toilets	50.5
Telephone (public)	70.1
Postal (mail delivery service)	67.1
Regular garbage disposal (to communal bins)	46.7

The low percentage of households with flush toilets and septic tanks or pour-flush latrines (51 per cent) is also a reflection of the status of housing facilities, particularly in the squatter areas. Generally, the housing facilities do not comply with any health and building safety standards, and are usually in a poor state of repair. The quality of houses are usually proportionate to income levels, and improve in stages according to availability of funds. However, in squatter areas, due to land ownership problems, the housing conditions are deplorable.

It can therefore be said that the urban poor population are reasonably well-served in terms of electric supply, telecommunications, postal delivery and water supply, all of which are under the jurisdiction of the Federal Government or state governments, but poorly served in terms of sanitation and housing.

Notwithstanding the Government's effort to extend infrastructure facilities to the urban poor sector, it appears from the sample



survey and also from studies carried out by others (Melinda, et.al; Ruslin Hasan) that the urban poor population still lags behind other sectors of the urban population in respect of access to basic infrastructure facilities and public services, particularly in squatter settlements.

The urban poor have been existing at a level only slightly above subsistence. With about two-thirds of their income spent on basic needs of food and beverages, their monthly income is barely sufficient for other expenditures such as education, medicine, clothing, etc. It is noteworthy that the number of urban poor households has been increasing, although the percentage of urban poor and incidence of poverty has decreased.

### **Future Challenges**

The decrease in the incidence of poverty has been largely attributed to the successful implementation of the New Economic Policy, as described earlier. Apart from the availability of additional job opportunities in the manufacturing and construction sectors, greater opportunities have been and will be made available for small businesses and other small-scale entrepreneur trades.

The rural-urban migration trend should be minimized by various programs to meet the basic needs and the income levels of the rural poor population. These should include diversification and intensification of the agricultural sector (such as mechanization, improving crop selection and applying scientific techniques), improving income and employment conditions of plantation workers, modernization of fishing equipment and on-the-shore support facilities, improved marketing network (such as farmers' associations, etc. so as to minimize profit under-cutting), and controlling the prices of agricultural products.

In terms of social amenities and basic infrastructure facilities, the urban poor have benefited from the programs and policies implemented by the Government. However, there have to be greater efforts to improve housing facilities for the urban poor especially those who cannot really afford even low-cost houses. Notwithstanding this, low-cost housing programs have contributed much to alleviate the housing problems of the urban poor.

There is an urgent need to improve sanitation in the urban poor areas, too. An action plan will be required to improve the sanitary

facilities drainage system (to prevent clogging and flooding) and solid waste collection. The local authorities will have to be more active in improving the environmental sanitation of these areas, possibly with community participation.

## **ROLES OF DIFFERENT LEVELS OF GOVERNMENT**

### **System of Government in Malaysia**

There are three levels of governments in Malaysia, namely:

- the Federal Government (sovereign),
- the 13 State Governments (quasi-sovereign), and
- the 142 local governments.

The local governments exercise jurisdiction in a particular geographic subdivision with a well-defined population to be served, an organization and authority to implement, and the power to legislate rules and by-laws in order to carry out their functions. The Federal Constitution clearly delineates the broad areas of functions and responsibilities of the Federal and State Governments, whereas the powers of the local governments are drawn from the basic law, the Local Government Act 1976 (Act 171).

In addition to this, the affairs of the local governments are coordinated through the National Council for Local Government (NCLG). This is represented by all State Governments in Peninsular Malaysia and 10 Federal Ministers. Decisions approved by the NCLG are binding on both the Federal and State Governments. Any proposals on the part of any State Government or the Federal Government which requires changes in any law or policies that affects or deals with local governments are discussed and agreed upon at the NCLG.

### **Institutional Framework**

The institutional and financial framework for policy-making, planning and implementation of projects and programs for land

management, housing and infrastructure services in Malaysia is somewhat complex and fragmented. This is due partly to the existence of several agencies at federal, state and local levels, as well as the division of responsibilities for various sectors accorded by the Federal Constitution and federal and state laws. In principle, the framework combines centralized policy with decentralized maintenance, operation and development control. The present planning and implementation system does not ensure adequate integration and coordination of programs for provision of basic infrastructure and housing facilities for the urban poor at any of the Government's three levels. Effective coordination can be attained at the federal level but only for the programs and projects for which federal funding is provided. Otherwise, the planning and decision-making processes are fragmented horizontally and are coordinated only vertically for each sector within the responsible agency's network at all three levels.

At the state level, the planning machinery is somewhat well-established. However, the system does not ensure adequate horizontal coordination, particularly among the services provided by the Federal Government through its state and local level agencies, such as the Urban Development Authority, and the respective authorities responsible for electricity supply, telecommunications, health and education.

At the local level, ideally the local authorities, being closest to the problems faced by the urban dwellers, including the urban poor, should be in the forefront in terms of planning and implementation of projects, development control, and the operational aspects of programs for improving the conditions of the urban poor.

However, the role and participation of local authorities in the planning of infrastructure has remained somewhat low-key and insignificant. As a result, their overwhelming service-oriented activities are not coordinated with the more development-oriented activities of other federal, state, or local level agencies.

Moreover, the strength of the local framework for planning, coordination and administration varies considerably among the local authorities. The larger municipal councils are comparatively stronger and more capable in terms of staff, institutional capacities and financial resources. They are, consequently, in a better position to enact and enforce powers conferred upon the local authority through the three basic laws, namely, Local Government Act 1976;

Street, Drainage and Building Act 1974; and Town and Country Planning Act 1976. They have a better performance record and are less dependent on state and federal agencies.

Land matters are under the jurisdiction of the State Government and are administered at the local level by the District Land Office. The land authorities have been maintaining a general low-key policy towards the provision of services and providing temporary occupation licenses to squatter settlements, otherwise the Government's interests in assisting this section of population could be misinterpreted as legalization of illegal settlements. Also, provision of facilities may encourage more squatters.

It is also noted that a number of agencies have been set up by federal and state level governments to implement policies aimed at eradicating poverty, including urban poverty. These include the Urban Development Authority (UDA), Majlis Amanah Rakyat (MARA) (Council of Trusts for Indigenous People), Economic Development Corporations (EDCs) in several states and various regional land development authorities (whose programs are more rural-oriented). These agencies have made significant progress in achieving their stated objectives, but over time, their role has become less effective and their programs are not well-coordinated and integrated at the local levels. Furthermore, interagency competition has, in the absence of sufficient horizontal coordination, resulted in duplication of efforts and overlapping of functions.

### **Enhancing the Institutional Framework**

Opportunities for enhancing the institutional framework for the delivery of infrastructure facilities, housing, other public services and employment or other income-earning opportunities to the urban poor population can be many, particularly at the local authority level. To this end, efforts are being taken to decentralize planning and coordination responsibilities, but there is a need to further develop management capabilities, institutional organization, the apportionment of functions and the creation of formal linkages with other agencies, before the local authorities can be expected to fulfill the role of agents of improvement at the local level. The local authorities, no matter how financially sound they may be, will still require strong support and financial assistance from the State and Federal Governments.

## NON-GOVERNMENTAL INITIATIVES

### Role of the Private Sector

Although the public sector played the traditional role as the provider of basic infrastructure services, including low-cost housing, there has been a concerted effort to involve the private sector, in line with privatization policies. The private sector, on the other hand, being profit-motivated, has been involved only in the more gainful sector activities such as manufacturing, construction, trade and commerce. The Government is scrutinizing those activities and services that can be appropriately privatized.

The role of the private sector in the housing and infrastructure sectors can be briefly examined as follows: (a) **housing**: there is a possibility of public-private sector collaboration in the provision of low and middle-cost housing, where the land could be provided by the Government; (b) **public transportation**: opportunities for private sector involvement in the development and the operation of various public transportation facilities such as mass rapid transit system, parking facilities, highways, and in the maintenance of urban road system are quite substantial. Some of these have been already privatized quite successfully; (c) **infrastructure facilities**: even in the infrastructure sector the opportunities for privatization are substantial. The electricity supply and telecommunications have been privatized already, with steps taken to ensure that the rural and the urban poor people will also receive adequate services; and (d) **urban services**: several of the urban services such as solid waste management, markets, road and drainage cleaning, grass-cutting, and so forth have potential for privatization, though the response so far has been below expectations.

However, one should recognize some of the limitations of private sector involvement in the provision of the above-mentioned facilities or services. Firstly, the private sector will require government guarantees for their investments. Secondly, the private sector expectation is to recover not only their investments (including government taxes), but also to make a profit. Thirdly, the cost of the privatized service or facility will include all the risks of the venture. The total effect of all these factors is that the cost of the privatized facility of service may be higher than that provided by the Government. Thus, it is absolutely necessary to ensure that appropriate

pricing policies are developed, prior to privatization. Moreover, all schemes of privatization must include adequate provisions whereby the employees engaged in that sector will not lose any of the benefits which they previously enjoyed.

In this light, an Inter-departmental Committee has been set up under the chairmanship of the Economic Planning Unit in the Prime Minister's Department, which not only issues guidelines on privatization, but is also responsible for the overall planning, monitoring, regulating, coordinating and evaluating the implementation of privatization programs.

### **Role of Non-Governmental Organizations**

It has been recognized that there is a vital need to involve non-governmental organizations, particularly community-based organizations (CBOs), in the improvement of living conditions of the urban poor population. Experiences in several programs, such as the Environmental Sanitation Program of the Ministry of Health, has indicated that community participation is very vital not only for the successful implementation of the improvement projects, at a cost that is affordable to the community, but also to the sustained operation, utilization and maintenance of the facilities provided. The community, particularly the community leaders, should be involved at the crucial stage of the project preparation and implementation.

The involvement of CBOs in urban poor areas have been somewhat limited. The lack of initiative on the part of the urban poor communities to organize themselves to undertake some improvement project could be due to the transient nature of the community, particularly in the case of the squatter settlements. Those in the squatter areas constantly face the possibility of eviction or may be forced to shift to other areas as the job situation demands. Furthermore, due to demands of their employment or business undertaking, these people do not have the means to organize community-based activities.

One program which involves the CBOs and government agencies, known as the Nadi Program, has been successfully implemented. The program was launched in 1979 and coordinated by the Ministry of Federal Territory and the City Hall of Kuala Lumpur, with the assistance of UNICEF. The program was aimed at upgrading the standard of life of the urban poor community. The activities

undertaken under this program include de-worming of children, provision of basic infrastructure facilities such as water supply, proper toilet facilities, electricity supply and all-weather access roads, construction of community service centers which could provide for community-based education and training programs, and projects for the general development of the people.

The Ministry of Housing and Local Government has also implemented two pilot projects, with the technical assistance of WHO, which were aimed at improving the environmental sanitation of villages now in the urban fringes. These pilot projects also involved active community participation. The community, particularly its leaders, should first be given proper training so that they become the backbone for the successful implementation of projects to ensure their sustainability.

Valuable experiences have been derived from the various pilot projects and the ongoing programs described above. There is good potential for a greater level of involvement of community-based organizations, but these activities will require strong support and technical assistance from the various government agencies at the local level, particularly the local authorities.

## **FINANCING MECHANISMS, CONSTRAINTS AND FUTURE DIRECTIONS**

### **Sources of Funds**

Development of basic infrastructure facilities, including low-cost housing, is primarily funded by the Federal Government either directly through capital appropriations for the various agencies involved in the development of these facilities, or indirectly through capital grants or loans to the state government agencies or local authorities. Federal funds are transferred to the state governments and local authorities through grants-in-aid and limited revenue-sharing, as provided for under the Federal Constitution, and through capital grants or loans for various development projects, which is part of the revenue-sharing program.

In addition to this, the executing agencies for urban infrastructure facilities, such as the local authorities, state water authorities and so on, do finance operations and maintenance activities and part

of their development activities out of their own revenues and loans raised from the private capital market.

Table 9 shows the public sector investment in the various sectors of infrastructure facilities in urban areas. The private sector investment, which could be quite significant, was not readily available for the purposes of this paper. This table reflects, in a way, the priorities that have been accorded to the various infrastructure sectors.

Table 9: Public Sector Investment In Urban  
Infrastructure Facilities  
(M\$ million)

	1981-1985	1986-1990
Urban piped water supply	1,791.70	1,695.77
Urban sewerage system	217.41	116.14
Urban drainage	145.21	94.88
Electricity	2,006.95	4,673.69
Telecommunications	2,011.00	3,399.00
Urban roads	443.94	191.99
Postal services	104.00	114.67
Public housing		
— Low Cost	870.56	341.39
— Others	5.65	4.93
Education	5,659.33	3,977.61
Health care facilities	602.55	713.97

Source: Various.

Note: Except for urban water supplies, urban sewerage system, urban drainage and urban roads sectors, investments for other sectors are for both urban and rural areas.

With the active pursuit of privatization, substantial funding is expected from the private sector. More foreign private investment is expected, with the liberal treatment of such ventures and removal of the existing constraints on private investments. In addition to this, international assistance may be required vis-a-vis some local costs to be apportioned from future budgetary allocations. Multi-lateral financial agencies may be approached for assistance in the detailed preparation of the required projects and programs.



### **Innovative Financial Approaches**

The present financial agreement, particularly in the case of transfer of federal funds to local authorities, does not contain effective incentives to induce the local authorities to improve their financial performance, thereby ensuring better service and facilities to the urban residents, including the urban poor. In line with the Government's policy to provide basic infrastructure and services to all sectors of urban population with certain minimum standards, the local authorities will have to be induced to improve their financial performances and exploit their revenues and income base more effectively and efficiently.

There is also the need to match the allocation of the available funds to local needs and performances. Agencies at the local level or local authorities with greater needs and which perform better in the delivery of services should get bigger grants and other forms of financial assistance.

In addition to this, infrastructure projects will require proper project appraisal and close scrutiny, both in terms of technical, social and financial aspects. There are several cases where high-cost and inappropriate technologies may have been chosen, which may in the end be beyond the capability of the beneficiary or the executing agency to sustain. The technology chosen should be appropriate to the local needs, within the capability and ability of the local people to operate and maintain the facility, reliably and cost-effectively.

Apart from proper control on development funds, the control on recurrent expenditures in the public sector, including the local authorities, should be tightened and performance measurements introduced, similar to that practised in the private sector. In line with this, the Government has introduced the Modified Program Budgeting System, whereby the financial controller for a given agency will have to make an agreement with the financial institution to manage and perform to mutually agreed performance standards, which will be measured and evaluated. Any increase in budgetary requirements will be considered after a proven performance record.

The local authorities have been encouraged to adopt corporate accounting principles for their financial management. Apart from tightening their financial management, they are encouraged to improve on their revenue base and collection efficiencies as well as improve their expenditure performances. In this respect, the Minis-

try of Housing and Local Government, through its Department of Local Government, has provided valuable guidance and assistance to the local authorities, as well as undertaken to review the policies, standards and criteria for urban projects and service provision. Studies have been carried out to determine the fiscal needs and fiscal capacities of local authorities, which has eventually resulted in bigger grants-in-aid (known as the Equalization Grant), and other forms of grants for infrastructure and social projects being transferred from the Federal Government to the local authorities.

### AGENDA FOR FUTURE ACTION

Despite the tremendous strides made in terms of urban development in Malaysia, the basic needs of the urban poor population have not been met, particularly in terms of housing. The urban poor population, which includes a significant portion of the squatter population, and which is estimated to be about 25 per cent of the urban population, forms an important part of the labor force, and hence contributes to the overall economy of the cities and the nation. As such, this sector should be given due attention, in terms of the provision of conducive environment that works for a better quality of life. The local authority, which is the level of government that is closest to the people, should be given the assistance to improve its technical and financial capabilities, financial and personal management, revenue base and collection efficiencies. Federal and State Governments should provide this much-needed assistance.

### NOTES

1. An urban area, in Malaysia, is defined as a gazetted local authority area with a population of 10,000 and above. This definition may be apparently simple and administratively easy, but it is less helpful in understanding the nature of urban areas, the roles they perform and their interrelationships either within the urban sector or in relation to their rural hinterland. The definition also tends to exclude several new townships and settlements with less than 10,000 population, although these areas may have the benefits of urban services.

2. The Environmental Sanitation Program of the Ministry of Health has been successfully implemented since its inception in 1976, with the main

objective of improving the standard of life of the rural population through the provision of adequate water supply and proper sanitation facilities which includes proper toilet facilities, and facilities for the proper disposal of refuse and sullage wastewaters.

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# Nepal

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# Nepal

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## EXECUTIVE SUMMARY

Nepal is a least developed country, with a per capita GNP of \$170 per annum. The national economy is based predominantly on agriculture, which forms 52 per cent of the national GDP and employs 93 per cent of the economically active population. Subsistence agriculture remains predominant despite some improvements in the agriculture sector and recent increases in the relative importance of some non-agriculture sectors. The country is a land of villages with a very low level of urbanization. The urban population was estimated to be 1.6 million in 1987, representing 9 per cent of the total population.

Poverty in Nepal is widespread. It is predominantly a rural phenomenon, representing about 97 per cent of the absolute poor. The urban poor constitute only a small portion of total poverty.

Most of the urban infrastructure services in Nepal are the responsibility of the line agencies of the central Government (the Government). They maintain regional and district level branches to cater to local areas including the urban sector. There are municipal bodies and town development committees responsible for urban services. The efforts towards privatization in urban infrastructure development have been slow. There is virtually no essential framework to permit the operation of the private sector. The activities of NGOs are highly concentrated in rural areas but very little on urban needs.

The financing of most of the urban infrastructure services is from allocations of the Government's budget. The existing fiscal practice tends to strain the Government's finances while there are untapped resources with great potential for development. New

approaches are urgently needed to mobilize these resources, for fulfilling the unmet demands of the urban sector.

## **COUNTRY BACKGROUND**

### **Physical Setting in Nepal**

The Kingdom of Nepal, with an area of 147,181 sq km, is a mountainous country located in the Himalayas between the Tibetan plateau in the north and the Gangetic plain of India in the south.

The terrain changes from the level Terai plain in the south, through a series of hill ranges with mountain basins to the lofty heights of the Himalaya in the north, where more than 200 peaks exceed 7,999 m in elevation. The country is divided into five development regions (Eastern, Central, Western, Mid-Western and Far-Western Development Regions), each characterized by the three subregions of the Himalayas, the Hills and the Terai.

### **Urbanization Trends**

Owing to a paucity of statistical information a reasonably accurate study of urbanization in Nepal could be made only for the most recent periods. Though Nepal has a long history of urban life, the level of urbanization in the country is very low. Urban development in the past was constrained due to rugged topography, inaccessibility, poor resource base and a low level of economic development. As a result, urban development was limited to the Kathmandu Valley and the adjoining areas for the greater part of the historical period. Because of Kathmandu Valley's strategic importance as a midpoint between Tibet and India, its urban settlements of Kathmandu, Lalitpur and Bhaktapur became early trade centers. These settlements continued as important towns, economically and politically, for hundreds of years. Most of the Himalayas and the Hills remained inaccessible and the Terai plains of the south did not invite human occupation due to dense forest cover and malarial conditions.

Urbanization outside the Kathmandu Valley (the Valley) could take place only in recent times. However, urban growth in general

was very slow as late as the 1970s. At the time of the Census of 1952-1954, Nepal had only 10 urban centers with a population of 5,000 and more, five in the Kathmandu valley and five in the Terai. The Hills had only a few small market centers. The towns of the Valley, at the time of 1952-1954 Census, comprised 83 per cent of the urban population and 90 per cent of urban places with over 10,000 inhabitants.

By 1961, the number of towns with a population of 5,000 and above was 16. While the Valley still contained the largest urban population, the most rapid urban growth since the mid-1960s has occurred in the Terai. Rapid urbanization in the Terai has been facilitated by malaria control, land clearing and highway construction. These developments have been largely influenced by the Nepal-India trade relationship. The major Terai towns are linked, for reasons of trade, with the cities of northern India. Rural-urban migration has contributed much to the fast urban growth in the Terai. By comparison, the urban centers of Kathmandu Valley have grown at a much slower pace.

In the 1971 and 1981 censuses, only incorporated towns were designated as urban places. There were then altogether 23 incorporated towns in Nepal, 14 in the Terai and 9 in the Hills. At present, the number has increased to 33, 20 of which building of development institutions. But they have not shown convincing results in raising production, increasing employment and meeting the basic needs of the people. Since 1982 per capita GDP has remained almost constant, or even declined.

### **Economic Trends**

Nepal's economy is predominantly agricultural; as recently as 1981, 93 per cent of the economically active population was engaged in agriculture. Both in terms of its share in GDP and in employment, agriculture continues to be an important sector of the national economy. However, there have been some perceptible changes in the structure of the national economy in the past few years. The share of the agriculture sector in GDP was as high as 66.1 per cent in 1975/76. It has come down to 52.1 per cent in 1987/88. Several subsectors like construction, manufacturing, public services, and transport and communications have appeared as important contributors to GDP each with a share of more than 5 per cent in 1987/88.



Despite this development, the national economy is not yet diversified and the domination of the agriculture sector remains intact. Agriculture will remain an important sector of the national economy in the years ahead, and employ the majority of the national labor force. However, the non-agriculture sector's share of GDP will soon exceed that of agriculture.

The spatial concentration of economic growth has been marked due to resource potential. The agricultural resource base is relatively rich in the Terai and the eastern and central parts of the country. Industrial location is also tied to this resource base and market, as industrial development in the country is largely agro-based. Industrial concentration is particularly found in the Kathmandu Valley and the Terai with the highest concentration in the Biratnagar area (eastern Terai). The spatial pattern regarding concentration of economic growth is reflected in the location pattern of large urban settlements as well. There is an excessive concentration of incorporated towns in the Central and Eastern Development Regions with a share of 22 centers out of 33 municipalities of the country. The Terai portion accounts for accommodating 13 of these and the Kathmandu Valley three. The underdeveloped parts of the west (Mid-Western and Far-Western Development Regions) contain only six incorporated towns.

#### *Urban-Rural Divergence in Income*

There are large urban-rural differences in income, and great regional variations. The city of Kathmandu has the highest household income level, while the Terai has the lowest urban income (Table 1). The regional variation is relatively low in the case of rural income levels. Rural Terai households have an income about 15 per cent higher than those in the Hills and the Mountains.

One recent study of the cost-of-living (von Rabenau, 1989) showed that the cost of living is substantially higher in the Hills than in the Terai. Because of the cost-of-living differences, real incomes are roughly constant across urban areas, but are at least 30-40 per cent higher in the Terai than either in the Hills or in the Mountains for rural areas.

Income inequality is high in Nepal. The bottom 40 per cent of households in the country share 17.9 per cent of the total income, whereas the top 7.3 per cent households share more than 23 per cent

of the total. Urban areas show a higher extent of inequality than rural areas.

Generally, laborers are paid in kind with grain. The average wage level is about \$0.80 per day in the Hills and about \$0.70 per day in the Terai. Wages are, generally, higher in urban areas than in rural areas.

Table 1: Urban-Rural Differences in Income Level  
(\$)

Description	Monthly Household Income							
	Rural Areas				Urban Areas			
	Total	Terai	Hills	Mountains	Total	Terai	Hills	Mountains
Total income	39.9	43.0	37.6	37.2	66.4	47.0	70.5	84.6
Money income	15.5	16.8	15.2	12.8	40.5	30.4	49.1	58.9
Income in kind	24.4	26.2	22.3	24.5	19.2	16.6	21.4	25.7
Cost-of-living index		0.75	1.20	1.30		0.75	1.20	1.40

Source: Burkhand von Rabenau, *Nepal Land Development Issues*, Kathmandu, Ministry of Housing and Physical Planning, 1989.

### ***Unemployment and Underemployment***

Estimates of unemployment in the country range from 5-6 per cent of the total labor force. Surveys conducted by the National Planning Commission (NPC) in 1977 and 1984 indicated an unemployment rate of around 5 per cent, the figures for urban employment and rural unemployment being 4.4 per cent and 5.1 per cent, respectively (NPC, 1988).

Underemployment rather than unemployment has remained a more serious problem in Nepal. Especially, farmers do not find adequate employment except during planting and harvesting seasons. According to NPC survey of 1984, 41.2 per cent of person days in rural areas and 25.5 per cent of person days in urban areas remain unused. It shows that underemployment is higher in rural than urban areas. It also indicates that it is higher in the Hills than in the Terai. The vast majority of the work force are subsistence farmers, who do not enter into the labor market of the cash economy.

## URBAN POVERTY

### Nature and Magnitude of Problem of Urban Poor

The first exercise in determining the extent of poverty in Nepal was a national survey conducted by the NPC in 1977. This survey report used an income-expenditure approach. Poverty was viewed as failure to meet the "basic requirements" of a "decent life". Poverty is understood in terms of people's capacity to purchase a "commodity basket" for survival. On this basis a minimum subsistence income of \$0.067 per capita per day was determined as the poverty line. The 1977 NPC survey recognized two types of poor: (i) those below poverty line (poorest of the poor), and (ii) those still poor but above the poverty line.

NPC has recently redefined poverty by adopting a minimum basic needs' approach (NPC, 1989b). The minimum income required to obtain food items determined on the basis of an intake of 2,250 calories per day and other basic needs including clothing and footwear was determined at \$0.18 per capita per day, i.e., \$65.91 per capita per annum at 1984/85 prices. People below this income level have been taken as the absolute poor. It is found that the approaches adopted by NPC for defining poverty line for two different periods are not divergent. Current estimates according to the NPC data would be \$0.21 and \$0.17 as the minimum per capita daily expenditure required (at 1988/89 prices) for subsistence for Nepal and urban Nepal, respectively. The poverty line levels determined by the national surveys and estimates are considered by some institutions to be too low. For example, the Nepal Social Sector Strategy Review (World Bank, 1989b) has determined the incidence of poverty using a per capita annual income of \$200 at 1987/88 prices. This is 92 per cent higher than the NPC estimates.

The NPC reported that some 40 per cent of the 1977 population subsisted below the poverty line. According to the Basic Needs Program (BNP), 42.55 per cent of the population were under the poverty line in 1984/85. The 1977 NPC survey has recorded a significant rural-urban difference in the concentration of poverty. The population below the poverty line in the rural areas was reported to be 42 per cent, while for the urban areas the reported figure was 22 per cent. The Multi-Purpose Household Budget Survey of Nepal Rastra Bank (1985) estimated the population below the

poverty line to be 43 per cent in rural areas and 19 per cent in urban areas. It appears that the incidence of poverty has virtually remained unchanged in rural areas, but there has been a drop by about 3 per cent for urban areas.

The Terai urban areas show a higher proportion of population below the poverty line (24.1 per cent) than the Hills (14.5 per cent). Similarly, regional variations (at the level of development regions) in the incidence of poverty show that the Central Development Region has the lowest incidence of urban poverty, while it is relatively high in the Western, Eastern and Far-Western Development Regions. The low incidence of poverty in the Central Development Region is perhaps due to the effect of larger cities like Kathmandu, Lalitpur and Biratnagar. The relatively low incidence of poverty in the Hills urban areas also is in support of this.

With regard to needs of the urban poor for food and nutrition, it is found that 36 per cent of the population of Nepal consumes less than the estimated minimum calorie requirements. The percentage of households consuming less than recommended levels is highest in the rural Hills, 47 per cent, followed by urban areas, about 40 per cent, and the Mountains, 31 per cent. This shows that the urban situation in terms of access to food is not markedly different from the rural one in Nepal. The last national nutrition survey in 1975 found 51 per cent of children under six were stunted. More recent local surveys have reported similar rates.

The urban poor include construction laborers, porters and farm workers. Unemployment does not appear to be a serious cause of urban poverty relative to poverty caused by low-earning rates in some occupations and by underemployment. It is found that underemployment in urban areas constitutes about 34 per cent of the available labor force. Therefore, the lack of availability of full-time work appears to be the main concern with regard to employment need of the urban poor.

## **PAST APPROACHES AND EMERGING CHALLENGES**

Most of the urban settlements in Nepal are small towns and cities characterized by limited built-up areas, and low-income groups are found in all residential areas with minor exceptions as in the case of larger cities like Kathmandu, Lalitpur and Biratnagar

where social clusters of the poor are fast developing. Towns in Nepal suffer from serious deficits in most of the basic infrastructure services. Recent assessments of infrastructure in 32 municipalities clearly indicate this situation (MSUD, 1990b). It is found that the coverage of the 1987/88 urban population, in terms of percentage served, is below 50 per cent for the infrastructure subsectors of sanitation, stormwater drainage and solid waste, while coverage for water supply and electricity is above 70 per cent.

### **Infrastructure Services**

#### ***Water Supply***

Water connections, or water supplies in proximity to the household, appear to be more or less equally available to all households and to nonpoor and poor alike. Population covered through piped connections is higher in larger cities, with a coverage of 98 per cent of the population in the large cities of Kathmandu Valley and 93 per cent in other large towns. It is relatively low in medium and small towns, with a coverage of 68 per cent for the former and 80 per cent for the latter. Only about 8 per cent of all urban households and about 15 per cent of poor ones have to obtain water from distant sources. In the Terai towns, a majority of the households (more than 80 per cent) are dependent on wells for the supply of water, while in the Hills towns about 73 per cent of all households and 64 per cent of poor ones have water supplied from piped connections. Thus, water supply rates do not discriminate sharply between poor and nonpoor households.

Inadequacy, no doubt, poses a serious problem. But equally serious is the problem of quality of available urban water supplies, though locally available are frequently not sufficient or safe, and low pressure and intermittent service is common. Of the 31 towns with a water system, only five have 24-hour service available. Most towns are able to supply water for only two to eight hours a day. This situation affects mostly the poorer people who do not normally have any water storage facility.

Drinking water supply has always been considered as a priority sector in the urban areas of Nepal. A prime policy and strategy in successive plans has been to remove the largest deficits in water supply. The popular strategy pertaining to the provision of water supply to those who could not afford to have in-house connections

was to install public standposts. The provision of free standpost water could serve well the urban poor in many towns. However, as urban areas have expanded such standposts have continued to be a drain upon revenues, further making the continuation of this practice very expensive. Several new residential areas cannot get this facility.

### *Electricity*

On the other hand, electricity connection rates do discriminate more sharply among poor and nonpoor households, with 51 per cent of all households having electricity, but only 21 per cent of poor ones in 1985. However, there have been significant improvements in electricity connections in urban settlements during the last five years. In 1985, electricity connection were 39 per cent for all households, while they were 47 per cent in 1987. The Hills towns recorded improvements from 60 per cent to 67 per cent during this period. More poor households lack electricity connections in the Hills towns than in the Terai towns. Electricity supply is subject to frequent unscheduled interruptions, and voltage instability is common.

In the electricity sector, the policy has been to expand services where there is the greatest concentration of demand. However, the demand of the poor is modest. As a result, electricity connections have not served the urban poor in an effective way.

### *Sanitary Waste Disposal*

With regard to sanitary facilities for human waste disposal there is a low percentage coverage. Only for Kathmandu Valley towns is a piped sewage removal system available to a limited core area, while elsewhere individual on-plot septic tanks and leach pits serve a portion of population. Poorer segments of the urban population often do not have access to even such facilities, and they have to depend on temporary arrangements. Sanitation is slightly better in small towns, with 51 per cent coverage, than the larger towns including those of Kathmandu Valley, with only 49 per cent coverage. Sanitation coverage is generally lower in the Terai towns than elsewhere. The proportion of urban households with no latrine is about 47 per cent of all households and as high as 67 per cent of poor ones.

A piped sewerage system, as introduced in the Kathmandu Valley towns, has proved to be costly. Recently, a policy has been instituted to make a surcharge of 20 per cent on water bills for sewer service in areas where sewer service is available. Due to the high cost, the experience in Kathmandu Valley do not represent an encouraging model, and no attempt has been made to extend this system to urban places outside the Valley. The proportion of poor households with no latrine nearby is relatively very high. Recently, under a special program with German cooperation, in-house latrines for the poor have been constructed in Bhaktapur. However, the application of similar approaches in other towns is prohibitive due to the financial resource constraint.

### *Drainage*

Stormwater drainage has zero per cent coverage because, as of 1987, no town had specially built stormwater drainage works. In some areas, roadside drainage channels exist, primarily for protection of the roads, but these are not planned works for area-wide stormwater drainage. Poor drainage conditions exist particularly in low-income residential areas, and are a particularly serious problem for the Terai towns due to low slopes. Roadside drains (where they exist) are often not maintained and are frequently clogged with uncollected solid waste and other debris.

### *Solid Waste Collection*

The solid waste collection facility is extremely inadequate in most urban places. The percentage of the population served is estimated at 18 per cent. The percentage served is higher in the Kathmandu Valley towns at 29 per cent, but other large towns record only 19 per cent coverage, while coverage is as low as 13 per cent in medium towns. On the other hand, small towns show relatively higher percentage (26 per cent). Outside Kathmandu Valley, less than one fourth of the solid waste generated is collected, while in Kathmandu Valley only about one third is collected (in volume) in spite of the implementation of an organized collection system. Most towns in Nepal rely on traditional hand-sweeping methods to clean the streets.

The responsibility for removal of solid wastes has been traditionally the responsibility of the lower castes. But the growth has resulted in the overload of the traditional system, leading to uncol-

lected debris in the streets and clogged drainage systems. Efforts have been undertaken to introduce appropriate technology in solid waste collection systems in Kathmandu and Lalitpur, primarily involving waste collection from bulk containers located around the cities. Although economical, cost recovery for this system has proved to be difficult. Nonetheless, this model has implications and applicable features which may be replicated in other urban areas. However, unless the system can become self-supporting, the strategy will have only limited usefulness outside Kathmandu Valley.

### *Roads and Public Transportation*

Urban road conditions are generally poor. A survey conducted in 1988 by the Management Support for Town Panchayat (MSTP) Project showed that of the total road stock in 10 cities, 34 per cent was classified as being in poor condition, 43 per cent in fair condition and only 23 per cent in good condition. It seems that road conditions do not generally discriminate among the poor and non-poor households, but they become very often poorer in areas exclusively occupied by poor people. Most of the towns in Nepal are small, with limited extent of built-up areas. As a result, mass transportation is not a problem at intra-city level except for the few larger cities. For outside connections, public bus transportation facilities are available in most towns. Minibuses *tempos* and *auto-tempos* are low-cost travel modes available in most of the large and medium towns. Rickshaws and *tangas* are popularly used in the Terai towns. All these are the modes of transportation commonly used by the poor people. Mass transport, particularly with regard to low-cost travel modes used by the poor is inadequate, inefficient, uncomfortable and unsafe.

For mass public transportation facilities in urban areas, the strategy has been to develop a public sector as well as to encourage private sector involvement. In the beginning, the public sector development of bus services including trolley buses was quite important. However, such services were woefully limited in coverage and frequency in most of the large cities and towns, in which the private sector soon developed, with basically low-cost travel modes like the minibus, *tempo* and rickshaw.



### ***Land and Housing***

Urban land, particularly its high price, is another issue which concerns directly the urban poor. Land is not readily available for poor people, either due to high densities in the core areas or prohibitive land prices in fringe areas. This has led to the growth of either slum areas or squatting. Poor people continue to live in rented houses in the extremely dense poorer sections of urban core areas. Those who cannot afford to pay rent even in such areas have to be squatters. It is reported that there are 4,000 squatters and 20,000 slum dwellers in Kathmandu (Joshi and Bjones, 1987). Another study revealed that out of the total 179 households sampled for the study about 51 per cent were without house ownership in Kathmandu (Shrestha, 1985). It is abundantly clear that urban land and housing pose critical problems for the urban poor.

Urban land development in Nepal is mainly carried out by private households and land brokers on a plot-by-plot basis. Similarly, urban housing also is an exclusively private affair. Both of these are beyond the reach of the urban poor in the normal market. Recently, several land development programs were initiated. The most popular is the "sites-and-services" program, under which the land is subdivided and all required services are provided in the project site. The developed housing plots are made available to low and middle-income groups. Such programs have already been initiated in two Kathmandu Valley cities (Kathmandu and Lalitpur) and the three eastern Terai towns (Lahan, Biratnagar and Damak). These are scheduled to begin shortly in four other towns. Another urban land development strategy is the "guided land development" (GLD). GLD is a process in which a plan is prepared for an area in which informal subdivision is occurring. This program is implemented with the participation of local residents. Property owners have to agree to give up the rights-of-way needed for roads and other public services in exchange for the expected rise in land value. The major work has so far been limited to the two valley cities of Kathmandu and Lalitpur.

Unfortunately, an evaluation of experiences in Nepal regarding public sector housing and land development indicate a poor implementation track record in regard to land assembly, finance, coordination and management (Malla, 1986). The sites-and-services type projects launched in various towns have been found to be largely unsuccessful due to various operational problems associated with

land acquisition, cost recovery of infrastructure costs, unrealistic plot prices, misuse of down payments and beneficiary selection, etc. Land pooling, although a promising alternative approach for land development in Nepal, requires a high level of management, and has not yet made any progress in two identified projects in Kathmandu.

In the above light guided land development is a promising approach for several reasons (MSUD, 1990):

- Planning is carried out through a formal system of consultation and collaboration with local landowners and residents. This helps ensure success.
- The degree of intervention is modest, that is, the approach improves on the existing land-use patterns without radical modifications. This maximizes community support and cooperation and economize on technical manpower, which is in short supply.
- Planning is done on the basis of cadastral maps, which enables all landowners to see clearly how their interests are affected. The burden on each land owner is minimized by taking land for roads and other facilities from plot frontages.
- Most landowners agree to give up the land for roads and other facilities without compensation in exchange for expected increases in land values resulting from the implementation of the GLD scheme. This lightens the financial burden on the public sector and represents a healthy form of cost-sharing.

### *Employment*

In the employment sectors major initiatives have been taken for the development of income-generating activities for the rural poor through credit programs such as the Small Farmer Development Program and the Productive Credit for Rural Women Program. No such strategy has so far been developed for meeting the employment needs of the urban poor. Banking loans are extended to some unemployed graduates and some skill development training programs have been initiated in support of the low-income groups in some large cities. However, the scale of these programs is extremely

limited, and they cannot be taken as major thrusts of employment-generating activities for the urban poor.

#### ***Health and Education***

The urban population is generally better provided with health and primary education facilities than with infrastructure services. National programs in primary education and basic health care have provided adequate numbers of schools, hospitals and health units in most of the towns and cities. The urban poor do have physically equal access to these services, though their rate of actual use generally remains low due to socioeconomic reasons.

#### ***Emerging Policy Challenges***

The urban poor presently constitute only a very small portion of total poverty in Nepal. As a result, they have not become a priority target group for development. But they have to live with extremely limited infrastructure services and are highly exposed to the threat of unemployment. Further, a natural growth of urban populations together with rural-urban drift, over the next few decades, must be anticipated, giving rise to requirements for the future expansion of urban infrastructure and employment generation.

#### ***Future Policy Challenges***

Nepal is in an early stage of urbanization. In 1987, the urban population consisted of 9 per cent but there are indications of an increasing trend towards urbanization. The number of emerging urban centers and smaller towns (market towns, district headquarters) are evidence of this. The problems of urban unemployment, shortages of infrastructure, declining environmental quality (water pollution, presence of solid wastes, air and noise pollution, congestion), urban sprawl, slums and squatters, the increase in the price of land and buildings, and a scarcity of financial resources for investment constitute formidable policy challenges.

The available information on squatting in Kathmandu indicates a 73 per cent growth in squatter population and 100 per cent growth in the number of squatter settlements within a period of three years from 1985 to 1988 (Malla & Klinger, 1990). Such a phenomenon points to the unbalanced urbanization process in the offing indicat-

ing a serious shortfall in housing for the fast-growing urban population (Bjoness, 1987).

The rural areas of Nepal represent a reservoir of surplus labor force expected to require 150,000 to 200,000 non-farm jobs to be created annually (ADB, 1986). As Nepal moves from an economy based upon subsistence agriculture to a more diversified mix of traditional and modern income-generating activities, urban areas will be called upon to provide employment, training and basic services in order to absorb the large number of largely unskilled and poor rural migrants. This would be the case despite the substantial improvement in rural development efforts achieved in part through integrated rural development projects (Pradhan, 1982). Economic development issues having an important bearing on urbanization trends and poverty include the extent to which non-farm jobs can be created in rural areas; how investment should be allocated between the Hills and the Terai (the latter offers economic advantages despite being less accessible to the existing population); and the extent to which small towns can create employment opportunities. There is a need for a deliberate urbanization strategy quite different from the present drift of urbanization trends and a sound national urban policy, articulated through a series of operational policies, strategies, programs and projects, that takes account of the urban hierarchy the network of towns and small and large cities (Malla, 1990). Such a policy would have important implications for meeting shelter and basic services requirements of the urban poor in particular.

The Government's policy and program initiatives for mitigating a host of urban problems (environmental pollution, squatting, infrastructure services deficits) and for creating economic opportunities in small and big towns are being reflected through the urbanization and habitation policy of the Seventh Plan 1985-1990; the Basic Needs Program 1985-2000; and the Regional Development Master Plan 1990-2000.

The policy initiatives, as articulated by the plan documents stated above, are as follows:

- To strengthen the role of the municipalities for self-financing urban development, mobilization of local economic and financial resources and formulating long-term and short-term capital investment programs on the basis of available resources and capacity.

- To promote a non-farm employment opportunities framework through the integration of infrastructure with land-use plans and the identification of economic growth activities to support urban development.
- To establish an urban development framework through the integration of infrastructure with land-use plans and the identification of economic growth activities to support urban development.
- To promote institutional support activities by the establishment of financial and technical institutions for shelter and urban development activities.
- To encourage private sector investment and involvement in low-income housing and urban development.
- To give attention to urban environment problems associated with the urbanization process.
- To take necessary steps, in the light of increasing pressure for urbanization, to plan and develop urban settlements where infrastructure already exists notably along Mahendra Highway and other growth axes.
- To promote the development of service centers and market towns as cluster settlements for facilitating the services provision, and for strengthening and extending markets for local production and distribution with a view to building up effective urban-rural linkages.
- To encourage the use of local construction materials and technologies through the promotion of small-scale industries and research and development works.
- To implement urban land development programs through positive government intervention in collaboration with the private sector both formal and informal.

- To promote metropolitan planning and development activities in Kathmandu Valley with a special institutional arrangement.

Several fresh program initiatives, in line with the above policy guidelines, have been launched by the Government recently, with the active support of two technical assistance projects: Management Support for Urban Development (MSUD), a Government/UNDP/IBRD project, and Urban Development through Local Efforts (UDLE), a GTZ project. Program components with a fair amount of success during the plan period are: self-financing urban development programs and local resource mobilization; institutional reform, both central and local; strengthening the role of municipalities; improving urban physical planning and development (structure plans and infrastructure plans); introducing planning for small urban centers (service centers and district headquarters) and newly emerging towns with growth potential; development of regional centers; developing more appropriate service standards for urban settlements; strengthening urban land development; developing shelter programs geared to the rural poor, introduction of urban area upgrading; and policy and institutional support related to urban policy, planning legislation, finance, industrial location, regional policy and planning.

## **ROLES OF DIFFERENT LEVELS OF GOVERNMENT**

### **Role of the Central Government**

The role of the central Government is paramount in providing basic infrastructure services in Nepal. The central Government plays its roles in two ways in framing policies and strategies for urban infrastructure development and in implementing various sectoral development programs. The formulation of national policies and strategies for the development of urban areas, as in the case of other components, is the sole responsibility of the central Government. Similarly, the implementation of some urban basic infrastructure services like water supply, electricity, solid waste management and telecommunications is directly undertaken by central Government agencies, while the development of some other services like

education, health and roads is supported by the central Government to a significant extent.

In the formulation of national policies and strategies for urban development, two agencies of the central Government are directly involved, the NPC and the Ministry of Housing and Physical Planning (MHPP). NPC frames the basic policies, sector priorities and program targets for annual and multi-year planning. These policy guidelines are used by the ministries to prepare their annual budgets and programs. MHPP is primarily concerned with policies and programs relating to urban physical development, housing and coordination of physical planning and implementation. Besides these, there is the Ministry of Local Development (MLD) which is concerned with monitoring, supervising and supporting local governments, including municipalities.

Several sectoral agencies of the central Government are responsible for the development of sectoral activities in urban areas. Water supply was previously the responsibility of two agencies, the Water Supply and Sewerage Corporation (WSSC) and the Department of Water Supply and Sewerage (DWSS). WSSC had served 14 incorporated towns and DWSS the remaining incorporated towns and rural areas. Nepal Water Supply Corporation was created in 1989, superseding the WSSC. This new public corporation is now responsible for water supply and sanitation in all incorporated towns, and DWSS has shifted its coverage to the rural areas. The Nepal Electricity Authority (NEA), created in 1985, is responsible for planning the generation, transmission, distribution and maintenance of electrical supply in Nepal serving all incorporated towns. The telecommunication service is developed and maintained by the Nepal Telecommunication Corporation (NTC). Although urban roads are not a responsibility of the Department of Roads, the Department supports local road-building efforts on an ad hoc basis. Though the private sector has contributed much to the development of education and health facilities in urban areas, the central Government's agencies continue to be important participants in the expansion of these services for the urban areas. The new urban land development programs such as sites-and-services program, guided land development and land pooling, are basically initiated and implemented by the central Government's agencies.

As described above, the central-level agencies are concerned with framing policies and programs for sectoral areas. Some of them

implement programs as well. Some of the central level agencies maintain regional offices. Regional offices provide technical assistance and planning coordination for localities. Some regional offices like those of the Ministry of Education and Culture and the Ministry of Health implement central level programs for local areas. Most of the central corporations and sectoral ministries have district level offices which are mainly responsible for the implementation of sectoral programs at district level which include urban areas. These offices are located in districts where towns exist; 29 out of 33 incorporated towns are either district or zonal headquarters. Local offices function as both the local units of the sectoral ministries and the sectoral offices of the district level local self-governments.

Significant changes have occurred recently in the institutional framework for urban development in Nepal. These include the creation of MHPP along with its Department of Housing and Urban Development in 1988, the formation of the Urban Development Division in MLD in 1986, the establishment of the Town Development Fund Board in 1989 and the transformation of WSSC into the Nepal Water Supply Corporation. These changes have helped to clarify responsibilities and strengthen institutional capacity for dealing with urban problems.

Town Development Committees (TDCs), with an institutional framework for joint urban development efforts, involve the active participation of the central government and the people. There are now TDCs in 19 municipalities (not counting Kathmandu Valley Town Development Committee for the three Valley cities). These committees consisting of government officials and representatives of local social workers, are headed by the Chief District Officers except for Kathmandu Valley TDC which is chaired by the Minister of Housing and Physical Planning. The principal functions of these committees are : to prepare town plans, to undertake land development programs and to assist in providing the infrastructure necessary for town development. These committees work under the general guidance and technical assistance provided by MHPP. These committees have to depend upon other agencies for getting their work done. They are not capable of undertaking development works on their own, because of the lack of technical manpower, financing mechanisms and adequate funds. However, they continue to effectively draw the attention and direct the interest of the agencies concerned and the townspeople towards the local problems.



The overlapping authority between the municipalities and TDCs in the formulation and implementation of town development plans has been raised as a matter of serious concern (MSUD, 1990; Sherer, 1990). The TDCs are corporate entities, are answerable to the central government, and are formed under the Town Development Act and the 1973 Town Development Plan Implementation Act. The country has yet to develop a strong tradition of local self-government.

### **Role of the Local Governments**

Under the decentralization scheme introduced in Nepal in 1982, the previous town *panchayats* (the present municipalities) enjoy a wide range of functions and responsibilities. The Decentralization Act requires that all the annual plans of municipalities and villages be formally incorporated in the district annual plan. Planning exercises in municipalities have been relatively more effective than at district and village levels; hence, relatively more progress has been observed in the implementation of the decentralization scheme by the town level local governments. However, there is a vast difference between the 118 mandatory functions assigned to the municipalities by the Decentralization Act and their ability to carry them out. The present situation is one in which a very few functions related to infrastructure services are implemented by the municipalities, while the majority are carried out by either the central government agencies or the sectoral agencies of the Government. The Decentralization Act of 1982 clearly states that all development-related local offices of line agencies will operate as branches of the district level local governments, hence they are expected to support the municipalities as well. However, most of these offices tend to operate as separate entities directly under the central department and ministries. Moreover, the annual programs of most of the service delivery public corporations have not been reflected in the district annual plans. Even though the town authorities are the institutions that are supposed to construct and maintain local infrastructure such as urban roads, water supply and sanitation, electricity, solid waste management and housing, most of these municipal services are provided by others.

There are other constraints which limit the application of decentralized approaches. Responsibilities assigned to both

municipalities and TDCs are identical and overlapping. Their responsibilities together with methods of operation of the various institutions involved in urban development and service delivery have not been clarified. It was felt that in the district annual plans, towns and villages were not treated on an equal footing, and the district annual plans have leaned more towards rural development programs, with little attention to urban problems. As a result, there has been an increasing tendency by the municipalities to maintain direct links with the ministries and central agencies for financial and technical support in the implementation of urban development programs. Decentralized approaches, despite legislative provisions, have not so far been successful.

In order to carry out the 45 mandatory functions assigned to the municipalities under The Municipality Act 1990, enacted as an interim measure on the aftermath of the restoration of a multi-party system in the country, the municipalities need to improve their capabilities in the following areas:

- Establishment of a clear and rational organizational structure;
- Employment of qualified technical staff to improve planning and implementation capabilities; for infrastructure development and service delivery;
- Mobilization and utilization of financial resources to manage and finance town infrastructure and services; and
- A gradual transfer of responsibility and authority for specific functions to the municipalities so as to eliminate overlap between central and local functions.

The responsibilities assigned to the municipalities can be put in the following categories:

- protection of monuments and public places
- urban planning and development
- health and sanitation

- birth and death registration
- construction and transportation
- social welfare
- drinking water and electricity
- environmental health and improvement
- fire prevention
- administrative and miscellaneous

For strengthening the municipalities (previously town *panchayats*) the Government has undertaken two significant technical assistance projects; MSTP/MSUD and UDLE, whose main objectives are to build up the capacities of the municipalities. These projects have provided a substantial amount of technical assistance and training at the local level. The most visible result is an improvement in the financial performance of the towns in the past three years. The setting up of the Town Development Fund for providing grants and loans to the municipal bodies and the proposed expansion and development of a Local and Urban Development Training Institute (LUDTI) at Pokhara are two most important efforts to strengthen municipalities.

## **NON-GOVERNMENTAL INITIATIVES**

### **Role of the Private Sector**

There is a growing realization that the impetus for development must come from the private sector. This change in attitude has been brought about by the low or negative returns and poor management experienced in many public investments. This is being felt even in utility service sectors. However, the private sector has not so far been active in urban poverty alleviation programs. In the provision of basic infrastructure services like electricity, water supp-

ly, urban roads, telecommunication, etc., the involvement of the public sector is predominant.

Urban land development and housing has traditionally been the private sector's activity. Recently, land brokers have begun to play an important role, especially in the two large cities of the Kathmandu Valley. Urban transport is another important area, which has come up with the active involvement of the private sector. Most of the major low-cost transport modes in major cities of Nepal have been developed by the private sector.

### **Individuals' Efforts**

The area where the individuals' own efforts have been very significant has been the urban land and housing sector. Urban land development has been the result of housing development by the informal private sector on a plot-by-plot basis, opening up new land for residential expansion. In major urban centers, land brokers act as middlemen to effect the subdivision of land and the introduction of access roads in newly-developing areas. The brokers, who are often well-known community leaders or businessmen, arrange deals by mediating between sellers and buyers of land in a particular area. In the process, the brokers take the lead in determining the sizes and shapes of subdivided plots and the specifications of access roads. Brokers, thus, serve a positive function in helping to open up land for urban development. Rapid expansion of low-cost transport modes such as *minibus*, *tempo* and *rickshaw* as well as the gradual extension of education and health services in major urban centers has also been due to individuals. These efforts have some inherent shortcomings. For example, in urban land development individuals, including brokers, have neither the knowledge nor the incentive to apply technical standards in their subdivision activities. The inefficient development patterns resulting from their efforts are visible in many places. In other sectors, the benefits do not always reach the urban poor.

### **Role of NGOs**

The role of NGOs in urban infrastructure and services development is not yet significant in Nepal. Most NGO activities in Nepal

are either related to community development or concerned with health and education services. Some are related with income-generating activity. In Nepal, NGOs are basically rural in their field of operation but have lately started to operate in the urban area as well. They are initiating pilot projects for cost-recovery schemes, local health insurance, drug projects, etc. Of the large number of NGO projects, only two are presently located in an urban area. One is in Illam (an Eastern Hill town) and the other in Kathmandu (SSNCC, 1990).

The experience has been varied. NGOs can try more innovative solutions, and can work intensively with the community. Another benefit is that they can operate free of the political and social constraints which limit the capacity of government programs to help the poor. However, it is found that NGOs cover only limited populations and small areas. They often provide services of high quality but the cost of NGO programs are often found to be significantly higher than those of the government per capita. Therefore, the question at government levels often is whether NGO schemes can be replicated at governmental level.

### **Government Policies and Practices**

Government has started to encourage the private sector to play a greater role in the operation of sectoral urban activities which have been so far carried on entirely by the public sector. Such activities are particularly notable in urban land development. Regulations have been introduced to try to rationalize private land development. An initiative was taken as early as 1985 to facilitate the establishment of Nepal's first private-cum-public joint venture real estate development company, the Housing Management and Construction Company Ltd. In 1989, the government set up a new enterprise, the Nepal Land Development Company, one quarter of its shares being owned by the Government and public corporations. Despite these efforts in some limited areas, the Government has not yet established a framework that permits private, organized land development to operate.

In water supply, the Government is considering the feasibility of contracting out the responsibility for meter reading and repair, billing and collection. Initiatives have been taken to privatize public toilet maintenance, which have met with some success in

Kathmandu. Initiatives are also being taken for privatization of electricity billing and collection and installation of public telephones in cooperation with local shopkeepers making telephone services more readily available to the urban residents. Mention should also be made regarding the initiative undertaken for privatization of street sweeping in the cities of Kathmandu Valley.

Privatization attempts so far made in Nepal are obviously isolated efforts. The extremely slow progress in the privatization process has been mainly due to hesitation and unwillingness to adopt substantive measures that would result in significant changes in managerial control. Moreover, urban infrastructure services involve utility components with limited potential for profit making. There are, however, areas like urban land development and housing schemes which could perform well with the private sector's efforts. The basic requirement is the establishment of an appropriate framework which permits the operation of the private sector. These could also be certain cost-sharing and cost-recovery schemes related to some basic urban services like drinking water, sewage and drainage. NGOs can provide inputs for community development activities concerned with urban slums, squatter settlements and low-income residential areas. Integrated development approaches are the urgent need of the time for upgrading most of the squatters' habitats and urban slums. There are positive indications of growing interest shown by NGOs towards such community development activities. Measures need to be taken to facilitate the smooth flow of assistance, both financial and material, from international NGOs.

The establishment of an appropriate framework which permits private and public sector collaboration in urban development in general, and in shelter and land development in particular, is very crucial in view of the resource constraints of the Government in technical, managerial and financial aspects. The private sector, comprising various groups (land developers, housing developers, real estate brokers, cooperative housing groups, professional consulting firms, etc.) could be, if properly mobilized, an effective partner to the Government for improving the accessibility of the urban poor to shelter, land and basic services. Recently, the Government has undertaken important steps in this direction through the initiation of a number of seminar-cum-workshops with objectives of identifying measures to strengthen and enhance the participation of the private sector in urban development.

The recommended measures (UDLE, 1990) relate to: the facilitation of the formation and operation of private land development and housing companies; improving accessibility to land, concessional finance, and urban services within the framework of the national housing policy; promulgation of a separate land development act to remove the bottlenecks faced presently by the private sector, training opportunities for the managers and technical professionals associated with the formal private sector, and the appropriate institutional measures for activization of the private sector.

### **Sewerage and On-Site Sanitation**

Both urban and rural sanitation programs so far have only been implemented on a very modest scale. Only the core areas of Kathmandu, Lalitpur and Bhaktapur are served by sewers. Therefore, on-site sanitation is generally adopted — septic tanks in the more affluent areas and pit latrines in most cases.

Due to the huge investments costs involved in sewerage systems, the future low-cost option for both urban and rural areas will have to be on-site sanitation. It is envisaged that the Government will nearly act as the facilitator and will be sponsoring motivation and awareness-raising campaigns along with some pilot and demonstration latrine programs.

The mechanism for financing of individual household latrines still has to be worked out. Subsidies will have to be discouraged though MSTP studies recommend that encouragement should be provided through government contributions in view of the need to reduce general health hazards.

Tentative estimates for 90 per cent coverage of the year 2000 urban population indicate that some 3.4 million latrines would have to be introduced at a total cost of around \$14 million for construction (up to pan level or plinth).

## FINANCING MECHANISMS, CONSTRAINTS AND FUTURE MOBILIZATION

### Financing Urban Services

Urban infrastructure services including water supply, sanitation, electricity and telecommunication are the responsibility of national level agencies which have a mandate to recover costs through connection charges and consumption tariffs. Both these agencies and the non-tariff line agencies providing services such as roads, health and education rely for their financing on allocations from the general budget of the central government. All these agencies are financially autonomous. As a result, the actual financial budget breakdown component for urban services by these agencies is not usually available. There is again a considerable donor presence in most urban service sectors. Though the external fund is generally reflected in the Government's annual budget, in several cases, externally funded projects are often not properly integrated with the Government's budgeting system. Consolidated accounts for both Government and donor-sponsored activities is not currently available for the urban sector in most cases.

As can be seen from Table 2, urban service investment requirements, as currently estimated, are enormous, totalling \$474.0 million for 15 years from 1987 to 2002 at 1987 prices (excluding electricity) and representing an annual average expenditure of \$31.6 million (MSUD, 1990a). It is found that annual urban service investment requirements would represent 19.6 per cent of the Government's average 1985-1988 total development expenditures.

Another source of finance for urban infrastructure is municipal revenues. In 1987/88, the total annual municipal revenue was \$4.7 million at 1987 prices, representing 14.9 per cent of estimated annual investment requirement for urban services. A significant feature of municipal finances is that towns obtain most of their income from their own revenue sources. These sources, in 1987/88, accounted for 73 per cent of aggregate revenues. Grants from the Government were 14 per cent of revenues, and the rest was made up of loans and miscellaneous sources. The trade tax, or *octroi*, accounted for 73 per cent of own source revenues of 29 municipalities (MSUD, 1988). The *octroi* is collected at the road entry points of each town and is levied on all goods brought in except those for daily consumption. The



*octroi* shares all the negative features of indirect taxes. The towns are too dependent on this source (MSUD, 1990c). The legally scheduled phase-out of the *octroi* is still too far in the future. The allowable rates for direct taxes appear to be high enough for the towns, in principle, to use them to reduce the *octroi* and eventually surpass it as an income source. The towns, however, lack experience in administering direct taxes. Municipalities receive income from collection of fees, fines, rents and charges as well. Although grants from the Government do not constitute a high proportion of aggregate municipal finance, they represent a much larger share of income for the smaller municipalities.

To meet the challenge of urban growth, it is essential to mobilize new sources to pay for needed services, both those provided by line agencies and those which are municipal responsibilities. The existing practice tends to strain the Government's available resources. Under existing financing and cost-recovery mechanisms, deficits in urban services are expected to increase rapidly. There are, however, untapped sources with potential for development. These include cost-sharing arrangements, private sector capital and improvements in direct municipal taxation. The fulfillment of much of this potential will require the establishment of an appropriate framework to permit the operation of the private sector as well as the direct involvement of municipalities.

### **Financing Housing and Urban Land Development**

The Basic Needs Program (NPC, 1987) states that the total additional requirement of housing by the year 2000 is envisaged at about 340,000 units in the urban areas. Linked with the issue of urban housing is land which would be taken over faster to accommodate the growing population. It is estimated that between 1987 and 2022, Nepal's 33 municipalities would be needing 9,490 hectares of newly developed urban land, a 61 per cent expansion in relation to the total 1987/88 urban land area (MSUD, 1990).

However, a formal financing mechanism for housing and urban land development has not been developed yet, and is still at the inception stage. Traditionally, funding for shelter and land development is provided by the informal private sector (individuals, brokers) and, as a result, occurs largely outside the purview of official planning initiatives. There have been, during the past

decade, some government interventions, for example, a number of shelter projects in Kathmandu Valley and other towns. Many of these shelter projects, directed at low and middle-income urban households (up to 19th income percentile), could not get off the planning and design stages. Some of the completed projects (Kuleswor, Golfutar) have relied heavily on central government funding, advanced plot sale and to a limited extent, national financial institutions for project funding (Malla, 1986).

Table 2: Total Public Investments Required for Urban Services  
(\$ million)

Sector	Total Investment	Average Annual Investment, 1987-2002
Urban roads	79.1	5.3
Water supply	181.5	12.1
Drainage	163.4	10.9
Sanitation	10.9	0.7
Solid waste	3.5	0.3
Education	<u>35.1</u>	<u>2.3</u>
<b>Total</b>	<b>474.0</b>	<b>31.6</b>

Note: (i) Above estimates cover 32 municipalities.  
(ii) Figures for the electricity are not given.

Source: MSUD, "Urban Infrastructure Service Delivery in Nepal", 1990.

The commercial banking sector including the Employees' Provident Fund represents an untapped reserve for both project funding and individual housing loan. Their participation in the field of housing finance is minimal, limited to providing housing loans to their employees only at the various terms and rates of interest as stipulated by their respective governing boards (Malla, 1986).

There is a need for strengthening banking institutions, and for extending housing loans to the self-employed. The continuation of the present policy implies that a large segment of low and middle-income households do not have access to housing credit. The sources of finance for housing, therefore, are largely out of personal savings and loans from relatives and friends.

### **Affordability and Cost Recovery**

As noted earlier, urban service investment requirements estimated for the period from 1987 to 2002 is enormous. This requirement would seriously strain the Government's available resources. Given the demand on the Government's development budget coming from the various national development sectors such as agriculture, transport and industry and from ambitious social development programs, it is difficult to see how a high proportion can be devoted to basic urban services. In certain sectors of the national development budget, projected urban investment requirements overwhelm current expenditure levels. This is particularly true of the water sector, where current drinking water expenditure (for all national drinking water programs) are only three fourths of what is required for urban water alone. A similar situation is to be seen in the case of municipalities as well. Their responsibilities for urban service provision are wide and growing. When aggregate annual revenues and potential capital investment resources are considered against future urban service investment requirements, the deficit is enormous. Even if these investment requirements are taken strictly within the limits of municipal responsibilities, the gap remains considerable.

Cost recovery in all tariff-generating agencies is not uniform. It is relatively good in the Nepal Telecommunications Corporation which has rapidly expanded its services over the last two decades, and has been successful in recovering costs. It is financially healthy, recording a consistent profit. The Nepal Electricity Authority has experienced consistent difficulties in cost recovery. Unbillable systems losses have averaged 30 per cent of power production over the last decade. Billing and collection efforts, particularly in the public sector, have not been efficient. It is to be noted here that investments in urban distribution systems only represent a small part of the investment program of this authority.

Despite the importance of the water supply sector, and considerable capital and technical assistance from donor agencies, the financial performance of the Nepal Water Supply Corporation (NWSC) requires considerable strengthening. Tariff rates have remained very low, and a 108 per cent tariff increase has been effective only from 16 October 1989. Tariff increases alone, without increases in operational efficiency, cannot be expected to bring about

improvement in cost recovery. The NWSC suffers from internal weaknesses which have led to poor revenue collection, inadequate metering of consumers, delayed billing and poor collection practices.

The need for municipalities to assume a greater responsibility for urban services is clear. To finance these services municipalities are permitted to raise their own revenue from a variety of sources. Having budgetary independence and separate accountability, municipalities are thus important agents in urban service delivery and cost recovery.

### **New Financing Approach**

With a view to strengthening the financial position of municipalities a special fund known as Town Development Fund has recently been created. The basic objective of the fund is to make grants and loans to the municipalities. Two external agencies, German Agency for Technical Cooperation and the World Bank, have provided financial support to this fund. Grant funds have been provided from German Agency for Technical Cooperation, and loan funds are being provided through a \$10 million World Bank credit. The grant program has begun operating since 1988, and the loan program is expected to start soon. Certain conditions accompany this assistance. The loans are to be given to qualifying infrastructure projects (18 years at 8 per cent) and revenue-generating projects (12 years at 12 per cent). Grants are made available on a matching basis with municipalities for planning and implementation of demonstration projects, health education programs, improvements to tax record system, and preparation of project plans or feasibility studies. The grants disbursed up to the middle of 1990 amounted to \$3.5 million (MSUD, 1990b). An autonomous organization, the Town Development Fund Board (TDFB) was established in 1989 to administer the fund and to extend long-term credit to municipalities. This is obviously an innovative financial arrangement in line with the need of the time. New approaches are urgently needed to make effective arrangements to mobilize untapped urban resources to provide funds for fulfilling the unmet demands and growing needs of urban residents.

There are opportunities for innovative financing approaches in the urban housing and land development sector covering both project finance and long-term housing finance. Some effort has

already been made through the provision of \$1.7 million from the Government's general budget to finance housing and land development projects with a view to establishing a revolving fund to finance future land development projects nationwide through Town Development Committees for land development projects. However, a detailed proposal regarding the institutionalization of the revolving fund is in the process of being worked out (von Rabenau, 1989). Various strategic options for the operation of the revolving fund are being suggested. One of them is to let the TDFB operate the revolving fund as a third window in addition to the two lending areas described above.

Similarly, positive moves are already on the way to establish a Housing Finance Company (HFC) under the Finance Company Act as a public-private sector company to provide long-term financing for upgrading and repair of existing housing, and short-term financing to developers for project implementation (MSUD, 1990). The other innovative approaches envisaged are: the establishment of housing cooperatives under the Cooperatives Act 2041; land pooling and guided land development approaches for the mobilization of local resources; and rental housing (von Rabenau, 1989).

The Town Development Fund Board is still in its development phase. The TDFB is headed by a (chairman, who is the Secretary of Ministry of Housing and Physical Planning, and 12 members representing other ministries, financial institutions and the mayors of the municipalities. The TDFB's limited mandate of providing loans and grants to the municipalities at present seems quite inadequate in the light of the financial credit needs of the private developers and town development committees which are required to undertake various urban development activities (TDFB/UDLE, 1990). These activities relate to:

- land assembly and the provision of essential infrastructure;
- sites-and-services projects;
- land assembly through land pooling;
- guided land development projects; and

- projects that provide residential land to low-income households while recovering costs.

Hence, it seems, TDFB needs to expand its mandate and scope to function eventually as a full-fledged housing and urban development bank.

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# Pakistan

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# Pakistan

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## COUNTRY BACKGROUND

Pakistan, which became a country on 14 August 1947, extends over 1,600 km from north to south and is 1,000 km wide. It has a total land area of 810,408 sq km. A varied relief is characterized by lofty mountain ranges, plains and plateaus irrigated by the Indus river and its tributaries.

The climate is characterized by extreme variations and temperatures. The mountains and hilly areas in the north are cold. Temperatures in the Baluchistan plateau are comparatively high during the summer, and low during the winter. Along the coastal strip, the climate is modified by the sea. In the rest of the country temperatures rise steeply in summer. Winters are cold with a mean minimum temperature of about 4 °C in January. Rainfall is scanty.

The GNP per capita in 1988 was \$350. The average annual growth rate of GNP between 1972 and 1987 was 5.82 per cent, increasing to 6.01 per cent in 1987/88; it was projected to reach 6.90 per cent in the year 1988/89. Agriculture accounted for about 26 per cent of GDP in 1988, manufacturing 8 per cent, and construction 4 per cent.

Pakistan has a federal system of government. The country is divided into four provinces: Punjab, Sindh, North West Frontier Province (NWFP) and Balochistan in addition to Federally Administered Tribal Areas (FATA). Punjab is the most populous province containing 56 per cent of the national population, followed by Sindh 23 per cent, NWFP 13 per cent, Balochistan 5 per cent and FATA 3 per cent.

Each province is subdivided into division; each division comprises three to five districts. The districts are further divided into *tehsils* ranging between two to five for each district. The entire

country is subdivided into 22 divisions and 87 districts. The local government structure is divided into urban councils and rural councils.

With a current population of about 110 million, Pakistan ranks as the ninth most populous country in the world, while in area it is the 34th. The growth rate of its population is around 3.1 per cent a year, the highest in South Asia. Population projections made by the Planning Commission indicated that by the end of the century, Pakistan's population may reach a mark of about 147 million.

The urban population of Pakistan has expanded at an accelerated rate. At the time of the first census in 1951 about 18 per cent of all citizens were living in urban centers. Their percentage reached 23 per cent in 1961, 24 in 1981 and about 29 per cent in 1984. Today town dwellers comprise about 30 per cent of the total population. The current trends, when viewed along with the trends of urbanization around the world, clearly suggest a rapid urban population growth in the years ahead.

In 1981, Pakistan had 374 urban areas, including three with a population of one million or more (see Table 1). About 38 per cent of the urban population was in such large cities (see Table 2).

During the 1971-1981 intercensal period 24 new administrative urban centers emerged and the expansion of nine major cities, Peshawar, Quetta, the Capital City of Islamabad, Gujranwala, Sargodha, Sheikupura, Multan, Sialkot and several small towns took place. This resulted in an increase of 2.4 per cent in the total urban population.

The high growth rate of the urban population is the result of an increased rate of natural growth, immigration and rural transformation. Thousands of families in search of livelihood migrate to towns and cities every year where they are absorbed in marginal sectors of the urban economy. This is attributable partly to the developing economic activity in towns and cities and mainly to mounting economic pressures in the countryside owing to lowered carrying capacity. Urban employment is, however, found to be more productive than rural employment. According to the 1981 census, of the total number of people who migrated during the 1972-1981 period, 87 per cent came from rural areas. Most rural-urban migration is direct from the villages to bigger cities. The metropolis of Karachi, for instance, attracts migrants from all over the country, a distance of as much as 1,600 km. Urban population projections indicate that

by the year 2000, the number of town dwellers may reach a mark of 58-60 million, about 40 per cent of the total population.

Table 1: City/Town Size Distribution

Number of Cities/Towns	City Population			
	1951	1961	1972	1981
One million or more	1	2	2	3
500,000 – 999,999	1	–	4	5
200,000 – 499,999	2	5	4	4
100,000 – 199,999	5	5	10	16
50,000 – 99,999	7	10	25	34
25,000 – 49,999	23	30	42	65
5,000 – 24,999	124	173	215	246
<b>Total</b>	<b>163</b>	<b>255</b>	<b>302</b>	<b>374</b>

Source: Population Census 1951, 1961, 1972 and 1981.

Table 2: Distribution of Urban Population by City Size

City Population	Percentage of Urban Population			
	1951	1961	1972	1981
One million or more	18	33	34	38
500,000 – 999,999	14	–	16	15
200,000 – 499,999	8	18	6	5
100,000 – 199,999	14	7	7	10
5,000 – 99,999	46	42	36	32
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: See Table 1.

About 55 per cent of total household income is earned through self-employment. Wages and salaries contribute about 12 per cent of total income. About 0.95 million new workers enter the labor force every year. The existing rate of employment generation is estimated around 2.5 per cent per annum, below the 3.1 per cent increase in

population (and a corresponding increase in the labor force). The active labor force is estimated to be 31.8 million, out of which 23.3 million is rural and 8.5 million is urban. To increase literacy rates and train the labor force to adopt modern methods has always been at the center of national development strategy. These efforts will, however, take a long time to show tangible results. Approximately one million people are unemployed. The estimated rate of open unemployment for the current year is about 3.1 per cent (2.6 per cent rural and 4.6 per cent urban). If the underemployed were also counted, the combined rate would be about 13.5 per cent.

The average household had a size of about 6 persons and an income of Rs 2,062 (\$120 per month in 1986 (see Table 3)). A number of studies from the 1970s suggest that some 35 per cent to 40 per cent of Pakistan's population can be considered as poor and poverty is more prevalent in rural areas and small urban centers than in major urban centers. Despite substantial differences in the cost of living between town and country, poverty is more pronounced in rural areas. The urban poor, especially those living in major cities, are better-off than many villagers. Though such persons often live in substandard houses in squatter settlements, their average incomes are higher than those of their rural and small town cousins.

Table 3: Household Income, Expenditure and Saving

Item	1979	1986/87
Average size of household	6.1	6.1
Number of income earners per household	1.9	1.7
Average monthly income (Rs)	1,032	2,062
Source of income (%)		
Wages and salaries	31	22
Self-employed	53	55
Others	16	23
Average monthly expenditure (Rs)	958	1,979
Composition of expenditure on various items (%)		
Apparel, textile and footwear	10	7
Food and drinks	51	46
Rent	11	12
Others	28	35
Savings as a per cent of income	7.2	4.0

Source: Federal Bureau of Statistics.

In Pakistan, households below the 90th percentile of the per capita expenditure distribution can be classified as very poor, while households below the 40th percentile are considered poor. All studies conducted on the incidence of poverty indicate that the percentage of poor is higher in small cities. Of all very poor households, 12 per cent reside in large cities, 14 per cent in small cities and towns and 73 per cent in rural areas. Of the less poor, 12 per cent, 17 per cent and 70 per cent live in large cities, small urban centers and rural areas, respectively.

The dependence burden of the poor is often high. Children below the age of 15 number on average 4.4 in very poor households and 3.8 in poor households. The average size of all urban households in 1981 was 6.71 persons. For the poor it may have been higher.

A recently conducted analysis of consumption patterns revealed that 22 per cent of households are unable to obtain minimum required calories (2,000-2,500 calories per day). In Pakistan, about 60 per cent of all children under the age of five have some kind of nutritional deficiency. Due to short birth intervals coupled with the poor health of the mother and inadequate prenatal care, about 30 per cent of babies are born underweight (less than 2.5 kg), and about 28 per cent of mothers consume less than 70 per cent of the recommended calories during their pregnancy. Infant and maternal mortality is high in squatter settlements, where safe water and sanitation facilities are grossly inadequate. Diarrhea and parasitic infections are by far the major cause of deaths of children below 5 years of age.

## PAST APPROACHES AND EMERGING CHALLENGES

Rapid urbanization and the increasing number of poor has created a crisis situation in urban centers. The capacity of cities to provide basic urban services to their citizens fell behind the demand created by population growth long ago. The malaise of towns and cities is amply evident from severe degradation of economic opportunities, basic services and amenities. The capacity to absorb a growing labor force is declining. The absence of a necessary institutional framework to manage urban growth through anticipatory planning has resulted in severe problems of congestion, poor sanitation and substandard housing. This situation arises out of the lack of resources of urban settlements as well as their dwellers.



## Housing

The majority of the urban poor lives either in the oldest parts of the urban centers in dilapidated settlements or in squatter colonies where they do not often have legal title to the land they have occupied. In 1986, about 5.5 million people were living in about 2,320 urban squatter settlements covering an area of about 42,145 acres. Most of these settlements are located on state land while a few exist on private land. During 1961-1981, the number of persons per room in urban areas remained almost constant, at 3.1 in 1961 and 3.2 in 1981. In low-income areas, however, the number of persons per room increased more rapidly, illustrating a substantial lack of production capacity relative to needs.

The proportion of owner-occupied houses in urban areas is fairly high. This increased from 68 per cent in December 1980 (the Census of Housing) to 77 per cent in December 1988 (the Housing and Housing User's Survey conducted by the Applied Economic Research Center of the University of Karachi). But this does not imply increased housing affordability. The majority of houses in squatter and slum areas are owner-occupied.

The poor are unable to afford the type of houses that are produced in Pakistan in the formal sector. A recent study on housing finance conducted by the Asian Development Bank shows that about 40 per cent of total households cannot afford even the cheapest houses offered in a housing scheme in Karachi in 1985. Plots are allotted by local authorities through computer ballot.

Of the total housing units constructed in the country every year, only 20 per cent are financed from formal sources. The House-Building Finance Corporation (HBFC) advances most house-building loans. Low-income households find access difficult to its credit facility. The majority of beneficiaries of HBFC loans belong to middle and upper-income groups. Most of the loans advanced by HBFC are above Rs 40,000. These loans, on an average, meet only 30 per cent of the construction and land cost. The remaining 70 per cent is provided from owners' own sources. Few of the urban poor are able to provide such amounts.

Commercial banks also advance house building loans on a limited scale. These loans range in size from Rs 150,000 to Rs 300,000 at a mark-up rate of around 13-15 per cent per annum. All such loans are for upper-income groups. The government and semi-govern-

ment departments and private organizations also provide a house-building loan facility to their employees. These loans are heavily subsidized. The lower-income employees are entitled to get loans for the construction of their houses free of interest, up to a maximum of Rs 125,000, provided that the repayment can be completed by the time they reach the age of retirement. Some of the private employers run housing loan schemes for their staff.

### **Land for Urban Development**

The rapidly expanding size of our cities, especially the major urban centers, has led to a sharp increase in the value of land both within and around the city. Some urban centers are doubling their size every 20 years. The rising cost of land is a major impediment to increasing the supply of housing and other urban infrastructure.

Action for acquisition of land is initiated after a project is finally approved, which limits flexibility in the choice of location. Moreover, the high cost of land gives rise to the question of budget constraints. The instruments for capturing surplus land and for timely provision of serviced land at low prices for the urban poor such as land banking, land reserves, freezing of the cost, etc. are not in use anywhere in the country. Local authorities do not have sufficient funds to purchase land well in advance of their needs. The procedure of land acquisition is cumbersome. As a result, there are instances of protracted litigations and difficulties in acquiring land. The overall impact is delay in the ultimate acquisition of land and implementation of projects.

Land speculation, especially in the urban housing sector, is widespread, a major impediment to an adequate supply of residential units. Local authorities launch large housing schemes, allocating a high proportion of residential plots to low-income households, but as there is no mechanism to check the credentials of the applicant, plots are often allotted to higher-income groups who sell the plots in the open market at a price three to five times higher than their acquisition cost.

Until now, about 562,000 residential plots have been developed and allotted in Karachi, Lahore, and Faisalabad by their respective development authorities. But many hundred thousand residential plots are lying vacant in those schemes where plots were allotted five to eight years back. The main reason for the slow pace of house-

building activity in such schemes is the delay in the completion of their land development works. Generally, three to four years are required to complete land development works in sites-and-services schemes while the allotment of plots is made immediately after their announcement. The services such as water supply, electricity and transport, etc., are not provided on time, for which reason the plots remain vacant for years together.

### **Water Supply**

The most important basic service is potable water, in the absence of which no human settlement can exist. The water supply in most urban centers is based upon underground water sources. Initially every household or group of households had a personal or shared tubewell. The increase of population and expansion in the city size resulted in lowering of the water table and made a difference in the quality and quantity of water in various parts. This necessitated an integration of a number of tubewells with a centralized water supply system for the city. In cities which do not have sweet water underground, water is brought from long distances. This means additional costs for transport. Handpumps are used by a large number of households in small cities and towns without adequate piped supplies of safe water, leaving a small percentage of households which use a well, stream or other sources. Although 80 per cent of town dwellers in major urban centers have access to safe water, only 40 per cent have water connections inside their houses. Poor households get water from water standposts or are supplied through water tankers by the local authorities.

Gross per capita per day consumption of water, including all uses, ranges from 24 to 50 gallons (108 to 225 liters) but owing to uneven distribution within the urban centers, supply in low-income areas is 5 to 10 gallons (22 to 45 liters). Since the distribution system in the inner parts of major urban centers has become old and outdated, leakages and breakdowns are frequent. Civic authorities in almost all the country lack adequate financial resources to undertake piped water supply projects.

## Sewage and Solid Waste Disposal

According to the Pakistan Economic Survey of 1989-1990, about 59 per cent of the total urban population at the end of 1989 had access to sanitation facilities. The solid waste collection system is estimated to service around 40 per cent of the population. The majority of all sewage and solid wastes are disposed of untreated. Since sewage is often contaminated with toxic industrial wastes, untreated effluents, used for irrigation near many towns and cities, cause serious problems.

Underground sewerage facilities have been provided in only a few major cities. Even in cities where there is a sewerage system, squatter settlements and other low-income areas are left covered. In such areas, wastewater is allowed to run into the soil through soakage pits. The remaining wastewater flows directly into streams, rivers or the sea, posing a threat to health and the environment.

Recently, efforts have been made by local authorities to explore cheaper and effective methods for the collection and treatment of sewage. In some medium-sized cities priorities are being examined with the technical and financial assistance of international agencies. As regards the collection and disposal of solid waste, only recently some big cities like Karachi, Lahore and Islamabad have started using motorized vehicles for the collection and compaction of solid waste. However, only a small percentage of garbage is recovered by these means. With the growth of cities it is becoming difficult to find places for dumping solid wastes, resulting in longer-haul distances, and increased costs to civic authorities. Though on a limited scale, a system has been introduced in Islamabad and Karachi by some private sector agencies whereby residents are asked to keep refuse in specially supplied plastic bags which are collected by these agencies for final disposal.

The overriding problem is the shortage of funds which makes it difficult for civic agencies to finance infrastructure projects. A program to provide environmental services for all urban areas by the first quarter of the next century may require a staggering investment of Rs 300 billion (\$14.0 billion) spread over the next 35 years.

## **Transportation**

Transportation is an agonizing experience for town dwellers, especially in major urban centers. The pattern and pace of urban development has led to increasing traffic congestion in cities like Karachi, Lahore, Peshawar, Faisalabad, Hyderabad, Multan and Gujranwala. With the exception of a few cities, the expansion of road systems has not kept pace with the rapid growth of population and vehicular traffic. There is no appropriate modal split between traditional and motorized vehicles. Slow-moving carts mingle with modern vehicular traffic and accidents and traffic jams are a common sight.

Buses are, because they are cheaper, the only motorized transport available for low-income groups but they are very short of the demand. For instance, in Karachi there is one bus for every 1,900 persons. Buses are operated by both the public and private sectors.

Traffic congestion in big cities is not only due to the number of vehicles on the roads but also because of the concentration of commercial activity in narrow downtown roads, roadside encroachments by vendors and hawkers, roadside car parking, weak traffic management and misuse of road space. During peak hours, traffic through the main roads lays a thick smoke layer with high concentrations of carbon monoxide injurious to health.

## **Floods**

Floods and droughts occur intermittently in Pakistan. The losses due to floods are tremendous in terms of life, land, agricultural productivity, housing, livestock and infrastructure. The poor suffer shocks and setbacks and lose their assets and livestock which are difficult to replace.

Even in urban areas, floods inflict heavy losses on the residents of low-income settlements formed in low-lying areas and other precarious locations. In cities where storm water drainage has been provided, it is often choked with garbage, restricting the flow of storm water. The loss of lives and property is aggravated because many squatter settlements spring up on land that is prone to flooding including river banks.

## Five-Year Plans

Pakistan was confronted with a refugee problem of immense dimensions immediately after its creation when many hundred thousand refugees migrated to Pakistan. Between 1947 and 1953, resettlement of the uprooted in nucleus houses and small plots in major urban centers was the principal approach. Serious efforts, however, were started in 1950 for addressing housing development and infrastructure issues in a coordinated manner. A six-year development plan was prepared for the period 1951-1957. The plan, however, did not provide for much infrastructure development.

The First Five-Year Plan (1955-1960) proposed a policy of slum clearance and shifting of the residents to nucleus houses and resettlement townships. The Second Plan (1960-1965) maintained the continuity of the First Plan regarding bulldozing of squatter areas and shifting of the dwellers to new townships. Both the plans aimed at delivering the most essential services. In the housing and physical planning sector, sewerage schemes and power generation projects were initiated. The Third Plan (1965-1970) proposed the first modest comprehensive program for physical planning and housing both on a curative and preventive basis. The Physical Planning and Housing sector in the Fourth Plan (1970-1975) included basic development, initiation of training programs and pilot projects in regional planning and development, water supply, sanitation, housing, community services and facilities, slum improvement, government buildings and the new capital city of Islamabad.

The period from 1971 to 1977 was characterized by ad hoc planning. However, a number of organizational improvements in the field of urban development were instituted. A full-fledged Environment and Urban Affairs Division at the Federal Government level was established. The other institutional changes included: setting up a Department of Housing, Town Planning and Local Government and a Regional Planning Organization in the province of Sindh; establishing a Housing and Physical Planning Department in the province of Punjab and creating a Provincial Urban Development Board in the North West Frontier Province. For effective continuance of planning and development activities at the metropolitan level, the Peshawar Development Authority was established through a progressive and comprehensive legislation.

During this period the emphasis in the low-income housing sector was on sites and services. In some cities new approaches were tried. These included the construction of core houses and their gradual improvement with community participation. The Karachi Development Authority embarked upon a Metroville Programme with the intention of alleviating the housing problem of low and middle-income groups. The program as recommended by the Karachi Development Plan (1974-1985) was based on several new concepts and special building design and techniques. The concept of core house was replaced by that of utility wall (kitchen, bath and water closet) with water, sewerage, electric and gas connections. Since all four basic components were provided inside the plot, the owner could easily occupy the plot, build one or two rooms and take up the rest of any needed construction on an incremental basis. The program also included a number of support programs for community development which were to be undertaken in collaboration with community development organizations and welfare agencies. New housing schemes for all income groups with a greater percentage of small-sized plots were also launched in other major and intermediate cities.

The resettlement and other sites-and-services schemes had failed to achieve their objective, which was to check the growth of squatter areas in urban areas. But such areas proliferated at about twice the rate of the informal housing sector. The Metroville was a better approach but its progress suffered mainly due to insufficient response from the utility agencies and welfare organizations participating in the program. Delay in providing services increased the overall development cost and gave rise to land speculation. The planning standards especially for roads and amenities were also much higher than the standards generally required for low-income settlements.

A number of water supply and sewerage schemes were initiated to cover unserved areas and to increase the per capita supply of potable water to the urban population. In 1973, 54.9 per cent of total households were serviced with piped water (both inside and outside facility) while in 1980, 58 per cent of households enjoyed this facility. The percentage of households with electricity increased from 57 per cent in 1973 to 70 per cent in 1980. This was possible because of major hydroelectricity projects completed during this period. However, the sewerage facility remained restricted to a

small percentage of urban population and there was no significant improvement in sanitation.

In the Fifth Five-Year Plan (1978-1983), the emphasis was shifted from public sector investment to an enhanced involvement of the private sector both for housing and provision of infrastructure. The plan also laid greater emphasis on the participatory approach. An important strategy was the provision of home and land ownership rights to squatter settlements.

The Sixth Five-Year Plan (1983-1988) envisaged provision of infrastructure to squatter settlements (*katchi abadis*) which included water supply, sewerage, drainage, electricity and paving of streets. An important and innovative approach adopted in 1985 was the launching of a five-point program for the uplift of the rural and urban poor through an integrated and comprehensive program of infrastructure development, especially in rural areas. It was proposed that 57,000 dwelling units would be provided under the Zakat program for the absolute poor.

In the Seventh Five-Year Plan (1988-1993), the same objectives are being followed. However, in view of the perception that the efficient distribution of services is as important as their provision, emphasis is being placed on improving the efficiency of the distribution systems and improvement of operational and maintenance systems.

## FUTURE POLICY CHALLENGES

The population of Pakistan by the end of the century may reach 147 million. The task facing Pakistan during the 1990s and especially in the 21st century will be to satisfy the basic needs of the people for services such as education, health and food not only quantitatively but also qualitatively. The problems will obviously become more complex in the presence of low per capita incomes, growing numbers of urban poor, and increasing rural-urban migration.

For the urban infrastructure subsectors, the Government would have to change its strategies in order to mobilize the immense capital resources needed. In addition, there would be a need to train the requisite manpower to operate systems, and to motivate people not only to bear the costs of operations and maintenance but also to contribute towards capital investment. There are already consider-



able backlogs in supply of services, in the development of trained personnel and in the need for an informed and responsive public. With the passage of time the infrastructure provided during the 1970s and 1980s at huge costs through local as well as foreign resources would need replacement; this will place additional pressure on the resources of the country.

The capital outlay therefore, required in the 1990s and the 21st century is likely to show a shortfall. The urban poor, who are already facing a serious situation, will continue to be a major problem. The provision of services, which is heavily subsidized, would put additional pressure on the financial resources of the local government. Consequently the burden on the affluent classes in urban areas would increase if a system of cross-subsidy is adopted. Alternatively the burden will have to be taken over by the provincial and the federal governments.

Another important issue which is expected to crop up as time passes will be the transformation of intermediate cities into large urban centers. As the population of a city increases most of its infrastructure will need to be replaced, which will put an additional burden on the available resources.

In the face of the above challenges it will not be possible, unless changes are made in the basic strategy and approach, for Pakistan to provide infrastructure services to all its citizens. The options available to the Government would be to provide infrastructure selectively, to reduce the level of service quantitatively as well as qualitatively, or to adopt innovative strategies to tackle the problems. The latter, which would be imperative, would include adoption of cheap technologies and easily maintainable systems. A comprehensive participatory approach may also have to be adopted. The Government of Pakistan is fully aware of the challenges as the strategies being proposed in the Eighth Five-Year Plan reflect the innovative approaches mentioned above.

## **ROLES OF DIFFERENT LEVELS OF GOVERNMENT**

The preparation of national development policies is the responsibility of the federal government while implementation rests with Federal provincial and local government agencies. At the federal level, the Planning Division in the Ministry of Finance, Planning and

Economic Affairs has the prime responsibility for preparation of national development plans and assessing the feasibility of investment schemes. The Environment and Urban Affairs Division (EUAD), established in 1972 in the Ministry of Housing and Works, assists the Planning Division in the preparation of policies of the Physical Planning and Housing sector and is also charged with assisting the provinces to prepare their plans and overseeing implementation of policies and programs relating to human settlements. The main functions of EUAD are: the formulation of basic development policies; providing guidelines to the provinces in the fields of urban planning and housing; coordination of the activities of urban planning and development agencies; monitoring the progress of housing and infrastructure development programs; the formulation of urban plans; liaison between international agencies and provincial agencies in establishing an information exchange network for technical cooperation; and supervision of squatter upgrading programs through its Katchi Abadis Cell.

At the provincial level, the Planning and Development Departments have functions parallel to those of the Planning Division and are charged with the responsibility of preparing provincial policies and programs in consultation with concerned line departments. The Planning and Development Departments coordinate with the Planning Division in the preparation of provincial policies and programs within the ambit of the National Plan. The Housing and Physical Planning Departments in the provinces are charged with the responsibility of implementing provincial programs relating to human settlements.

A number of line departments of the federal and provincial governments carry out urban infrastructure projects. In 14 large and intermediate cities, autonomous development authorities have been established as legal entities to undertake planning and development functions. Development plans in small towns and cities are prepared and implemented by the provincial departments. There are also special-purpose authorities which are entrusted with the responsibility of providing different services at regional or national levels.

At the local level, town committees and municipal committees in small and intermediate cities, and municipal and metropolitan corporations in big cities perform the municipal functions in civil

areas, while cantonment boards undertake similar responsibilities in the military areas.

The compulsory functions of urban councils include provision of sanitation, garbage collection and disposal, water supply, drainage, slaughtering, primary education, fire fighting, flood protection, public transportation, street lighting and social welfare services. Optional functions include the provision of preventive and curative health services, gardens, libraries and police forces.

The basic conclusion which emerges from the analysis of legislative provisions for the allocation of functions is that these are very liberal and unlikely to restrict the devolution of functions in the country. The operative constraints are more likely to be limited financial resources, reflecting the existing allocation of fiscal powers and pattern of intergovernmental fiscal relations, and deficiencies in institutional capacities for undertaking development work especially in the case of the smaller councils.

### **Land Management**

Institutional arrangements and strategies for land management emanate from the specific need for which the land is acquired and rules governing land ownership. Lands belonging to the Government or agencies of the Government are for a specific use, identified through government decision. Problems arise when land is owned by private individuals or companies and is required for the use of the Government for its own or for public purposes like housing, road construction, hospitals, schools, etc. The Land Acquisition Act 1984 is the principal legal instrument which regulates the acquisition of land by the Government from private individuals for public purposes. Each institution is responsible for its own land acquisition program. Once the land is acquired, depending upon the size of the project, each institution formulates its own institutional arrangements for land management. Development authorities which manage large housing projects devote considerable resources to land management. A number of government organizations have their own lands on which they develop their housing and other infrastructure investment programs.

## **Housing and Infrastructure**

Housing and the provision of infrastructure in an urban area is primarily the function of the concerned local body, i.e., municipal committee, municipal corporation, cantonment board, etc. The relevant municipal law lays down that functions pertaining to the provision of housing and infrastructure would be performed by these local bodies. In case a local body has the resources and the manpower to formulate and execute its own programs, there is no problem. However, difficulties arise when the local government is not able to meet the financial and technical requirements of the project. In such cases it seeks the support of the provincial government and, if required, the provincial government seeks the support of the federal government. Although most development works are carried out by provincial and federal government agencies, this is primarily a result of the inadequate financial and technical resources of the local bodies. Centralization at the provincial level or at the federal level is not the result of government policy.

## **NON-GOVERNMENTAL INITIATIVES**

### **The Private Sector**

Private sector efforts, formal and informal, have produced over 90 per cent of Pakistan's urban housing. Large investments in housing construction have been made by the private sector while the public sector has played a facilitating role by providing sites and services. The responsibility for the provision of shelter (which means the construction that takes place on developed land) is almost exclusively that of the private sector which has also constructed flats, houses and independent units for sale to the general public. Formal land development has also been undertaken by cooperative housing societies and private developers. In the informal private sector unorganized small developers and owners-builders are playing an effective role in housing, as well as in the provision of services like transport, education and health, etc.

The private sector, however, operates on the principles of a market economy in which profit is the main motivator. The urban poor particularly the groups at the lowest-income levels do not

provide a sufficient profit incentive to attract the private sector. The burden of provision of land and urban infrastructure for the poor is therefore still primarily that of the Government. However, the Government of Pakistan is examining viable approaches for private sector participation in the provision of housing and infrastructure for the urban poor, where these exist. Incentives may be offered to encourage the private sector to undertake these projects.

### **Non-Governmental Organizations**

In Pakistan voluntary non-governmental organizations have played a commendable role in improving the access of poor households to community facilities by mobilizing the people's own initiatives and resources and ensuring the participation of the beneficiaries in the formulation and implementation of the projects.

The Aga Khan Foundation has embarked upon various projects of income generation, settlement improvement, enhancement of literacy, and basic health in the remote hill areas of Northwestern Pakistan. In major cities voluntary social welfare agencies are helping poor communities in many ways and are ready to play a meaningful role in providing community facilities. One of these efforts, described below, is a remarkable example of the ways in which NGOs can help to create linkages between communities and the private sector, thus making it possible for poor communities to improve their access to basic infrastructure services.

### **The Orangi Pilot Project**

The Orangi Pilot Project (OPP) began in 1980 with the sponsorship of the Bank of Credit and Commerce International. OPP is at present promoting popular participation in: a low-cost sanitation program, a women's health education program and a women's center program.

OPP's low-cost sanitation program, which has achieved considerable success, involves the construction of sewers to convey sanitary wastes out of residential areas. The work is done by residents, with the assistance of OPP. In the first stage, the residents are persuaded to organize themselves into lane associations. A lane of 20 to 30 houses forms a unit. When all the residents agree that the

sewerage work should be done in their area and they are willing to bear their share of the cost, they make an application to the OPP office. The money for the project is collected from the residents by their elected lane manager. The lane manager buys the materials and organizes the work. The OPP office provides technical assistance for constructing the system and trains the owners in its maintenance.

By mobilizing people through motivational and organizational techniques, as well as by providing them with technical inputs, shutterings, tools and guidance to reduce costs drastically, the Orangi Pilot Project has solved the problem of providing low-cost sanitation at three levels: (a) inside the home, a sanitary latrine; (b) in the lane, through underground sewerage; and (c) from the lane to a disposal point, through secondary or collector drains. Now there are 1,650 sewerage lines for 27,338 houses.

One interesting fact is that out of 1,650 sewerage lines the OPP-supervised lines amount to only 759, while the rest are self-supervised. Both of them being community efforts, the self-supervised works suggest progress inasmuch as they entail activities relatively independent of OPP. The main external drains, however, remain the responsibility of the Karachi Municipal Corporation (KMC), for they cannot be constructed unless a Master Plan is drawn out. KMC has, by now, appointed consultants to prepare the Master Plan. As to community participation in sanitation, "... for every Rs 100 spent by the people, the OPP has spent about Rs 10 for research and extension work".

As regards the women's health education program, lane meetings are held by a trainee team organized by the OPP. The team holds its meetings with the lane women through the lane manager. These meetings are very useful since women are more concerned with the problems of health and hygiene and also bear costs of sanitation which comes mainly from household expenses.

OPP's ingenuity in research and extension methods applied to low-cost sanitation is now a phenomenon proven and established for years. The method has been widely accepted and recognized by national and international agencies, including the Ministry of Planning and Development, Government of Pakistan, the Institute of Housing Studies of Rotterdam, Netherlands, and the United Nations, which has chosen the OPP from Pakistan for participation in the 1987 year of Human Shelter. Recognition at so many levels has

opened new horizons for OPP, which is now broadening its operations to include other areas of Pakistan.

### **Khuda Ki Basti**

In Hyderabad, the fifth largest urban center of Pakistan, a scheme for the urban poor has been launched by the Hyderabad Development Authority (HDA). The target group has been selected in consultation with area councilors and social workers from the squatter areas near the scheme. The families who are in immediate need of shelter are first taken to a reception area where they stay for five to ten days. Later they are shifted to 66 sq m plots. They are allowed to build their houses with any building materials they want to use. The down payment has been kept very nominal so that it can be affordable to these families. The rest of the amount is payable in easy monthly instalments. To keep the cost of the plot within the paying capacity of the urban poor, the planning and infrastructure standards have been kept low at the initial stage with provision for their incremental upgradation to acquire development sophistication in time. Initially, gravel roads, water standposts, street lights and open drains are provided. Later, the infrastructure is upgraded by lane associations, with assistance from HDA.

In the beginning, the project faced several problems. Land speculation was not fully controlled. The dropout rate was about 22-25 per cent. Since no mechanism for providing technical assistance to the residents in house construction existed at that time, difficulties were encountered in laying foundations, etc. As a result some houses were not very well-aligned with the property line.

This scheme has undergone continuous improvement and refinement. Learning by doing has helped the HDA to overcome problems. All plots in the scheme are occupied. After a thorough market study, a program of advancing small loans to the residents to run businesses or small workshops has been initiated. Cottage industry and commercial activity are now proliferating. The role of the HDA project team is advisory. The decisions and actions are taken by the people themselves. The Karachi Development Plan 2000 has recommended the replication of this approach in Karachi. Designing of programs on this pattern is underway.

## FINANCING MECHANISMS

### Existing Situation

Other than the relatively small amounts provided by NGOs and the private sector, virtually all financing for the urban sector is provided by the federal and provincial governments through Annual Development Programmes (ADPs) in the form of grants and loans.

During the Sixth Plan period a total of Rs 530 million (\$32 million) was provided for upgrading of *katchi abadis*, and another Rs 3,210 million (\$194 million) for urban water supply, sewerage and drainage. The allocation also includes a special provision for HBFC of Rs 1,000 million (\$61 million) to enable it to expand its operations as well as allocations for housing loans for government employees, unspecified housing subsidies, government offices, the development of Islamabad, and planning and institutional development. The urban transportation program is also to receive an allocation of Rs 1,000 million (\$61 million) under the Sixth Plan. Federal outlays for the three major urban subsectors (shelter, urban infrastructure, and urban transportation) under the Sixth Plan thus total about Rs 6,000 million (\$364 million) or 2 per cent of the total federal ADP.

The provincial Governments' fiscal powers include levy of land revenue, property tax, capital gains tax, stamp duties, motor vehicles tax, entertainment tax and a small professional tax. The local governments are predominantly responsible for the collection of *octroi*, a tax on the use of goods within municipal boundaries.

The external assistance to the urban development sector has been limited and has concentrated largely on the water supply and sewerage subsectors. Major external donors are the World Bank and ADB; the UNDP and bilateral donors have extended both technical and financial assistance.

The World Bank has made three loans to the water and sewerage subsector. The first, an IDA credit of \$1.75 million, was provided in 1967 to help create and equip the Lahore Water and Sewerage Agency, to prepare plans and to begin the first phase of construction of water supply, sewerage and drainage works. The project was completed in 1972. The second, a \$26.2 million IDA credit for Lahore, was approved in 1976. This included extension of water supply, sewerage and drainage as well as institutional reform.



A more integrated approach was adopted in the Lahore Urban Development Project, which was approved in 1983. An IDA loan of \$16 million was granted to this project which comprised sites and services housing, solid waste disposal, central city area upgrading and municipal management. The World Bank has also financed the Karachi Special Development Project, with a \$70.0 million IDA credit.

The ADB has provided two loans for the urban sector. The first was for Karachi Urban Development Project, with components for slum upgrading, solid waste management, sewerage and sewage treatment and a metropolitan resource-generation study in the amount of \$55.2 million. The Second Urban Development Project was focused on seven cities of NWFP, in an amount of \$ 66.0 million. Two loans have been provided for water supply, namely, the Faisalabad Water Supply, Sewerage and Drainage Project and the Hyderabad Water Supply and Sewerage Project, in a total amount of \$61.5 million. ADB has also provided seven technical assistance grants totalling \$1.66 million; two have been for the urban sector, two for housing and three for water supply. These loans and technical assistance grants totalled \$184.36 million.

UNDP has rendered substantial technical assistance for the development of the Karachi Master Plan (1969-1973), advisory assistance for *katchi abadis* upgrading in Karachi (1975-1977), Sindh Regional Plan Organization (1976-1979), and preparatory studies for the World Bank-supported Second Lahore Water Supply and Sewerage Program. The UNCHS and UNICEF are also supporting *katchi abadis* upgrading work in Karachi and selected centers in the Punjab through non-governmental organizations. UNCHS has also extended technical assistance for the preparation of a Peshawar Master Plan.

Various bilateral donors have also been active in the sector; the Swedish Government has supported public transport upgrading in Lahore and has co-financed the World Bank-supported First Lahore Water Supply project. The Netherlands Government has extended substantial technical assistance to *katchi abadis* upgrading in Karachi during 1970-1975 and 1977-1979, has supported studies on municipal finance (1977) and housing finance (1978) and has financed the feasibility studies for the World Bank-supported Karachi Water Supply Project (1978). It has also supported feasibility studies for the Quetta Sewerage Project and is meeting part of the capital cost

of this project. The British Government has supported ongoing technical and management assistance to the water supply and sewerage agency in Lahore for leak detection, stores and accounting. USAID financed the construction of two sewerage treatment plans in Karachi in the early 1960s and has recently provided assistance for strengthening the housing finance sector.

### **Enhanced Financing**

In Pakistan, there are considerable short-term financial constraints on the urban development program. In the medium to long-term, however, there is substantial potential to ease these constraints, primarily through increased resource mobilization and improved utilization of local government resources. While the situation differs among cities, property taxes and utility rates appear to have the greatest potential. However, efforts to increase revenues from these sources must be accompanied by improvements in administrative organization, municipal management and staffing if they are to be successful.

Recovery of the cost of infrastructure has been a major issue which has been under the consideration of the federal, provincial and local governments. Slowly, efforts are being made at all these levels to enhance the rates of these services to bring them as close to the actual cost as possible. Since, historically, the rates have been very low, it will take considerable time for local government agencies to bring the rates up to the necessary levels. The approach of the Government is to make these infrastructure development projects as cost-effective as possible, especially for the purposes of operations and maintenance. However, the roles of the provincial and federal governments will continue to be substantial as infrastructure development projects are increasing in expense and are growing beyond the financial ability of the provincial and local governments.

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# Papua New Guinea

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# Papua New Guinea

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## EXECUTIVE SUMMARY

Papua New Guinea is a small country with the bulk of its people living in rural areas. Though urbanization is a new phenomenon, rural-urban migration is fast becoming a problem. This is obvious in the two larger towns of Port Moresby and Lae.

Those that migrate to urban areas are normally uneducated and unskilled and therefore cannot get a regular wage employment. These people end up in temporary settlements and find work through precarious and informal means such as collecting and selling bottles to make a living.

The country's economy has performed very well in the period 1985-1988 with a rapid expansion in the mineral sector bringing about wage differences in the urban and rural areas. This is now the single most important factor that encourages rural-urban migration. Wages in both urban and rural areas have increased rapidly over the past few years. However, the impact of this increase has been reduced by a high inflation rate.

The Government realizes that squatter settlements are a part of the whole urbanization process and thus, inevitable. Therefore, the Government is committed towards the improvement of the squatter areas. In terms of housing, self-help housing is encouraged. Individuals are encouraged to build their own houses and pit latrines with technical advice from the settlement officers if required.

The National Government through its line departments allocates funds for the provision of basic social infrastructure services to the people. Provincial governments are responsible for functions which have been decentralized such as health and education. A Waterboard is responsible for the provision of water and sewerage

services to all towns which have been declared as water and sewerage towns.

Non-governmental organizations have played a very minor role in the provision of basic social infrastructure services. However, it is the Government's intention to have them play a greater role in this area in the future.

One way of involving the private sector is through the provision of long-term housing loans to the disadvantaged groups, with the Government taking up the responsibility if the borrower defaults. A major thrust is underway to increase the availability of housing finance, particularly for the low-income groups.

## INTRODUCTION

Papua New Guinea has a land area of 462,000 sq km, and is composed of over 860 linguistic and ethnic groups. Its population in 1989 was estimated at 3.7 million. The rate of population growth was 2.3 per cent per annum over the 1966-1980 intercensal period. This rate has probably increased to an average 2.5 per cent per annum during the 1980s, and threatens to increase even more during the 1990-2000 period as a result of declining mortality associated with improvements in public health and continuing high fertility rates. The population forecast for the year 2000 is 4.8 million if there is no decrease in the rate of growth. The bulk of Papua New Guinea's population (85 per cent) live in rural areas. Therefore the urban poor of Papua New Guinea comprise a tiny segment of its total population.

Towns first emerged in Papua New Guinea as colonial centers to foster control and administration. Their main function was to service the administrative and commercial interests of the foreign community, and to have control over the local population. As towns expanded after World War II, zoned land use patterns became the dominant form of town planning. Formal housing was separated into high-cost for the foreign community, medium-cost for clerical and administrative levels of Papua New Guineans, and low-cost for laborers and unskilled workers. Apart from residential zoning, areas were set aside for industrial, recreational and government use (Papua New Guinea Urban Sector Profile Study).

Prior to Independence in 1975 most migrants to the towns were male, large numbers of whom intended to work in towns for a specific period before returning home. Many of these migrants took up residence in squatter settlements which grew rapidly within the major urban areas. In 1980, 57 per cent of the inhabitants of the National Capital District were male.

Circular migration was an important aspect of urbanization and was often combined with a dislike of the foreignness of the town. But during the 1970s dislike and ambivalence turned to adaptation and acceptance. Although ambivalent attitudes persist, rural-urban migration has increased, circular migrants have stayed longer than they intended and women have come in increasing numbers to settle in the towns with their husbands and raise families (Urban Sector Profile). Nonetheless, it is still the case that the vast majority of the people have a village to return to, even though more and more people are beginning to settle permanently in urban areas. Such are the Toaripi and Malalaua people of the Gulf Province who have relocated in Port Moresby and the Sepiks who have relocated in East New Britain.

Table 1: 1980 Census of Population, National Capital District

Age Group	Number			Percentage		
	Total	Male	Female	Total	Male	Female
All Ages	118,431	67,947	50,484	100.0	100.00	100.0
0-4	20,535	10,852	9,683	17.6	16.0	19.2
5-9	15,886	8,363	7,523	13.6	12.3	14.9
10-14	10,899	5,876	5,022	9.3	8.6	10.0
15-19	13,259	7,842	5,417	11.1	11.5	10.7
20-24	17,648	10,216	7,432	14.9	15.0	14.7
25-29	13,815	8,363	5,452	11.6	12.3	10.8
30-34	9,370	5,774	3,596	7.8	8.5	7.1
35-39	6,099	3,727	2,372	5.1	5.5	4.7
40-44	3,972	2,621	1,351	3.3	3.9	2.7
45-49	2,547	1,590	957	2.1	2.3	1.9
50-54	1,904	1,234	670	1.7	2.0	1.3
55-59	1,168		463	1.0	1.0	0.9
60-64	701		279	0.6	0.6	0.6
65+	629		267	0.5	0.5	0.5

Source: 1980 National Census, Final Figures, National Capital District.



The urban population in 1980 was 13.2 per cent of the total population. Port Moresby is by far the largest city and is the center of government administration and commercial activities. Increasing numbers of people are migrating to Port Moresby with the hope of getting a job and making a living there. The two major towns of Port Moresby and Lae have a rapidly growing urban population while the smaller towns are growing slowly or not at all. The rate of growth of urban areas was 3.8 per cent per annum during 1971-1980.

The two major towns of Port Moresby and Lae have a growing urban population while the smaller towns are growing slowly or not at all. The rate of growth of urban areas was 3.8 per cent per annum during 1971-1980. The enumerated urban population in 1971 comprised 11.4 per cent of the total population (Urban Sector Profile Study).

Employment opportunities have increased steadily in Port Moresby, Lae, Rabaul and Mt. Hagen. During 1976-1984, wage employment grew at a compound annual rate a little over 3 per cent (McGavin, 1986). During the 1980 Census the labor market participation rate in Port Moresby was 45 per cent of the population aged 10 years and over. The overall rate of labor market participation may be nearer to 10 per cent. The 1980 Census data show male wage earners outnumbering females by about 6:1, and indicate a male wage employment participation rate of about 17 per cent and female participation rate at about 3 per cent (McGavin, 1986).

The mining sector accounted for about 4.5 per cent of total wage employment in 1982. The growth in agricultural employment has been such that for the period 1982-1985 it represented 150 per cent of the net growth in private, non-mining wage employment in Papua New Guinea (McGavin, 1986). Since 1980, there has been a decline in wage employment in the private sector, excluding mining. A substantial proportion of agricultural wage employment occurs in plantation or estate employment.

Wage earnings are highest in mining [averaging in 1982 K 77 per week (\$80.94)] and lowest in agricultural primary production [averaging in 1982 K 18 per week (\$18.92)]. Between 1979 and 1982, there was a tendency for the earnings of clerical and service workers to increase as a proportion of the minimum wage earnings for Level One Centers such as Port Moresby. Average rural wage earnings as a proportion of the minimum rural wage increased between 1979 and 1982. The increased availability of persons for work in education

and in the National Government between 1979 and 1982 has caused a reduction in wage earnings relative to the minimum wage (Mc Gavin, 1986).

## ECONOMIC SITUATION

Real growth in Papua New Guinea's gross domestic product (GDP) was higher than the average growth in all non-oil primary commodity-exporting developing countries in the period 1985-1988, with an average annual growth of 4.5 per cent. The total value of GDP in 1985 was K 2,196.1 million (\$2,308.54 million) and in 1988 it was K 2,507.6 (\$2,635.93 million) (Economic Policies, Vol. 2, 1990 Budget). This compares very favorably with the performance in the early 1980s.

Improvement in the rate of economic growth during the period was primarily the result of the rapid expansion of the mineral sector due to construction and commencement of production at Ok Tedi (copper, gold and silver mining in the Western Province of the country) and a significant increase in mineral and petroleum exploration. The agriculture sector expanded more slowly due to relatively poor prices with the exception of coffee, which benefited from high prices in 1985 and 1986, and a major expansion in production in 1987.

The Government's contribution to GDP remained constant as a result of expenditure restraints during this period. Other sectors of the economy began to show some expansion towards the end of the period reflecting benefits derived from mineral sector developments. Mineral sector GDP almost doubled over this period. Its share of total GDP rose from 10 per cent in 1985 to 18 per cent in 1988. Its relative share will inevitably increase further in the coming years as more new mineral and petroleum projects come into production.

A sample survey of wages in Port Moresby and Lae shows a disparity of income between the two towns. The average wages from the Port Moresby sample show considerable dispersion with typical figures of around K 80 (\$84.10) and K 140 (\$147.17) per week. Average wage earnings for citizens from the Lae sample are typically about K 60-70 (\$63.07-73.58) per week, and are clearly lower than for the Port Moresby sample (McGavin, 1986).

Papua New Guinea has a minimum wage system that covers unskilled, semi-skilled, and skilled operations. Minimum wages as well as hours of work and other conditions of employment are set by minimum wages boards, and periodic cost-of-living reviews are made. The rural minimum wage applies to workers not covered by the urban minimum wage, mainly those in primary production.

Wages and salaries in Papua New Guinea have risen rapidly in recent years. For example, the minimum wage in Port Moresby increased from K 8 (\$8.49) weekly in 1971 to K 25.80 (\$27.12) weekly in late 1975, a doubling of real wages. During the same period, the national rural minimum wage rose from about K 5.30 (\$5.57) a week to K 8.90 (\$9.36). The widening urban-rural wage gap, from a ratio of 15:1 in 1971 to more than 2.4:1 in 1975, has contributed to excessive migration from rural to urban areas and, consequently, to high urban unemployment rates.

However, between 1980 and the end of 1988 real wages in both urban and rural areas declined by almost 6 per cent. A further decline occurred in 1989 as the inflation rate of 5.4 per cent exceeded the wage adjustment of 5 per cent, based on the partial indexation arrangement of the previous Minimum Wages Board, which effectively set wage increases for the years 1986, 1987 and 1988 (Economic Policies, Vol. 2, 1990 Budget).

In Papua New Guinea poverty is relative. People are poor because compared to others they do not have a regular income, not because they do not have basic survival needs. Urban poverty in Papua New Guinea is not as striking a problem as it is in other Third World countries. The urban population makes up between 12 to 15 per cent of the country's total population, a relatively small fraction. Urban poverty is concentrated in Port Moresby and Lae. In these cities the urban poor live in squatter settlements, where most of the unemployed people are found. It would be difficult to give any figure on the incidence of poverty because the problem is not acute and has not been researched extensively.

## PAST APPROACHES AND EMERGING CHALLENGES

### Housing

The largest town of Port Moresby had a population of 122,761 at the last census in 1980. Of these approximately 16 per cent were expatriates, 10 per cent lived in urban villages and 25 per cent in squatter areas (Norwood, 1986). The latter group would contain the majority of the urban poor.

People come to towns whether or not employment and housing are available. Most urban migrants are not able to obtain access to conventional houses. Forty per cent of Port Moresby's households have incomes too low or too irregular to qualify for tenancies of conventional houses (National Housing Plan, 1975). Most of these migrants build their own houses out of whatever materials are available.

Living in squatter communities can have considerable advantages for many people. They are near to work, rents are low or nonexistent, the house can be improved and added to without attracting the attention of the National Housing Corporation, and people can site their houses in clusters together with their relatives (Norwood, 1986).

Historically, people moving from the countryside to Port Moresby have not had to face most of the acute problems which urban migrants in other developing countries encounter. First, the urban area is very spread out and there is a lot of space for people to build their own houses and even make gardens, although much of that space is theoretically reserved for some rather vague future developments. The second advantage is that almost every urban migrant already has a group of relatives or friends (*wantoks*) living in the city and he can stay with them while planning his future. The third advantage is that the Papua New Guinea Government has not been hostile to new urban migrants. Neither the Government nor the City Council maintains a squatter control unit to knock down people's houses if they build without building permits (Norwood, 1986).

The urban poor are usually not well-educated and are unskilled and therefore cannot get well-paid jobs to provide access to good housing, water supply and sanitation services. During the colonial administration employers were to some extent obliged to provide

housing for their national workers. The response was to build smaller and cheaper versions of expatriate houses, but even the highest paid national workers could not afford the economic rent of these houses, which were rented at a highly subsidized rate. The supply of such housing did not match the demand. Migrants were forced to build their own shelters in illegal settlements. They squatted on Government-owned land and also on customary land where an agreement was reached with the traditional landowners. These settlement houses were built from whatever scrap material that was available.

In 1973 the Government realized the difficulty of satisfying the actual housing demand by conventional methods and introduced a Government White Paper setting out a policy on "Self-Help Housing Settlements for Urban Areas". This was a major change in policy under which more emphasis was placed on recognizing such settlements as a part of the urban area. A Sites for Self-Help Housing Program was begun (see Table 2).

Table 2: Sites for Self-Help Housing, 1984

Settlement Name	Lots Provided
Existing vacant individual sites	92
Erima 3	200
Hohola Rifle Range (Site 80)	100
Badili Canoe	120
Jackson Hill (Part Site 47)	450
Kaugere 3 (Site 92)	20
University North (Part Site 70)	1,185
Goro Kaeaga Road (Part Site 71)	480
Talai Extension	20
Gerehu East (Part Site 67)	100
<b>Total</b>	<b>2,767</b>

Source: The Port Moresby Interim Plan, 1986.

Under this program basic services such as roads, water supply, street lighting, pit latrines or some sort of sanitary facilities were provided or upgraded. Housing loans, initially up to K 750 (\$788)

worth of materials, were given and the settler had to build his house on a self-help basis. Technical advice was provided by settlement supervisors (Swokin, 1983).

A settlement upgrading program is also underway to provide water supply, roads, stormwater drainage, and surveyed allotments (see Tables 3 and 4). This program is normally undertaken by the Settlements Division of the former Department of Housing. The National Capital District Interim Commission and its predecessor, the Port Moresby City Council, have independently provided communal standpipes to some otherwise unserved settlement areas.

Table 3: Settlement Upgrading Program, 1985

Settlement Name	Lots Upgraded
Erima 2	197
Nine Mile 2 (Phase 1)	60
Gordons Ridge (Phase 1)	100
<b>Total</b>	<b>357</b>

Table 4: Settlement Upgrading Program, 1986-1990

Settlement Name	Lots Upgraded
Nine Mile 2 (Phase 2)	60
Gordons Ridge (Phase 2)	112
2 Mile	80
Laloki	36
Badili Canoe Settlement	20
Ranuguri 2 (government land only)	36
Paga Hill	25
Hohola Rifle Range (Phase 1)	15
<b>Total</b>	<b>384</b>

Source: The Port Moresby Interim Plan, 1986.

Note: The very small settlement at Gerehu was excluded from the list of sites to be upgraded because of its size.

As in many other areas in Papua New Guinea, land tenure problems have caused considerable difficulty. Services are rarely provided on customary land because of the problems of gaining the cooperation of landowners. Therefore, most planned upgrading is undertaken on alienated (government-owned) land (The Port Moresby Interim Plan, 1986).

However, there has been a breakthrough recently in dealing with landowners. Under the Urban Housing Infrastructure Program, the National Housing Corporation and the Lands Department have held successful negotiations with landowners in Lae, Wewak and Milne Bay who have agreed to lease their land for housing sites development.

The land will be demarcated into plots for people to apply and build their own houses. Existing settlers will be given the opportunity to purchase their plots. The National Housing Corporation is to develop the sites by putting in access roads, water supply and electricity services. Work has started on the Kreer (Wewak) and Buko (Lae) sites and will hopefully be completed at the end of this year. Work on the remaining sites of Gerehu South, Madang, Alotau and Mount Hagen will be funded under the World Bank Special Intervention Program Loan.

### **Water Supply, Roads and Electricity**

With regard to water supply, not all settlers are able to afford a connection to be installed within their own lot. Most settlements have communal standpipes. Reticulated sewerage is not normally provided within settlement areas, because settlers cannot afford such services. Where sewerage has been provided within settlement areas in the past, for example, Koki, settlers generally have not connected into the service because of the expense of the charges levied (The Port Moresby Interim Plan, 1986). Pit latrines normally operate quite satisfactorily in Port Moresby and are a satisfactory low-cost sanitation system. In some circumstances, for instance where there are significant concentrations of houses built over water and where potential health problems are great, alternative systems will have to be considered. Provision of access roads is necessary in all settlements but the standard to which this is developed is controversial. Too high a standard will impose a significant cost burden which settlers may not be able to bear. Sealing is avoided on all but

the steepest grades or where traffic volumes are high enough to justify sealing for maintenance cost reasons. Gravel surfacing is appropriate for most roads.

It is unlikely that many settlers will be able to bear the cost of individual electricity connections. The ability to recover costs from settlers will be limited and consequently electricity may have to be limited to providing lighting on major access roads into settlements. The National Capital District Interim Commission may wish to consider the provision of full street lighting to settlements which have problems of street assault and violence.

## **ROLES OF DIFFERENT LEVELS OF GOVERNMENT**

### **Land**

The National Government through the Department of Finance and Planning coordinates the planning of basic social infrastructure services while the actual implementation and provision of such services is the responsibility of the various line departments.

The Department of Lands and Physical Planning is responsible for land matters. The subdivisional development of land is undertaken under the provisions of a Town Subdivision Lease granted under the provisions of Section 66 of the Land Act (Chapter 185). A Town Sub-Division Lease is granted for a maximum period of five years at an annual rent of one per cent of the appraised unimproved capital value of the land (Aldrich, 1983).

In accordance with the requirements of Section 66 of the Land Act it is beholden upon the lessee to construct, at no expense to the State, the required on-site service infrastructure in accordance with operating standards and specifications. Upon the completion of subdivisional works and the registration of a plan of survey of the subdivision, the Town Subdivision Lease is surrendered conditional upon the issuance of leasehold title over every allotment within the subdivision. The leases are issued subsequent upon the Office of the Valuer General placing a value (i.e., unimproved capital value) on each and every allotment for land rent purposes (i.e., 5 per cent of unimproved capital value); and the respective leases are issued for a period of 99 years during which time the value of the land the subject of the lease is reappraised at 10 yearly intervals.



Government intervention in the housing sector has been rationalized over the last year by the amalgamation of the Department of Housing and the National Housing Commission. The new National Housing Corporation has the responsibility for implementing the recommendations of the National Task Force on Shelter Policy and Planning, which also outlines the major objectives of the Government's housing policy.

### **Housing Policy**

The important elements of the National Housing Policy are to discourage employer-subsidized housing; encourage the development of a private market in low-cost housing; withdraw from the State's former position as provider of housing with the State focusing on the provision of essential services on a cost-recovery basis; adopt upgrading as opposed to demolition of squatter settlements; match building standards and regulations to people's affordability; and integrate customary land into shelter development.

The development of a private market in low to mid-cost housing involves the mobilization of both land (customary and alienated) and finance to fill the gap at the lower end of the urban housing market. Progress has been made, under the Urban Housing Infrastructure Program, in assimilating customary land into the land development process. A financing facility is also part of this program. Site development is underway on customary land in Wewak and Lae and further development on customary land is programmed for Alotau.

Government intervention in the housing sector has largely been restricted to the urban areas. The exception to this is the provision of rural housing loans through the Agricultural Bank. This bias is based on the premise that the main problem in rural housing is access to services, and not the availability of land or building materials. Access to water supply and sanitation in rural areas is the responsibility of the Department of Health.

There are constraints on the availability of land and building regulations in urban areas. It takes long (two years and over) for the title of a piece of land to be transferred from one party to another. Building regulations throughout Papua New Guinea are discouraging low-cost and self-help housing. Low-income earners and the

unemployed cannot afford the nature of the materials and construction techniques required to comply with the Building Ordinance.

### **Water Supply and Sanitation**

It is the Government's policy that the entire population (both rural and urban) will have access to clean safe water supplies and hygienic sanitation. The Waterboard is responsible for providing water supply and sanitation services to meet the reasonable needs of the urban population, the government and business enterprises. The Waterboard is also responsible for the promotion of water supply and sanitation services in rural areas and urban fringe areas through community participation on self-help basis and where necessary with the help of bank grants and aid. In practice responsibility for water supply and sanitation in rural areas has been delegated to the Department of Health.

The Waterboard is responsible for water and sewerage services in all Waterboard towns. These include Wewak, Madang, Mount Hagen, Rabaul, Popondetta, Lae and Alotau. The Port Moresby systems remain the responsibility of the National Capital District Interim Commission.

The failure to turn over responsibility for water supply in Port Moresby to the Waterboard has called into question the long-term commercial viability of the Waterboard. Town Councils are responsible for water and sewerage services in the smaller towns which still remain to be declared water and sewerage districts.

The Government is developing a strategy for the provision of water supply and sanitation in the rural and urban areas. It has been assisted in this task by an ADB-funded Sectoral Strategy Study which outlines priorities for future investment plans. Specific initiatives include the Third Urban Water Supply and Sanitation Project which will be designed in 1991 with technical assistance from ADB. Port Moresby, Lae, Rabaul and Madang will benefit under this project. The Second Urban Water Supply and Sanitation Project will be included under the Special Intervention Programme. Various small towns will benefit under this project. Rural water supplies will be provided for under the Third Rural Health Project which will begin in mid-1991.

## NON-GOVERNMENTAL INITIATIVES

The private sector has taken no major role in the provision of basic social infrastructure services to the urban poor. It has been left to the Government to provide such services. However, the Government is now taking steps to involve the private sector in this area. This is especially true in the government initiative to involve commercial banks in playing a key role in facilitating longer-term housing loans for low and mid-income earners.

Non-governmental organizations, especially the churches, are involved in providing counselling services and spiritual development in the squatter areas, but some are also involved in housing provision. In the housing sector government policy is geared towards encouraging local building industries. The NGOs which are known for providing low-cost housing for the disadvantaged population are the Habitat for Humanity and the Community-Based Building Program Limited.

The Habitat for Humanity has built a number of low-cost houses for disabled people. The Community-Based Building Program is headquartered in Lae. It has the support of the East Sepik and Morobe Provincial Governments, the Appropriate Technology Development Institute at the University of Technology and the South Pacific Appropriate Technology Foundation.

The Community-Based Building Program has been set up to develop and implement, through practical architectural, planning, building and materials production work, building forms and technologies which are culturally appropriate to Papua New Guinea. Other goals are to encourage user and community participation in design and planning, and the use and production of durable local building materials. The utilization of local materials and human resources allow the organization to offer prices 20-30 per cent lower than most competitors.

People in squatter settlements have taken their own initiatives in building houses using whatever material they have available. In Port Moresby the squatters use old timber and iron which they get from rubbish dumps. In other towns such as Wewak, the squatters build proper houses using brush materials, often in the same style as those in the home village. This may be because the building materials are readily available as compared to Port Moresby. Most

settlers build their own pit latrines. Private latrines are normally well-kept compared to public or communal latrines.

## **FINANCING MECHANISMS, CONSTRAINTS AND FUTURE MOBILIZATION**

### **Housing**

Traditionally the banking system of any country represents a major source of finance for housing. While the Central Bank controls, formulates and monitors banking policy in line with government objectives, the trading banks have been left on their own to determine their individual policies towards housing finance. They have, therefore, not been particularly active in this area because they have insisted on high interest rates and short-term repayment periods, normally five years. Until 1977 there was no real bank policy on housing finance and it was then that the Government and the Papua New Guinea Banking Corporation together initiated the Housing Guarantee Loan Scheme. All commercial banks are now involved in providing housing finance to Papua New Guineans under this scheme. The State provides the Bank with a guarantee for 80 per cent of the debt outstanding (Fabila, 1983).

The Savings and Loans Societies are another traditional source of finance. However, most of their funds were directed towards expenditure other than housing. Another source of finance are the insurance companies and provident funds. According to the Institute of National Affairs Housing Report there is little activity towards direct housing finance by Papua New Guinea insurance companies. The Public Officers Superannuation Fund's lending policy has been concentrated in long-term fixed interest loans to the Government, purchasing of shares in Papua New Guinea companies and in the purchase of real estate, mainly offices, retail and industrial properties for leasing purposes (Jacobsen, 1983).

The National Provident Fund is a potential source of finance for individuals to purchase housing sites, houses or materials. However, present government policy is for 65 per cent of these funds to be invested in government bonds. The legislation does permit advances to individuals for housing purposes under certain conditions. One of the conditions is that the applicant must be a contributing

member to the fund for five years with a minimum savings of K 1,500 (\$1,577). It appears that there is availability of housing finance for high and medium-range salary earners. For the average basic wage employee who has a large family to support, he has not got much chance of meeting the conditions required by most financial resources. Thus it is true to say that the majority of urban residents have little chance of having access to housing finance.

Papua New Guinea is in a marginal position in terms of developing institutions which can provide affordable long-term credit for housing. According to a study by the World Bank (*The Malaysian and Thai Experiences in Housing Finance*), the ability of a country to develop institutions capable of providing affordable long-term credit for financing housing depends, among other things, on a country's financial depth.

A common measure of financial depth is the ratio of M2 (broad money supply) to GNP. The higher the ratio, the more liquidity available in the system. In general a ratio of 0.3 or below is too low to sustain loans of a sufficient length to allow commercial banks to diversify their asset structure to any major degree.

It has been observed that when the ratio M2 to GNP approaches 0.5, the level of liquidity in the banking system is sufficient to allow the banks to begin to lengthen the term structure of their assets and liabilities. The commercial banks will, at that stage, enter the long-term housing mortgage market and make such loans generally available.

In Papua New Guinea GNP is approximately K 3.8 billion, while M3, a broad money supply measure roughly equivalent to M2, is about K 1.1 billion. This yields a ratio of M3 to GNP of just under 0.3, so Papua New Guinea has yet to develop the financial depth necessary for a rapid expansion of housing finance.

The price of housing should also be in a certain ratio to average annual incomes. In other countries housing has generally been seen to be affordable when it costs 3.5 times the average annual salary or less. Once cost reaches five times the salary or more, the lower end of the income scale is priced out of the market. Ideally, therefore, this ratio should be 3.5 or less.

No figures are available for average income in Papua New Guinea, but it is probably somewhere in the vicinity of K 100 to K 150 per fortnight, or about K 2,400 to K 3,600 per year. This means

that if housing prices are much over K 10,000 to K 15,000 they will be out of reach of all but the upper-income levels.

House construction prices for low-covenant houses in urban areas of Papua New Guinea range from about K 8,000 when one supplies the labor, to K 15,000 when one pays someone else to provide the labor. Labor costs are much less in villages, where the total price might therefore be as little as K 4,000 to K 5,000 when one supplies the labor). Therefore, it appears that it should be possible for low-income earners to pay for housing if financing is available.

For these reasons, the Government has decided to try to make financing available to low-income earners in urban areas. In a meeting held between the National Housing Corporation, Department of Finance and Planning, World Bank and several commercial banks in September 1990, the commercial banks and other lending agencies were asked to make available their policies on lending for housing schemes to meet the demands of the low and mid-income earners.

It is intended that commercial banks will waive their mortgage terms to cater to the disadvantaged groups. Westpac Bank for example has a 10-year lending period which may be extended to 20 years with lower interest rates. In association with this program, several schemes are being tested to encourage lower-income people to establish a savings track record in order to more readily qualify for loans.

It has also been recommended and approved by the National Executive Council that a permanent division in the National Housing Corporation or a specialized mortgage finance company (MFC) be established to handle the extension of mortgage to low-income families. Equally important is the fact that this facility should be closely monitored to ensure that the target group of low-income earners benefit from it.

A housing finance facility will be established in the Central Bank commencing in 1991 for a three-year period. Money will be disbursed to the commercial banks to lend to low and mid-income earners with a longer repayment period (20 years). It is estimated that K 11 million (\$11.56 mn) will be made available in 1991, K 12 million (\$12.61 mn) in 1992 and K 14 million (\$14.72 mn) in 1993. The World Bank will provide these funds under the Special Intervention Program.

### **Budget Allocations**

The Government provides funds for housing, water supply, sanitation, transportation and other social infrastructure services through the National Budget. This money is channeled through the various government agencies such as the National Housing Corporation, the Waterboard, the Department of Transport, and the Department of Works and Supply in their annual budget allocations.

In the period 1980-1983, the Government committed a total of K 4.4 million (\$4.6 million) in urban land development activities. The project was aimed at upgrading and improving existing squatter settlements. Another K 17.6 million (\$18.5 million) was committed in the period 1981-1986 under the Land Development Program. The program was aimed at providing subsidies to low-cost housing development by the National Government. However, Government finances are limited and heavily on foreign aid, mainly from Australia. Therefore not all basic infrastructure services can be met adequately by the Government.

As noted earlier, it was the Waterboard's intention to take over the water and sewerage systems in Port Moresby. Had this occurred, the revenue collected in Port Moresby would have been used to subsidize the smaller centers. Without the income from the Port Moresby water and sewerage systems, the Waterboard cannot function as a commercial statutory authority. This is because the smaller towns are not making profit at this stage.

A recent court decision has resulted in the National Capital District Interim Commission retaining the water and sewerage systems in Port Moresby. This decision will severely affect the provision of adequate water and sewerage services to the rest of the country as it would not be cost-effective to expand water and sewerage connections to the smaller towns unless the Government is prepared to subsidize such expansion.

### **Affordability**

One of the major constraints in acquiring and owning a house in the urban areas is the question of affordability. The Government does realize the problem and is doing its best to rectify it. The Government in 1981 launched the National Home Ownership

Scheme (NHOS) in an attempt to provide formal, affordable housing for families on the minimum urban wage (Aldrich, 1983).

Unfortunately, the NHOS has been only marginally successful in its objective of providing affordable formal housing. This is because there are other costs and constraints apart from the value of the house itself. They include land rent, sewerage, water and electricity. Construction costs in the urban areas are also very high.

Consideration is being given to relaxing building standards set by urban town planning authorities. The idea is to allow and encourage people to build from whatever material they can afford.

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# Philippines

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# Philippines

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## EXECUTIVE SUMMARY

Developments in the Philippines call for urgent attention to the problem of providing basic infrastructure for the urban poor. While the poverty situation improved somewhat in 1988, the combined effects of rapid population growth and urbanization have diminished the capability of the Government to address the basic needs of the urban population.

Urban population estimates and projections show a sustained growth. The urban population was 37 per cent of the total in 1980 and 42 per cent in 1989; it is projected to be 48 per cent by the year 2000. The economic slowdown and recent national disasters that hit the country in 1990 caused displacement and unemployment in the countryside, accelerating rural-to-urban migration. Wide disparities have appeared in population and economic distributions throughout the country. Therefore, planners will have to explicitly and positively address the problem of the urban poor.

Typically, a poor urban family lives in a squatter settlement, and has a nuclear structure with six members. Most such families have young members but the household head is typically in his or her forties with some elementary education. Both husband and wife are usually migrants from the most depressed regions. The population in slum and squatter colonies is 17 per cent of the total population and 40 per cent of the urban population.

The number of the urban poor has increased enough to deserve as much attention as the rural poor. Housing, transport and piped water supply are some of the basic services which are in acute shortage. An inadequate drainage system causes severe flooding in most communities, disrupting economic activity, accelerating the deterioration of infrastructure and compounding the problems of

inadequate sanitation. Systems for solid waste management are seriously deficient in coverage.

Apart from Metro Manila, regional urban centers such as Cebu and Davao are also experiencing rapid population growth and display the same urban problems as Metro Manila. Recent economic difficulties have hampered the ability of the Government to respond to the problem. The economic crisis from 1983 to 1985 also slowed down the public investment program due to the primacy of economic stabilization objectives.

The new administration in 1986 initiated a more effective urban development process. Foremost is the policy for greater political autonomy for local government units (LGUs) and administrative decentralization, aimed at promoting balanced growth, consequently decongesting the urban areas. The infrastructure needs of urban areas are specifically addressed through the Medium-Term Public Investment Program (MTPIP) and the Regional Development Investment Programs (RDIPs) which involve public-private consultation in the identification, selection and prioritization of projects. The urban-based programs of the previous administration have been maintained, such as the Regional Cities Development Program (RCDP). Enhanced programs for the poor have been implemented through the Community Mortgage Program and the electrification of depressed areas in Metro Manila.

In the Philippines, many government-owned and controlled corporations participate in the provision of basic infrastructure services which are subject to payment of user fees. For example, water supply services are provided with technical and financial assistance by two major government corporations, i.e., the Metropolitan Waterworks and Sewerage System (MWSS) and the Local Water Utilities Administration (LWUA). Electric power for commercial use is generated by the National Power Corporation (NPC) but distribution is provided by either government electric cooperatives or private utilities.

In the past, non-governmental organizations (NGOs) were not actively involved in the planning and implementation of public sector programs for the poor. NGO activities were largely self-initiated because of Government suspicion about the activities of some NGOs, whose programs competed with programs and projects of the Government. The 1987 Constitution reversed this approach, giving full recognition to the important role of NGOs in working closely

with the Government, both in the formulation of national policies and delivery of basic services. The Government also seeks to experiment and innovate new approaches to mobilize people's organizations particularly by enabling poor communities to undertake self-help programs.

The financing of basic infrastructure projects is through tax revenue, borrowings and user fees where cost recovery is a policy. The common issues in this area are the following: (a) inadequate tax collections, (b) inappropriate structure of user fees and (c) underdeveloped institutional mechanisms to support the mobilization of revenues for funding a sustainable urban development program. The Philippines suffers from a low tax effort of 14 per cent. LGUs have low levels of recovery. The proposed local government code provides for a larger share of national revenues to LGUs in order to fund and execute more public services entrusted to them. Apart from the funding issue, therefore, capability building is imperative particularly for LGUs with limited infrastructure implementation experience. LGUs mainly fund and execute smaller-size projects such as public markets, local roads, bus terminals and parks.

Financing approaches for future projects in urban development would include: accelerated efforts to increase resource mobilization capacity of local governments, formulation of efficient financial and management plans for LGUs, clearer policy on national government assistance to LGUs with varying levels of financial and technical capabilities and review of Official Development Assistance (ODA) allocations for urban infrastructure.

## **COUNTRY BACKGROUND**

### **Population Growth and Urbanization Trends**

Preliminary estimates of the 1990 Census of Population and Housing show that there are 60.5 million Filipinos and that the population grew at an annual average rate of 2.3 per cent from 1980 to 1990. Like most developing countries, the Philippines is going through a period of rapid urbanization. The urban population in the country was about 24 per cent in 1948 and about 42 per cent in 1989; it is projected to be 48 per cent by the year 2000.

Two major causes of this phenomenon are rapid population growth and rural-urban migration. There has been a considerable decrease in the mortality rate with no proportional drop in the birth rate. Rural-to-urban migration is growing and with the natural disasters in 1990, more of the rural population is migrating to the National Capital Region (NCR) and other urban areas in search of livelihood opportunities.

The exodus is compelled by unemployment and underemployment in rural areas, low wages, lack of necessary service facilities and amenities, insufficient and fragmented cultivable land and natural catastrophes such as typhoons, droughts, floods and earthquakes. The cities have become attractive because of concentration of investments in the urban areas, prospects of employment and higher incomes, better training possibilities, availability of service facilities and amenities (including better recreational facilities, such as theaters and parks).

Continuous population increase in most cities and towns in the Philippines has increased demand for urban-based services, competition for jobs and services and difficulties in urban administration and management. Urban poverty is manifested in the mushrooming of squatter settlements. There are over 10 million dwellers in slums and squatter colonies in major cities nationwide, comprising 17 per cent of the national population and nearly 40 per cent of the urban population. Metro Manila has the largest slum population followed by the cities of Davao, Cebu and Bacolod.

The poverty threshold is determined through the Family Income and Expenditures Survey which is conducted by the National Statistics Office every three years. It is based on the income required to satisfy minimum nutritional requirements adjusted by the proportion of food expenditure to total expenditures of a family of six. Based on this definition of the poverty threshold, the incidence of poverty in the Philippines is quite high. The 1988 preliminary estimates show that 49.5 per cent of all families were below the poverty line of 2,709 (\$97) per month. Furthermore, the estimates show that the bottom 20 per cent of families received 5.2 per cent of total income compared with the 35.7 per cent share of the top 10 per cent of families.

### **Relevant Aspects of the National and Urban Economies**

The gross domestic product (GDP) of the country has experienced positive growth rates in the past two decades, except during the crisis period of the mid-1980s. During this time, output declined at a rate of -6.0 per cent and -4.3 per cent in 1984 and 1985, respectively. This was largely due to structural weaknesses in the pattern of development and errors in economic management. The former foreign debt-driven development strategy imposed a heavy debt burden on the economy. In 1986, the growth rate began to pick up gradually, registering 5.61 per cent by 1989, partly because of the impact of the economic policies since 1986. Inflation on the average stayed at a single digit level up to 1989.

In a span of 25 years, the Philippines has changed from a country that relied primarily on agriculture to one that has become more diversified. The share of industry in total GDP has grown from 28 per cent in 1965 to a little over 33 per cent in 1989. Sectoral employment has, likewise, changed. In 1958, 58 per cent of the labor force was employed in agriculture, while 26 per cent was in the manufacturing and service sector. By 1989, the former's share to total employment had declined to 46 per cent, while the latter rose to 35 per cent.

The number of children in the labor force, according to the United Nations Children's Fund (UNICEF), increased by 6 per cent from 1986 to 1988. As of the third quarter of 1988, there were 3.7 million children (aged 10 to 19) in the labor force. This represents 28 per cent of the total population of this age group. Children work in the agriculture, industrial and services sectors of the economy.

From the mid-1970s to the early 1980s, per capita GDP continued to rise, indicating a faster growth in output than in population. This trend, however, was reversed during the mid-1980s, with the onset of serious economic problems. In 1984, particularly, GDP per capita declined by 8 per cent. More recently, the GDP has stabilized and shows a positive trend.

### **PAST APPROACHES AND EMERGING CHALLENGES**

While urban areas showcase the amenities and luxuries of life, they also demonstrate an ugly picture of city environment charac-



terized by congestion, disorder, pollution and deterioration. With too many people competing for very limited space and scarce services, many social, economic and physical problems emerge which are not easy to cope with.

For instance, in many places in the metropolis, only a few households have access to safe water supply and have their own sanitary toilets; there is also a lack of an adequate sewerage and drainage system. This causes severe flooding in many areas and creates economic disruption, accelerates the deterioration of infrastructure and creates serious sanitation and health problems. Systems for solid waste management are either nonexistent or seriously deficient. Even public service facilities are inefficiently managed and poorly maintained.

Since these problems are caused by the rapid growth of urban population, the Government has designed policies to regulate urbanization growth through decentralization and regional development, poverty alleviation and provision of basic social services. Specifically, the policies that seek to counteract rapid urbanization are: rural-based development, integrated area development, dispersal of industries to the regions, infrastructure support to rural development, development of urban settlements and better management of local resources. These development efforts are primarily focused on the countryside to make it more attractive for people to live in.

### **Profile of the Urban Poor**

The most highly populated region of the Philippines is Southern Tagalog, followed closely by the National Capital Region (NCR). These two regions together account for roughly one fourth of the entire Philippine population. These were also the fastest-growing regions in terms of population throughout the second half of the decade.

The NCR, or Metropolitan Manila, which is classified as 100 per cent urban, still exhibits the highest population growth. Based on the National Statistics Office (NSO) Preliminary Population Count for 1990, Metro Manila has a population of 7.8 million which already constitutes over 12 per cent of the national population and one third of the entire urban population. The cities of Davao and Cebu rank

second and third, respectively, as the most urbanized areas in the country.

As a consequence of increasing urbanization, proliferation of slums and squatter settlements has become rampant in urban areas. There are over 10 million dwellers in the slums and squatter colonies in the major cities nationwide, comprising 17 per cent of the national population and nearly 40 per cent of the entire urban population.

A family that lives in a squatter settlement is usually nuclear rather than extended. It usually has six members, the majority being young. As revealed in the study conducted by the Planning Resources and Operations Systems (PROS) on squatter communities, almost 50 per cent of the inhabitants are less than 20 years old. The household head, on the other hand, is typically in the forties with some elementary education. The husband and wife are usually migrants from the more depressed regions.

Children, who constitute a great proportion of slum dwellers, are the most vulnerable to poor health, malnutrition and limited educational opportunities. The worst off are street children working in hazardous or exploitative conditions, exposed to drug addicts, addiction and youth offenders.

The majority of working children in urban areas mostly work in the service sector. The latter are very visible in the streets making a living through a variety of odd jobs such as vending cigarettes, sampaguita flowers, newspapers or food, washing or watching cars, or shining shoes. Others have jobs in commercial establishments. The most degraded are beggars, or scavengers on dump sites.

The phenomenon of street children and sexually exploited children gained prominence in the second half of the 1980s. It is estimated that at the end of that decade, there were approximately 60,000 street children in Metro Manila, and a total of 25,000 in the other cities. The number of child prostitutes was estimated in 1986 to be 20,000.

The condition of these street children is aggravated by the problems that confront the urban poor, such as unemployment, underemployment, low income, poor housing conditions, overcrowding and inadequate basic services.

### **Needs of the Urban Poor**

Slum houses are typically constructed from light and scrap materials and consist only of a single multipurpose room. A problem that confronts almost 90 per cent of the urban poor is the absence of secure land tenure. Another contributory factor to the instability and unsatisfactory standards in squatter areas is the lack of finances because most of the family's earnings are spent on food. The 1987 Food and Nutrition Survey revealed that almost 72 per cent of households in urbanized areas, especially in Metro Manila, were found to have incomes below the acceptable calorie intake threshold. About half of the most vulnerable group, preschool children, were found to be suffering from anemia.

In terms of water supply, a survey of several cities conducted in 1983 showed that only 17 to 29 per cent of low-income urban households had direct piped water lines. The case is even worse in a squatter community located in the National Government Center in Quezon City where only 3 per cent had piped water systems. Artesian wells, public faucets, manual pumps, open deep wells and water peddlers were among the common sources of domestic water supply.

### **Past and Present Strategies for Increasing Access to Urban Infrastructure Services**

Consistent with the framework laid down in the Philippine Development Plan, the Government has undertaken urban development activities through the preparation of the MTPIP and the various RDIPs, which include a number of urban services, through a consultative process involving local government units (LGUs) and the private sector.

#### ***Housing***

A continuing program of urban land reform and housing is being undertaken with the cooperation of the private sector. This will make decent housing affordable and basic services available to the underprivileged and homeless in urban centers and resettlement areas.

During the first half of the 1980s, the Government and the private sector embarked on a comprehensive housing program

which covered production, regulation and financing. This involved housing services development and slum upgrading, direct housing construction, stockpiling and standardization of construction materials. Fabrication of house components was also provided. The National Housing Authority (NHA) and Bagong Lipunan Sites and Services (BLISS) Corporation together accounted for 52 per cent of government housing construction during 1981 to 1985.

In December 1986, the Housing and Urban Development Coordinating Council (HUDCC) was created to coordinate all government and private housing programs. In July 1987, the Unified Home Lending Program was established to provide the housing loan requirements of the Social Security System (SSS), the Government Service and Insurance System (GSIS) and the Home Development Mutual Fund (HDMF). It included a cross-subsidy scheme with a differentiated interest rate for various income brackets. In August 1988, the Community Mortgage Program (CMP) was launched as a subprogram of the Unified Home Lending Program. This innovative financing scheme allows cooperatives and community associations to obtain financing for land acquisition, subdivision and development. The funds may be used to purchase and develop either occupied or unoccupied lands (onsite and offsite CMP, respectively) (see Appendix 1). To address the requirements of nonmembers of the SSS, GSIS and HDMF, the Social Mortgage Window was launched in 1988. Beneficiaries of this program are the self-employed.

To support these efforts, corollary programs of land assembly, livelihood, social services, community relations and information were likewise introduced. A comprehensive program for relocating squatters to government infrastructure sites has been formulated and is scheduled for implementation.

### ***Urban Transport***

In 1989, about 65 per cent of the transportation needs of urban centers were served by jeepneys and buses. Limited commuter train services are provided by the Philippine National Railways (PNR) in Metro Manila. There is also a 16 km elevated light rail system which started operating in 1985.

### ***Electricity***

In 1985, 92.5 per cent of Metro Manila was supplied with electricity. However, in depressed areas, supply ranged from 25 to 70 per cent. The reasons for this lower service level include the legal problem of right-of-way for electric facilities the technical constraint of lack of roads for the location of electric facilities, and the inability to obtain standard clearances for the location of power lines. Another constraint is the inability of applicants to pay the cash advance required for installation beyond 30 meters from the existing electrical facilities. For this reason, the present capacity of the Manila Electric Company (Meralco) to supply electricity in depressed and shanty areas of Metro Manila is limited to the periphery of squatter settlements. Because of this, illegal tapping of Meralco lines is rampant.

### ***Water and Sanitation***

To ensure the supply of safe water and curb the incidence of waterborne diseases and those arising from poor environmental sanitation, the Government has embarked on a number of key activities. These included the location of proper water sources, construction and maintenance of water supply systems, sanitary operations and maintenance of water supply facilities, provision of assistance for water treatment, promotion of proper storage of water in individual homes, campaign for good sanitation through proper disposal methods, promotion of proper physical hygiene and practice and health education.

The Water Supply, Sewerage and Sanitation Master Plan (1988 to 2000) was formulated with the objective of providing reliable, accessible and safe water supply, increasing sanitation and sewerage service coverage and institutionalizing the delivery of the services. The timeliness of the Master Plan cannot be underestimated because the water sources of MWSS are already overutilized, allowing pollution from septic tanks to enter the system; ground pollution and saline water intrusion are other threats to the system. Realizing this, the Master Plan has also addressed the development of other water sources aside from those currently utilized.

## **Future Policy Challenges**

The 1980s ended with the needs of urban dwellers, particularly the urban poor, being more explicitly recognized. The accomplishments and experiences of the past decade provide invaluable lessons from which several issues and policy directions can be considered to minimize the negative effects of urbanization and to properly guide future development planning.

It is necessary for effective planning that statistical information be available. This information must cut across many aspects of human activity and the total environment. In reality, however, most government agencies collect, process and store data which concern their own agencies. While these available data have provided important information and insights on the urban situation in the Philippines, major gaps and weaknesses have been identified in the current data base and its uses.

To enable the Government to fine-tune its identification of, and response to, the needs of the urban poor, efforts should be made to improve the monitoring of their situation. Improvements in data base should be coupled with a build-up of capabilities in data analysis and planning. The strengthened data base, which will also involve community participation, would also provide major inputs for advocacy and social mobilization.

The limited data and analysis, however, show large disparities across regions, provinces and cities. More immediate attention should be focused on those areas which lag behind the rest of the country. It is in this context that the national policy of decentralization is being adopted. It aims to promote balanced regional growth and development, and consequently decongest the urban areas. While it is not easy to influence the movement of population or redirect investment flows, steps should be taken to alleviate the heavy pressure exerted on urban areas, particularly Metro Manila.

The Government's role in the decentralization effort is the devolution of more authority and functions to local governments and the private sector. Fiscal incentives need to be provided to promote more investments in the different regions. As for the cities, additional urban infrastructure and utilities are needed, in addition to the immediate need to repair existing ones.

In the course of decentralizing powers and functions, there is a need for the Government to have a comprehensive plan and program

that will direct assistance proportionately between urban and rural areas based on levels of development of the various regions of the country. Similarly, a system of resource allocation should be developed and adopted so that priority projects can be implemented in areas where the impact of development can be sustained and enhanced by the communities themselves.

## **ROLES OF DIFFERENT LEVELS OF GOVERNMENT**

### **Role of the National Government**

The role of the national Government in urban development has been limited to the provision of primary infrastructure and utilities, such as national roads, transport, water systems, hospitals and shelter. Special bodies and offices were created in support of economic development, such as government corporations and their subsidiaries, development authorities and integrated area development organizations with area or sector-specific types of operations, and councils and commissions that coordinate urban life priorities including housing, human rights, urban poor, children, youth, disabled persons and labor relations. Other urban needs such as local roads, tertiary drainage lines, solid waste disposal, public sanitation, economic enterprises, transport terminals and public services are normally addressed by the local governments. Together, these make up the total public sector involvement in the country's urban development.

There has never been a specific national urban development policy in the Philippines. However, there are certain policy objectives that are implicitly contained in the Medium-Term Philippine Development Plan (MTPDP) and in the current programs and projects affecting the urban sector. The MTPDP and the specific medium-term Regional Development Plans (RDPs) prepared by the various Regional Development Councils (RDCs), provide some indication of what urban centers are given priority in development. Recently, greater emphasis was given to spatial development to supplement the sectoral strategies of the traditional plan.

The objectives of the MTPDP for 1987-1992 are the attainment of sustainable economic growth, alleviation of poverty and promotion of equity through generation of employment. The development

of the rural and agriculture sectors is the highest priority. Updated in 1990, it contains the following major strategies that have a direct effect on urban development:

- Support for the institutionalization of physical and land use planning with the formulation of a physical planning framework for the country and for each of the regions.
- Delegation of administrative and substantive powers to regions and local government units in support of decentralization policies.
- Review of macroeconomic policies to determine their effect on population growth and distribution and redefinition of the strategy supporting the growth of small and medium-sized cities, as a result of the Countryside Agro-Industrial Development Strategy (CAIDS) and changing urban-rural linkages.
- Institutionalization of the Synchronized Planning, Programming and Budgeting System (SPPBS) to provide integrated planning, programming and budgeting at all levels of administrative hierarchy.
- Provision of direct assistance to identified low-income communities.
- Establishment of Regional Industrial Centers and People's Industrial Enterprises in support of the CAIDS.
- Priority in the restoration of earthquake-damaged structures in Regions I, II, III and the Cordillera Autonomous Region (CAR) and the preparation of Master Plans for heavily affected cities and municipalities such as Dagupan and Baguio cities for which a metropolitan type of planning will be pursued.

With respect to current and proposed programs, the implicit urban development policies are: first, reinforcing the infrastructure support systems of regional cities. This will be realized through the



implementation of the RCDP in some four major cities, namely, Davao, Cagayan de Oro, Iloilo and Bacolod. Furthermore, a system of Regional Investment Centers (RICs) shall be established in every region. These are envisioned to reverse the tendency of firms to concentrate mainly in Metro Manila and simultaneously stem the flow of migrants to the metropolis. These will be complemented by a system of People's Industrial Enterprises (PIEs) which will be located in the central area of a defined economic district. The concept of PIEs involves the clustering of small and medium-scale industries based on the identified anchor processing activity whose raw material requirements are readily available and with strong backward and forward linkages with existing industries in the district. The RICs and PIEs are part of the overall spatial strategy to divide the country into industrial core networks or corridors.

The second urban development policy is to encourage development in medium and small cities and municipalities. This will be accomplished through the Program for Essential Municipal Infrastructure Utilities Maintenance and Engineering Development (PREMIUMED) projects, the United States Agency for International Development (USAID) funded Decentralized Shelter and Urban Development (DSUD) project, and the development of agro-industrial complexes and small industrial estates in sub-regional urban centers.

The third strategy is to encourage the spread of growth previously centered on the NCR along growth corridors to the south and east of Manila through: (a) proposed investments in the transportation sector, including rail and road developments; (b) proposed reclamation in Manila Bay and Laguna de Bay; and (c) development of the Northern Philippine Industrial Core through the Cavite-Laguna-Batangas-Rizal-Quezon (CALABARZON) area.

### **Ongoing Urban Infrastructure Programs**

The various projects that relate to urban infrastructure can be classified according to the type of services they offer.

#### ***Institutional Capability-Building Programs***

The institutional strengthening programs for local governments are classified into two, namely, special development programs and training. Examples of special development programs

are the various development assistance programs being given at the local, provincial and city levels (see Appendix 2 for a complete listing and description of the proposed and ongoing programs and projects of the Government under this category.)

### *Water and Wastewater Programs*

A sewerage plan for the year 2000 includes a sewerage component which will maximize the use of existing investments in the combined system, rebuild and improve the existing central Manila system and expand the sewer system to the north and south with disposal through outfall sewers to Manila Bay. The plan also proposes to extend the outfall by 3.9 km into Manila Bay where the ocean currents would carry the waste out to the China Sea. Public toilets will be constructed in poor communities, while the operation of the septic tank maintenance program will be continued.

The septic tank maintenance program sends staff out to survey the existing septic tanks in areas supplied with water by MWSS. These areas are then scheduled for dislodging without charge. MWSS also provides low-cost emptying of septic tanks, although private contractors are the main suppliers of this service.

Three levels of water supply are provided to urban and rural communities, depending on technical and financial considerations, as well as on the willingness and ability of the community to share in the costs and the responsibility of constructing and maintaining the water systems. For urban areas in general, a Level III water supply system is to be constructed which is a complete system that includes a source, a reservoir, a piped distribution network and household taps. For poor communities, especially those located in urban fringe areas where houses are densely clustered, Level II (communal faucet system or standposts) water supply systems will be constructed. This system consists of a source, a reservoir, a piped distribution network and communal faucets located not more than 25 meters from the farthest house. The system is designed to deliver about 40-80 liters of water per household per day to an average of 100 households, with one faucet per four to six households.

### *Electricity Programs*

The depressed area electrification program being implemented by Meralco seeks to provide power to depressed areas in Metro Manila using official development assistance from the Overseas

Economic Cooperation Fund. The project will provide direct service to 234,000 dwelling units over a five-and-a-half year period. The program involves a total investment of 641 million (\$21.6 million) in distribution facilities. A complementary house wiring assistance program to beneficiary households amounting to 449 million (\$17.4 million) is another component of the project.

The 229 areas for priority development being targeted for electrification are well distributed among Metro Manila's four cities and 13 municipalities and are interspersed between subdivisions and industrial establishments right at the center of the city.

### *Housing Programs*

The major housing programs include the Community Mortgage Program, Sites and Services, Cooperative Housing Program, a Joint Venture Program with the private sector and a Program of the Senate Task Force. Six national priority housing projects have been identified to shelter 70,000 families. The present policy of the Government is to avoid eviction of squatters unless relocation sites are available for them. This is an effort to minimize the displacement of the underprivileged communities (for a more detailed description of housing and housing finance programs, see Appendix 1).

### **Current Institutional Arrangements**

The institutional framework for development planning is traditionally centralized. The planning process starts with the issuance of policy and technical guidelines by the National Economic and Development Authority (NEDA) Board. These become the guidelines followed by all departments, agencies and local governments in their respective development planning and investment programming. Each department is given flexibility in preparing its own plan of action.

Recent efforts have been started in order to decentralize the planning activities of the Government. These are being pursued through the active involvement of RDCs where representatives from LGUs, line departments and NGOs participate in the formulation of regional development plans and investment programs.

At the local level, planning is performed mainly by provincial and municipal development councils. They are primarily responsible for the following:

- (a) formulating local integrated economic, social and physical and other development objectives and policies in accordance with the national guidelines;
- (b) preparing development plans and other related planning documents;
- (c) integrating and coordinating all sectoral plans and studies undertaken by the different functional groups; and
- (d) monitoring and evaluating different development programs, projects and activities.

There is no single implementing agency that takes the lead in urban development. This responsibility is expected to be performed by the LGUs and action committees headed by city mayors as in the RCDP case. The various aspects of the implementation of the plan are assigned to the different line agencies of the Government.

A step toward achieving a tighter coordination among the line agencies is the creation of special commissions, one of which is the Presidential Commission for the Urban Poor. This is expected to: (a) coordinate the speedy implementation of government policies and programs for the urban poor; (b) help coordinate the various activities being rendered by the different government organizations and non-governmental organizations; and (c) facilitate the funding of urban poor programs and projects both from foreign and domestic fund sources. To date, the Commission has provided assistance to urban poor organizations throughout the country in the implementation of the Community Mortgage Program. It also assists Meralco in providing accreditation to various urban poor groups who have expressed interest in participating in the electrification program. It has helped groups applying for Level II water supply systems.

### **Proposed Institutional Arrangements**

The 1987 Constitution provides for the genuine empowerment of LGUs through greater autonomy. Autonomous regions have been established in the Cordillera and Muslim Mindanao. In addition, a revised Local Government Code has been passed by both houses of Congress and is pending with a conference committee for approval.

The major features of the proposed Code are to: further increase local autonomy, grant more local government powers, restrict national agencies to standard-setting, increase the powers of taxation of local governments and, most important, further limit their remittances of local tax receipts to the national budget. By 1991, the Code is expected to be in its initial stages of implementation. By then, decentralization would be more substantially achieved.

A concrete manifestation of existing decentralization programs is the entering of Department of Public Works and Highways (DPWH) into a Memorandum of Agreement (MOA) with the Provincial League of Governors and the Municipal Mayors League of the Philippines last 13 July 1990. The MOA provides for the devolution to local government units of the implementation of DPWH projects which are local in character, i.e., those whose location and impact fall within the boundaries of the LGUs. Aside from this, DPWH Regional Directors can also directly approve infrastructure contracts with costs not exceeding ₱10 million (\$357,000), while district and city engineers are allowed to approve contracts with amounts not exceeding ₱3 million (\$107,000).

The other major decentralization programs and projects are:

- **Pilot Decentralization Project.** This project aims to provide the structures, mechanisms and resources to support local autonomy and ensure effective local governments. Some 18 provinces are initially involved and engaged in pilot projects on livelihood promotion, infrastructure and local tax administration development.
- **Decentralization of Integrated Area Development (IAD) Projects.** The issuance of Executive Order 363 in July 1989 provided for the transfer of the overall direction, coordination and supervision in the implementation of IAD projects to the Office of the Provincial Governor for single province projects and to the Regional Development Councils for multi-province projects.
- **Autonomous Regions in Muslim Mindanao and Cordillera.** The passage by Congress and subsequent signing into law by the President of R.A. 6734 and R.A. 6766 represent a

major milestone for the Government in its pursuit of local autonomy; and

- **Synchronized Planning, Programming and Budgeting System.** The SPPBS, approved for implementation by the Cabinet, strengthens the roles of the RDCs and LGUs in the planning, programming and budgeting system.

Additional proposals include the expansion of the pilot decentralization program to more LGUs, the capability and skills enhancement of personnel at the regional and subregional levels and the setting up of a Decentralization Program Development Fund to provide LGUs with a funding window for the implementation of their respective plans.

## NON-GOVERNMENTAL INITIATIVES

### **Role of the Private Sector**

Unlike the public sector, the private sector is not constrained by rigorous administrative procedures and processing. It is a common experience in public works construction that the completion of a project is set back due either to a shortage of funds or a delay in their release. Moreover, planning and decision-making on the part of the private sector is neither hampered by bureaucratic control and practices nor by interoffice or interagency referrals and screening. Consequently, public sector projects implemented by private contractors are easily implemented within program targets and schedules.

Another advantage of the private sector is its access to financial resources. In terms of financial management, the private sector, being profit-oriented, is more cost-conscious and therefore, is more efficient, compared to the public sector.

With a view to promoting harmonious and efficient coordination between the private and public sectors in the area of urban development, it is imperative that certain policies should be adopted to establish the extent of activities that may be undertaken by these sectors for the purpose of achieving effective and economical results.

### ***Housing and Real Estate Development***

The private sector in the Philippines is quite active in land development ventures through land developers, investors and realtors organized into well-financed stock corporations registered under the Philippine Corporation Law. In partnership with this group are some private banks which provide direct development loans and mortgages as financial assistance. Organized for profit, these land developers and realtors purchase big landed estates in the rural areas for physical development and subdivide these into small parcels (mostly provided with housing units) for direct sale to the homeowners on cash or easy installment basis. Many of the high-cost and medium-cost housing projects and subdivisions in Metro Manila and suburban cities and municipalities were developed through this scheme.

Real estate developers of the private sector have direct links to various infrastructure facilities and other essential services for the development of land into housing subdivisions, commercial and industrial complexes and other projects. However, the Government, conscious of the need to ensure adequate housing for the country's growing poor population, has begun undertaking mass housing projects through a private sector-government linkage.

Development for housing is encouraged through incentive taxation and a shelter development scheme. This is aimed at hastening the delivery of housing services by streamlining the four delivery components of production, financing, marketing and regulation. In this light, the Government has put up a system to synchronize and redirect private efforts toward organized land development and housing delivery through its joint venture scheme under the NHA. The construction industry participates in the national housing program, particularly in GSIS-funded projects. GSIS is noted for promptness in paying for contracts, thus encouraging further private sector participation. The various NHA programs rely on the private sector for the construction work and these have been particularly successful in rural areas. Some urban area projects have been undertaken by the NHA and the private sector.

Large private corporations also construct housing for their own employees utilizing development funds from SSS. These projects normally number about 100 to 200 homes each. At present, the government policy regarding the take-out of mortgages means that a private sector company must deal with individual buyers and

organize all mortgage documentation. This is possible on smaller projects with higher sale values, but for ventures with a low profit per unit the administrative burden becomes too great for the private sector to want to get involved. The Government is becoming more interested in turnkey-type projects but this has not been met with enthusiasm by the private sector. The private sector tends to concentrate on housing projects with values of ₱220,000 (\$8,550) upwards. However, the greatest need for private sector construction is in the price range of ₱80,000 to ₱150,000 (\$3,100 to \$5,800).

In recent months, prices of materials have risen drastically both due to the higher rates of inflation and increased oil prices as a result of the Gulf conflict. On the other hand, the affordability level of the poorer sections of society is not rising. Thus, it is becoming more difficult to provide reasonable housing within their ability to pay. Impending major increases in labor costs are also expected to worsen the situation.

### ***Urban Transportation***

The urban public transport system in the Philippines is one of the most unusual in the developing world. A dominant proportion of all person-trips in principal cities is provided by jeepneys, most of which are operated by drivers who rent the vehicles on a daily basis from numerous jeepney owners. In secondary cities, tricycles combine with jeepneys to provide a similar role. The only intra-city bus services operating standard size buses (40-60 seats) serving fixed routes are in Metro Manila.

### **Non-Governmental Organizations**

Non-governmental organizations (NGOs) are private, non-profit voluntary organizations that are committed to the task of what is broadly termed as development. They are established primarily for civic service, religious, charitable and social welfare purposes.

The Government recognizes the significant role which NGOs play in the development process. It has, in fact, adopted a general policy of harnessing the participation of NGOs in development activities and strengthening government collaboration. The Policy Agenda for People Powered Development which serves as the cornerstone of reforms instituted by the present Government specifically states that the private sector is the engine of growth and greater



involvement of people in the decision-making process through non-governmental organizations must be promoted.

The 1987 Philippine Constitution dramatizes even more vividly the Government's policy in Section 23, Article II (State Policies) which states that: "The State shall encourage non-governmental, community-based, or sectoral organizations that promote the welfare of the nation," and Section 16, Article XIII also guarantees that: "The right of the people and their organizations to effective and reasonable participation at all levels of social, political and economic decision-making shall not be abridged," and that furthermore "the State shall, by law, facilitate the establishment of adequate consultation mechanisms." In the same manner, the MTPDP recognizes non-governmental organizations as partners and not simply allies in development work and enjoins the setting up of more functional and viable working arrangements between government agencies and NGOs for greater complementarity of efforts.

Most NGOs are relatively small, flexible in structure and focus their services to marginal groups in the rural and urban areas. Their activities cover a wide spectrum, ranging from the technical aspects of productive activity to such socioeconomic aspects as planning and information systems, savings and credit activities and others. Farmers, women, tribal minorities, squatters and youth are generally their target clientele.

The non-profit NGOs involved with the poor communities in the urban areas have major contributions to make. They often act as mediators between poor communities and government agencies. They have the expertise to represent poor communities and to organize the communities in order to get the best advantage from government programs aimed at improving the lot of the urban poor. The NGOs act as community organizers, facilitating the formation of community associations and providing training and self-sufficiency programs.

NGOs also provide a focus for donations from international charitable organizations. These funds can be directed toward the most appropriate relief measures for the poor communities. This is evidenced by the many infrastructure and housing programs thus financed.

NGOs have a role in developing and managing livelihood programs and act as agents in monitoring the state of the community. Since the primary aim of the organization is to tackle poverty, it has

a good working knowledge of the local community's needs, abilities and conditions. The organizations are non-profit making and thus offer very cost-effective services. Furthermore, the staff of these organizations are highly motivated and are particularly experienced in finding solutions to local problems.

UNICEF is one of the international charitable organizations which provide several opportunities for active NGO participation particularly with regard to the urban poor. Its Direct Child Survival Intervention projects enable the urban poor to have access to basic health and nutrition services. Its Water and Environmental Sanitation project aims to promote increased supply of potable water, as well as improve sanitation and solid waste management for urban poor communities.

UNICEF also provides services for street children and for children in situations of armed conflict. While maintaining support for agency-based programs for child survival and development, the Street Children Programme is consciously geared towards innovative and community based alternatives such as street counselling, outreach with families and the like.

Other UNICEF projects for the urban poor include projects for Community Organizing and Development Services, which aim to empower urban poor communities to enable them to define and chart the direction of their development. Moreover, the program also aims to advocate an alternative to approach slum upgrading which is affordable, acceptable and provides replicable technical solutions.

Program Support Services and Social Mobilization will involve activities consisting of the following: policy development, promotion of urban poor rights, advocacy, coordination and monitoring and capability-building.

### **Role of the Community**

In most cases, local communities provide solutions themselves. The main quality of squatter communities is their tightly knit social structure which helps the individual members cope with the stresses and hardships of poverty. Thus, communities display heightened awareness of their rights and responsibilities in bringing about their own development. Furthermore, they display a high potential for effective self-management.

There are more than 1,000 community organizations in Metro Manila. Many of these organizations have prioritized their needs, initiated land research, made representations with landowners and made applications to the Community Mortgage Program to purchase the property which they are occupying.

The use of multilevel walk-up buildings with higher occupant density in the urban areas is now a viable approach to the provision of housing to poor communities. However, the community organization must be strong to compensate for the more crowded living conditions. Furthermore, they must have well established rules and procedures for the operation of common areas in these new developments.

An example of the effectiveness of the urban poor is the National Government Center area in Quezon City, one of the cities in Metro Manila. Over 16,000 families live in an area of 400 hectares. By the strength of sheer organization, the residents were able to legitimize their rights and, in August 1987, a presidential proclamation granted 150 hectares of the property to the community. A unique observation is that their organization retained their own professional planning consultants (see also the Philippine Case Study in this report).

There are certain pressure groups within squatter communities who will resist squatter resettlement and housing programs. These include those squatters occupying large properties, sometimes over 100 square meters and those squatters who own squatter buildings and are charging rent to the occupying families. Good community organizations are able to reduce the sway of these groups over the community. Close involvement between NGOs and the community organizations is, therefore, desirable.

In some areas where the squatter population is already dense, the community organization can help the LGUs contain the squatter community and prevent large inflows of new squatter families whenever a development program for the area is announced.

## **FINANCING MECHANISMS, CONSTRAINTS AND FUTURE MOBILIZATION**

### **Sources of Financing**

Depending on whether a project is purely public sector or income-generating, the specific funding source varies. Thus, fund sources may be classified as local or foreign. Specific sources of funds for public sector projects are both local sources and foreign sources. Local sources include general revenues which are continuing and are on annual appropriations, borrowings which cover bond issues including government and corporate bonds, borrowings from financial institutions and earnings which include those of local governments and corporations. Foreign sources, on the other hand, may either be grants or loans which include international and regional development banks such as the World Bank, Asian Development Bank (ADB), Overseas Economic Cooperation Fund (OECF) (Japan), Kreditanstalt für Wiederaufbau (KfW) (Germany), specialized agencies of the United Nations and foreign government organizations like the USAID, Danish International Development Agency (DANIDA), Swedish International Development Authority (SIDA), the Belgian Government and other bilateral and multilateral agencies.

For income-generating urban projects undertaken either by the public or private sector, the local sources of financing are the following: (a) government financing institutions and/or lending programs which include the Philippine National Bank (PNB); Development Bank of the Philippines (DBP); GSIS; Industrial Guarantee and Loan Fund (IGLF); Cottage Industrial Guarantee and Loan Fund (CIGLF); and Export Industry Modernization Fund (EIMF); and (b) Philippine private institutions which include investment banks, commercial banks, finance companies, venture capital corporations, insurance companies, rural banks and private development banks.

Aside from the government and private financial institutions, there are other financing sources that may be considered. One such source are the NGOs or private voluntary organizations. Among these are private foundations like Philippine Business for Social Progress (PBSP) and civic and voluntary groups.

The MTPIP for the period 1990-1994 presents an updated list of priority projects which are programmed to be funded by the national

government or through ODA. Cognizant of the current macroeconomic imbalances, the MTPIP addresses the need for meaningful projects that will sustain socioeconomic development efforts in the countryside. In turn, these projects would provide the means to attract external resources which would help ease the budget deficit and the balance-of-payments (BOP) problem of the nation. The programs and projects in the MTPIP are classified according to 12 major sectors.

For the social infrastructure sector, the total investment requirement is ₱26 billion (\$926 million) consisting of about 79 projects. Of the total, the urban sector's share in the MTPIP is as follows: seven ongoing projects and 13 proposed/pipeline projects.

Since private sector participation in national growth and development is considered important, the private sector is encouraged to participate in the implementation of the MTPIP through the build-operate-transfer (BOT) scheme. The adoption of this approach is relevant due to the country's tight budgetary situation and BOP problems.

The private sector is also encouraged to participate in developmental activities. Private sector access to ODA is also being enhanced. This is being done for the following reasons: (a) more private sector resources free existing public resources including ODA for other priority development programs; (b) generation of savings and minimization of bureaucratic problems; and (c) to tap the unique advantage of the private sector to innovate, absorb and apply appropriate technology.

ODA funds for onlending to the private sector are given on market terms. Concessionality, which is the difference between ODA terms and market terms as determined by the interest rate, the grace period and the maturity period, is shared only in highly meritorious projects with high social and economic impact. One such exception is when limited concessionality is given to a firm directed to perform a public good (e.g., Meralco Electrification Project in Depressed Areas).

## **Current Financing Arrangements**

### ***Cost-Effective Approaches and their Affordability***

The Community Mortgage Program offers a cost-effective means of giving communities the power to purchase property. The

mortgage is availed of by the community for the first two years, the period of difficulty for most individual buyers. The property is then divided between the community members and the individual titles established. After two years the titles and mortgages are individualized.

Sites-and-services projects offer various price ranges and solutions to poor communities. These can vary from the most basic surveyed property, to the serviced site, to the core house, complete with utilities and centralized services and facilities. This allows the purchaser to gradually improve the quality of his accommodation to match his ability to finance such improvements. However, sites-and-services projects provide each purchaser a plot and this is not always possible within the urban situation and the limited land available for such purposes.

Medium-rise walk-up apartments are part of the solution to the massive housing need in the urban areas. More expensive land can be used and the cost of the land spread through all levels of the medium-rise buildings. However, these are capital-intensive projects requiring large investments to get them implemented. To obtain maximum efficiency in the construction of these projects, many units must be built and considerable investment made. Even using this approach to provide units as small as 20 sq m each, the affordability level of individual families falls short of the construction cost. Therefore, cross-subsidies must be considered by allocating areas of the properties to higher income groups and using profits thus generated to offset losses on lower-income units. Furthermore, using medium-rise buildings will allow the ground floor to be utilized for commercial purposes, thus commanding a higher price and contributing to lower prices for the upper floors.

#### ***Cost Recovery, Mobilization and their Sustainability***

Safe and adequate drinking water and sewerage and sanitation facilities should be paid for. However, cost recovery per se does not imply the imposition of a definite tariff. Rather it also calls for a cost-effective service essential to ensure the consumer's confidence and satisfaction and the recovery of all or part of its investments in the sector in the form of economic benefits and cash income.

At present, the agencies associated with funding of the two levels of water systems are adopting different cost-recovery policies. Under the Level II system, 90 per cent of the water source develop-

ment cost is given as grant and 10 per cent as equity. However, in the construction of the distribution system, 90 per cent of the capital cost is shouldered by the Rural Waterworks and Sanitation Association (RWSA) through a loan and the remaining 10 per cent as equity. Monthly charges ranging from ₱15 (\$0.54) to ₱25 (\$0.89) per household per month are collected to cover loan amortization, depreciation of the pump, monthly electric consumption, operations and maintenance cost, salaries and wages.

For the Level III system, the Water District (WD) or RWSA bears the entire capital cost financed out of loans equivalent to 90 per cent and 10 per cent equity. Water rates are based on the Revenue Unit and Quantity Block Method formulated by the LWUA and this covers all the costs related to the operation of the system. Under this system, the monthly charge per household ranges from ₱90 (\$3.21) to ₱100 (\$3.57). A minimum service charge is collected for consumption equivalent to or lower than 10 cu m. In excess of this, the charge is arrived at by multiplying cost per revenue unit against a classification factor. Cost estimates take into account collection efficiency. Loans for this program carry a 4 per cent interest rate and are payable in 20 years, with a six-month grace period.

Most housing projects are financed through long-term mortgages offered to poor families and communities. However, because of the affordability problem, the interest rates are subsidized. Commercial interest rates in the Philippines are as high as 25 per cent, while the mortgages to the poorest sectors are set at an interest rate of 9 per cent. This cannot be sustained without external subsidy and ₱200 million (\$7.8 million) has been set aside for this purpose. The sustainability of this interest relief is in doubt since the Government is coping with a major external debt repayment program and does not have the resources to finance such interest relief on a long-term basis.

#### *Counterpart Financing*

One particular method being employed is the sharing of costs between the benefitting entity and the financing institution. This scheme ensures a high sense of commitment and responsibility on the part of the recipient. The RCDP, among others, uses this financing strategy involving grants and loans. The loan component is shared between the national and local governments.

### **Proposed Financing Approaches**

In the light of the Philippine experience in local and international financing, the following recommendations might be useful for future projects in urban development:

- Efforts should be accelerated to increase the resource mobilization capacity of local governments.
- An efficient financial and management plan should be formulated to minimize administrative and overhead expenditures.
- There should be a clearer policy which will determine national government assistance based on the levels of development of the various regions of the country.
- There is a need to review the allocation of ODA between urban infrastructure and other development projects.
- Further studies should be made on the urban poor's needs for and utilization of infrastructure services, and their ability to assume a larger part of the costs of providing these.

## **APPENDIX 1**

### **Housing Programs**

The proposed/ongoing housing programs being undertaken by the Government are the following:

- **Community Mortgage Program:** This has been a very successful venture by government agencies responsible for housing. The basic principle is that a community squatting on a property can apply to NHMFC for funding to purchase the property on which they are squatting. Once the application has been processed the community repays the mortgage for the first two years. Thereafter, the mortgages



## Appendix 1

### Page 2

can be transferred to individual family repayments. The success of this venture has meant that the demand has greatly exceeded expectations and the administrative burden has become too great for the structure created for project implementation. The organizations involved are undergoing restructuring and the details of the application procedure are being reviewed.

- **Sites-and-Services Program:** The National Housing Authority acquires a property and divides it into service lots for sale to individual qualified beneficiaries. The responsibility for the construction of shelter rests with the lot purchaser.
- **Cooperative Housing Programs:** Cooperative housing members have the option to construct their own housing and save on developers' margins. Ownership and mortgages are individualized after completion of house production. A pilot cooperative scheme is to start in February 1991.
- **Joint Venture Program:** The NHA operates a joint venture program that encourages non-governmental organizations, private sector, landowners and the government housing agencies to combine their resources to provide low-income housing units. The government agency shares the financial burden of project development while utilizing the expertise offered by the non-governmental sector.
- **Program of the Senate Task Force:** A housing task force has been formed to pursue a crash program in the construction of some 100,000 housing units in the urban centers of the country in 1991. The task force will concentrate on the release of government lands to be converted as sites for social housing. The program also covers the adoption and implementation of guidelines on just and humane eviction of squatters.

The major housing finance organizations are:

- **Government Service Insurance System (GSIS):** This organization provides finance to employees of government departments and in some cases provides properties for development by the private sector for their members.
- **Social Security System (SSS):** Employees in the private sector contribute to the SSS and can apply at SSS for mortgages. The SSS also provides development finance to large private corporations to build homes for their own employees.
- **National Home Mortgage Finance Corporation (NHMFC):** The lower-income brackets of the employed community may not qualify for the other mortgages because they are not with the Government or contributing to SSS. The Unified Home Lending Program operated by the NHMFC makes low-cost mortgages available to individuals.
- **PAG-IBIG:** The PAG-IBIG fund was set up through the Home Development Mutual Fund as a vehicle for promoting popular provident savings for housing. To generate funds for easily available and easy-term housing loans, the PAG-IBIG program obtained contributions from individuals, banks, industries representing employers and the Government. In October 1990 this program committed ₱4.5 billion (\$160.7 million) to the housing program together with GSIS and SSS.

## APPENDIX 2

### Programs for Institutional Capability Building

#### *Special Development Programs*

- **Regional Cities Development Program (RCDP):** A World-Bank funded program that includes the cities of Bacolod, Iloilo, Cagayan de Oro and Davao. Its aims are to promote economic development and improve living conditions in important provincial urban centers that are outside the direct influence of Metro Manila. One of its major thrusts is towards enhancing local government capability in project planning, funding, implementation and management of key infrastructure projects. The lead agency is NEDA and the implementing agencies include DPWH, NHA and the Department of Finance as well as four city governments.
- **Program for Essential Municipal Infrastructure Utilities, Maintenance and Engineering Development (PREMIUMED):** Another World Bank-funded program designed to replicate the RCDP in secondary and tertiary urban centers throughout the country. DPWH is the lead implementing agency.
- **Metro Manila Infrastructure, Utilities, and Engineering Project I and II (MINUTE):** The program aims to assist the Metro Manila Commission build up a capability in project planning, development and preparation, implementation and project management of basic community infrastructure projects not covered by slum upgrading projects and other national and local infrastructure programs. DPWH is the lead agency for this program as well.
- **Local Development Assistance Program (LDAP):** This aims to prepare provinces and municipalities to cope with greater responsibilities under a decentralized system of government. Similarly, the Department of Local Govern-

ment (DLG) is the lead agency in the implementation of this program.

- **Decentralized Shelter and Urban Development Project (DSUD):** This is at the inception stage and is the counterpart of LDAP for the cities and other urban areas. The lead agency for this program is DLG.

#### ***Local Government Training Programs***

- **The DLG Capability Building Program:** This covers several training components.
- **The Municipal Training Program:** World Bank-assisted program directed towards improvement of capabilities of staff of RCDP cities and PREMIUMED centers.

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# **Sri Lanka**

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# Sri Lanka

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## EXECUTIVE SUMMARY

Approximately 25 per cent of the urban population of Sri Lanka lives below the poverty line. Due to a significant growth of the economy during the past three decades, accompanied by various "welfare state" policies, there has been a reduction even in the size of this population.

The Government of Sri Lanka provides subsidies to the poor to maintain a minimum level of subsistence, a basic level of sanitation and public health. In addition, loans and training are provided to help the poor become self-sufficient.

Low-income housing programs consist of slum and shanty upgrading and sites-and-services housing projects implemented with the assistance of NGOs and the private sector. Considerable subsidies exist in the form of loan schemes at subsidized interest rates. However, there is a movement toward higher, market-oriented interest rates in the sector. Building and planning regulations are relaxed in special project areas inhabited by the urban poor.

Water supply and sanitation programs are being expanded with the objective of providing piped water supplies to all urban local authorities by the year 1995. Assistance is also being provided to help the poor to install water-seal latrines.

The private sector is expected to become more active in the provision of housing and urban public transport services. NGOs are involved not only in housing programs but also in water supply and economic development programs. Community participation is an important feature of most poverty alleviation programs.

Cost recovery for water supply and sanitation services is low, but higher charges could be considered. Assistance is being

provided to urban local authorities to improve their financial management and financial resource mobilization.

## **COUNTRY BACKGROUND**

Sri Lanka is an island situated in the Indian Ocean between latitude 5°51' and 9°51' North and longitude 79°41' and 81°51' East. It is separated from the subcontinent of India by the Palk Strait, a strip of shallow sea only 40 km in width. The island's maximum length is approximately 434 km (272 miles) and maximum width 225 km (140 miles). The total land area of Sri Lanka is 25,332 sq miles (61,610 sq km).

Sri Lanka has a tropical climate with temperatures ranging from 80°F in coastal regions and about 60°F in central hill country regions. The average annual rainfall varies from about 200 inches in the central hill country to about 75 inches in the northern and eastern parts of the country.

Climatically, the country can be divided into two major zones, the wet zone which forms the southwest quadrant of the country, including the central hills, and the dry zone which covers the rest of the country. The basic climatic division is important as it explains the disparities in economic development and ways of life of the people.

The population of Sri Lanka is estimated at about 17.8 million persons, growing at a rate of about 1.5 per cent per annum. The population is expected to increase to 20 million by the end of the century.

The labor force increased from 2.6 million in 1946 to 5.7 million in 1981, an increase of 120 per cent. In 1981, it consisted of 4.1 million males and 1.6 million females. The work force is estimated at 7.5 million in 1991 and is expected to increase to 9.1 million by 2001.

### **Urbanization**

According to the Census of Population, the 1981 urban population constitutes 21.5 per cent of the total population, a decline compared to 1971 when the urban population was 22.4 per cent of the total. The reduction of the relative size of urban population during

the intercensal period 1971 to 1981 shows that some of the major urban centers have already been saturated. In these areas population growth is shifting outward to peripheral areas, resulting in urban sprawl. These recently urbanized areas have not been included in the category of urban areas. Emigration has also been a feature which has contributed to the decline in the relative proportion of the urban population. It is estimated that the urban population presently constitutes approximately 25 per cent of the total population.

### **Population Distribution**

A basic imbalance exists in the distribution of population in Sri Lanka. The southwest quadrant, constituting less than one third of the total geographical area of the country, accommodates over 60 per cent of the total population. The southwest, especially Colombo, is more urbanized and has better infrastructure facilities. The urban population in the administrative districts in the southwest is also comparatively higher. Colombo District is 74.3 per cent urban while Gampaha District is 27.8 per cent urban and Kalutara District 22.1 per cent.

Successive governments since 1948 have concentrated on the development of the dry zone through irrigation facilities and river valley development projects such as Gal Oya, Uda Valawe, Mahaweli, etc., to develop agriculture and hydropower for domestic and industrial consumption. These projects have resulted in containing the rural-urban drift to the southwestern part of the country. This is evident from the higher urban growth rates in some of the administrative districts of the dry zone. The administrative districts of Mannar, Mullative, Hambantota, Polonnaruwa and Moneragela have experienced urban population growth rates of over 2 per cent per annum which is more than the national average. This shows a tendency towards balanced development of urban centers in Sri Lanka.

### **Structure of the Economy, Growth Trends and Changes**

Historically, the economy has been based on the export of three main primary commodities, namely, tea, rubber and coconut. The

trend in the period 1960-1990 indicates substantial diversification of exports particularly of industrial goods, comprising textiles and garments, petroleum products and gems and precious stones. The "Open Economy" policy of the Government has stimulated an increase in imports, too, including essential food items, other consumer durables and capital goods. The trade gap had been widening over the past decade. The increase in the import price of fuel this year has worsened this situation.

Recently there has been a slow growth in the agriculture sector (2.1 per cent during 1988) and substantial growth of the mining and quarrying sector (19.0 per cent and 9.0 per cent during 1988 and 1989, respectively), particularly due to export of gems and precious stones. There has been a moderate increase in the manufacturing industries of 8.4 per cent, 6.8 per cent and 4.7 per cent for 1986, 1988 and 1989, respectively.

The long-term trend from the above data shows gradual slowing down of the rate of growth of agricultural production mainly due to the saturation of land available for agriculture, including plantations, and moderate to strong performance of the industrial sector. Per capita GNP in 1988 was Rs 11,939 (\$375), an increase of 2.5 per cent per annum from 1987.

### **Income Distribution and Poverty**

Studies of the Department of Census and Statistics (DCS) reveal that the poor, who presently represent nearly 25 per cent of all households, declined during the past two decades from 3.5 million to 3.3 million persons. Within this total DCS has identified an "ultra-poor" group which has declined from 5.5 per cent in 1980/81 to 3 per cent in 1985/86. The government policies and programs targeting the poor such as the Janasaviya and Food Stamp Schemes will hopefully improve the economic condition of this category.

Table 1 indicates that the incidence of poverty (low-income groups) is more acute in rural areas than in urban areas. If Rs 700 is treated as the poverty line, 34.6 per cent of the urban population and 52.5 per cent of the rural population falls within this category.

Table 1: Distribution of Income

Income Group	Per Cent of Households		
	Total	Urban	Rural
Less than Rs 300	7.7	4.6	8.7
Rs 300 - 500	20.9	14.8	22.7
500 - 600	11.0	8.2	11.7
600 - 800	18.6	14.1	18.7
800 - 1,000	12.9	13.0	12.8
1,000 - 1,500	15.5	18.5	14.3
1,500 - 2,000	6.4	9.4	6.1
2,000 - 3,000	3.8	8.2	3.1
3,000 & over	3.2	9.2	1.9

### Economic and Social Assistance Programs

#### *Janasaviya*

The Janasaviya program is intended to uplift the downtrodden and make them effective partners in the development process. It has been realized that the poor are undernourished and unskilled. Uplifting their condition requires a substantial initial investment to make them physically and mentally fit to undertake any enterprise or to find work. The strategy involves the following:

- (i) Families who have been identified after detailed scrutiny as coming within the category of the poorest are provided with a subsidy of Rs 2,500 per month. This includes a basket of food and other essential goods with a value of Rs 1,448 per month. The balance is contributed to a savings account.
- (ii) The amount accumulated in the savings account with interest over two years will be Rs 25,000 which the households could use as collateral or initial capital to initiate an industry or business of their own; and
- (iii) Basic facilities are also provided to develop marketing skills for products, disseminate knowledge and information about other government programs, etc.

Families eligible to receive assistance are identified at the *grama sevaka* and divisional revenue officers levels. When the names of prospective beneficiaries are displayed in prominent places in the locality, their eligibility is verified by the community.

Programs have been launched in all divisions to provide necessary assistance and support to Janasaviya recipients through mobilization of their labor for infrastructure development, rural works and also for self-employment in industries, etc.

The Janasaviya Trust Fund has been created to provide financial assistance to Janasaviya recipients to enable them to set up enterprises. Several government agencies and NGOs are involved in the provision of technical assistance and organization support such as Labor Department, National Apprenticeship Board, National Youth Council, Department of Small Industries, Fisheries Department and Sarvodaya Movement.

Already nearly 22,500 youths have been trained and loans have been granted to 21,361 to carry out new ventures. Steps are being taken to ensure that Janasaviya recipients will become self-supporting at the end of two years.

This program still covers only 164,000 families out of a total of approximately 3.3 million eligible families. Due to the capital outlay involved, the program is to be developed over a period of time. It is still early to comment on the effectiveness of the strategy. However, the phase-out dependency on the State appears to be in the correct direction.

### ***Education***

Education from kindergarten to the university is fully subsidized, including a free midday meal for school children. This has contributed to an increase in the literacy rate to over 80 per cent. However, the quality of free education is greatly affected due to comparatively low teachers' salaries in public schools.

### ***Health Services***

Sri Lanka has a free health service with a network of hospitals and dispensaries in all parts of the country. However, in recent years, due to poor medical facilities in public hospitals, people in the middle and lower middle-income categories have tended to patronize private hospitals, nursing homes and dispensaries.

Doctors in the public service are given permission to practise in private hospitals.

### *Food Subsidy*

Rice, which is the staple food of the people, has been subsidised since Independence. When this subsidy was reduced or withdrawn it resulted in major public protests. In place of rice subsidy, the Government has introduced a food subsidy to families living below the poverty line – i.e., those who earn less than Rs. 700/ = (US\$17.5) a month. Food stamps to the value of Rs. 200/ = (US\$5) per person up to 5 members of the family are provided by the Government to enable the poor to purchase basic essential household items.

## **PAST APPROACHES AND EMERGING CHALLENGES**

### **Land**

In Sri Lanka, urban areas cover only about 3 per cent of the area of the country but accommodate over 20 per cent of the population. Most lands in the urban areas are privately owned while there may be some owned by the local authorities and the State. Due to limitations on the supply of urban land, prices keep spiralling up in Sri Lanka's urban areas. Thus the urban poor cannot afford to pay land prices determined by the market although their livelihoods as laborers or in informal sector activities are concentrated in urban areas.

Several policies have been modified to meet the needs of the urban poor in regard to land use and land ownership. One concession granted to help the urban poor to get reasonable security of tenure in urban areas is to designate certain areas exclusively inhabited by the urban poor such as slum and shanty areas as "Special Project Areas" and relax the building standard and planning regulations. This enables the low-income families to construct houses on smaller plots of land.

The same readjustment applies to persons engaged in economic activities such as small industries or informal commercial establishments in order to safeguard them from getting eliminated through the competitive market forces in the real estate market. However, it is inevitable that certain changes in the location of such



establishments have to be effected in order to integrate such developments with development plans.

The relaxation of standard planning and building regulations has been carried out mainly for slum and shanty upgrading areas or resettlement projects. In the case of relocation housing, the minimum plot size of 6 *perches* (150 sq m) has been relaxed to 3 *perches* (75 sq m). The Navagampura Housing Scheme for the resettlement and upgrading is an example of relaxation of standards in building regulations to provide for higher densities in view of high land values. However, it is now felt that such relaxation may lead to overcrowding and slum conditions after population growth in such settlements.

Whenever redevelopment projects are undertaken by the Urban Development Authority (UDA), the existing occupants of the land (other than owners who get compensation according to government valuation) are provided with alternative accommodation in or close to the same general location. This alternative accommodation is decided after negotiation with the affected parties. In some cases specially built houses are provided, while in other cases sites and services are provided with financial assistance to construct houses to suit the requirements of individual families.

A good example of such a redevelopment project is the Peliyagoda Integrated Urban Development Project involving the redevelopment of nearly 500 acres (202.3 hectares) of marshy land at the northern approach to the City of Colombo. There were approximately 800 shanties located in the project area according to a survey conducted at the commencement of the project. The project feasibility study revealed that when the area is provided with drainage and infrastructure services for industries, warehousing and housing, it could generate sufficient income to subsidize the relocation of the families living within the project area in low-cost houses (approximately 40 sq m) together with a school, playground, etc. Due to the undeveloped and encumbered nature of the land, the compensation paid for land acquired varied from Rs 300 (\$7.5) per *perch* to Rs 500 (\$12.5) per *perch* within the project area while the selling price of land for industrial and commercial activities ranged from Rs 14,000 (\$350) to Rs 20,000 (\$500) per *perch*. Families in Stage I of the Project area have been resettled in low-income housing and sites-and-services schemes constructed by the UDA.

## Housing

Housing has been given a very high priority by the Government since 1978. Several innovative policy options were adopted by the Government from time to time to deal with this problem which includes increasing the stock as well as improving the quality (e.g., upgrading of slums and shanties). It is considered that better housing forms an important element in improving the quality of life of the people which in turn increases their productivity.

The two-pronged housing strategies adopted in 1978 involved undertaking direct housing construction by the state in selected locations particularly in urban and semi-urban areas, and upgrading slum and shanty settlements, particularly in Colombo. A Hundred Thousand Housing Programme was adopted under which housing complexes were designed and constructed on a turnkey basis from plans prepared by architectural and engineering firms. It was found that compared to the magnitude of the housing problem, the targets were difficult to reach as only the middle and upper-income groups could be served. The program involved very high expenditure and full cost recovery was impossible.

Upgrading of slum and shanties was undertaken particularly in the City of Colombo, with assistance from bilateral agencies. This program included the provision of basic amenities such as footpaths, water, toilets and common areas. These projects were comprehensive in all respects, but the implementation was time-consuming. Therefore, only a few projects of this type could be implemented.

The Government's housing policy changed with the introduction of the One Million Housing Programme in 1983. The program attempted to reach the largest number of low-income groups to meet the basic housing requirements. It was based on the concepts of aided self-help and community involvement in identifying the most deserving cases. Small loan schemes averaging Rs 7,500 per family in rural areas and Rs 15,000 per family in urban areas were introduced which went a long way in upgrading and improving the conditions of both urban and rural housing. This resulted in the conversion of a large number of temporary and semi-permanent dwelling units to permanent units. However, in urban areas it did not result in a substantial increase in the housing stock due to the limits of the loan facility. In rural areas, where land was available at a nominal cost and the building materials such as timber were

cheaper, people were able to construct new houses using their own labor and savings. Gradually, there was a significant increase in the housing stock as a result of the One Million Housing Programme. Table 2 indicates the relevant changes in the housing stock.

Table 2: Occupied Housing Stock by Sector and Type

Sector	Housing	1971		1981	
		Number (thousands)	Per cent	Number (thousands)	Per cent
Urban	Permanent	264.8	62.9	346.8	68.0
	Semi-permanent	118.4	28.1	124.0	24.4
	Improvised	38.0	9.0	38.8	7.6
	Total	421.2	100.0	509.6	100.0
Rural	Permanent	492.7	31.6	776.4	37.2
	Semi-permanent	950.2	61.0	1,168.6	56.1
	Improvised	115.8	7.4	139.5	6.7
	Total	1,558.7	100.0	2,084.5	100.0
Estate	Permanent	28.5	12.0	51.0	23.4
	Semi-permanent	202.6	85.3	164.8	75.8
	Improvised	6.5	2.7	1.8	0.8
	Total	237.6	100.0	217.6	100.0
All Sectors	Permanent	786.0	35.4	1,173.9	41.8
	Semi-permanent	1,271.2	57.3	1,457.3	51.8
	Improvised	160.3	7.3	180.1	6.4
	Total	2,217.5	100.0	2,811.3	100.0

The One Million Housing Programme was implemented through thrift and credit societies and government agencies such as the National Housing Development Authority (NHDA). Loan recovery was poor, as a result of which it was decided to course the loans through housing finance institutions.

The third phase of the Sri Lanka housing program, known as Housing for All by the Year 2000, was initiated in 1990. The most important feature of this policy is to mobilize the assistance, participation and support of non-governmental entities in contributing to increases in the housing stock and improving community facilities and amenities. Tax exemptions have been made available for such contributions. Local authorities are now assisting the housing

programs through helping the NHDA District offices in regard to the selection of allottees, acquisition of suitable lands and other similar activities.

### **Other Infrastructure Subsectors**

#### ***Water Supply***

More than half of all urban households obtain their water from wells, tanks and streams and about two thirds from sources outside the premises, making adequate protection of the water supply a major concern (see Table 3). Common water taps are provided in slum and shanty areas under low-income housing and upgrading programs, at a standard of about 1 for 20 households. Expansion of water supply systems is constrained due to a relatively low level of cost recovery.

#### ***Sanitation***

Only part of the City of Colombo and recently part of the Dehiwela-Mt. Lavinia Area have been provided with a central sewerage facility. Although such a facility is very important for the maintenance of a good standard of sanitation, the heavy investments involved have prevented the Government from embarking on such projects for other urban local authorities. Most urban local authorities which have piped water supply rely on a system of toilets with septic tanks. It is difficult to introduce this system to areas with a high water table and residential density. Nevertheless, this system is more cost-effective and suits those urban areas which are less crowded and have piped water supply. Investigations carried out by the UDA reveal that except for a few special areas such as the central area of Kandy, most of the urban local authorities could manage without central sewerage systems at least in the short term.

Programs are under way to improve sanitation for the urban poor, involving provision of squatting pans and other facilities to construct water-seal latrines. However, there are still certain areas in Colombo and other major urban centers where soakaways cannot function due to the high water table. In some cases, common toilets are provided for slum and shanty dwellers who cannot have individual toilets due to the high density of their settlement. Table 4 shows the impact of the water-seal latrine program.

Table 3: Occupied Housing Units and Sources of Water Supply

Sector and Type of Housing Unit	Main Source of Drinking Water (Per cent)							Not Stated
	Total	Piped Water		Protected Well		Unprotected Well	River, Tank and Other Sources	
		Within Premises	Outside Premises	Within Premises	Outside Premises			
<b>All Sectors</b>								
Total	100.0	8.0	9.3	25.8	20.5	20.8	7.0	2.7
Permanent	100.0	13.6	9.3	30.1	19.2	13.0	3.2	3.4
Semi-permanent	100.0	4.2	9.2	6.8	30.6	27.2	9.8	2.1
Improvised	100.0	1.8	9.1	18.2	41.0	19.1	8.1	2.8
<b>Urban</b>								
Total	100.0	24.4	22.1	27.7	16.1	4.9	1.1	3.7
Permanent	100.0	32.7	10.6	31.1	11.0	2.6	0.6	3.7
Semi-permanent	100.0	7.6	29.5	21.2	26.1	10.6	2.3	3.8
Improvised	100.0	4.6	31.0	17.8	32.3	8.7	2.4	3.3
<b>Rural</b>								
Total	100.0	1.8	3.3	26.7	31.4	20.4	8.6	2.9
Permanent	100.0	3.8	4.6	42.7	23.9	18.1	4.9	2.3
Semi-permanent	100.0	0.6	2.6	17.1	34.9	32.4	11.1	1.6
Improvised	100.0	0.6	2.8	18.4	43.8	32.2	9.8	2.5
<b>Estate</b>								
Total	100.0	28.0	30.8	12.6	3.7	4.1	6.8	0.1
Permanent	100.0	33.9	22.1	17.1	2.0	2.4	3.2	19.1
Semi-permanent	100.0	27.0	41.6	11.2	4.2	4.0	6.6	4.8
Improvised	100.0	43.6	22.4	4.7	9.6	6.9	6.3	7.5

Source: Census of Population and Housing - 1981.

Table 4: Occupied Housing Units and Type of Toilet Facilities

Sector and Type of Housing Unit	Total	Flush Toilet		Water Seal		Pit		Bucket Type		None	Not Stated
		Exclusive	Shared	Exclusive	Shared	Exclusive	Shared	Exclusive	Shared		
<b>All Sectors</b>											
Total	100.0	4.2	1.3	19.9	4.3	32.0	6.6	1.0	1.2	20.3	2.1
Permanent	100.0	8.8	2.1	35.6	6.6	28.3	4.8	1.0	1.4	9.4	2.3
Semi-permanent	100.0	0.6	0.6	5.7	3.4	37.6	0.4	0.4	1.0	40.4	1.8
Improvised	100.0	0.3	0.2	4.0	1.7	12.9	4.2	0.5	1.6	71.6	3.0
<b>Urban</b>											
Total	100.0	12.6	4.4	30.5	9.3	11.4	5.1	4.0	4.9	15.1	2.7
Permanent	100.0	17.4	9.6	40.0	9.5	0.3	2.8	4.7	3.8	6.0	2.2
Semi-permanent	100.0	1.3	3.7	10.1	10.1	21.1	10.8	2.6	8.1	29.0	4.0
Improvised	100.0	0.5	0.7	3.9	3.9	10.6	9.3	1.9	0.4	59.0	3.4
<b>Rural</b>											
Total	100.0	2.1	0.3	2.0	2.0	40.1	5.1	0.2	0.1	32.1	2.7
Permanent	100.0	4.6	0.7	3.4	3.4	39.1	5.1	0.4	0.2	11.1	1.6
Semi-permanent	100.0	0.4	0.1	1.0	1.0	43.7	5.6	0.1	0.1	42.6	1.1
Improvised	100.0	0.2	0.1	1.0	1.0	13.7	2.6	0.1	0.1	75.9	2.7
<b>Estate</b>											
Total	100.0	2.6	2.2	14.6	14.6	6.3	20.1	1.8	1.8	27.4	8.6
Permanent	100.0	7.9	1.5	9.7	9.7	10.7	10.4	1.9	1.9	0.1	18.6
Semi-permanent	100.0	0.7	2.5	10.2	4.9	4.9	29.4	1.8	1.8	33.6	5.3
Improvised	100.0	2.8	0.6	4.2	4.0	4.0	13.2	0.0	0.0	26.3	7.0

Source: Census of Population and Housing 1981.

### ***Drainage***

Most local authorities give low priority for maintenance of drainage except the cleaning of drains in the town center. Low-lying poorly drained lands are often claimed as settlement areas by the urban poor. These areas have no development value without drainage facilities and therefore attract squatters who migrate to urban areas in search of employment. There are about 25,000 shanties in the City of Colombo, most of which are on such low-lying areas with poor drainage.

Several projects have been prepared for improvement of drainage and flood control of the City of Colombo and suburbs but they have not been implemented fully due to resource constraints. The most recent study provides detailed projects for several critical areas. Out of these projects, the Pettah (City of Colombo) Drainage Project has already been taken up for implementation, with local resources due to the urgency of the work. Several such projects are in the pipeline for implementation with foreign assistance.

### ***Solid Waste Disposal***

The ability of urban local authorities (ULAs) to carry out this solid waste disposal satisfactorily depends on their capacity to mobilize manpower and equipment, which depends in turn on their financial capacity which is limited. Both the amounts of solid wastes generated in big cities and the cost of transporting the wastes to dumping sites are increasing, requiring additional expenditure every year. Furthermore, the availability of dumping sites for the disposal of garbage is getting exhausted. Local authorities are being forced to identify alternative dumping sites further away from the City, thus increasing the cost of the operation. This has become an acute problem for major local authorities such as Colombo and Dehiwela-Mt. Lavinia.

A project is now underway to provide for a satisfactory landfill method for garbage disposal for the Colombo Municipal Corporation Area. Identification of suitable new areas for garbage disposal through sanitary landfill is being carried out close to the City. Foreign funding has been made available particularly to the Colombo Municipal Council to purchase equipment and also to train staff in this task. The project comes under the assistance to the Urban Programme Unit (UPU) of the Ministry of Housing and Construction. The rising fuel cost for utilizing tractors and other vehicles is

becoming a major problem to small local authorities. Hand tractors with trailers are now in use while in a few cases only handcarts are used. The failure of poorer ULAs to remove garbage daily from the crowded areas of the city may create health problems. Garbage disposal is exclusively handled by the ULAs, without intervention of the central government agencies.

### *Mass Public Transport*

Mass public transport consists of buses run by the State Transport Board, the railway run by the Government and the private bus operators. Both services run by the Government are heavily subsidized, for which reason the Government embarked on a policy of privatization of bus services. Since the private bus services are being operated by a large number of small-scale bus operators, it has become difficult to maintain road discipline, resulting in accidents and inconvenience to the public. The railway accounts for less than 20 per cent of the urban transport. It will be difficult to make its services economically viable as concessions are given to all public sector employees to travel from home to office and back. Feasibility studies are being carried out in regard to the electrification of the suburban railway to make it more viable and efficient.

### *Lighting*

Street lighting in urban areas including parks and public open spaces is provided by local authorities. This constitutes a substantial part of the budgets of small local authorities. Many local authorities are indebted to the Ceylon Electricity Board in respect of bulk supply of electricity.

## **ROLES OF DIFFERENT LEVELS OF GOVERNMENT**

### **General Devolution of Power**

Sri Lanka has a republican form of government based on a unitary constitution. The Thirteenth Amendment to the Constitution provides for the devolution of powers to the provincial councils, and sets out the powers of the provincial councils, the powers of the central Government, and the concurrent powers (i.e., those powers which the provincial councils have to exercise in concurrence with



the central Government). The powers vested with urban local authorities under the Municipal Councils and Urban Councils Acts are to be enjoyed by them subject to general supervision of the provincial councils.

The country is divided into nine provinces. Provincial councils have been legally constituted for all the provinces but the councils have not been functioning in the Northern and Eastern provinces. The provincial councils elsewhere are in the process of being properly constituted and established to exercise their statutory functions and responsibilities. Assignment of division and district officers attached to the central Government to work in the newly constituted provincial councils is in the process of being implemented. However, it may take another five years or more for the newly established provincial councils to function on their own.

Some of the provincial councils have already prepared their five-year development plans and implementation programs. Implementation may be carried out in collaboration with central Government agencies.

## **Management of Land, Housing and Infrastructure Services**

### ***Land***

In 1978, a national agency known as the Urban Development Authority (UDA) was created by an Act of Parliament for the promotion of integrated planning and physical development of urban areas with wide powers regarding acquisition and disposal of land for urban development. The establishment of this agency has facilitated development of urban land on a planned basis and also redevelopment of urban land owned by private individuals or the State which have not been developed due to problems of ownership or high investment risks.

The UDA has to meet two requirements: one, to operate on viable basis by developing and disposing lands at market values; two, to look after the urban poor by providing appropriate relocation facilities. UDA's urban development projects include real estate operations concerned with commercial and industrial development activities. These generate income which can be the base for subsidiary facilities for the poor; they also create job opportunities for the poor.

The UDA is in the process of decentralizing its planning functions to local authorities. The UDA has already delegated its development control functions to local authorities and assigned staff to work in ULAs. As a continuation of this process and in keeping with the statutory provisions for decentralization as provided in the Provincial Councils Act, the UDA has taken steps to create awareness and understanding among local authorities in planning procedures and practices and integrating them with their capital investment decision making and budgetary procedures. Eight workshops were held at the provincial level to introduce a planning manual prepared by the UDA with the assistance of USAID which sets out the new procedures for plan preparation and decision making. The manual has been updated and revised in response to the feedback received at seminars.

### *Housing*

Most public housing is owned by the National Housing Department and National Housing Development Authority. Most of these schemes have been converted to "rent-purchase basis" with the objective of creating a housing ownership society. The maintenance of public housing is carried out by the Common Amenities Board which is a statutory corporation created under the Ministry of Housing and Construction. In cases where the National Housing Department or National Housing Development Authority is the landlord, the maintenance cost is borne by the Department or Authority.

Certain innovative policies have been introduced by the National Housing Development Authority (NHDA) to encourage community participation in regard to programs and projects targeted towards the poor. Under a new scheme, the prospective recipients of assistance are selected by the community rather than by the officials in order to ensure that only genuine cases are included and to avoid public complaints. The allocation of funds for assistance is made to districts and disbursed at the local authority or *pradeshiya sabha* (county) level. Families which are landless or homeless who are in receipt of monthly incomes less than Rs 2,400 are eligible to receive loans for housing.

### ***Other Infrastructure Services***

Other infrastructure services are maintained and managed by State corporations set up for the purpose such as the Roads Development Authority, National Water Supply and Drainage Board and Ceylon Electricity Board. As they are agencies created by the national government, their responsibilities are to the ministries concerned and to the Parliament.

## **THE PRIVATE SECTOR**

The private sector plays a significant role in poverty alleviation efforts particularly in the rural sector by charitable contributions, including religious institutions. The cooperative efforts of the community in terms of labor contribution or *shramadana* helps to construct local infrastructure facilities such as roads, footpaths and wells.

The private sector is responsible for the construction of over 90 per cent of housing. A large majority of the middle class and lower middle class rely on their own moderate savings and bank loans from the State Mortgage Bank or National Savings Bank to purchase land and construct houses. Due to escalation of land prices particularly in the City of Colombo and immediate suburbs, people are compelled to move into semi-urban or rural areas. Accordingly, there are large-scale subdivisions of agricultural land for residential purposes put into the market by real estate agencies. The real estate agents who subdivide and sell these properties do not provide infrastructure facilities other than reservations for road or footpaths. The purchaser has considerable problems of obtaining water and electricity supply. The *pradeshiya sabhas* which look after these areas do not have adequate resources to provide these facilities.

The Government recently introduced tax relief measures to investors on housing which has resulted in a few property developer firms coming into existence. One of the problems they face is obtaining land at reasonable prices in urban areas and to provide houses at reasonable cost. At times when materials and labor costs are rapidly growing and interest rates, too, are increasing, the lower-middle income groups are facing a serious problem of mobilizing resources for housing.

UDA has entered into two joint ventures with private sector firms for commercial development and housing in Peliyagoda. The UDA participates by contributing land, while the private developer provides on-site infrastructure and housing.

## **NON-GOVERNMENTAL INITIATIVES**

Non-governmental assistance takes the form of financial or direct construction support of housing and related facilities such as community centers and infrastructure services by charitable institutions, voluntary associations and individuals. In fact, the Government hopes to get increasing participation of such NGOs and individuals in providing housing facilities particularly to the urban poor. The NHDA is planning to explore private sector resources to the tune of nearly Rs 6.8 million this year. Tax concessions are provided for such contributions.

### **Non-Governmental Organizations**

The local NGOs consist of religious groups, development societies, community development societies, local thrift and credit societies, locally based charitable institutions and informal groups. A list of those involved in the housing sector is in the Appendix. The participation of voluntary groups in the decision making and monitoring process of the housing programs of community development councils has also been encouraged.

SIDEP is an NGO involved in a major community development program in connection with the relocation of 850 families affected by a new road construction project to the Port of Colombo. In addition to the national and internationally based NGOs, there are a large number of societies which are connected to temples and churches who play an important role in organizing community-based projects for housing as well as for employment generation. Some of these NGOs receive foreign assistance for provision of housing projects for the poor.

### **Self-Help and Community Participation**

Both urban and rural housing programs for low-income groups are based on the principle of minimum intervention and maximum support, utilizing the resources available to the community to the maximum. The principle of self-help is the critical factor. The assistance provided by the State should have a multiplier effect with free contribution of the labor of the households for certain unskilled processes in the construction. Some of the building materials can be made by the members of the household with minimum basic skills. Sri Lankan villagers have a tradition of helping each other in activities such as harvesting or in thatching the roof of the neighbor's house. The same principle has been extended in housing construction. The degree to which self-reliance is developed depends on the community group. Official intervention sometimes helps to develop this in a more effective and constructive manner.

In the planning of the projects community participation is crucial. The experience in some of the slum and shanty upgrading projects in Colombo and suburbs indicates that their success depends largely on community participation and involvement. Therefore, the NHDA has incorporated the community's involvement and participation into the decision making and implementation processes of housing projects.

## **FINANCING MECHANISMS**

### **Housing**

Subsidies exist for housing too, particularly to the poor-income groups. Housing loans amounting to a maximum of Rs 20,000 (\$500) at subsidized interest rates are provided to those who earn an income below Rs 2,500 a month to make additions and improvements to houses or construct new houses. For the poorest, these loans are completely subsidized. The housing loans are disbursed through the sub-offices of the National Housing Development Authority in various districts of the country. About 300,000 families have already been benefited under this program.

Housing finance comes from two sources. The finance for housing for low-income groups, which may consist of subsidized

loans or grants, comes from central government funds supplemented by assistance from international and bilateral agencies such as USAID. Subsidized loans to low-income categories are channelled through the District Managers of the NHDA.

Financing for middle and upper-income group housing is available through the State Mortgage and Investment Bank (SMIB), the Housing Development Finance Corporation (HDFC) and commercial banks. The SMIB and HDFC have recently encountered a financial "crunch" caused by a lack of funding previously provided by the Government. Both are embarked on a program of financial and organizational strengthening.

### **Infrastructure**

The supply of drinking water is subsidized as local authorities have not been able to recover the costs of operations and maintenance. There are many cases where a substantial part of the water supply goes unaccounted for due to illicit tapping of water from the distribution lines. This, in turn, weakens the ability of the local authority to pay their bulk water supply bills, which are reflected as a debt of the local authorities to the Water Supply and Drainage Board which provides bulk supply of water. The failure of the local authorities in settling their bills for the bulk supply of water to the National Water Supply and Drainage Board (NWSDB) has seriously affected its financial position.

The generation of electricity was a function of the Ceylon Electricity Board (CEB) while the distribution of electricity was a function of urban local authorities. However, due to the inefficiency of most of the local authorities in collecting the electricity dues from the consumers and settling the bulk supply bills to the CEB, distribution of electricity is directly handled by the CEB in certain ULAs. A new public company known as the Lanka Electricity Company (LECO) has been established to take over the management and maintenance of the electricity system in some areas. The objectives are to provide an improved and uninterrupted supply to the consumers and at the same time operate the system on an economically viable basis. The charges have been adjusted rationally, and arrangements for prompt recovery have been made. However, the taking away of this traditional function of the local authorities has been a

subject of criticism by some of the local authorities who had a good record.

The LECO will be taking over the electricity distribution to local authorities along the coastal belt from Negombo to Galle. It is assisted by an ADB-funded project to carry out this task and \$30 million has been made available by the ADB and bilateral lending agencies for Phase I of the project.

### **Urban Local Authorities**

Concern with the poor cost recovery of ULAs resulted in the setting up of a project with UNDP assistance for the improvement of performance of ULAs. The project was aimed at improving the capacity of ULAs to mobilize revenues and to operate and maintain their infrastructure. An Urban Programme Unit was created to provide the necessary assistance to ULAs.

The Unit was manned by expatriates and local officials seconded from central government institutions. The management of local authorities was closely monitored by this Unit and their performance was assessed regularly. The Unit also attempted to identify solutions to the problems of local authorities in regard to management and maintenance of services, cost recovery, etc. Systems were introduced for better management and administration and technical staff were provided with training to improve their efficiency and performance. Incentives for improvement of performance were provided in the form of special awards to the local authorities which had the best performance. The Unit also monitored the repayment of arrears of water and electricity bills (bulk supply). This exercise helped to improve the performance of some of the ULAs.

## APPENDIX

### Non-Governmental Organizations

Non-governmental organizations are playing an important role in regard to provision of houses and ancillary facilities. Following are some of the NGOs which are contributing in different ways towards the achievement of objectives under the shelter program:

- (i) SIDEP (Self-Integrated Development Education Processes);
- (ii) All Ceylon Buddhist Congress – Colombo;
- (iii) CARE – Colombo;
- (iv) Center for Society and Religion – Colombo;
- (v) Ceylon Boy Scouts Association – Colombo and districts;
- (vi) Ceylon National Association for Prevention of Tuberculosis – Colombo;
- (vii) Eye Donation Society – Colombo;
- (viii) Family Planning Association – Colombo and districts;
- (ix) Foster Parents Plan International – Kandy and Badulla;
- (x) Ghandiyam – Jaffna and Regions;
- (xi) International Voluntary Service – Kandy;
- (xii) Jaycees – Colombo South Chapter;
- (xiii) Lanka Mahila Samithi – Colombo and districts;
- (xiv) Lions Club – Colombo South Chapter;



- (xv) National Christian Council – Colombo;
- (xvi) National Council of YMCAs and YWCAs Council – Colombo;
- (xvii) Rotary – Colombo;
- (xviii) Redd Barna – Colombo;
- (xix) Salvation Army – Colombo and districts;
- (xx) Sarvodaya Shramadana Samithiya – Colombo and districts;
- (xxi) Satyodaya – Kandy;
- (xxii) Save the Children Federation – Colombo;
- (xxiii) Saukyadana Movement – Colombo and districts;
- (xxiv) Service Civil International – Colombo;
- (xxv) Social and Economic Development (SEDEC) – Colombo and Dioceses;
- (xxvi) Sri Lanka Association for Voluntary Surgical Contraception – Colombo;
- (xxvii) Sri Lanka Cancer Society – Colombo;
- (xxviii) Sri Lanka Girl Guides Association – Colombo and districts;
- (xxix) Sri Lanka Homoeopathic Association – Colombo;
- (xxx) Sri Lanka Housewives Association – Colombo;
- (xxxi) Sri Lanka Muslim Women’s Conference – Colombo;

- (xxxii) Sri Lanka Red Cross Society – Colombo and some districts;
- (xxxiii) Sri Lanka Youth Council – Colombo;
- (xxxiv) St. John Ambulance Association – Colombo;
- (xxxv) World Vision International – Colombo; and
- (xxxvi) The Chitra Lane School for the Special Child.

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# Thailand

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# Thailand

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## EXECUTIVE SUMMARY

Despite Thailand's high sustained growth and impressive economic performance, there is still a considerable number of poor rural and urban households. Emphasis in this paper will be on the urban poverty phenomenon, which is largely, and though not exclusively, apparent in the Bangkok Metropolitan Region (BMR). A review of existing evidence indicates that the most serious problems of the urban poor include housing security, poor education, low-level working skills and low incomes with little prospect of obtaining employment in the formal and informal sector. While key infrastructure services such as water and electricity are still not available to all the urban poor, the majority of the urban poor appear to manage to obtain these services on an increasingly wider basis.

Evaluation of past approaches reveals that the issue is one of top-down or bottom-up policy. There is clear evidence that local leadership cultivation, organization of the slum communities and encouragement of local people's participation in their communities' development efforts, together with the beneficial role that can be played by non-governmental organizations are, in fact, crucial to urban poverty alleviation efforts.

Future strategies for poor communities should continue to stress the roles of leadership building, organization and people's participation to ensure the effectiveness of poverty alleviation programs, particularly in the fields of slum upgrading, better housing and tenurial security and skill training and upgrading to raise their productivity and income.

## COUNTRY BACKGROUND

In the past three decades of development, the Thai economy has grown rapidly with the economic growth rate averaging about 7 per cent per year in real terms. During 1987 to 1989, the economy recorded double-digit growth rates for three successive years, which must be considered as one of the most outstanding economic performances in the world. This enhanced performance has been possible largely because of the dynamic manufacturing sector, which has been growing very rapidly at an average rate of 8.8 per cent per year during 1971 to 1988. The production structure in this time has undergone drastic changes, becoming industrialized and urbanized. The agricultural sector, which used to contribute some 40 per cent to the gross domestic product (GDP) in the 1950s, had its share reduced to only 17 per cent by 1988. During the same period, the manufacturing sector increased its share dramatically from 11 per cent to 23 per cent (see Table 1). Recently Thailand has been tipped to become the fifth newly industrialized Asian country (after Singapore, Taipei, China, Republic of Korea and Hong Kong).

Nevertheless, there are two major issues that have accompanied the industrial development pattern that need to be addressed. The first may be termed the employment imbalance. Although the importance of the agriculture sector in terms of GDP share has declined substantially as mentioned earlier, the sector still employed as much as 68 per cent of the total labor force in 1985, having declined only slightly from 73 per cent in 1975. This has direct implications for poverty alleviation efforts and income disparities between the agricultural and non-agricultural groups. In other words, while the GDP share of the agricultural sector has sharply declined, the proportion of agricultural employment has only slightly declined. The value added per person in agriculture was only \$34 per month, which was about 8 times less than that in the manufacturing sector.

Table 1: Thailand's GDP Shares by Sector

Year	Agri- culture	Manufac- turing	Other Industries	Services	Total
1952-55	40.2	10.9	4.3	44.6	100.0
1956-60	40.2	10.7	5.2	43.9	100.0
1961-65	39.0	12.1	7.1	41.8	100.0
1966-70	32.9	14.3	9.1	43.7	100.0
1971-75	25.6	18.5	8.3	47.5	100.0
1976-80	22.5	21.4	8.7	47.4	100.0
1981-85	20.0	21.4	9.1	49.4	100.0
1986-88	18.2	22.1	9.1	50.6	100.0
1988	16.9	23.0	9.2	50.9	100.0

Source: NESDB, National Income of Thailand, new series, 1970-1988. Reproduced from Table 1.2 of Jitsuchon (1989).

The second key issue is what may be termed locational imbalance (Jitsuchon, 1989). This refers to the fact that in the majority of economic activities, a disproportionately large number of people and all kinds of services are concentrated in the region of the capital. The primacy of Bangkok must be ranked among one of the most striking in the world. Although the rate of urbanization in Thailand has been quite moderate the pattern has been highly unbalanced. Bangkok is estimated to be 25 times the size of the next most populous city, Nakhon Ratchasima, and has been growing at about 4 per cent per year during the past two decades, compared to the national population growth rate of less than 2 per cent.

In 1988, Bangkok and its neighboring towns contributed up to 50 per cent of the country's GDP although their share of the population was only 16 per cent. The per capita income of Bangkok in 1988 was about 9 times greater (up from 7.2 times in 1984) than the northeastern region, which is the poorest region. The income distribution showed a worsening trend: while the top 20 per cent of the distribution accounted for about 49 per cent of the total in 1975/76, this increased to about 56 per cent of the total by 1985/86. At the same time, the income share of the bottom 20 per cent declined from 6.1 per cent in 1975/76 to 4.5 per cent in 1988/89. Nevertheless, during 1987 to 1989, when prices of a number of major agricultural products rose, leading to rising incomes of farm workers, the overall



income distribution tended to stabilize. The income share of the top 20 per cent remained almost unchanged at 55 per cent by 1988/89.

While the income distribution aspect has tended to stabilize, the rapidly expanding economy has actually led to reduction in the overall incidence of poverty. From 1976 to 1981, with the continued economic expansion and favorable crop prices, the incidence of poverty declined markedly (see Table 2). The proportion of the people under the poverty line, which was 30 per cent in 1975/76, was only 23 per cent in 1980/81. With world economic recession and falling crop prices, the proportion of the poor shot up to 30 per cent 1985/86 and has since declined to 24 per cent in 1988/89 because of the economic recovery.

Data on poverty incidence by region and community type clearly demonstrates that the northeastern region still contains the majority of the nation's poor. It should be noted that while the national incidence of poverty has been on the decline because of general economic recovery, the incidence of poverty in municipal areas, which had been declining steadily from 1975/76 to 1985/86, actually rose slightly from 5.9 per cent in 1985/86 to 6.7 per cent in 1988/89. Hutaserani, et al. (1990) reasoned that this might have been because of the increasing number of new migrants to cities who wish to take advantage of the recent economic boom. They also explained that the higher urban consumer price index might have aggravated the urban poverty condition.

## **DEFINING URBAN POVERTY AND THE NEEDS OF THE URBAN POOR**

### **Characteristics of the Poor**

Defining what poverty is or who the poor are is always a hazardous task. In the case of Thailand, the major source of information on people's living conditions is the Socioeconomic Survey (SES) produced by the National Statistical Office (NSO). According to NSO's Socioeconomic Surveys, the poor are usually defined as that group of people whose income is below a certain level, usually referred to as the poverty line. Hutaserani, et al. (1988) cautioned that this measurement of poverty is likely to be inaccurate. This is

Table 2: Poverty Incidence Between 1975/76 and 1988/89

Region	Per Cent of Households Below Poverty Line			
	1975/76	1980/81	1985/86	1988/89
Whole Kingdom	30.02	23.04	29.51	23.67
North	33.20	21.50	25.54	23.23
Villages	36.37	23.32	27.74	25.13
Sanitary Districts	19.23	16.16	28.19	18.74
Municipal Areas	17.84	8.03	6.87	11.31
Northeast	44.92	36.93	48.17	37.45
Villages	48.54	37.92	50.49	39.87
Sanitary Districts	24.66	20.81	33.25	20.12
Municipal Areas	20.90	17.99	18.67	18.97
Central	12.99	13.55	15.63	15.97
Villages	14.26	14.16	17.37	18.97
Sanitary Districts	7.99	11.62	11.36	6.41
Municipal Areas	11.45	11.74	8.87	8.36
South	30.71	20.37	27.17	21.49
Villages	33.84	22.16	31.17	23.99
Sanitary Districts	18.14	6.75	8.07	11.46
Municipal Areas	21.69	15.20	8.61	11.80
Bangkok Metropolitan Region	7.75	3.89	3.54	3.41
City Core	6.90	3.70	3.11	3.26
Five vicinity provinces	4.30			
Villages				4.10
Sanitary districts				3.03
Municipal areas			6.08	10.75
All villages	36.16	27.34	35.75	29.43
All sanitary districts	14.76	13.47	18.55	13.18
All municipal areas	12.53	7.51	5.90	6.74

## Poverty Line (Per Capita Household Income/Year, Baht)

Rural (Villages and Sanitary Districts)	1,981	3,454	3,823	4,141
Urban (Municipal Areas)	2,961	5,151	5,834	6,324

Source: Reproduced from Table 5.3 of Hutaserani, et al., 1990.

because household income data are likely to be underestimated. Therefore, the poverty incidence as reported by the SES tends to be exaggerated. Information as compiled by Hutaserani, et al. (1990) reveals that in 1988/89 the vast majority of Thailand's poor population (75 per cent) were engaged in the agricultural sector. Ninety per cent of them were rural residents and almost all the poor had only elementary or no education (97 per cent).

In another study (Krongkaew, et al., 1986) of the urban poor, a sample survey revealed that in 1986 about 90 per cent of urban poor household heads had less than four years of education. Furthermore, the occupations of income earners in the sample households tended to be in the categories of "general laborers, small vendors, production workers, etc." The general laborer category which accounts for almost half of the total directly represents workers in the informal sector who have unsteady income and little job security. These general characteristics of the urban poor are confirmed in another study by Pornchokchai (1985), based on a sample of four slum communities in Bangkok. He found that about 80 per cent of the sample slum dwellers held jobs in the informal sector, 60 per cent were classified as unskilled workers, 22.3 per cent as semiskilled and 17.6 per cent as skilled workers. It was also found that about 58 per cent of the slum dwellers in the sample held jobs considered to be temporary.

### **Needs of the Urban Poor**

This section will be based largely on the study by Krongkaew, et al. (1986). As a brief preliminary comment it can be stated that in the Thai case, access to urban infrastructure services such as electricity and water does not represent the most serious problem. The majority of the urban poor seemed to manage to secure these services although in some cases at higher prices. Areas that call for greater attention lie in improving housing security (tenure status), working skills, education, job security and income.

#### ***Housing Conditions***

In the Krongkaew, et al. survey, it was found that 53 per cent of the sampled poor households in Bangkok were squatters with virtually no security. Although the percentage of squatters was as high as 70 per cent in Chiang Mai, it was explained that the municipality actually assured the slum dwellers that they would not

be evicted if they agreed to improve the physical environment. About 29 per cent of the sampled poor households rented their land and house. The sample was focused on those living in slums. If the urban poor who lived outside slums were included, the percentage of squatters would decline, whereas the percentage of house-and-land tenants would increase. Nevertheless, the main point is that the housing security of the urban poor is a major problem to be tackled.

#### *Education and Health Services*

About 88 per cent of children of the sample households attend public schools. An interesting finding, which is contrary to conventional belief is that the majority of these students (97 per cent) did not have to earn while they attended schools. Nevertheless, it was pointed out that although publicly run schools continued to be reliable educational institutions for the urban poor, more resources should be devoted to strengthen them further. It was also pointed out that the role of NGOs in providing educational assistance to the urban poor tended to be focused only in the Bangkok Metropolitan Region (BMR) area.

The study found that the majority of the urban poor had access to low-cost public health services. For example the figures show that about 73 per cent of newborn children in the sample received immunization from public hospitals and sanitary centers, while about 85 per cent of births were conducted at either public hospitals or health centers. The researchers concluded that the Government played an important role in providing health services and that the programs for sanitary development in cities outside the Bangkok area are in the right direction. Nevertheless, access to better health care should be further encouraged such as for immunization of all newborn babies and elimination of nutrition-related diseases.

#### *Public Utilities*

About 18 per cent of the sample households did not have electricity. The rest either had their own electricity meters or had access to electricity through their neighbors. The reasons for not having electricity supply include lack of money (37.6 per cent) and lack of household registration (20 per cent), implying that some of these households were migrants from other provinces.

About 18 per cent of the poor sample households obtained their water from sources such as groundwater, rain and river water. Those who had access to tap water, either with their own meters or

through a neighbor's meter, accounted for about 47 per cent as an average of all cities. Another 35 per cent had to buy water. Table 3 shows causes for no water service. Lack of finances was the most common reason (28 per cent). Unregistered households account for 16 per cent, whereas lack of a nearby network accounts for 21.5 per cent. The study concluded that like electricity two main barriers to water service were legal status and ineffective demand.

In another study of Bangkok slum families conducted by Niyom, et al. (1986), it was found from a survey of 89 selected families that most families had a high dependency ratio, irregular employment, low-paying jobs, low levels of education and low housing security. In terms of access to key public services such as electricity and water, the survey found that the majority of them either had indirect access to the services or actually owned meters. In another survey on Bangkok slums recently conducted by the Bangkok Metropolitan Administration (BMA, 1990), it was estimated that in 1990 there were about 981 slums in BMR with electricity and water services, confirming the general belief that access to these services was not among the most serious problems facing the urban poor in Bangkok. From the survey, it was reported that about 76 per cent of the slums had their own water meters, while 82 per cent had their own electricity meters.

Table 3: Causes of No Water Service for Household Samples: 1986

Causes of No Service	BMR	All	
		Non-BMR	Cities
No money	23.7	32.2	27.6
No household registration	19.1	12.2	15.9
No network nearby	6.9	38.3	21.5
In the process of applying	—	0.9	0.4
Other substitutes cheaper	3.8	0.9	2.4
Squatter	27.5	1.7	15.5
Tenant	16.0	7.0	11.8
Not applicable	3.1	7.0	4.9
Total	100.0	100.0	100.0
(Total Responses)	(131)	(115)	(246)

Source: Reproduced from Table 4.21 of Krongkaew, et al. (1986).  
Total may not equal sum of individual items due to rounding.

## **PAST APPROACHES IN DEALING WITH URBAN POVERTY PROBLEMS**

### **Role of Government**

Until recently urban poverty problems were primarily Bangkok problems because the rate of urbanization in other cities was very slow. Even in Bangkok itself the problem of urban poverty was not clearly perceived until some 13 years ago when the First Bangkok Metropolitan Region Development Plan, 1977-1981, was formulated and contained a section to deal with Bangkok slums (BMA, 1990). At the national level, there are numerous government agencies responsible for the provision of urban infrastructure services, such as the Department of Public Works in the Ministry of Interior (for flood prevention, drainage, sewerage and road construction) and the Department of Land Transport (for traffic and transport). There are also state enterprises under various ministries responsible for provision of services, including water by the Metropolitan Water Works Authority, electricity by Metropolitan Electricity Authority, public transport by the Bangkok Mass Transit Authority and housing by the National Housing Authority. At the local level, each municipality is responsible for provision of a wide range of services such as refuse collection, drainage, sewerage, construction of pavements and fire extinguishing services, together with social services such as education, health, public parks and recreation centers, etc.

At the national level, the National Housing Authority (NHA) has a relatively direct and close relationship with the urban poor. NHA has been entrusted with the provision of low-income housing for the poor. Its responsibilities include procurement of sites, land development, actual construction and assistance in securing the necessary financial resources. Apart from provision of housing for the poor, NHA also provides other services such as improvement of pavements, drainage, refuse collection, and fire prevention. In many cases, NHA facilitates the provision of crucial services such as water and electricity.

At the local level, the largest local authority or municipality is the Bangkok Metropolitan Administration (BMA). BMA is the key municipality which has the majority of the Thai urban poor under its responsibility. The problem of urban poverty has been recognized by BMA since it formulated the First BMR Development Plan

(1977-1981). The First and the Second Plans (1977-1986) aimed to carry out slum upgrading programs, including physical environment improvements and socioeconomic assistance programs emphasizing people's participation in local development. But owing to severe budget limitations and particularly to the lack of coordination among various local implementing agencies, the programs did not seem to have the intended effects (BMR, 1990).

During the Third BMR Development Plan period (1987-1991), the Bangkok poor became an increasingly important part of the community development plan. An innovative community development plan, under the supervision of the Social Welfare Office of the BMA and with cooperation from the various local area offices, was launched aiming to survey the basic needs of the urban poor. The emphasis was on the involvement of the local people themselves in surveying their problems, planning solutions and setting ways and means for implementation. To date, basic needs surveys have been carried out in 77 communities. In 1990 another 143 communities will carry out their basic needs surveys. During 1988-1990, some \$1.4 million has been allocated for basic needs surveys.

For the Bangkok slum improvement program (1987-1991) BMA has set aside a total budgetary outlay of about \$44 million. By far the largest portion of the budget went to public health programs which accounted for almost \$40 million. The social and community development program had a budget of almost \$2 million, the largest part of which was for skills training and basic needs survey. The budget for physical improvement was, however, only about \$2.5 million. During the Third BMR Development Plan period one encouraging sign in the slum improvement programs was the clear designation of responsibilities among different local agencies. The Social Welfare Office was entrusted with the planning, programming and coordinating, whereas the local area offices were responsible for program implementation. In terms of coordination of work programs, a Steering Committee was established for coordination and implementation of slum improvement within the BMA. With regard to coordination with non-governmental organizations concerned with community development, there have been frequent seminars held to discuss slum improvement problems and evaluate the progress of work.

Evaluation of work by BMA indicated that the greatest success has been the encouragement of self-reliance among the Bangkok

poor and people's participation in local development, particularly the basic needs surveys. Nevertheless, there are still problems and obstacles which include the following. First, there are problems with the budget and the disbursement procedure, resulting in delays and shortage of personnel. Second, another major constraint in tackling Bangkok slums is that BMA is not authorized to provide assistance to slum dwellers who live on illegally occupied land. These groups of poor people are therefore officially excluded from public assistance programs, such as physical environment improvement. Third, there is still a lack of a central agency within BMA which can play an effective coordinating role to deal with urban poverty in general and slum problems in particular. Fourth, personnel at the local level entrusted with slum improvement tasks are largely untrained and inexperienced.

In the provision of urban infrastructure services, a key problem has always been the unclear line of responsibilities among different agencies at different levels. While the provision of services such as water and electricity is under the responsibility of the Metropolitan Waterworks Authority and the Metropolitan Electricity Authority, respectively, other important infrastructure and social services are mostly under joint but uncoordinated responsibilities of a number of agencies.

But a contention of this paper is that the unclear line of responsibility in itself is not the most important problem provided that there is organization at the local level and development of local leadership with adequate absorptive capacity. Therefore, the real issue is the cultivation of local leadership as the priority. In this regard, the chronic budget constraints at the national and local levels, which have caused the Government to seek non-monetary measures to alleviate urban poor problems, have acted as a blessing in disguise. This is because the Government has placed emphasis on organization of community leadership and emphasis on self-help and self-reliance. The emphasis on local leadership building turned out to be a most crucial element or a prerequisite for slum improvement with the outstanding example of Klong Toey slum improvement under the leadership of teacher Prateep Ungsongtham Hata. Teacher Prateep is now Secretary General of the Duang Prateep Foundation, which is arguably the largest domestic NGO whose main mission is the improvement of slum population, particularly small children. Another basic approach of the Government in deal-



ing with the urban poor is the conscious policy not to put pressure on the poor with regard to illegally occupied public land. This policy of leniency towards squatters has helped the poor to continue to reside in locations near their employment, which has made life slightly easier and cheaper for them as they have been able to save on the time and cost of travelling to and from work.

As far as slum improvement efforts are concerned, there are three major approaches that this paper will address. The first one is slum upgrading which to date has proven to be the approach with the most beneficial effects for slum dwellers. The approach as mentioned earlier relies heavily on the cultivation of local leadership which helps organize the local communities and coordinates with public and private agencies concerned with slum improvement. Another prerequisite is security of land tenure which is an incentive to slum dwellers to accept and cooperate in the upgrading efforts.

The second approach which has been tried is land-sharing, which has achieved varying degrees of success. An important precondition for the scheme's viability is the willingness of the landowners to cooperate with government and private agencies and the squatting communities. There have been some successful examples of land-sharing schemes as an approach to slum improvement. However, in these cases the greater part of the land happened to belong to the Crown Property Bureau, which has an exceptional status. The judicial process in Thailand also tends not to favor landowners if or when they want to evict the squatters through legal means as the prosecution will have to be done on a case-by-case basis causing great inconvenience and waste of time. Therefore, in some cases landowners resorted to arson as a means of immediate eviction of squatters.

The third approach is slum relocation which is generally the most expensive and not the most cost-effective. Successful implementation of such a project depends on a number of conditions which must be satisfied such as strong pressure to favor relocation and adequate resources to provide alternative housing arrangements. An outstanding example of the relocation approach is the Rom Klao community housing project at Lard Krabang by the NHA. The relocation of slum dwellers was made possible because the Government needed to expropriate the land to be used for construction of the second stage expressway. Resources were also made

available for the new housing project. Therefore, the relocation project has been carried out without much difficulty.

### **Role of Non-Governmental Organizations (NGOs)**

NGOs have the potential to play a very useful role in relieving urban poverty problems as they are flexible and have a commitment to what they do. NGOs which claim to help solve urban poverty and slum communities' problems number about 40 (Pornchokchai, 1985). But ultimately what matters most is the effectiveness of these organizations, a large part of which is based on availability of resources. A large number of these NGOs have annual budgets of less than \$10,000 to \$20,000, which is very small. Among the best known NGOs dedicated to improving the quality of life in Bangkok slums particularly small children is the Duang Prateep Foundation as mentioned earlier. The 12-year old Foundation, which has been expanding steadily and now has an annual budget of \$2 million, provides a clear example of the importance of community leadership building, people's organization and their active participation in programs and activities aimed to improve their own well-being as a community.

In the past 10 years the Foundation has played a major role in training over 240 local community leaders who have been instrumental in protecting the livelihood activities of their communities. The Foundation currently has close linkages with over 30 slum communities in Bangkok and has provided assistance of various kinds to over 10,000 households. It also plays an effective mediating role between slum communities and the public and private sectors in regard to housing. The Foundation, at times in conjunction with local leaders, represents slum communities in negotiations for land acquisition and coordinates with government agencies in bringing in necessary public utilities such as electricity and water to communities which have been relocated. It appears that the Foundation has been able to play an effective and powerful coordinating role because of its ability to function as a well-organized institution backed up by local communities who have also been organized and united in their efforts.

Another major activity of the Foundation is the provision of education and scholarships to children in slums. The Foundation offers kindergarten in about 9 slums, lunch and nutrition programs and to date has offered about 5,000 scholarships to enable urban and

rural poor children to stay in schools. Some of these scholars are currently receiving university education. The Foundation has also played an important role in campaigns against drug abuse and the spread of AIDS in the communities.

Another example of an NGO having a substantial role in improving the quality of life of the urban poor is Foster Parents Plan International (FPPI). Its annual operating budget for programs and activities in Bangkok alone is about \$600,000, all of which are from foreign sources. FPPI's main activities are in the areas of education and health and community development. The target groups cover about 5,000 households in 46 slums in 36 schools. Although emphasis is on basic education and health care of children, other members in the households who have problems are usually given assistance, together with other problems facing the slum communities in general.

A general conclusion that can be drawn at this stage about the role of NGOs in solving urban poverty problems is that their programs and activities have resulted in net welfare gains for the urban poor. Their success depends on a number of factors. The first factor is their ability to mobilize resources and support from domestic and external donors in order to implement programs. The second factor, using the model of the Duang Prateep Foundation, is their ability to get themselves organized as an institution and particularly the efforts to gain local community recognition and to build local leadership. When these efforts are successfully put together, the NGO and the local communities become an interest group which has more bargaining power and manage to negotiate with landowners and authorities concerned such as public officials responsible for provision of water and electricity. The third factor is the government policy to implicitly accommodate and recognize the leadership and coordinating role of NGOs among the urban poor. If the Government had chosen not to recognize or to ignore the leadership role of the urban poor in conjunction with the counterpart NGOs (for example Klong Toey slum leaders in cooperation with Duang Prateep Foundation), Bangkok slum development would likely have taken a turn for the worse. The relationship among public agencies, slum dwellers, landowners and the NGOs concerned might have been characterized by conflicts and confrontations and deadlock. All these probable end results could only have had negative impacts on the stabilization and livelihood of slum dwellers.

## STRATEGY FOR DEALING WITH URBAN POVERTY

Although the overall economic performance of Thailand has been satisfactory with high growth rates and overall reduced poverty, it should be recognized that urban poor households, accounting for about 7 per cent of urban households, represent only those living under the officially determined poverty line. It is undeniable that a large number of households whose income happens to be just above the poverty line may possess similar characteristics to the official target groups and should be taken into account in programs to tackle urban poverty problems.

### Guiding Principles and Objectives

In formulating an effective strategy to deal with urban poverty, the following principles are important. First, the urban poor population should be regarded as an important part of the country's productive labor force. Their labor skill should be enhanced to increase productivity, income and upgrade their standard of living. Second, to ignore the problems of the urban poor not only implies waste of human resources, but their unresolved problems could potentially lead to social disorders, such as the problems of drugs, violence and prostitution and could be politically destabilizing. Third, at the same time it must be acknowledged that the welfare approach to urban poverty problems may still be necessary for specific groups of people who cannot help themselves, such as the elderly, the handicapped and small children.

Given the above guiding principles, the following objectives may be formulated: (i) to increase the skill and productivity of the poor to ensure their stability and opportunity to increase their income; (ii) to improve the physical living environment and conditions of the urban poor, particularly housing conditions and tenure status; and (iii) to instill in the poor positive thinking and attitudes for self-betterment.

The development strategy should be based on the following guidelines. First, on the labor side more emphasis should be placed on upgrading of work force in the informal sector at present characterized by lack of skills, job insecurity, and low incomes. The close cooperation of the private sector in the training and hiring of trained

labor should be systematically encouraged with the Government providing appropriate market incentives to promote the training program. Labor incentives should be widely offered to encourage the trained labor in the informal sector to transfer to seek better job opportunities, security and higher-income in the formal manufacturing sector. In other words upward labor mobility should be encouraged through continual skills upgrading with cooperation from the private sector. Second, the provision of key and basic social and urban infrastructure services should continue to be made available with some appropriate user fees. These services may include garbage disposal, family planning, electricity and water, basic health care and education services. Third, when considering the role of different levels of public and private organizations, a prerequisite is the cooperation and participation of the local people. Local-level leadership and organization have proven to be crucial for the success or failure of programs. For example, in implementing a project in a local community it is necessary to make sure that the local people have sufficient understanding and are willing and able to participate in the program to ensure viability, sustainability and success. Fourth, successful implementation of programs and projects will require understanding and support from those who have political power. For example, the draft of the Slum Development Act, which still has not been enacted and has faced considerable delay, has not been brought to the attention of those with political connections and power. The draft legislation contains provision to alleviate the problems of legal ownership and legal occupation of land for housing of the poor. The tripartite setup, comprising landowners, present occupants of the land and government representatives, aims to resolve land disputes and strike a compromise which allows occupants of the land some kind of rights to stay on while providing better compensation to the owners of the land.

## CONCLUDING REMARKS

An effective strategy to deal with urban poverty should be a combination of welfare and non-welfare approaches. On the one hand, while the pure welfare approach cannot be completely ruled out, its emphasis is generally limited to only specific target groups such as the elderly poor, the handicapped and poor small children.

Another practical limitation to the growth of the welfare approach in Thailand is resource constraints and budget limitations. On the other hand, the non-welfare approach should look at government programs to deal with urban poverty in terms of cost-effective investment in human capital in increasing efficiency and productivity of labor and in improving the quality of the living environment of the urban poor and in providing key social and urban infrastructure services.

Key policy measures representing human capital investment include training, in-service training and upgrading of existing labor through various kinds of formal and nonformal education and skill training programs. Just as in the case whereby local leadership in slum communities has played a key role in slum upgrading efforts such as improved housing security and better provision of infrastructure services, in the case of work force upgrading, local leadership should also be carefully cultivated and nurtured to play an instrumental role in the skills improvement programs to ensure higher productivity and income for the urban poor. Apart from leadership building, the local people should be strongly encouraged to participate in their community development and poverty alleviation programs and systematic organization of the local communities into groups with unified voice and effective bargaining power.

On the other hand, investment in improving the quality of the future labor force includes provision of education, health care, nutrition and family planning programs, etc. to ensure a better prepared, a more literate and healthier generation of children in poor communities; it includes the provision of other important urban infrastructure services, particularly low-income housing with more secure tenancy status and a safer, cleaner and healthier living environment for the urban poor. Finally, it is worth re-emphasizing the importance of the role of NGOs in contributing to the well-being of the poor. Efforts should be made to ensure the continued smooth functioning of their work.

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