

HOUSING AND URBANIZATION ISSUES IN AFRICA

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HOUSING AND URBANIZATION ISSUES IN AFRICA

THURSDAY, MAY 4, 2006

U.S. SENATE,
SUBCOMMITTEE ON AFRICAN AFFAIRS,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:30 p.m., in room SD-419, Dirksen Senate Office Building, Hon. Mel Martinez (chairman of the subcommittee) presiding.

Present: Senators Martinez, Obama, and Feingold.

OPENING STATEMENT OF HON. MEL MARTINEZ, U.S. SENATOR FROM FLORIDA

Senator MARTINEZ [presiding]. Good afternoon to everyone. Welcome to the Foreign Relations Subcommittee on African Affairs and I appreciate your appearance and call the meeting to order.

In today's hearing, we're going to discuss an issue of critical importance in developing countries, particularly in Africa, which is housing and organization. Before I do that, I wanted to take a moment to speak about something of great importance in the African continent, that I've been wanting to stress my concern about, and that is the terrible situation in Darfur. These disastrous situations are ones that transcend national wars, religious convictions, and political identity.

This really hits very close to home for many Americans including many communities in Florida. Over the last 2 years, the African Union Mission in Darfur has taken significant steps to bring stability and security to the region, despite having more than 7,000 personnel in a region roughly the size of France.

I commend the African Union and its leaders for all that they have accomplished, thus far. However, personnel shortages and inadequate logistical support limit the African Union's capabilities in Darfur. It is no secret that the situation on the ground is deteriorating. The incidents of violence are growing, adding to the millions who have already been displaced from their homes and the hundreds of thousands who have died.

Humanitarian organizations who are trying to alleviate the suffering in Darfur, have been the target of repeated attacks, greatly hindering their ability to distribute aid. To make matters worse, chaos and instability have spilled across the boarder into Chad, where many of the refugees from Darfur have fled.

A few weeks ago, rebel forces attempted to overthrow the Government of Chad. This instability only paints a darker picture for

the livelihoods of the innocent civilians in Darfur and inside the border of Chad.

Over the past weekend, thousands of people descended on Washington, DC, to rally the United States Government and the international community to act. I want those people to know that their voices are being heard. The administration, under the leadership of President Bush, Secretary Rice, Deputy Secretary Zoellick, and Ambassador Bolton and this Congress, have worked diligently on a number of fronts to alleviate this crisis.

First, Ambassador Bolton has pressed tirelessly for the U.N. Security Council to authorize a U.N. peacekeeping force in Darfur. Unfortunately, at this point, the efforts to move forward with this new force have stalled. I urge Ambassador Bolton to continue fighting for a U.N. peacekeeping mission which is absolutely critical to stabilize the region, to protect innocent lives, and distribute humanitarian assistance to those in need.

The administration is also devoted to the peace talks in Abuja, which United States officials are playing an important role in assisting the African Union and pressing all parties to reach a peace accord. Deputy Secretary Zoellick is in Abuja today, helping to broker an agreement.

Finally, we must to continue to provide financial aid to promote security and ease the suffering of the people of Darfur. Since 2003, the United States has given close to \$2 billion in assistance for Sudan. Additionally, over the last year, we have contributed over \$150 million for peacekeeping operations in Darfur. The United States Senate is currently debating—we just passed this morning in fact, the Emergency Supplemental which includes an additional \$624 million in emergency funding for Sudan.

We need to work together in a bipartisan fashion to expedite this important legislation as it moves through to the next House of Congress and on for the President's signature. While these are all significant steps, the United States and the international community must do more to bring about a resolution to this tragic situation.

Over the weekend, the Sudanese Government and the rebel groups failed to reach a compromise peace agreement by the date set by the African Union and the United Nations. This deadline has been extended. I urge all those involved in the peace talks to negotiate in good faith and work toward a settlement, so that real steps can be taken to end this catastrophe.

At the same time, we must keep the pressure on the Government of Sudan to end support for the Janjawid and other rebel groups. In addition to supporting the ongoing negotiations in Abuja, we need to significantly increase the international presence in Darfur as President Bush has advocated.

In March, the Senate passed a resolution, Senate Resolution 383, which I cosponsored, calling on the United Nations Security Council to approve as soon as possible a peacekeeping force for Darfur and urging the President to take immediate steps to help improve the security situation.

As the U.N. prepares for this mission, we must work with our international partners in NATO to provide immediate support to the African Union mission. We must also continue to pressure Rus-

sia and China to play a constructive and responsible role in pushing Sudan to accept a U.N. mission.

Furthermore, I call on the President to appoint a Presidential envoy for Sudan to coordinate our efforts. In closing, I just want to thank those that have been so closely involved, and committed to this important issue, Chairman Lugar, Senator Biden, Senator Brownback, and others for their commitment to this important issue. Bringing about a peaceful resolution is not going to be easy. But it's time for the international community to step to the plate with a strong unified voice. Immediate action is needed to stop the violence and bring about a lasting peaceful settlement. Human life is too precious to bide our time any longer.

Now turning our attention to the more hopeful subject of housing. Let me start by thanking our four distinguished guests who have joined us today and honor us with their presence. I greatly appreciate their participation and look forward to engaging in a discussion on this significant and growing problem. I'm also grateful to the Overseas Private Investment Corporation and the International Housing Coalition for submitting statements for the record.

[EDITOR'S NOTE.—The statements noted will appear in the Additional Material Submitted for the Record section at the end of this hearing.]

Sub-Saharan Africa is the fastest urbanizing region in the world. In 1994, the urban population in Africa was approximately 172 million. By 2004, it had grown to close to 264 million. A rapid rate of organization has serious social, economic, social, and health implications. Urban poor living in densely populated slums and informal settlements constitute a significant portion of this population.

In these areas, social disorders simmer because of overcrowding and economic despair—like a sewage facility in contaminated water create an environment in which disease is rampant. Furthermore, with limited property rights and without access to capital it's virtually impossible for the urban poor to create sustainable housing on their own.

The solutions to this predicament are complicated and require long-term planning. African Governments are working with international institutions, NGO's, and foreign governments like the United States to address their numerous challenges this situation creates.

A lot of our time here is spent debating strategies to promote democracy, stability, economic development, and good governance. Africa's urban housing problems are a fundamental piece to this puzzle. While it can serve as a source of instability and an impediment to economic progress, it can also be utilized as an opportunity to incur sound government policy and as an engine for economic growth.

So at this time, I would like to take a moment to introduce our guests. We have two excellent panels before us and on the first we'll hear from two administration officials, Mr. James Smith, Senior Deputy Assistant Administrator for the Bureau of Economic Growth, Agriculture and Trade at the U.S. Agency for International Development. We welcome you, Mr. Smith.

And then Dr. Darlene Williams, Assistant Secretary for Policy, Development, and Research at the U.S. Department of Housing and Urban Development. An old friend, that I am just pleased as can be to welcome. And I also want to extend a welcome to all of my friends from HUD that are here today. My fellow coworkers from a time past, who did so much with such dedication to improve housing not only in the United States, but in many places around the world.

And then on our second panel, we are pleased to have Ms. Anna Tibaijuka, who I also knew from my days at HUD, and a person that I hold in very high regard and consider her work to be extremely important to what is happening in the world. I'm so pleased that we could do this hearing today, to highlight these issues that I know you are so passionate about. And she's the executive director of UN-HABITAT.

And I also want to welcome Jonathan Reckford, chief executive officer of Habitat for Humanity International. And also of course, Tom Jones who is such a long-time friend and whom I worked so closely with at Habitat for Humanity, during my time at HUD.

So, I look forward to hearing your evaluations of Urban Housing in Africa and in the programs currently underway. Please be candid in assessing what is working, what is not, and why not. And I also encourage our panelists to recommend what more can be done and how we can help.

So, with that sir, welcome.

Senator OBAMA. He was feeling lonely, and so—

Senator MARTINEZ. I appreciate your being here and I was awfully lonely. I want to just welcome Senator Obama, who is I know very passionate about his concern for not only Africa, but also for housing issues. So, I'm delighted you're here.

**STATEMENT OF HON. BARACK OBAMA,
U.S. SENATOR FROM ILLINOIS**

Senator OBAMA. Mr. Chairman, I'm only going to be here for a brief moment, unfortunately. Because after the votes, I have to fly back to Chicago. I wanted to come, first of all, to commend you for holding this hearing on this important issue. I wanted to thank the panel for being here. I am going to read your written testimony on the plane. So, I will be looking very carefully at some of the recommendations you may have. And I just want to voice my appreciation for your work.

I do have some questions, Mr. Chairman. And what I'd like to do is submit those for the record and my staff will be here taking extensive notes.

Senator MARTINEZ. They'll be accepted to the record and made as part of the hearing, and your questions will be incorporated as part of the record.

[EDITOR'S NOTE. The previously referred to information will appear in the Additional Material Submitted for the Record section at the end of this hearing.]

Senator OBAMA. Thank you. And just one last thing, Mr. Chairman. The staff person who is here, Ms. Liz Drew, this is her last committee hearing, because she is going to be going to the London

School of Economics and do all kinds of wonderful stuff. And I want to place in the record, what wonderful work she has done.

Senator MARTINEZ. Terrific. We are going to miss you. We wish you well. Don't eat too many fish and chips.

Senator OBAMA. Thank you, Mr. Chairman.

Senator MARTINEZ. Yeah. Thank you very much and folks, there are votes going on and what I'm going to try to do is hopefully, see if we can hit them before I get close to having the first vote, so I can vote late and early, and come back. So in about 5 minutes, we'll probably take a recess for about 15 minutes and then come back.

So Ms. Williams, we welcome you and you can open with your remarks.

STATEMENT OF HON. DARLENE F. WILLIAMS, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, WASHINGTON, DC

Ms. WILLIAMS. Thank you, sir. Chairman Martinez, Ranking Member Feingold, and now in his absence, Senator Obama, and other distinguished members of the subcommittee, I am Darlene Williams, Assistant Secretary for Policy Development and Research at the U.S. Department of Housing and Urban Development. Thank you for the opportunity to speak to you on HUD's activities regarding the implications of urbanization in Africa.

Mr. Chairman, back in June 2001, a Bush administration cabinet secretary addressed the U.N. General Assembly, and here's what he said: Within the next three decades, more than 60 percent of the world's citizens will live in urban settings, most of them in developing countries ill-equipped to handle the housing needs of so many people. We have decades of experience in creating solutions. Not Federal Government solutions, but solutions developed in partnership with local authorities, private enterprise, and community organizations. We are eager to share what we have learned and we continue to reach beyond our borders to form strong partnerships with our global neighbors.

You were that HUD Secretary, Mr. Chairman. The international initiative that you started is an enduring part of your legacy at the Department. Thank you, sir.

Senator MARTINEZ. Thank you, very much.

Ms. WILLIAMS. I am pleased to participate in these hearings with our partners, the Agency for International Development, UN-HABITAT, and Habitat for Humanity International.

HUD worked closely with Dr. Anna Tibaijuka, Executive Director of UN-HABITAT, on a wide range of global housing issues. HUD partners, including those at these hearings, help us address diverse aspects of housing and community development issues here in the United States and in many countries around the world.

Expanding and deepening America's ties with the Nations of Africa are among the administration's highest priorities. President Bush has directed his cabinet secretaries to engage with their African counterparts. In that spirit of cooperation, Secretary Jackson will travel to South Africa this month. He will follow up on HUD's Cities in Change conference in South Africa. He will also meet with

government and business leaders, who are meeting this week at the Housing Finance conference in South Africa, sponsored by OPIC. Secretary Jackson will also support the Millennium Challenge Corporations's Program in Madagascar.

[EDITOR'S NOTE.—Information supplied by Ms. Williams after this hearing stated that Secretary Jackson's trip was postponed.]

The Department assists the U.N. by encouraging conditions for attaining the Millennium Development Goals and by improving relations with African countries. HUD meets with foreign officials in related housing and development fields. We exchange housing data with other nations and participate in international conferences.

Our enabling legislation, under the Housing Act of 1957, does not authorize foreign assistance, but within these parameters, HUD carries out an active international agenda.

Sir, in May of 2004, I was honored to join a delegation to South Africa and Botswana made up of principals from the Department of Treasury and Ginnie Mae with USAID support. Because we know that housing is an economic engine, we shared information on secondary mortgage markets, we discussed the challenges of establishing a comprehensive national housing policy, and explained the Federal Government's financial role in fostering affordable housing and home ownership, adding to their knowledge of British and Swedish financial models.

I had the opportunity to meet with key government and business officials including the South African Department of Housing, the Micro Finance Regulatory Council, the Banking Council Housing Committee, the National Housing Finance Corporation, and TEBA Bank Home Loans.

We discussed their difficulty in encouraging traditional banks to provide mortgages for low-income groups that make up most of the population. We explained how we set minority housing targets for our government-sponsored enterprises which they found most useful for the targets they are trying to set in the government written financial sector charter.

In Botswana, we held discussions with the Ministry of Finance, the Botswana Building Society, the Central Bank, the Insurance Fund Management, and Motswedi Securities, as well as the Botswana Stock Exchange Stakeholders. One of the highlights of my trip was explaining the Home Mortgage Disclosure Act, or HMDA Data that PD&R utilizes. These nations lack accurate data on the characteristics of their housing. I held up this publication on American Housing Survey Data Chart and the response was amazing. They realized they must institutionalize a similar survey.

Sir, would you appreciate having a copy of this? We have several here for everybody.

In August 2004, as part of South Africa's 10 Years of Freedom Celebration, HUD cosponsored a Cities In Change Conference in Johannesburg and Cape Town with the International Downtown Association on rejuvenating downtown areas. The conference focused on urban development and decay over the past decade and looked forward to the next 10 years.

In November of 2005, HUD sponsored a high-level East Africa Peer Exchange Conference in Kampala, Uganda. Government and financial institutions from Kenya, Tanzania, and Uganda attended.

The program resulted in solid accomplishments. All three nations are implementing action plans prepared at the Peer Exchange including setting up large-scale housing development enterprises, establishing rules for asset-backed securitization, developing long-term credit facilities to assist mortgage lending to private banks, and creating institutions that will finance affordable housing.

In fact, Ghana's President and Secretary Jackson have agreed to a similar peer exchange for West African countries in November of 2006. These outcomes show the value of HUD's partnership with other countries to help promote universal housing goals.

A critical element in making progress on the Millennium Development Goal of improving the lives of slum dwellers in Africa and around the world, is the collection and analysis of reliable international housing data, as I mentioned before. I am proud that the office of PD&R, Policy Development and Research was invited to share our expertise with the Statistical Research Office of UN-HABITAT.

HUD also works with UN-HABITAT in international meetings such as the World Urban Forum which attract some 8,000 participants interested in housing and urban issues. Each year, government officials from Africa and around the world, come to HUD for briefings on a wide variety of HUD policies and programs. The core message we share with them is this: Protect private property rights; enforce contracts under impartial judges; keep taxes low and equitable; reduce regulatory barriers to enterprise and housing; prohibit discrimination in housing; and support popular participation in governance. With these vital principles in place, the private sector of any nation can thrive and produce desperately needed affordable housing.

The application of these essential principles will take much dialog and hard work. Sir, Mr. Senator, as I have shown, HUD continues to build on and expand the international commitments that we have been allowed to. I would be happy to respond to any questions you may have.

[The prepared statement of Ms. Williams follows:]

PREPARED STATEMENT OF HON. DARLENE F. WILLIAMS, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, WASHINGTON, DC

Chairman Martinez, ranking member Feingold, and distinguished members of the subcommittee. I am Darlene Williams, Assistant Secretary for Policy Development and Research at the U.S. Department of Housing and Urban Development.

I want to thank you for the opportunity to speak to you this afternoon on HUD's activities regarding the implications of urbanization in Africa. Mr. Chairman, I know you have a long-standing interest in ways HUD can provide help to developing countries around the globe. Thank you sincerely for the opportunity to focus on these concerns.

I am also pleased to participate in this hearing with the U.S. Agency for International Development (USAID) and UN-HABITAT. HUD worked closely with Mrs. Anna Tibaijuka, Executive Director of UN-HABITAT on a wide range of global housing issues. We recognize Mrs. Tibaijuka's great work as the Secretary General's Special Envoy on Human Settlements in Zimbabwe. Mrs. Tibaijuka reported on the tragic wholesale destruction of urban slums in that nation which displaced 700,000 people and affected millions more. Habitat for Humanity International, represented by Mr. Jonathan T.M. Reckford, is a faith-based organization doing incredible work providing housing for needy people around the world and proving that faith is a powerful source of compassion. HUD partners, like Habitat for Humanity, help us

address diverse aspects of housing and community development issues here in the United States and in many countries around the world.

Expanding and deepening America's ties with the nations of Africa are among President Bush's highest priorities. This administration has demonstrated the greatest level of personal engagement with Africa in our history and has provided the greatest levels of assistance ever. To show his commitment, the President has directed his cabinet secretaries to engage with their African counterparts. In that spirit of cooperation, Secretary Jackson will travel to South Africa and Madagascar at the end of May. He will follow up on HUD's "Cities and Change" conference in South Africa and will also discuss the upcoming housing finance conference sponsored by OPIC in South Africa by meeting with government and business leaders to discuss these issues. He will also support the Millennium Challenge Corporation's program in Madagascar.

The Department of Housing and Urban Development has an important role to play in encouraging conditions for attaining the Millennium Development Goals and in improving relations with African countries.

Our enabling legislation under the Housing Act of 1957 does not authorize foreign assistance, but it does encourage HUD to meet with foreign officials in related housing and development fields, exchange housing data with other nations, and participate in international conferences. Within these parameters, HUD carries out an active international agenda, and we engage in cooperative international exchanges that inform other governments about America's experience and knowledge in housing markets, how HUD works with the private sector in urban regions, and the nature and value of HUD programs.

In that spirit, in May of 2004, I was part of a delegation to South Africa and Botswana to share information on the nation's secondary mortgage market and discussed the challenges of establishing a comprehensive national housing policy, and explained the Federal Government's role in the financial framework to foster affordable housing and homeownership.

Today you will hear from USAID and UN-HABITAT on the critical need for housing in Africa. The eight Millennium Development Goals (MDGs) all have major implications for urban areas.

Housing is a basic necessity for a stable and decent society. When a family has a home that they feel proud of, they thrive through education, health, and wealth-creation. A safe and decent home is important in improving the health of families and communities. Children from healthy families and communities can grow in knowledge and access better educational opportunities. And a family with improved job prospects and a home of their own has a valuable means for wealth-creation. Although HUD's mandate is limited to providing activities involving information exchange, by sharing what we have learned, we can participate in UN-HABITAT's mission to "improve the state of human settlements worldwide." People everywhere share the same hope, the same dream of having a home they call their own because people everywhere know that owning your own home is central to having a stake in the community's destiny. HUD works with its partners at the table to share the knowledge and experience acquired to make that hope a reality everywhere.

Let me tell you in detail about one example: the High-Level East Africa Peer Exchange program held in Kampala, Uganda. In November of 2005, HUD partnered with UN-HABITAT to explore how government can foster private sector lending that will encourage affordable housing. Because of growing interest in sub-Saharan Africa for innovative approaches to financing affordable housing, HUD and UN-HABITAT shared lessons learned about public sector support for private sector financing. We identified countries in the East Africa region as the first pilot locations for the peer exchange. Many of them share a common history. Some already have relatively mature domestic capital markets and fully liberalized domestic financial services sectors. Others are models for strong economic growth, decentralization, and local self-governance.

Moreover, in recent years, commercial banks in East Africa have entered into retail mortgage lending, responding to lower interest rates and greater competition in a newly liberalized financial service sector. Community organizations, cooperatives, and microfinancial institutions are emerging here as credible financial intermediaries often lending where banks cannot.

Government and financial institutions from Kenya, Tanzania, and Uganda attended the peer exchange. For a country that wishes to encourage affordable housing, the great gap between the enormous demand for housing and the limited supply of housing units can be closed only with substantial involvement by private lending institutions. Conditions for private lending are improving, but the reforms and regulations for private lending markets are not yet in place.

In many East African nations, the banking sector is nascent but vibrant, dynamic, and innovative. Countries such as Kenya have strong financial intermediaries that provide a bridge between banks and the previously unbankable—a key to financing affordable housing. Tanzania is establishing regulatory conditions that are enabling communities and markets that will increase private lending activity.

I am happy to report that the East Africa Peer Exchange Program has resulted in solid accomplishments. All three nations are implementing action plans prepared at the Peer Exchange.

- Kenya is establishing a special purpose development company for large-scale housing development in slum areas of Nairobi as it prepares for a high-level investment conference this month. The government is also presenting Parliament with a framework for asset-backed securitization, and a housing bill that will accelerate private lending for affordable housing.
- Tanzania is developing a long-term credit facility for mortgage lending to private banks, with preferential consideration to those that partner with financial intermediaries. The country is also promoting a commercially operated national housing finance institution as part of its second generation financial sector reforms.
- Uganda is preparing a national framework for promoting housing finance.

These outcomes demonstrate the value of HUD's partnerships with other countries to help promote universal housing goals. They suggest that professionals can gain valuable and useful information by interacting with their counterparts from neighboring countries. Identifying how different countries treat commonly shared problems and the constraints each faces in government and the private sector reflect how much imaginative thinking can occur if countries work together. Beyond that, President Kufour of Ghana met with Secretary Jackson last year and agreed to a similar peer exchange for West African countries in November 2006, to be hosted by Ghana, with the partnership of HUD, UN-HABITAT, and with USAID experts.

In August 2004, as part of South Africa's 10 years of freedom celebrations, HUD cosponsored a "Cities in Change" conference in Johannesburg and Cape Town, with the International Downtown Association, on rebuilding and rejuvenating depressed downtown areas. That conference focused on urban development needs and looked forward to the next 10 years. Experts from the United States, the United Kingdom, and South Africa discussed issues such as cities globally and locally; economic problems; private-sector interventions; and, residential, community, and social concerns.

HUD, together with the State Department and USAID, will cosponsor a seminar in Amman, Jordan, for mayors, city managers, and infrastructure engineers in North African and Middle Eastern countries on how Geographic Information Systems (GIS) can be an important planning tool for sustainable city and housing development. GIS combines data and maps to provide a rich source of information that can spatially show trends, problems, and opportunities, allowing local governments to plan development and more effectively provide city services. The participants will have the opportunity through this workshop to assess their cities' needs and build strategies to meet their goals. We believe that this technology, if successfully applied, can demonstrate how geospatial technology can enhance local democracy and effective city governance.

A critical element in making progress on the MDG of "improving the lives of slum dwellers" in Africa and around the world is the collection and analysis of international housing data. I am proud that the Office of Policy Development and Research (PD&R) was invited to share our expertise with the Statistical Research Office of UN-HABITAT on the methodology of obtaining reliable housing data from around the world. HUD is the U.S. representative on the Steering Committee of UN-HABITAT's Global Partnership for Monitoring the Millennium Development Goal. PD&R has extensive experience in collecting and analyzing urban and housing data, and our experience in conducting the American Housing Survey provides wide-ranging expertise for this mandate.

HUD works with UN-HABITAT in international meetings such as the World Urban Forums, which attract approximately 8,000 participants interested in housing and urban issues.

In cooperation with USAID, we are sponsoring and participating in at least 15 networking events on such topics as property rights, use of GIS, housing finance, and donor coordination. In this effort, we are working with the International Housing Coalition, which includes Habitat for Humanity International and the National Association of Realtors (NAR).

Each year, government officials from Africa and other regions of the world come to HUD for briefings on a wide variety of HUD policies and programs. There is great international interest in American experience and research on housing finance and

urban investment. Many of these officials represent programs sponsored by the State Department and USAID. Currently we are working with Mexico to modernize building codes and have worked with Spain to help develop their public-private partnerships. Similar activities could be applied to an African context.

The nations of Africa can benefit from learning about the housing sector in the United States, where almost 69 percent of Americans own their own home. Candidly, this is a remarkable record. And there is no reason why it cannot be matched or exceeded in Africa or elsewhere, provided they hear the core message we want to share. Economic growth and prosperity, affordable and decent housing, and community development do not spring up from institutional structures but from the principles that give them life. When private property rights are protected, when contracts are enforceable by impartial judges, when taxes are kept low and applied fairly and equally, when regulatory barriers to enterprise and housing are lowered, and when people participate in governance, then the vital principles are in place for the private sector to thrive and produce the affordable housing so desperately needed in so many countries. The application of these essential principles takes much dialog and hard work.

Opportunity and prosperity are the birthright of all human beings. On July 13, 2004, as President Bush signed the African Growth and Opportunity Act, he said: "No region has more to gain from free markets than Africa."

I would be happy to respond to any questions you may have.

**STATEMENT OF HON. RUSSELL D. FEINGOLD,
U.S. SENATOR FROM WISCONSIN**

Senator FEINGOLD [presiding]. Thank you, Assistant Secretary Williams. And Mr. Smith, my welcome to you, as well. I apologize, as I assume the Chairman did, for the back and forth while we have these two votes. So, I will preside until he comes back. And then when he comes back, I'll have to go vote again. But I hope you know, this doesn't, in any way, indicate a lack of strong interest in the subject. And I will come back to try to ask some questions of this panel, as well as the other panel.

Thank you again, for taking the time to travel here to provide us insight into the housing crisis in Africa. I extend my thanks to Chairman Martinez for arranging this hearing and I look forward to an in-depth discussion of this important, but often overlooked issue.

I think we can all agree today, addressing this problem and creating solutions to the housing difficulties of the urban poor in Africa must occur as a part of a larger effort to bring economic stability to the continent. This is a problem that will take a long-term commitment with a multifaceted approach.

As I'm sure you agree, we need to address the overall causes of population migration to urban centers. That means taking on inadequate economic policies that lead to populations trading their hopelessly inadequate rural living situations, for what they perceive to be is an opportunity to take one step closer to economic security. Urbanization will continue as long as cities are seen to provide the greatest opportunities for a personal economic growth.

We must recognize however, that economic policies are not moving quickly enough to address the urban population explosion and that migration of the African poor to urban centers is a very immediate problem. This migration, without adequate infrastructural planning has contributed to the creation sometimes of massive slums. It's not enough for cities to prevent new slums—they now have to address existing slums that are becoming increasingly permanent.

Finally, the people themselves do not have incentives sometimes, to organize or commit to greater infrastructure reforms if they are not assured basic property or tenure rights in order to gain home ownership opportunities. Communities will not participate in activities they do not perceive to benefit them. Any policy decisions made, if they are to be truly comprehensive and long-lasting, must address the plight of those who choose urban squalor over their rural homes in pursuit of a better life.

I particularly look forward to your suggestions on how the United States Government can improve its assistance in Africa to deal with this issue. I also hope that you will provide greater insight into how the heads of state, city planners, and the local populations have succeeded in addressing housing problems and how you have assisted them along the way.

So again, I thank you for taking the time to brief our subcommittee and I'm enjoying your testimony today. With that, I'll turn to Mr. Smith.

STATEMENT OF JAMES T.M. SMITH, SENIOR DEPUTY ASSISTANT ADMINISTRATOR, BUREAU OF ECONOMIC GROWTH, AGRICULTURE, AND TRADE, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC

Mr. SMITH. Thank you very much, Senator Feingold. I'd like my written testimony to be entered into the record and I'll make a brief statement, thank you.

Thank you, Mr. Chairman and members of the subcommittee, for the opportunity to appear before you today, to discuss housing and urbanization in Africa. The United States Agency for International Development recognizes the complexity and importance of these economic drivers to the overall development of countries in sub-Saharan Africa.

I'd like to take a little time to elaborate on the implications of current urban growth trends in Africa and how these affect our development objectives of promoting democracy and economic growth. I would also like to highlight USAID's role in promoting these objectives through credit programs, capacity building support, and other technical assistance programs.

Africa has the highest rate of urban growth in the world at 5 percent per annum. By the year 2025, half of the continent's population will be living in urban areas and if current trends persist, the majority of Africa's poor will be living in cities, primarily in slums. Tremendous demand already exists for adequate and affordable shelter, upgrading of squatter settlements, and access to finance. The demands and pressures on Africa's cities will only increase over time.

The primary challenges facing African cities and towns are local and national policies that serve to limit private investment, job creation, services, citizen participation, and cities' ability to generate sufficient revenue or borrowing from private capital markets. For cities and towns to achieve their potential as places where jobs are generated and as engines of both rural and urban growth, national and local governments need to reform policies and increase municipal capacity so that they can better attract and manage trade and investment.

Urbanization is not the only major trend changing the face of Africa. The spread of democracy and decentralization have dramatically changed the way that governments interact with citizens in numerous countries in the region. If city and town governments can improve the delivery of key services such as education, community healthcare, and potable water, the tangible benefits that result can demonstrate the value of democratic governance. Because at the end of the day, what matters most to citizens is that their quality of life improves.

In Africa, this means not only providing basic infrastructure and social services, but also creating the right environment for the development of housing. USAID is a leader in providing capacity-building support to city and town governments to plan, manage, finance, and deliver urban services. For example, their resource cities partnership between Johannesburg, South Africa and the city of Houston, Texas brought practitioners together to learn about United States approaches to solving urban problems and to think about how they might be adapted to the South African context. The partnership was instrumental in strengthening Johannesburg's capacity to access financing directly in the international capital markets.

In post-conflict countries such as Angola, USAID is working with the national government and other donors to improve city management, promote good governance practices, and increase investment in local infrastructure. To reach their potential as drivers of overall economic growth, it is essential that Africa's cities have access to finance, attract investment, and pursue job creation strategies to provide opportunities to their residents.

Housing is a particularly important term in this equation, as a strong housing sector fuels economic growth and contributes directly to job creation through construction and related consumer goods. Housing is also important when it can serve as collateral to start or expand small businesses.

While the housing market conditions in the United States and Africa are vastly different, the basic principles from the United States model can and are being successfully applied to the African context. A functional, commercially oriented housing market requires access to long-term finance, rational land tenure laws, as you stated Senator, impartial and effective mediation instruments, liquidity, and adequate housing stock.

Looking first at the issue of titling land and property, USAID has extensive experience ranging from our support to the Institute for Liberty and Democracy and promoting legal and institutional reforms related to property, to efforts underway in Zambia currently, to work with the ministry of lands to enable a more transparent and efficient system of property titling and registration.

This targeted technical assistance in Zambia is part of a larger initiative in conjunction with the Overseas Private Investment Corporation aimed at developing a viable sustainable mortgage market in Zambia.

We hope this will become a model for low- to middle-income housing development in sub-Saharan Africa in countries where there is potential for mortgage market development.

The work in Zambia takes the type of comprehensive approach to the housing sector which is characteristic of USAID's extensive experience going back more than 40 years. Today, USAID makes use of the development credit authority to mobilize private local capital financing. To date, USAID has mobilized \$48.5 million for housing purchase, construction, and upgrades as well as for related infrastructure services.

To increase private sector participation in the region, USAID has submitted a budget request for fiscal year 2007 to provide dedicated funds for the Africa housing and infrastructure facilities. USAID's potential role in this sector is not limited to our credit guarantee tool, rather the agency utilizes a range of tools including the Global Development Alliance, GDA, to tap into the vast and valuable resources of the private sector, which are necessary to meet the substantial demand for infrastructure and housing investment. By partnering with organizations that are not our traditional partners, USAID is able to bring the private-sector perspective into our development assistance.

If we reflect back for a moment on the trends in Africa, we will see that, increasingly, the housing problem is one of people living in inadequate conditions in urban slums. There is no simple solution. It requires strengthening the formal sector, as well as creating specific strategies to improve the lives of slum dwellers.

USAID, along with UN-HABITAT, and 12 other donors, sponsors the Cities Alliance—City's Without Slums Strategy, which has led to greater investment in urban infrastructure, housing, and slum upgrading. Other solutions include housing microfinance which can be a viable option for financing home improvements and upgrading the existing housing in informal settlements. USAID and its partner, ShoreBank International, are already demonstrating the value of this tool in South Africa.

In Ambassador Tobias' recent testimony to the House Appropriations Committee, he outlined a new approach to improve the effectiveness of the U.S. Government's overall foreign assistance. USAID will contribute to the overall objectives to achieve peace and security; improve governance and democratic participation; promote investments in people; and engender economic growth. Addressing the challenges of urbanization and housing in sub-Saharan Africa will support these key objectives.

I hope the many example supplied in my written testimony amply illustrate USAID's support to housing in urban issues in sub-Saharan Africa. USAID will continue to be a key player in the urban and housing development agenda through the use of strategic and focused technical assistance, the application of the credit guarantee tool, to leverage resources from the private sector, and global development alliances to partner with the private sector.

Thank you very much, Mr. Chairman. I would be happy to answer any questions from the committee.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF JAMES T.M. SMITH, SENIOR DEPUTY ASSISTANT ADMINISTRATOR, BUREAU OF ECONOMIC GROWTH, AGRICULTURE, AND TRADE, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC

Thank you, Mr. Chairman and members of the subcommittee, for the opportunity to appear before you today to discuss housing and urbanization in Africa. The

United States Agency for International Development (USAID) recognizes the complexity and importance of these economic drivers to the overall development of the countries in sub-Saharan Africa. I would like to take a little time to elaborate on the implications of current urban growth trends in Africa and how these affect our development objectives of promoting democracy and economic growth in the region. I would also like to highlight USAID's role in promoting these objectives through credit programs, capacity-building support, and other technical assistance programs. Reflecting on Administrator Tobias' commitment to focus the U.S. Government's foreign assistance and make it more strategic, I will close with a brief discussion of future priorities.

INTRODUCTION

Africa has the highest rate of urban growth in the world at 5 percent per annum. By the year 2025, more than half of the continent's population will be living in urban areas and if current trends persist, the majority of Africa's poor will be living in cities, primarily in slums. The World Bank estimates that 300 million urban Africans who have left rural areas in search of jobs and a better life for their children will be living without access to water and sanitation if the situation does not change. Tremendous demand already exists for adequate and affordable shelter, upgrading of squatter settlements, and access to finance; at this time it is estimated that 30 million families lack adequate housing. The demands and pressures on Africa's cities, however, will only increase with time.

The primary challenges facing African cities and towns are local and national policies that serve to limit private investment, job creation, service provision, citizen participation, and cities' ability to generate sufficient revenue or borrow from private capital markets. For cities and towns to achieve their potential as generators of jobs and engines of both rural and urban growth, national and local governments need to reform policies and increase municipal capacity so that they can better attract and manage trade and investment.

What are the implications of rapid urban growth in Africa? This demographic shift heralds a profound change for Africans as well as their development partners. The region, assisted by donors, must prepare for the demographic changes that are already becoming apparent. High urban growth rates can be linked to political instability, particularly where accompanied by low or negative GDP per capita growth. This is particularly true in countries with youth bulges, where youth make up more than 35 percent of the adult population of a country.

Youth, aged 15 to 24 years, constitute about 20 percent of the total population, and young people under 25 years make up about 70 percent of the population in most African countries. Increasingly, they comprise the majority of urban populations as well. Youth are potentially Africa's greatest natural resource.

Despite the challenges, the opportunities to achieve sustainable development are very real. If managed well, cities can be engines of growth and can create a better quality of life through access to higher paying jobs, better health care, and quality education. Evidence shows that Africa's economic growth in recent decades has primarily been urban-centered.

It is important to build on the positive aspects of urban growth as it is the inexorable future for Africa. Africa's urban growth rates cannot be explained solely by rural migration, and strengthening the agricultural sector, or making life in rural areas more attractive will not stem the growth of urban centers. Rather, policies and programs need to be aimed at supporting the development of secondary cities and market towns and at improving services to the informal sector so that the potential of Africa's cities can be realized.

DECENTRALIZATION, URBAN GOVERNANCE, AND CITY MANAGEMENT

Urbanization is not the only major trend changing the face of Africa; decentralization has also been sweeping across the region, dramatically changing the way that governments interact with citizens. For myriad reasons, many African countries have decentralized significant functions to local governments. In some cases, these decentralization efforts have gone beyond simply devolving administration or management of service delivery to include instituting democratic processes by establishing elected mayoral and/or municipal council positions.

Decentralization creates both challenges and opportunities. The challenges include the reality that many local governments have limited financial and human resources and inadequate governance capacity. Decentralization in most countries remains limited to the "deconcentration" of national authority and services to the local level, without the devolution of revenue-generating and decision making authority necessary for true decentralization. Still, the opportunities to clean up government,

improve services, or establish democratic principles, in practice, can be significant. Decentralization brings government closer to the people, who can relate local politics and issues to their daily lives. If city and town governments can improve the delivery of key services (e.g., education, community health care, potable water), the tangible benefits that result can demonstrate the value of decentralized democratic governance. In Africa, this means not only the provision of basic infrastructure and social services but also housing.

What conditions are necessary to create more transparent, accountable, responsive, and effective local governments? USAID works on both the supply of and demand for good governance: creating the legal and regulatory framework, strengthening civil society and increasing opportunities for participation in the governance process, and improving the capacity of local governments to manage, finance, and deliver services. At the end of the day, what matters most is that city and town governments can deliver services to their residents and that citizens have recourse through democratic means should governments be unwilling or unable to deliver those services.

At the national level, the legal and regulatory framework needs to support sound fiscal and administrative functions at the local level. It is the responsibility of the national government to set the parameters. Deciding what level of government is most appropriate for carrying out public functions is a political determination that each country must make for itself. Numerous countries on the path to decentralization have pushed service delivery down to the lowest levels of government. As public sector resources are insufficient to meet all infrastructure investment needs, it is also critical that the legal and regulatory framework supports market-oriented municipal finance.

City and town governments need the capacity to take on new responsibilities and authorities. Sustainable development requires that local institutions function well and are capable of making wise decisions in allocating limited public resources, which in turn requires the development of systems, processes, and human resources to plan, budget, manage, and deliver services. A good measure of progress is the creditworthiness of a city government. Achieving creditworthiness can be a challenge for many local governments but must be the target if local governments want to access private capital markets. Creditworthiness is not enough though. As far as citizens are concerned, they expect to receive urban services, which require city and town governments to have the right technical and managerial skills to deliver those services.

Achieving creditworthiness and improving city management and service delivery is a long process, but USAID has a proven track record in helping cities progress. USAID is a leader in providing capacity-building support to city and town governments to plan, manage, finance, and deliver urban services in a more transparent, participatory, and accountable way. Some examples include the following:

- USAID's global CityLinks program supports peer-to-peer learning and technical exchange partnerships between developing country cities and U.S. cities and county governments. Implemented by the International City/County Management Association, the program aims to build the capacity of local governments to manage and plan effectively, promote local economic development, and deliver water and other key public services. Recent partnerships in Africa include Bamako, Mali, which successfully introduced new solid waste management practices as well as an educational awareness campaign for school children. The USAID Mission in Ethiopia is initiating two new partnerships to help cities promote economic development to create jobs.

CityLinks builds upon the successes of a previous program, Resource Cities, which had a proven track record of introducing U.S. city management practices to developing country counterparts. One such success was the partnership between Johannesburg, South Africa, and the City of Houston, Texas. By bringing practitioners together and helping translate United States approaches to solving urban problems to the South African context, the partnership was instrumental in launching a municipality that today is able to access financing directly in the international capital markets.

- USAID continues to strengthen the capacity of decentralized public financial management in Ethiopia. The program builds the capacity of local governments in the areas of accounting, financial management, and financial control systems in order to enhance their ability to provide services, improve infrastructure, and promote economic growth.

- In Mali, USAID is strengthening local governments by facilitating collaboration and partnership in targeted municipalities, establishing sound financial management systems, and encouraging women's participation in political life.

In several post-conflict countries, USAID is investing in urban services and governance to promote a culture of democratic participation, provide a democracy dividend, and improve health, education, and economic growth outcomes. For example:

- The Municipal Development Program (MDP) in Angola will support a larger multi-donor effort to assist the Government of Angola in achieving decentralized planning and budgeting at the local government level with broad community-determined needs. The MDP is a product of Global Development Alliance partnerships with the Chevron Corporation and Lazare Kaplan International. MDP combines technical assistance at the national level on policy issues and at the local level to improve the capacity of municipal governments with a Municipal Development Fund (MDF) for financing local infrastructure.
- USAID will implement a new local government capacity-building program in five secondary cities in Mozambique through the Municipal Government Increasingly Democratic (MGID) program. This technical assistance and training program aims to improve the democratic governance process with interventions to: (1) Implement local-level citizen participation mechanisms; (2) develop municipal planning and management capacity; (3) strengthen municipal revenue generation and service delivery; (4) establish local-level anticorruption mechanisms; and (5) disseminate best practices through existing networks.

Other USAID programs mitigate potential conflicts by implementing innovative approaches to dealing with the specific problems of Africa's youth:

- USAID, in partnership with the International Youth Foundation, Nokia, and the Lions Clubs International Foundation, launched the "Alliance for African Youth Employability" in 2004. The Alliance promotes employability and employment for more than 35,000 disadvantaged young people aged 14 to 29 living in rapidly urbanizing areas of South Africa, Malawi, Mozambique, and Rwanda.
- In the area of conflict mitigation in Uganda, USAID provided formerly abducted children with shelter, access to clean water, and vocational training to facilitate reintegration with their communities. The program helped vulnerable groups such as people living with HIV/AIDS and thousands of children who flee to urban night shelters.

ECONOMIC GROWTH AND POVERTY REDUCTION

Dysfunctional urban areas deter economic growth, whereas well-managed cities stimulate regional economic development. African cities have the potential to generate jobs, increase economic growth, and boost rural productivity, thus playing a vital role in poverty reduction and rural development. To reach their potential as drivers of overall economic growth, Africa's cities must have access to finance, investment, and job creation strategies to provide opportunities to their residents. This, in turn, will benefit peri-urban and rural areas by providing expanded markets, farm inputs, and off-farm employment.

Housing is a particularly important term in this equation. It is well understood that a vibrant housing market is a critical component of developed country economies, as is the case with the housing market here in the United States. A strong housing sector fuels economic growth and contributes directly to job creation through construction and increased demand for related consumer goods. Housing is also important in serving as collateral to start or expand small businesses. In the absence of a mortgage market, housing stock is essentially "dead capital." The formal housing and real estate sector also has the potential to create substantial revenues for local governments to be used for investments in improved infrastructure services. South Africa is an excellent example, as 86 percent of local government revenues come from housing property taxes and related fees.

While the conditions in the United States and Africa are vastly different, the basic principles from the United States model can and are being successfully applied to the African context. A functional, commercially oriented housing market requires access to long-term finance, rational land tenure laws, impartial and effective mediation instruments (through the police, alternative dispute resolution centers, and courts), liquidity, and adequate housing stock. While it is difficult to ensure that all of these factors are in place, it is not impossible.

Strengthening the legal and regulatory framework needs to be addressed in order to encourage greater private sector investment in the housing market. Lenders need to operate in a secure environment in which contracts can be enforced, and fore-

closure is both timely and cost-effective. Potential borrowers and homeowners need to have access to finance and need secure land tenure and, ultimately, legal title.

LAND TENURE AND TITLING

Land titling is a critical issue that deserves special attention, particularly in relation to the housing needs of the urban poor, who often live in informal settlements without any security. Access to land and legal security of tenure are strategic prerequisites for the provision of adequate shelter for all and for the development of sustainable human settlements. Helping to establish secure land tenure is also one way to break the vicious circle of poverty. With legal title and tenure, potential borrowers can apply for traditional mortgage loans. Households are also more likely to invest in maintenance or home improvements if their assets are secure.

USAID has extensive experience working on these issues with a broad range of alternative solutions.

- Hernando de Soto, director of the Institute for Liberty and Democracy (ILD), argues that transparent and equitable property markets are the keystone of vibrant market economies, strong democracies, and healthy environments. Through a long and productive relationship with the ILD, USAID is promoting legal and institutional reforms related to property. ILD's efforts in Peru enabled 6.3 million poor households to receive legal title to their properties, leading to an increase in real estate assets of more than \$2 billion; 380,000 enterprises operating legally; 550,000 new jobs; and additional tax revenues of over \$300 million per year. Tanzania and Ethiopia are prepared to initiate research on the extent of informal property in their respective countries as a first step. A new agreement with ILD will help USAID respond to these and other sub-Saharan African countries that are struggling to overcome the problems associated with large informal housing markets.
- In support of the United States-Africa Mortgage Market Initiative, USAID is providing technical assistance to the Ministry of Lands in Zambia as part of a larger initiative aimed at developing the mortgage market for low- to medium-income households. USAID assistance will include the necessary hardware and software required to ensure safe and timely electronic transfer between the private developer's sales office and the Ministry of Lands. This will facilitate transparent issuance of land title certificates for the 5,000 houses to be built on the Lilayi estate in Lusaka, Zambia. USAID is working in partnership with Overseas Private Investment Corporation (OPIC) as part of an effort to kick-start a viable, sustainable mortgage market in Zambia and to develop a model for low- to middle-income housing development in sub-Saharan Africa.

ROLE OF PRIVATE SECTOR IN HOUSING

In many respects, the time may be ripe to capitalize on the demand and need for housing. Countries like South Africa, Uganda, Ghana, and to a lesser extent Kenya, Zambia, and other emerging economies like Mozambique have developing financial markets. In some countries, pension funds, provident funds, and insurance companies are corporatized or privatized and are looking for alternate, long-term investments. Infrastructure investments are increasingly attractive, as is the emerging housing finance market.

USAID's experience in the housing sector is extensive, going back more than 40 years. From 1961 to 2002, USAID issued close to 200 guarantees in 39 countries around the world through its \$2.8 billion Housing Guarantee program. Today, USAID continues to focus on housing finance through its Development Credit Authority. USAID has mobilized \$48.5 million in local capital financing for housing purchase, construction, and upgrades, as well as for related infrastructure services. USAID's worldwide experience ranges from helping to deepen mortgage lending at the middle- and low-income segments by mobilizing capital to establishing financing mechanisms for slum dwellers. A few examples can illustrate how USAID has employed partial credit guarantees to mobilize local capital in Africa:

- To increase access to housing and environmentally sound urban services for historically disadvantaged groups in South Africa, USAID provided a Development Credit Authority guarantee for ABSA Bank to reduce the perceived risk of lending to municipal governments. Under the \$25 million guarantee, the Greater Johannesburg Municipal Council (GJMC) prepared a project delivery plan that established project selection criteria for water and electricity services, roads, storm water and waste management, housing and urban redevelopment, and health clinics, rather than selecting individual investments. USAID's technical support and partial guarantee helped the city improve its credit rating and ac-

cess long-term private financing for municipal infrastructure. By further developing and demonstrating adequate planning and budgeting to the local commercial banks, as well as establishing a history of repayment, GJMC strengthened its access to private financing for future projects.

- Also in South Africa, USAID provided a 5-year, rand-denominated, portable guaranty to help finance a subsidiary of the Infrastructure Finance Corporation (INCA). The purpose of the \$20 million guaranty was to partially cover Investec Bank in purchasing existing municipal debt from local governments experiencing repayment problems. Investec then repackaged the debt, reselling it to investors in the capital market.
- In Nigeria, USAID worked with the Federal Mortgage Bank to produce draft legislation that improves the enabling environment for the Nigerian mortgage market. Discussions are now underway to establish the Mortgage Finance Program to support the purchase of homes by low- and middle-income households in four regions: Abuja, Lagos, Port Harcourt, and Kano. The program will complement the efforts of the Nigerian Government and others to address the significant housing deficit. Provision of strategic lending into housing and supporting industries will help foster ancillary skills in construction, create employment, and reduce poverty. This guarantee will provide confidence to financial institutions to invest and support sectors that have been neglected in the past but are now beginning to show signs of opportunity. USAID/Nigeria proposes a guarantee period of 10–12 years to enable low- and middle-income Nigerians to invest in the ownership of their own primary residences, to facilitate the development of the mortgage sector in Nigeria. The guarantee will enable banks to fully address the most pressing financing needs for housing and also build their internal capacity to continue to play an active role in supporting the target group continuously and in a sustainable manner.

The United States-Africa Mortgage Market Initiative was mobilized following President Bush's speech in Abuja, Nigeria, in 2002, encouraging a targeted reengagement in the housing finance sector to foster real asset growth and wealth among poor people. USAID has joined forces with OPIC and the local private financial sector to enhance, via the housing sector, the positive political and economic signs currently emerging in Zambia and other countries in the region.

- USAID and OPIC are working with the private sector in Zambia to expand investment in local businesses and infrastructure by increasing the availability of financial instruments for the productive sector and improving transparency and integrity in the public sector to address corruption and improve governance. USAID has proposed using the Development Credit Authority facility to partially guarantee construction loans issued by Stanbic Bank Zambia Limited for low- to middle-income housing in Lusaka. The Lilayi Housing and Community Economic Development Project (Lilayi Project) will provide home mortgages, land tenure, and municipal services that are not presently available to this segment of the population. OPIC will facilitate mortgage financing for 5,000 households to be built on the privately owned estate in Lusaka. In addition to the credit guaranty, USAID will provide technical assistance to the Ministry of Lands to pave the way toward a more effective and efficient transfer and registration of land titles to homebuyers.

USAID's potential role in this sector is not limited to its credit guarantee tool. Rather, the Agency utilizes a range of tools, including the Global Development Alliance, to tap into the vast and valuable resources of the private sector. By partnering with organizations that are not our traditional partners, USAID is able to bring the private sector perspective into our development assistance. This is essential in order to begin harnessing the private sector financing necessary to meet the substantial demand for infrastructure and housing investment.

- Building on the success of a Global Development Alliance with Evenson Dodge International in Mexico, USAID entered into a strategic partnership to provide technical assistance to South African municipal, subnational, and national governments. The goal is to help improve the ability of South African local governments to finance municipal infrastructure by accessing domestic capital markets through the issuance of municipal bonds. In December 2005, Evenson Dodge assisted the City of Tshwane (formerly Pretoria, the capital of South Africa) in issuing the local currency equivalent of a \$100 million Request for Proposals for long-term funding. This funding will be used to refinance other debt under more favorable conditions, thereby making more resources available for infrastructure improvements. Six proposals were received in February of this year and are under consideration by the city. Evenson Dodge also anticipates assisting the

City of Tshwane with a \$380 million refinancing in 2007 and a \$500 million refinancing for Durban in 2008.

- USAID awarded a cooperative agreement to the International Housing Coalition to promote a private sector approach for provision of housing and housing finance to the poor in developing countries. Habitat for Humanity International, the National Association of Realtors, and the Canadian Real Estate Association are the key members of the coalition. The coalition aims to mobilize needed resources for housing in support of the goal "Housing for All." USAID Missions can tap into the coalition's network to carry out research, provide policy advice, and carry out targeted technical assistance related to housing sector issues. One of their first activities is to promote the housing agenda at the third annual World Urban Forum to be held in Vancouver, June 17–23, 2006. Through its many partners, International Housing Coalition is sponsoring research and networking events aimed at elevating the discussion on housing.

Last, in support of the United States-Africa Mortgage Market Initiative, USAID continues to play a role in providing targeted technical assistance. While the initiative is only modestly funded, it is a strategic intervention by USAID and its partners to carry out a series of assessments on mortgage market development in key countries (Ghana, Uganda, Zambia, Tanzania, South Africa, and in conjunction with OPIC, Kenya) to develop baseline data on the state of play on a country-by-country basis.

INFORMAL SECTOR AND SLUMS

Achieving the Millennium Development Goal of improving the lives of at least 100 million slum dwellers will be a major challenge. There is no simple solution to the problem of slums, the problem must be addressed both directly and indirectly. USAID's support to the formal sector is relevant as the development and expansion of formal housing systems has implications for broader economic goals and is a necessary prerequisite for sustainable financing and provision of housing to the informal and/or low-income sector. Given that the majority of the poor live and will continue to live in informal settlements and increasingly in urban slums, strategies also need to be designed and implemented that address their specific needs through slum upgrading.

- USAID, along with UN-HABITAT and 12 other donors, sponsors the Cities Alliance cities without slums strategy. USAID has provided \$1.5 million for core funding to the Cities Alliance Trust Fund as well as \$2 million for the establishment of a Community Water and Sanitation Facility. The Cities Alliance supports and works with the Union of Cities and Local Governments to help city governments improve services and strengthen local economic development for the betterment of their citizens, particularly the urban poor. Cities Alliance aims to improve security of tenure for slum dwellers; upgrade slums and improve housing; expand citywide infrastructure and services; create jobs; provide alternatives to slum formation; and carry City Development Strategies. Grants awarded by the Cities Alliance since its inception in 1999 have been linked to \$6 billion in investments worldwide.

Within the Cities Alliance framework, USAID, along with Norway and Sweden, helped to kick-start the "Cities Without Slums Facility for Africa" with seed money in 2002. The Africa Facility is supporting city development strategies and poverty reduction activities in Ethiopia, South Africa, Ghana, Nigeria, and Swaziland. Plans are underway in numerous other African countries including activities to "scale up" pilot activities through the development of innovative financing options.

USAID's Urban Programs Team provides technical support to USAID Missions and host country counterparts through a contract with an 8(a) firm in preparing applications to the Cities Alliance.

As the majority of poor households live in informal settlements that they have constructed themselves, traditional housing finance often does not address their real needs. Recent experience in the microfinance sector has demonstrated that housing microfinance has the potential to provide affordable, reliable, and appropriate financing to support the shelter needs of the poor through home improvement loans. Whether housing microfinance is offered as a stand-alone service or is linked to other microenterprise services or savings schemes, housing microfinance can be financially viable and does have a positive impact on low- and middle-income households. Due to the nature of microfinance (usually shorter term, small loans) institutions are primarily offering products that can be used for home improvements and upgrading of existing housing which matches the needs of the informal sector.

While this is a very new area for USAID, the potential is already evident, particularly in a number of fragile states with nascent capital markets. Through complementary technical assistance and the strategic use of the credit guarantee tool, USAID is already demonstrating that microfinance for housing could be the wave of the future.

- USAID, through its partner Shorebank International, is providing technical assistance to microfinance institutions and private sector banks in South Africa in order to increase housing opportunities for low-income families. Shorebank is assisting microfinance institutions to develop the processes and procedures necessary to demonstrate to commercial banks that they can properly service and collect housing finance loans to low-income households. If the microfinance institutions succeed with this demonstration, they will seek additional financing from traditional banks to expand the new housing finance services.

Shorebank is providing complementary support to the commercial banks to educate them on the positive business case for expanding their product lines to include low-income borrowers. Shorebank is providing technical assistance on how to properly assess the risk for this segment of the housing market and is highlighting the role that both banks and microfinance institutions can play in servicing those loans.

The support that Shorebank has provided in South Africa to a commercial bank, ABSA, and two microfinance institutions, Kuyasa and SOHCO, has led directly to the issuance of a \$900,000 loan from ABSA to Kuyasa to expand their housing microfinance operations. To provide further comfort and encouragement to ABSA to take on the risk of this new scheme, USAID will provide a 50 percent credit guaranty through the Development Credit Authority. No such incentive, however, was needed for ABSA to take a \$10,000,000 equity/long-term debt position in SOHCO for expansion purposes. ABSA was sufficiently impressed by SOHCO's current operations that the technical assistance from Shorebank was enough to help bring this deal to fruition.

THE FUTURE

I hope these many examples amply illustrate USAID's long and rich history of work on housing and urban issues in sub-Saharan Africa. Drawing from the experience of the United States and other developed countries, it is clear that the housing sector is vital to the development and urbanization agenda. Housing provides the single most important multiplier effect to economies and can be the highest source of revenues to local governments through the form of property taxes and related fees. Housing is also a viable mechanism by which to deliver water, sanitation, and electricity and other urban services to households and provides sustainable, tangible evidence of U.S. foreign assistance.

To promote housing and urban development in Africa, USAID will use strategic and focused technical assistance interventions, application of the credit guarantee tool to leverage resources from the private sector, Global Development Alliances to partner with the private sector, and collaboration with other U.S. Government agencies.

- In recognition of Africa's demographic realities, USAID has made urbanization a cross-cutting theme in its new Strategic Framework for Africa, which guides the strategies for USAID's sub-Saharan Africa missions. The Africa Bureau is working closely with other USAID Bureaus and Offices and potential private sector partners to address the urban and youth challenges facing the continent.
- Through its existing and planned mission programs in Africa, USAID will continue to provide technical assistance and capacity-building to city and town governments to improve service delivery and move toward the development of sustainable human settlements.
- USAID is proposing to launch the Africa Housing and Infrastructure Facility in 2007. USAID has requested dedicated funds to cover the budget cost of providing partial credit enhancement in support of private sector financing for housing and related infrastructure in Africa. The proposed facility will increase USAID's capacity to deliver on the President's goals in a cost-effective manner that is fully supportive of and focused on mobilizing private sector resources for infrastructure development in Africa.
- The Microenterprise Development Team is conducting a study of microfinance for housing to provide a short and accessible study that recounts the current achievements in the housing sector, lessons learned, constraints and limits, and most importantly, how housing microfinance can enhance and support USAID activities. In addition, this study will assess how to bring together urban development strategies, slum upgrading models, and assistance to microlenders. This

study will help serve as a roadmap for future potential activities in this emerging microfinance market.

- USAID will continue to explore Global Development Alliances, such as a proposal currently under discussion from Habitat for Humanity International's Africa division which represents a shift in the organization's traditional shelter approaches.
- USAID will continue to collaborate with other U.S. Government agencies such as OPIC and the Departments of Treasury and Housing and Urban Development. It is hoped that the Zambia pilot effort and the assessment studies on mortgage markets in select African countries will pave the way for expanded support to the housing sector as an entree to sustainable development.
- USAID plans to enhance its partnership with Cities Alliance to promote innovative solutions for the millions of slum dwellers in Africa and elsewhere if funds are available to carry out our commitment.
- USAID is exploring the potential of a direct partnership with the Union of Cities and Local Governments (UCLG) a powerful umbrella organization combining the World Federation of United Cities, the International Union of Local Authorities and Metropolis into one international body. Its membership includes cities and national associations. The organization strengthens the role of local governments in tackling urban problems and addressing housing problems in the developing world.
- In support of the Water for the Poor Act, USAID will promote the approach of "making cities work for the poor" by working with municipal governments and the private sector to tap into capital market financing for infrastructure investments. Potential partners include the UCLG which presented the "Local Government Declaration on Water" at the recent World Water Forum in Mexico.

In Ambassador Tobias' recent testimony to the House Appropriations Committee, he outlined a new approach to improve the effectiveness of the U.S. Government's overall foreign assistance. USAID will contribute to the overall objectives to achieve peace and security; improve governance and democratic participation; promote investments in people; and engender economic growth. Addressing the challenges of urbanization and housing in sub-Saharan Africa will support these key objectives.

Senator MARTINEZ [presiding]. Thank you both very much. And please know that your full remarks will be read by both of us, and I know Senator Obama as well, even though we're in this shuttle between votes. Please know that that will be the case.

Senator, did you have an opportunity to give your opening remarks?

Senator FEINGOLD. Yes, sir.

Senator MARTINEZ. Okay. I wanted to just touch on an issue that I think is so important, which is the opportunity for financing which is tied to the opportunity to have title—in titling. And I don't know which one of you all, maybe Mr. Smith, but if not, Dr. Williams. But one of you, if you would please, address the issue of titling as it relates to the issue of obtaining the potential for financing and how that all is developing, or how we could assist it in any way that could more enhance the opportunity for folks to have an opportunity to finance a home.

Mr. SMITH. Thank you, Mr. Chairman. I'm sure we'd both want to say something about it, is that correct? My observation would be that we've worked, as I said in my oral testimony, we've worked for a long time with the Institute for Liberty and Democracy, because quite a few years ago, Hernando DeSoto pointed out to all of us, that lots of—there are lots of informal titles which aren't very secure and which discourage investment in housing.

Senator MARTINEZ. Uh-huh.

Mr. SMITH. I mentioned the Zambia Project and in that case, we're working directly with the Ministry of Lands to improve the titling process, so that the people who enter into a mortgage agreement to buy that housing on term have secured title, which isn't—

we've had to help the Zambians modify their titling procedure. I think if we do things like that, we can help countries develop titling processes that'll actually work and provide secure title that could eventually be then collateral for bank lending and so forth.

It's not a simple process. And Hernando's experience is that many ministers around the developing world find out when they are confronted with the type of titles that they have, that they are actually informal titles, and they're not registered property, and not recognized in their own courts. And they are quite surprised to find that they've all been working on a very informal system.

So, it's a major problem. And I think technical assistance is the way to solve it. Just presenting African Governments with systems that can be made to work and then getting them to introduce the policy reforms that are necessary in the systematic changes. It will be a very long-term process, I believe.

Senator MARTINEZ. My guess is it is a true concern all over the third world, really—or whatever, the developing world in terms of Latin America and other parts of the Middle East. And I know that Mr. DeSoto's writings have really sparked my curiosity about how we could get this done, because it would be a huge breakthrough I think, to open opportunities. Because there's a lot of trapped capital that isn't manifested in the economy.

Ms. Williams, anything you care to add?

Ms. WILLIAMS. Yes, sir. I would just like to add—and this really does come from my experiences, that firsthand opportunity that I had in May of 2004 in visiting South Africa and meeting with many of the officials and the business community there. I had mentioned in my oral testimony, that I did have the opportunity to meet with the South African Department of Housing, the Micro-finance Regulatory Council, and the TEBA Home Loan Bank Group in South Africa. And then in Botswana, I met with their charter bank. And one of their concerns was the fact that they don't have an institutionalized title situation. And so, that is very problematic.

I had also mentioned that we do have an opportunity now, through discussions and through presenting our own U.S. model on how we are doing things, to share with them at least another option. They have a British experience that they had shared that they were looking at, as well as a Swedish model. And I'm not really that involved at that level, but I believe we could also provide you with additional information, if you'll allow us to present a written response.

Senator MARTINEZ. You know, I think that would be very welcome and I think that will be a great thing if you could do that. I think that would be terrific.

Ms. WILLIAMS. Thank you.

Senator MARTINEZ. I appreciate that. Also, Ms. Williams, if you could tell me a little more about the meetings for a West African countries plan for November 2006 in Ghana. What is the focus of the meetings, and what countries and institutions will be involved? I would appreciate knowing about that.

Ms. WILLIAMS. Yes, sir. The West Africa Peer Exchange Program will probably be very similar to the one that we hosted in East Africa. In that, we focused on elements of policy reform and market innovation. In that first initiative we had countries from—or rep-

representatives from government and financial institutions and we focused on housing finance.

President Kufour of Ghana had met with Secretary Jackson in Washington in October of 2005 and a similar peer exchange program for West African countries was discussed. Ghana has expressed strong interest in hosting the West Africa Peer Exchange and it will be held in a similar format with three to four selected countries. HUD will continue to work in support of UN-HABITAT and USAID.

Senator MARTINEZ. Very good, thank you.

Ms. WILLIAMS. Thank you.

Senator MARTINEZ. Thank you.

Mr. SMITH. Mr. Chairman, could I comment a little bit further?

Senator MARTINEZ. Yes, please.

Mr. SMITH. There are other things that one can do before getting all the titling right, everywhere, if I may. Our work with ShoreBank International in South Africa and Morocco is looking at Microfinance Housing.

Senator MARTINEZ. Please continue and touch on that, because that was going to be another one of my questions of the micro-financing opportunity.

Mr. SMITH. And they're working with several banks in each of those countries, to go down market as it were to find ways of lending that involve the—you know, the microfinance approach, which isn't a secured loan, but is based on reputation of the borrower and so forth. It's been built up over time through participation in microfinance. And so, they're really helping the banks in Morocco and South Africa become comfortable with lending through the microfinance institutions and know their clients very well.

So, there is another approach to providing financing that will not depend solely on getting the titling right everywhere.

Senator MARTINEZ. Now taking it to the next step, are you also working with institutions to create more of an environment for individual lending and so forth? Which, I know is not something we have to do here, but in other parts of the world, you know the orientation to lend to an individual is not as clear as it is here. Of course, it's not been an established group of customers like here, so—

Mr. SMITH. It's interesting, if I could switch to Latin America for an example, which I know better—

Senator MARTINEZ. Uh-huh.

Mr. SMITH [continuing]. In terms of one example. The microfinance institutions in Ecuador are finding that multiple numbers of their group clients are also individual clients with banks. And so, they found in the process that having credit bureaus was a very important aspect of their financial system that they hadn't had before. And we helped them develop the regulations that then attracted five different credit bureaus to set up operations in Ecuador and take advantage of this market.

Clearly, the financial institutions were interested in the credit histories of all these borrowers and you don't want borrowers going from one group to another and one bank to another without anyone knowing what their overall lending profile is—borrowing profile.

So, yes. We work with—in a lot of places we work on the overall regulatory system, so that the institutions can then develop when the regulations are correct.

Senator MARTINEZ. Have we developed, Ms. Williams, any ongoing partnerships with others in terms of our international ability to export some of our ideas and the things that have worked for us as we developed housing for poor families?

Ms. WILLIAMS. Yes, sir. We have ongoing relationships. As you're aware, the Housing Act of 1957, that does allow us to work in this arena and as such, we are allowed to engage in exchanges of information related to housing and urban planning. We work obviously, in close coordination with the State Department and other agencies.

But we also are working through assignments with foreign government officials so that they can learn about our techniques. And we do this again, with the support of the State Department and under other agencies that have direct authority for financial assistance and/or technical assistance—

Senator MARTINEZ. Very good.

Ms. WILLIAMS [continuing]. To these countries.

Mr. SMITH. If I could comment?

Senator MARTINEZ. Yes, sir.

Mr. SMITH. There's an important organization that we belong to, along with a dozen other donors, and UN-HABITAT, and the World Bank, and Cities Alliance. And the Cities Alliance structure provides for a lot of exchange among the donors about approaches. I think it's fair to say though, that housing directly—housing has been less of a concern than infrastructure, in general. But there's a coalition of donor experts—expertise is a valuable form for sharing our practices.

Senator MARTINEZ. I think too often, we do focus on infrastructure, forgetting that housing is such an important part of a country's infrastructure and people's infrastructure depends on housing. So, we need to develop a degree of consciousness of the need for that, I think.

Let me suggest that we might have additional questions for this panel when Senator Feingold might return, but I would like to move on to the next panel, if we could. And I'm sure, he may also have some written questions to submit if all of them were not aired during the time. But in order to keep us moving, we're in a—appreciate your appearance today, your remarks, and I would thank you all profusely for being here and for the work that you are doing, and invite the second panel to come forward.

Mr. SMITH. Thank you, Mr. Chairman.

Senator MARTINEZ. Thank you.

Ms. WILLIAMS. Thank you.

Senator MARTINEZ. Again, welcome to both of you. And Mr. Reckford and Dr. Tabajuka, it's so good to see you again. I'm so honored that you are here with us. I really admire your passion for housing in the issues relating to creating more housing opportunities around the world. And I know the work of Habitat is something that is making a real difference. I hope that I can participate in some of your activities in the African continent, sometime in the near future.

Mr. Reckford, I can't tell you how much I think of Habitat for Humanity, and we worked so closely during my time at HUD. I believe that engaging the spirit of volunteerism is such a wonderful and powerful force—that it can be so around the world.

And I just appreciate greatly Tom Jones being here and the work that he and I were pleased to do together. I hope we'll have made a difference and leave a lasting legacy of Mr. Jones' work. And I also want to just welcome you both to the hearing. So, let me begin with Dr. Tibaijuka. If you could begin your remarks.

STATEMENT OF DR. ANNA KAJUMULO TIBAIJUKA, UNDER-SECRETARY-GENERAL AND EXECUTIVE DIRECTOR, UN-HABITAT, NAIROBI, KENYA

Dr. TIBAIJUKA. Thank you, Chairman Martinez, ranking member Feingold, distinguished Senators, ladies and gentlemen, and my colleagues on this hearing. Let me start by saying it is an honor for me to be invited to brief the African Affairs Subcommittee of the Senate Foreign Relations Committee. Thank you also for placing before the United States Senate the subject of urbanization and housing in Africa.

African Governments and the international community, Mr. Chairman, as you have said already, face a daunting challenge addressing the social, the economic, the political, the cultural, and the environmental implications of rapid urbanization taking place on the continent.

We are witnessing a challenge of such magnitude that it warrants serious attention at local, national, regional, and international levels. It is worthy of consideration, Mr. Chairman, by the distinguished Members of the United States Senate.

Fully cognizant of the huge challenge facing them, the African Heads of State Summit adopted in July 2003, in Maputo, Mozambique, a special decision on the issue of urbanization and chaotic urban growth, and requested me, in my capacity as Executive Director of UN-HABITAT to help them in their efforts to turn around African cities and towns.

A direct outcome of that meeting was the establishment of the African Ministerial Conference on Housing and Urban Development, AMCHUD. Chaired by South Africa, AMCHUD is a vehicle for governments to improve African cities, enabling them to realize their full potential as centers of hope and prosperity for their peoples, rather than as concentrations of deprivation and squalor.

Mr. Chairman, I have just given you a glimpse of what it can look like in Africa. There is a picture there of some of the contiguous slum settlements in Africa and what they look like. It is really an eyesore.

AMCHUD, therefore, provides a continent-wide platform to share ideas, exchange best practice, and discuss effective strategies to achieve sustainable urbanization in Africa. As a further demonstration of political will, which has been urbanized now on the continent, urban concerns have now been integrated into the overall New Partnership for Africa's Development, NEPAD.

Specifically, the Sustainable NEPAD City Initiative has been launched under cluster 4 on Environment, Population, and Urbanization that is chaired and convened by my agents UN-HABITAT.

Mr. Chairman, in this presentation which I will submit in full, a written submission will be given, and here I can only give the highlights of it. I shall narrate the response of my agency, UN-HABITAT in assisting African Governments and African peoples in their current efforts and struggles to improve the conditions in urban areas where HIV/AIDS is spreading so rapidly and where all residents, but specifically women and children face constant fear for their safety and their security.

It is my hope that this presentation will elucidate the tremendous efforts being made by Africa itself to achieve sustainable urbanization and affordable housing, as well as highlight the supplementary efforts required from its development partners to accelerate progress being made. I wish to submit, Mr. Chairman, that if the international community does not act now to support African initiatives, we will pay dearly in the future in terms of the social upheaval, that rapid chaotic urbanization is bound to unleash both in Africa and beyond.

There is a question. Let me start with urbanization trends in Africa and the world. In the interest of brevity, I will say that in my written submission I have presented a table which shows that the challenge of urbanization with about 1 billion slum dwellers in the world now, is not only an African phenomena. It is a global phenomena, but it is in sub-Saharan Africa where the challenge is deepest, with 72 percent of the urban dwellers in sub-Saharan Africa now living in slum settlements.

Africa, as we've observed, is the fastest urbanizing continent in the world. And by 2030, we will cease to be a rural continent. So, Africans are on the move and the rapid urbanization of the continent has to be recognized both for its potential problems but also for its genuine possibilities. Already, and in spite of all the difficulties, urban areas in Africa can be credited with producing 60 percent of the Gross Domestic Product of Africa. If managed properly, African cities and towns could provide the critical link between the development of rural areas and the larger global economy.

So the challenge then, is how do we meet this challenge promoting sustainable urbanization in Africa? Mr. Chairman, I'm just going to narrate a package of interventions which UN-HABITAT is convinced that if undertaken as package, we actually mean that the cities of Africa because centers of hope, rather than despair.

We have considerable experience working in cities all over the world since we were established in 1978 and particularly, Mr. Chairman, after my appointment in the year 2000, I took the view that we have to bring the world's attention to the problems of urbanization all over the world. So the agency has worked intensively to raise the profile of the urban poor on the global stage. The Government of the United States, Mr. Chairman, played an instrumental role in this regard. We were with you, Hon. Chairman, when you addressed the United Nations in Assembly in 2001 and gave impetus to a decision by the General Assembly to transform the UN-HABITAT into a full program of the United Nations.

After it was recognized that there was 1.2 billion slum dwellers and increasing, the United Nations required a very effective organization to assist its member states to come to terms and grips with the challenge of chaotic urbanization.

This briefing, Mr. Chairman, in the United States Senate is a follow-up on the strategy of raising awareness to the challenge of urbanization. The problem cannot be tackled head-on unless it is fully understood by all interested parties and stakeholders, and especially decision makers both within and without Africa, like yourselves.

Second, consequent to the adoption of the Habitat Agenda, a comprehensive strategy for sustainable urbanization and affordable housing which was adopted in 1996 by the United Nations. UN-HABITAT has been working with donor agencies and with its partners in African cities to design innovative models that will change the way urban areas are managed. The aim is to provide local authorities with the skills and confidence to encourage greater participation of ordinary citizens in the day to day management of their cities and towns. Gone is the assumption that central governments will provide free housing for the urban poor. The traditional welfare state model has given way to partnership and participation, at all levels. Free public provision has given way to affordability of housing and services, as the only tested means for sustainability and for moving to scale.

In order to achieve this goal, Hon. Chairman, UN-HABITAT has launched the Global Campaign on Urban Governance and the Global Campaign for Secure Tenure or land and property administration, which we discussed before. Most people call it titling. We advocate for a balanced approach to territorial development that fosters rural-urban linkages. The strategy therefore is to change the mind-set of both stakeholders and leadership at all levels.

These three initiatives constitute the normative work of the agency. They offer a framework to assist African Governments to implement more effectively a strategy for sustainable urbanization, guiding their operational activities and public and private investment into affordable housing and pro-poor urban infrastructure. The normative agenda also facilitates the coordination of international development assistance, trade, and investment.

The Global Companion of Urban Governors, Mr. Chairman, basically promotes their principles of participation of transparency over inclusivity, of world governance over agenda, equality, and empowerment. Across Africa, the campaign has worked at a number of levels that includes getting governments to accept the basic tenants of good governance.

And then, we have launched a campaign on security of tenure or the issue to get land into proper tenant systems sorted out. Cities cannot be inclusive or sustainable if the poor live without adequate shelter or basic services. And if they are living in permanent fear of being evicted from their premises.

Senator MARTINEZ. Dr. Tibajuka, I hate to interrupt you, but I have to go vote. They are looking for me and everyone has voted but me at this point, so I'm going to have to go. So, if we recess until Senator Feingold returns.

Thank you.

Oh, he's here. We don't need to recess, but they are looking for me.

Senator FEINGOLD [presiding]. Thank you for your testimony. And just as I apologized to the other panelists for any confusion here, I appreciate your being here.

Your organizations have highlighted property rights as an important issue in addressing the problems of slums and I think it's important that we try to get an idea of what we can do to establish property rights in African nations. How can the U.S. Government assist in efforts to create, implement, and enforce property rights laws? Mr. Reckford?

Mr. RECKFORD. We would certainly actively support—I think that primarily we should be setting good guidelines and creating reinforcement and support for governments that are trying to move in the right direction. We're seeing it's extremely complex to get formalized, and secure, and viable tenure for and probably rights for so many families across all of the world. I think if USAID had recommended and we would certainly support, system support in infrastructure to help countries who want to do that and put in good housing policies around property rights, to actually be able to put in the legal infrastructure and follow through to implement those property rights. Because many countries today don't have the ability, even if they have the desire, to follow through. But step one is the reinforcement in creating incentives to create good housing policy in terms of support of property rights.

Senator FEINGOLD. Okay.

Dr. Tibaijuka.

Dr. TIBAIJUKA. Yeah. Thank you, Hon. Chairman, the whole question of property rights and property administration systems in Africa finds itself at a rudimentary stage. African societies culturally are collective—have collective tenure systems, and at the moment, the modern economy weighs on the—you know, modern notions of individual property rights. There is a scope therefore, for introducing individual property rights, but that it also needed to observe the cultural realities of Africa in the traditional systems to protect for example, a collective property system. So, it is an issue which we are working, as I was already testifying, that will have a campaign that we call the Security of Tenure.

The question is how do we modernize a traditional tenure system? To render them for example, for bank operations, to use them to get collateral. So, it is a very—it is not a simple issue. It's a complex issue, but it is an issue that must be sorted out. And the UN-HABITAT, my agency, is working hand-in-hand with governments to sort out the question of property rights.

But also, there is the question, of course, of legal framework. For example, titling and mortgage systems afraid to be made, because sometimes the appropriate rules are not in place. For example, foreclosure laws do not exist. In situations like that, it becomes very difficult for—you know, a private sector, a participant to be active into the housing marketplace.

Senator FEINGOLD. Let me ask you about the HIV/AIDS issue in this context. Obviously, it's a huge problem and it's a barrier to home lending opportunities for those infected. Is HIV/AIDS a factor that should be addressed in any long-term housing development plan, and do you think that the spread of HIV/AIDS could be

stemmed by the creation of more permanent urban housing options?

Dr. Tibaijuka.

Dr. TIBAIJUKA. Yes. Thank you, sir. HIV/AIDS is of course a pandemic which has many, many dimensions and ramifications. As we speak now, the number of orphans in Africa is crossing the 15 million mark. Most of these orphans require housing. They have to be taken care of. Some of the children, particularly the children in households, are losing their houses through collapse. After some time, the parents might have left them with houses, but they are not able to take care of them.

So, I would like to say that any development intervention in Africa cannot lose sight of the reality of HIV/AIDS. It cuts across society and more so in housing. UN-HABITAT has initiated with the support of the Rockefeller Foundation, a community-based initiative for HIV/AIDS or funds. It's the program which is trying as hard as possible to keep the orphans where they are, instead of taking them in community care. But this a very strong shelter component to be able to repair the homes of the orphans or to support the families, the traditional families that are absorbing the orphans. Sometimes families are waiting to help, but they might not have the space that you need as more orphans are absorbed into the households. So, it is something that is very rampant and there in no intervention in Africa which would not touch on HIV/AIDS.

Senator FEINGOLD. Mr. Reckford, do you have any comment on that?

Mr. RECKFORD. We have actually—with support from a PEPFAR grant—we are working with AIDS and vulnerable children in three African countries right now. And there is a clear shelter component tied to your earlier question. There's a protection issue which is protecting the rights particularly of widows and orphans both, in terms of helping them retain property. And that's been a challenge, particularly in Africa.

But beyond that, we are seeing the desperate need for support and shelter. We're doing a partnership with a combination of Habitat for Humanity doing shelter and Micro Lending Group providing training and equipping in small capital to help these older orphans to be able to begin earning—having the ability to have an economic ability to stay in their communities.

We have just begun all of these programs in the past year. So it is too early to claim victory, but we're seeing meaningful success in partnerships with other groups that are providing medical care with our providing housing intervention. It creates a stable environment and as I'll talk about in my testimony, meaningful environment—a much better environment for both the health and education of those children.

Senator FEINGOLD. Mr. Reckford, I was just informed that you did not have a chance to give your opening statement, which I did not know. Would you please proceed with that?

Mr. RECKFORD. And I don't know if—

Senator FEINGOLD. Did you give any opening statements?

Mr. RECKFORD. No. And Dr. Tibaijuka had not quite finished hers, as well.

Senator FEINGOLD. Well, let's get back to that. Let me see if the record can be put in some kind of rational order.

Dr. Tibaijuka, please proceed with the rest of your statement.

Dr. TIBAIJUKA. Mr. Chairman, thank you. I was in the process of explaining, indeed, that our strategy is also to stabilize and deliver sustainable development in Africa. There is concern at the place at which people are flocking into larger cities. A number of them becoming megacities.

The United Nations defined a megacity as a city which has more than 10 million people and these are huge cities which are growing very rapidly. Particularly when housing is not available, it becomes a problem.

So, we are encouraging African Governments also to invest into secluded towns and cities, so that this becomes a sustainable way to achieve balance in territorial development.

Africa remains an agricultural continent, but it will be very difficult for Africa to prosper without sufficient investment and transport infrastructure as a mechanism to keep—to revitalize the rural economies and to stem the exodus of people into the capital cities. Most of them normally are around the coast.

So we are also working with other sister agencies to promote small- and medium-sized towns as gross modes for community development and also, as sources of offering rural communities seasonal or off-seasonal employment, so that they don't all end up flocking into the big cities.

We have also in this regard, therefore, worked very hard and we believe that we have made some successes and there is justification, Mr. Chairman, for enhancing international support to the process of urbanization in Africa. I can quote a number of examples from Nigeria, to Burkina Faso, to Uganda, to South Africa. We have launched the campaigns on urban governors in Secure Tenure. This has led to changes in policy and practice.

In Nigeria for example, the federal government is strengthening its statistics government in 774 local authorities by giving them a greater fiscal economy and greater support this annuity created an issue of urban development. This did not exist before we introduced our campaign.

In Burkina Faso, the government is promoting the recognition of land tenure and promoting a poverty reduction strategy within urban areas. Now maybe as a first country in sub-Saharan Africa to introduce a block title, an alternative form of security of tenure that protects the urban poor from dislocation and satisfies the needs of private banks for verifiable collateral, as I said earlier.

In South Africa, a partnership between the Government, local authorities, and NGOs like the South African People's Federation has been working hard to find solutions to problems of inadequate housing and landlessness. I think the famous 1.4 million houses of the African Government in South Africa is well known.

More recently, Mr. Chairman, the Kenya Government—we are located in Kenya—has embarked on the Kenya Slum Upgrading Program which is targeting slums nationwide and includes upgrading Kibera, one of Africa's most notorious slums. Kibera—this satellite imagery shows Kibera, and Mr. Chairman, you can see the shame of our times. Very close to Kibera is the Nairobi golf course.

Senator FEINGOLD. How many people would you guess live in Kibera?

Dr. TIBAIJUKA. Kibera is the largest contiguous slum in Africa. It has a population of about 750,000 people on only 20.4 acres of land. My understanding, that it is more than—it's more than Capitol Hill. So, this is the highest concentration of human beings, some of the highest in the world. And the situation is quite appalling.

In Mozambique we are also working, including in my own country, Tanzania, where the Cities without Slums Initiative has been launched under the Cities Alliance Framework, already described before. I would like to say that the new President of Tanzania, Mr. Jakaya Kikwete has defined, as a key policy priority, the revival of housing finance mechanisms that can reach low-income households with affordable mortgage systems in the country. At the moment, there is no single housing financing institution of any sort in Tanzania, for example.

So the challenge, Mr. Chairman, honorable Senators, is investing in housing and urban infrastructure in Africa. The housing is a source intensive sector. It is an investment sector and unless we acquire—we get the sources we need to establish mortgage systems—it will not be able to deliver the Millenium Development target.

So, there is no free money. We do not believe and UN-HABITAT does not encourage African Governments to talk about free housing, because it is not possible. We are therefore struggling to make sure that what we need is affordable housing through mortgage systems. So the establishment of mortgage systems is a business that we are promoting across the continent. No aid mechanism could begin to provide enough resources. In fact, it has been estimated that in recent years, the total combined overseas development assistance, public and private investment set aside for low-income housing, was only \$4 billion. So, we have to go to the community for resources.

The General Assembly decision in 2001, in which Mr. Chairman, you yourself participated, was that we have to upgrade the habitat in Human Settlements Foundation, which was established in 1974 as a Global Shelter Facility for housing and subnational level lending without public guarantee, but was never capitalized.

I was tasked with the mission of reviving this facility. The new vision of the slum upgrading facility. We are now trying to see how and whether the slum upgrading facility could be capitalized. Therefore, as a means to establish greater enhancement mechanism to leverage local funding, which we think we need.

The good news, Mr. Chairman, is that the poor in the urban areas, they pay highly for the shacks in which they live. All those shacks you see in the picture, they are actually high, very profitable real estate business. In the slums of Nairobi, our rental economic surveys have shown that the payback period for the people that invest in the shacks, is only 9 months. So, a slum upgrading, therefore, becomes a highly political activity. There are people who are making a lot of profits in the real estate business in the slums.

The slum dwellers also buy water because they are not connected to municipal supplies and it is very sad. Sometimes they pay up

to 20 times more for water than the people who are connected to subsidizing municipal supplies.

The good news is that statistics show that it is possible to put up decent housing and decent services in the slum areas by charging the people what they can afford. So, it is a question of sorting out these issues, but the economics show that we should be able to succeed.

So, the sum of getting facilities, a mechanism we have used, I would like you, Mr. Chairman, to conclude by saying, that all this I have narrated—it requires strategic partnerships. UN-HABITAT's mandate to, within the U.N. family of programs, coordinate the activities. Coordination of different partners, including donor agencies, who are working in this sector.

And that is why I would like to end by inviting all of you to attend the World Urban Forum which will be convened in Vancouver, June 19, where again, the international community will meet to exchange and share knowledge of best practices in this challenge of affordable housing and decent shelter for everyone, which I again would like to emphasize is not only an African phenomena, but in Africa, that's where the needs are greatest.

Thank you.

[The prepared statement of Dr. Tibaijuka follows:]

PREPARED STATEMENT OF DR. ANNA KAJUMULO TIBAIJUKA, UNDER-SECRETARY-GENERAL AND EXECUTIVE DIRECTOR, UN-HABITAT, NAIROBI, KENYA

Honorable Chairman Mel Martinez, ranking member Feingold, distinguished Senators, ladies and gentlemen. It is an honor for me to be invited to brief the African Affairs Subcommittee of the Senate Foreign Relations Committee. Thank you also for placing before the United States Senate the subject of urbanization and housing in Africa. African Governments and the international community face a daunting challenge addressing the social, economic, political, cultural, and environmental implications of rapid urbanization. We are witnessing a challenge of such magnitude that it warrants serious attention at local, national, regional, and international levels. It is worthy of consideration by the distinguished Members of the United States Senate.

Fully cognizant of the huge challenge facing them, the African Heads of State Summit adopted in July, 2003, in Maputo, Mozambique, a special decision on the issue of urbanization and chaotic urban growth, and requested me, in my capacity as executive director of UN-HABITAT, to help them in their efforts to turn around African cities. A direct outcome of this meeting was the establishment of the African Ministerial Conference on Housing and Urban Development (AMCHUD). Chaired by South Africa, it is a vehicle for governments to improve African cities, enabling them to realize their full potential as centers of hope and prosperity for their peoples, rather than as concentrations of deprivation and squalor. AMCHUD provides a continent-wide platform to share ideas, exchange best practice, and discuss effective strategies to achieve sustainable urbanization in Africa. As a further demonstration of political will, urban concerns have now been integrated into the overall New Partnership for Africa's Development (NEPAD). Specifically, the Sustainable NEPAD City Initiative has been launched under cluster 4 on Environment, Population, and Urbanization that is chaired and convened by UN-HABITAT.

In this presentation, I shall narrate the response of my agency, UN-HABITAT, in assisting African Governments and African peoples in their current efforts and struggles to improve the conditions in urban areas where HIV/AIDS is spreading so rapidly and where all residents, but specifically women and children, face constant fear for their safety and security. It is my hope that this presentation will elucidate the tremendous efforts being made by Africa itself to achieve sustainable urbanization and affordable housing, as well as highlight the supplementary efforts required from its development partners to accelerate progress being made. I wish to submit, Mr. Chairman, that if the international community does not act now to support African initiatives, we will pay dearly in the future in terms of the social upheaval that rapid chaotic urbanization is bound to unleash, both in Africa and beyond.

URBANIZATION TRENDS IN AFRICA AND THE WORLD

With 3 out of 6 billion people now living in cities and towns, the world is primarily urban. By 2030, Africa will also follow this urbanization trend, and cease to be a rural continent. For brevity, the table that follows shows that there are about 1 billion slum dwellers in the world, and that the slum challenge is not only an African but a global phenomena, underscoring the need to work together to address the issue. Sub-Saharan Africa, however, is most challenged, with 72 percent of its urban dwellers living in informal settlements—most of them slums. Africa is the fastest urbanizing continent in the world. In 1980, only 28 percent of the African population lived in cities. Today it has risen to about 37 percent. The annual urban growth rate in Africa is 4.87 percent, twice that of Latin America and Asia. Cities and towns in Africa are also growing at twice the 2.5 percent growth rate of the rural population in Africa. In terms of numbers, currently about 300 million Africans live in urban settlements. This figure is expected to reach about 500 million by 2015. UN-HABITAT estimates that in the next 25 years, 400 million people will be added to the African urban population, putting tremendous pressure on cities and towns.

Africa is on the move and the rapid urbanization of the continent has to be recognized both for its potential problems but also for its genuine possibilities. Already, and in spite of all the difficulties, urban areas in Africa can be credited with producing 60 percent of the Gross Domestic Product (GDP). If managed properly, African cities and towns could provide the critical link between the development of rural areas and the larger global economy.

TABLE 1.—SLUM POPULATION BY MAJOR REGIONS, 2001

Major area, region	Total population (millions)	Urban population (millions)	Percentage urban population	Percentage slum population	Slum population (thousands)
World	6,134	2,923	47.7	31.6	923,986
Developed regions	1,194	902	75.5	6.0	54,068
Europe	726	534	73.6	6.2	33,062
Other	467	367	78.6	5.7	21,006
Developing regions	4,940	2,022	40.9	43.0	869,918
Northern Africa	146	76	52.0	28.2	21,355
Sub-Saharan Africa	667	231	34.6	71.9	166,208
Latin America and the Caribbean	527	399	75.8	31.9	127,567
Eastern Asia	1,364	533	39.1	36.4	193,824
South-central Asia	1,507	452	30.0	58.0	262,354
South-eastern Asia	530	203	38.3	28.0	56,781
Western Asia	192	125	64.9	33.1	41,331
Oceania	8	2	26.7	24.1	499
Least Developed Countries (LDCs)	685	179	26.2	78.2	140,114
Landlocked Developing Countries	275	84	30.4	56.5	47,303
Small Island Developing States (SIDS)	52	30	57.9	24.4	7,321

Source: UN-HABITAT, 2003.

MEETING THE CHALLENGE: PROMOTING SUSTAINABLE URBANIZATION IN AFRICA

With considerable operational experience gained since it was established in 1978, and particularly with my appointment in September, 2000, to lead the agency, UN-HABITAT has radically altered the way it works in promoting sustainable urbanization. First, the agency has worked intensively to raise the profile of the urban poor on the global stage. The Government of the United States played an instrumental role in this regard. We were with you, Honorable Chairman, when you addressed the U.N. General Assembly in 2001 and gave impetus to a decision by the General Assembly to transform our agency into a full program of the United Nations. This briefing to the United States Senate is a follow-up on the strategy of raising awareness to the challenge of urbanization. The problem cannot be tackled head-on unless it is fully understood by all interested parties and stakeholders, and especially decision makers both within and without Africa.

Second, consequent to the adoption of the Habitat Agenda—a comprehensive strategy for sustainable urbanization and affordable housing adopted by all member states in 1996—UN-HABITAT has been working with donor agencies and with its partners in African cities to design innovative models that will change the way urban areas are managed. The aim is to provide local authorities with the skills and confidence to encourage greater participation of ordinary citizens in the day-to-day

management of their cities and towns. Gone is the assumption that central governments will provide free housing for the poor. The traditional welfare state model has given way to partnership and participation, at all levels. Free public provision has given way to affordability of housing and services, as the only tested means for sustainability and for moving to scale.

In order to achieve this goal, UN-HABITAT has launched the Global Campaign on Urban Governance and the Global Campaign for Secure Tenure (land and property administration), and advocates for a balanced approach to territorial development that fosters rural-urban linkages. The strategy therefore is to change the mindset of both stakeholders and leadership at all levels. These three initiatives constitute the normative work of the agency. They offer a framework to assist African Governments to implement more effectively, a strategy for sustainable urbanization, guiding their operational activities and public and private investment into affordable housing and pro-poor urban infrastructure. The normative agenda also facilitates the coordination of international development assistance, trade, and investment.

THE GLOBAL CAMPAIGN ON URBAN GOVERNANCE

In operational terms the governance campaign is a capacity-building program in local self-government. This campaign envisions the inclusive city as a place where everyone, including the urban poor, and among them women, can contribute productively and enjoy the benefits of urban life. The premise of the campaign is that inclusiveness is not only socially just, but is also good for growth and central to sustainable development. Social inclusiveness must be an important goal for municipal governance: It is just, it is democratic, and it is productive.

Across Africa, the campaign has worked at a number of levels that includes getting governments to accept the basic tenets of good governance which include transparency and accountability. The campaign also encourages greater decentralization and autonomy for local authorities and gender balance.

The fact is that national governments, because of the scale at which they operate, cannot be sufficiently responsive to local problems and issues. They operate best at the level of policy, standards setting, oversight, and assessment. Local authorities, on the other hand, are closer to their constituents whom they must see politically as individual human beings with specific needs. Local authorities are moreover a decision-making platform that can ensure that resource allocations are in the general interest of all their citizens, leaving no one behind.

THE GLOBAL CAMPAIGN ON SECURE TENURE (LAND AND PROPERTY ADMINISTRATION SYSTEMS)

Cities cannot begin to be inclusive or sustainable if the poor live without adequate shelter or basic services, and if they live in permanent fear of being evicted from their premises. In most African cities, hundreds of millions of poor people are not considered in city plans to provide essential services such as water, sewers, and garbage collection. With no land and nowhere to go, the urban poor are forced to squat and manage as best they can. Rather than harnessing the energy and survival skills of the poor, most governments fail to recognize that the poor have a right to the city.

The Global Campaign for Secure Tenure rejects illegal, arbitrary, forced evictions and takes the position that local authorities should help the poor achieve their right to adequate shelter through a negotiated package of policy options that includes access to land and shelter with some form of security of tenure. In particular, the campaign encourages a range of tenure options underwritten by the rule of law and that are sensitive to the cultural realities of the continent. These range from home ownership to rental arrangements, individual or collective tenure, and private, public, or mixed tenure. What matters most is the security and long-term certainty for the urban poor and disenfranchised groups such as women. The secure tenure campaign encourages local governments to recognize the urban poor as an asset rather than a problem. It assists governments to devise policies and programs that can empower the urban poor to solve their own problems, discouraging governments from getting locked in a futile attempt to evict the urban poor from one place, knowing quite well they will end up in another. The events in Zimbabwe and similar evictions elsewhere in Africa are a case in point.

PROMOTING BALANCED TERRITORIAL DEVELOPMENT: URBAN-RURAL LINKAGES

Rather than treat rural and urban as different and competing development spaces, UN-HABITAT encourages national governments to see urban-rural linkages as a whole—as a dynamic system—so that their linkages can be strengthened. One

cannot do without the other. Strengthening this linkage requires, in many countries, decentralization through the promotion of medium-sized cities and hierarchical networks of places. These can increase the accessibility to agricultural inputs by rural producers while at the same time provide the necessary marketing infrastructure such as bulk collection points and periodic markets. An effective rural-urban linkage development program has great potential in reducing the pace of migration from rural to urban areas and in delivering balanced territorial development. Small and medium sized towns serve as nodes for economic growth when they are well linked to each other and to larger urban centers. They offer not only markets for farm produce, but also seasonal off-farm employment to the rural poor and landless—people who would otherwise flock to the slums in the ever-expanding capital cities.

It is clear that policies that encourage horizontal and vertical linkages among settlements at the subnational, national, and international levels lead to the increased viability of small towns and rural regions. It is, therefore, no longer a question of how rural areas and towns will integrate into the national economy, but how they do so in the global economy as well.

PROGRESS IN IMPLEMENTATION AND JUSTIFICATION FOR
ENHANCED INTERNATIONAL SUPPORT

Judging from what is being written and done around the continent and from the experience of UN-HABITAT in the region, Africans are waking up to the possibilities offered by urbanization. They are turning a problem into a solution in concrete ways. I believe these are precisely the types of initiatives that warrant the attention of the international community. Supporting African initiative is not only a good investment for Africa, but it is also a good investment for global security and economic development. Mr. Chairman, consider, in the time remaining, a few initiatives currently underway on the continent.

- Nigeria, Burkina Faso, Uganda, and South Africa have launched campaigns on urban governance and secure tenure. This has led to changes in policy and practice. In Nigeria, for example, the federal government is strengthening its 36 state governments and 774 local authorities by giving them greater fiscal autonomy and greater support through a newly created Ministry for Urban Development.
- In Burkina Faso, the government is promoting the regularization of land tenure and promoting a poverty reduction strategy within urban areas. Namibia is the first country in sub-Saharan Africa to introduce block title, an alternative form of security of tenure that protects the urban poor from dislocation and satisfies the needs of private banks for verifiable collateral.
- In South Africa, a partnership between the government, local authorities, and NGOs like the South African People's Federation has been working hard to find solutions to problems of inadequate housing and landlessness. Through a policy mix of security of tenure, public savings schemes, and community participation, the South African Government has managed to provide over 1 million houses, while the community water supply program has also increased its delivery of water connections from 62,249 in 1995 to over 6 million in 2000.
- More recently, the Kenya Government has embarked on the Kenya Slum Upgrading Program which is targeting slums nationwide and includes upgrading Kibera, one of Africa's most notorious slums. This initiative is based on a strategy that includes the provision of land and security from the government, capacity and personnel from UN-HABITAT, financing from agencies like Cities Alliance, other bilateral donors and, finally, savings schemes involving the poor themselves. It also introduces innovative financing mechanisms that build on community savings organizations and microfinance institutions to tap domestic private capital from pension funds and insurance companies. The project, which is being designed in phases, will begin with the provision of basic infrastructure, especially clean water and adequate sanitation.
- In Mozambique, the government has committed itself to establishing a post conflict strategy that addresses the needs of all urban communities. Efforts are underway to prepare a territorial planning policy and a housing policy that will complement the existing Land Law and Autarchic Law. This exercise includes researching into the existing land tenure and land market options with a view to design locally relevant forms of security of tenure and market access to land. In terms of national urban planning, it will also include integrated solutions linking urban and rural settlements.
- In Tanzania, a "Cities Without Slums Initiative" has been launched under the Cities Alliance Framework and linked to the financed urban upgrading initiative of the World Bank Group. The new President, Jakaya Kikwete, has defined

as a key policy priority the revival of housing finance mechanisms that can reach low-income households with affordable mortgage finance. The Bank of Tanzania, the Ministries of Finance and Housing (Lands and Human Settlements), and the Association of Bankers work on the standing committee of the second generation financial sector reforms to translate this political priority into policy reform and affordable housing loan products.

- South Africa, which has been a leader in providing decent housing to its peoples, is now working with support from the United States to establish primary and secondary mortgage institutions.

INVESTING IN HOUSING AND URBAN INFRASTRUCTURE IN AFRICA

Mr. Chairman, I would like to conclude by underscoring the importance of investment. Advocacy and capacity-building is essential but so too is financial follow-through that can realize sustainable urbanization and housing at scale.

There is not enough money in the world available to upgrade all the slums in Africa. In a recent simulation it was estimated that meeting the MDG Goal 7 Target 11, of improving the lives of 100 million slum dwellers by 2020, could cost anywhere between an estimated \$70 billion to over \$100 billion over 17 years.¹

Clearly, such figures are prohibitive. No aid mechanism could begin to provide enough resources. In fact, it has been estimated that in recent years, the total combined overseas development assistance, public and private investment set aside for low income housing in developing countries and related infrastructure is estimated to be less than \$4 billion.

But Africa is not seeking charity. What is required is the design and innovation of financing mechanisms that allows for the full participation of slum dwellers, the private sector, and the international community.

Alarmed at the rate of slum formation in the developing world, including Africa, in 2001 the U.N. General Assembly, while transforming UN-HABITAT into a fully fledged program, called upon its executive director to revive and revitalize the Habitat and Human Settlements Foundation, established since 1974 as a Global Shelter Facility, but regrettably to date yet to be capitalized.

As a follow-up to this GA decision, UN-HABITAT has launched a pilot slum upgrading facility, SUF, to field test workable models for pro-poor housing and urban infrastructure development finance. Established through funding from the United Kingdom and Sweden, the new initiative offers technical assistance and limited bridge financing to scale up the innovations slum dwellers and banks. Specifically, it seeks to develop financial instruments that can help make slum upgrading projects more attractive to private investors. The SUF will draw from emerging innovations by slum dwellers in the form of daily savings associations and self-help groups to show that even the poor can help finance their own progress and development. After all, it is a well-known fact that the poor pay more per square meter for a room. They pay between 10 to 100 times more for water, and are known to spend up to 15 percent of their monthly incomes on accessing toilet facilities. UN-HABITAT rental studies in the slums of Nairobi have also established that those who invest in slums and own the shacks rented out to the poor make excessive profits. The payback period for slum real estate investors in Nairobi was established to be only 9 months on average. With 80 percent of slum dwellers in Nairobi as tenants, this is not small business and slum landlords own several hundred shack units. This does not only expose exploitation of the poor and resistance to slum upgrading by those who stand to lose their huge profits, but also shows that decent rental or cooperative housing could be organized provided there is political will to do so by getting initiatives like the SUF off the ground and to appropriate scale.

Clearly, initiatives like the SUF, if they are to mobilize and capitalize on savings from the poor, will need to tackle complex issues of land, housing, water, and large-scale infrastructure investments. But with legislative reform, it is possible to encourage banks to take a larger role in lending to slum upgrading projects. What is required is a process of making the banks understand that the poor pay back their loans and pro-poor housing investments are bankable.

The slum upgrading facility is part of a larger series of actions that UN-HABITAT is taking to establish trust funds and financing mechanisms to fund slum upgrading initiatives. For example, much of the funding for Water for African Cities

¹This simulation has estimated that the average cost of providing housing and the full range of basic urban services on new sites in developing countries is \$1,759 per person, or \$926 net of cost recovery. For slum upgrading, the full cost is \$1,187 per person, or \$773 after cost recovery. Costs are divided across broad intervention types, after cost recovery, as—house and land (17 percent), infrastructure (41 percent), social services (34 percent) and planning (9 percent).

reviewed above is now coming from a trust fund established specifically for the purpose of supporting investment in water and sanitation projects.

One of the most innovative solutions to human settlements problems in urban areas was a recent and unprecedented debt for land swap brokered by UN-HABITAT. Briefly, the Kenya Government was forgiven debt by the Government of Finland on condition that they provided public land for the specific purpose of housing the urban poor. To ensure that the land goes to the target group, land was allocated to the slum upgrading program in trust to the eventual beneficiaries. This could provide an excellent model for future debt swap that could directly benefit the homeless.

STRATEGY 8: FORGING STRATEGIC PARTNERSHIPS

Distinguished Senators, I would like to conclude my statement by focusing on strategic partnerships. UN-HABITAT is responsible for coordinating the implementation of this agenda for sustainable urbanization that I have outlined, what we refer to as the "Habitat Agenda." As a small agency with a huge mandate, our task is to form strategic partnerships with sister U.N. agencies, international financial institutions, and key member states, not least the Government of the United States. We view ourselves as honest brokers that utilize the convening power of the United Nations both to raise awareness and harness the political will and technical competency to address the daunting urban challenge of the 21st century.

Regarding post-conflict and post-disaster reconstruction, we partner with the Office for the Coordination of Humanitarian Agencies (OCHA), serving on the executive committee of Humanitarian Agencies (ECHA), and working as housing focal points on United Nations Country Teams. We have a memorandum of understanding with the UNHCR to move from tents to permanent housing in several post-conflict settings. UN-HABITAT has served as an implementer of USAID housing projects in Afghanistan.

Concerning security of tenure and property rights, we work closely with the World Bank in a partnership known as the Cities Alliance, cochaired by UN-HABITAT and the Bank. A senior professional of our staff serves as an expert on forced evictions and slum upgrading at the secretariat of the Cities Alliance in Washington. We work with the World Bank and FAO on Land Tool Network, and I serve as an advisor to the Commission for Legal Empowerment of the Poor, chaired by Madeline Albright. The Water for African Cities and Lake Victoria Initiative, as mentioned, bring together the African Development Bank, FAO, ILO, and potentially in the future, USAID. Our global campaign on good urban governance and a myriad of urban management programs has nurtured the African Ministerial Conference on Housing and Urban Development to establish the United Nations Advisory Group on Cities and Local Authorities. The United Nations Habitat and Human Settlements Foundation and its Slum Upgrading Facility are built on partnerships with all major international financial institutions, including the World Bank, USAID Development Credit Authority, and the Private Infrastructure Development Group (PIDG). We have, as well, worked closely with the U.S. Department of Housing and Urban Development to promote private lending for affordable housing through high-level peer exchanges that have offered partners in the private sector and government to learn from the housing experience in the United States. In our efforts to address urban safety and security through our Safer Cities Program, UN-HABITAT works in close cooperation with the United Nations Office of Drugs and Crime. The rural-urban linkages initiatives to promote balanced, territorial development benefit from close collaboration with FAO and ILO.

In summary, UN-HABITAT assists member states and their partners at community, municipal, and national levels. We work in partnership with other multilateral agencies, development banks, and bilateral development agencies, as well as with federations of slum dwellers and with private sector entities. We also work in partnership with other U.N. agencies. To increase our effectiveness, we need international support to scale up such initiatives, and that is why I have appreciated very much this opportunity to present to you both the problem and also our work.

Mr. Chairman, let me conclude by thanking the distinguished Senators and professional staff for your kind attention—and by inviting you to attend the third session of the World Urban Forum in Vancouver, Canada, from 19–23 June 2006. This open U.N. meeting for the world to take stock of the progress and challenges in the implementation of the Habitat Agenda and advance a shared mission of adequate shelter for all, and sustainable human settlements development in an urbanizing and globalizing world. I was so pleased to get confirmation earlier this week that Honorable Secretary of Housing and Urban Development, Alphonso Jackson, will lead the U.S. delegation to the forum that is expected to attract over 8,000 partici-

pants from all over the world. It would be good to have some of you there to join the global parliamentarians for Habitat to make your mark on the noble mission of shelter for all.

I thank you very much.

Senator FEINGOLD. Great. Thank you very much, Dr. Tibaijuka. And we will try to get the details of the Urban Forum. I think it would be something I would love to attend if it was in any way feasible for me to do so. And perhaps, the ranking member and I, who have been wanting to find a way to go to Africa, maybe this would be a great way to do it. And so, thank you.

Some of the things you have pointed out to us are remarkable indeed and I would look forward to a few questions as soon as we hear from Mr. Reckford.

Mr. Reckford, we'll hear your remarks at this time and thank you very much for being here and for waiting.

STATEMENT OF JONATHAN RECKFORD, CHIEF EXECUTIVE OFFICER, HABITAT FOR HUMANITY INTERNATIONAL, AMERICUS, GA

Mr. RECKFORD. Great. Good afternoon, Mr. Chairman, ranking member Feingold, and members of the committee. We're grateful for this opportunity to share with you the plight of millions of people in Africa who lack adequate shelter and to make recommendations for addressing this growing crisis.

Before I begin, I want to acknowledge my fellow panelists from UN-HABITAT, as well as USAID, and Housing and Urban Development. With operations in the United States and nearly 100 other countries, Habitat for Humanity has partnered with HUD, USAID, and UN-HABITAT in many shelter programs around the world.

Habitat for Humanity, itself, has been building decent homes with African families for 30 years now. In fact, the first Habitat for Humanity house was built in Zaire—now the Democratic Republic of Congo, in 1976.

As of January 2006, 235 local Habitat for Humanity affiliates have built more than 35,000 homes in 21 African countries. We have developed a successful housing delivery model, which relies on community engagement, mutual help, sweat equity labor from volunteers and homeowners, inflation linked housing finance, and appropriate housing design.

I had the opportunity to visit both some of our rural and urban projects last year when I visited Habitat for Humanity projects in Ghana, South Africa, and Egypt. In Ghana, I had the privilege of meeting Bernard Botwe and his wife Joanna, who were the very first Habitat home owners in Ghana. And Bernard is now a hospital administrator, 18 years later, and it's very touching. They have moved up and are doing very well, but he's held on to his original Habitat house and is very active in helping other families now get into decent housing. But he's a shining example of the difference that both secure tenure and a decent shelter can make in transforming the lives of families.

From Ghana I went to Johannesburg, Cape Town, Durban, and Cairo, where I encountered truly, abysmal housing conditions that people are enduring near the heart of these large cities.

That's why I am pleased to be here today with you, to talk about both housing and urbanization issues in Africa and to work with you and our fellow panelists to identify solutions.

To that end, I would like to address three issues: the growing problem of urbanization in Africa, the ramifications of urbanization on those who live in the informal settlements, and Habitat for Humanity's recommendations on how the United States and the international community can address these challenges.

First, many people in the developing world now benefit from better health, education, and general well-being. But many more have been left outside of the development process. While African economies have grown by nearly 5 percent over the last decade, the current rate of growth will bring an increase, not a decline, in poverty over the next 10 years.

For the most part, the urban poor have been overlooked by any measure of progress in their cities. In the few cases where land is provided, it's poorly located, beyond the range of social services and employment. Therefore, the majority of people who need housing in urban areas, must settle in informal settlements that are closer to possible employment and public transportation, but often unsuitable for human habitation. They don't have legal property rights, basic services, or even proper building materials, in many cases. They settle wherever they can find space, as long as the site is marginal enough to deter displacement and close enough to transportation and employment opportunities. These informal settlements soon became established communities with poorly constructed houses, overcrowded conditions, and either inadequate or no public services.

Second, the urbanization of poverty has numerous ramifications. Densely populated urban settlements, such as the one you just heard about, are breeding grounds for illness and disease. But decent housing makes a significant difference. An Emory University study indicates that children under 5 living in Habitat for Humanity houses showed a 44 percent reduction in malaria, respiratory, or gastrointestinal diseases, compared with children living in substandard houses in Malawi. The researchers concluded that the effect of improved housing on the health of young children was as high as that of water and sanitation programs. With irregular incomes, food is sometimes scarce; yet, there are rarely opportunities for self-sustaining urban agriculture. These families lack access to social facilities such as schools, clinics, and libraries.

For the United States, helping the world's poor develop has become a national security issue as well. According to the 2002 National Security Strategy, and I quote, A world where some live in comfort and plenty, while half of the human race lives on less than \$2 a day, is neither just nor stable. Including all of the world's poor in an expanding circle of development and opportunity is a moral imperative and one of the top priorities of U.S. international policy, end quote. And yet housing remains an underserved area in the field of international aid and development.

For example, none of the eight Millennium Development Goals directly addresses the lack of affordable housing. Although there's a focus to improve the living conditions of at least 100 million slum dwellers by 2015, the development of new or improved housing is

not mentioned as a means of meeting that end. Also, housing is not one of the major sectors identified by the African Development Bank. And the focus given to housing by U.S. foreign assistance has dramatically declined in recent years.

For many years, USAID had a housing guarantee program that annually provided \$100 million in loans to developing countries. In addition, it staffed a network of regional offices that provided assistance in housing policies and programs with particular attention to the needs of lower income groups. And these programs have been essentially eliminated.

Housing, however, is a key instrument for generating wealth and stability in developing countries, including those in Africa, and thereby alleviating urban poverty. My earlier story of the first Habitat for Humanity homeowner in Ghana, is just one of many, many anecdotes of families being economically transformed by a decent home.

According to the World Bank, strengthening poor people's land rights and easing barriers to land transactions can illicit a range of social and economic benefits including the empowerment of women and other marginalized people, and more rapid economic growth. Last thing, in light of these findings and Habitat for Humanity's experience in Africa, I'd like to point out three critical changes that can impact urban poverty housing. One, we must improve land tenure and property rights systems for the poor, as I said earlier, so they can secure occupancy and then collateralize their assets to obtain loans for education and enterprise creation. Second, local governments must provide services and infrastructure to poor communities in informal settlements and slums. And third, it's critical to secure affordable urban land in appropriate settings, so Habitat for Humanity and other organizations can build desperately needed housing for low-income families.

Habitat for Humanity recommends the following two significant actions this committee can take to address the issue of poverty housing in Africa. First, reestablish housing issues as a major priority of the U.S. Government foreign aid package by allocating more funding to USAID and other agencies for programs that address affordable housing, city planning, service delivery, financing—especially microfinancing for the poor, and local economic development. And second, create a commission to study the critical issues of affordable housing, especially urban poverty and slums and seek ways to improve the lives of the millions of people worldwide in need of adequate and affordable shelter. With funding support, Habitat for Humanity is prepared to lead both this comprehensive study of the impact of housing on poverty reduction and the monitoring process to support policies that encourage increased access to affordable shelter.

Mr. Chairman and ranking member, this hearing is an important step in what could be a significant and successful effort to address poverty housing in Africa. Your invitation for this panel to present recommendations is evidence of this committee's recognition of the critical role housing plays in international development.

Thank you again for this opportunity to share these recommendations. Habitat for Humanity looks forward to working

with this committee to ensure that people in Africa and around the world have access to safe, decent, and affordable housing.

I'd be pleased to answer any additional questions you might have.

[The prepared statement of Mr. Reckford follows:]

PREPARED STATEMENT OF JONATHAN T.M. RECKFORD, CHIEF EXECUTIVE OFFICER,
HABITAT FOR HUMANITY INTERNATIONAL, AMERICUS, GA

Good afternoon, Mr. Chairman and members of the committee. I appreciate this opportunity for Habitat for Humanity to share with you the plight of millions of people in Africa who are without adequate shelter and to make recommendations on policies and actions to address this growing crisis.

Before I begin, I want to acknowledge my fellow panelists from the U.S. Department of Housing and Urban Development, the U.S. Agency for International Development, and UN-HABITAT. With operations in the United States and nearly 100 countries around the world, Habitat for Humanity has been privileged to partner with HUD and USAID in many shelter programs around the world.

In addition, we have a strong and growing relationship with UN-HABITAT, including an agreement of cooperation signed in September 2004 to work together to upgrade slums, improve housing conditions, and provide basic human services, particularly in countries ravaged by political unrest and natural disaster.

Regarding Habitat for Humanity's own work, we have been supporting families in Africa to increase assets through affordable housing for 30 years. In fact, the first Habitat for Humanity house was built in Zaire—now the Democratic Republic of Congo—in 1976.

As of January 2006, more than 35,000 affordable houses have been built in 21 African countries in partnership with our national organizations and branches and through 235 local affiliates. A successful housing delivery model has been built based on a community-based approach, mutual help, sweat equity through labor provided by volunteers and homeowners, inflation-linked housing finance, and appropriate housing design.

While I am here today to speak mostly about housing in urban settings, I do want to emphasize that programs with a rural focus remain an extremely important part of Habitat for Humanity's mission. However, in recent years, Habitat for Humanity has begun to strategically focus on urban housing in response to the rapid growth in slums at the periphery of every major African city.

I had the opportunity to see some of our rural and urban projects last year when I visited Habitat for Humanity programs in Ghana, South Africa, and Egypt. In Ghana, I met Bernard Botwe and his wife Joanna. They and their two children were the first Habitat for Humanity homeowners in the country. Now, 18 years after their humble beginnings in their Habitat for Humanity home, Bernard is an administrator at a hospital and rising in his career—a shining example of the difference that secure tenure and decent and affordable shelter can make in the lives of families.

From Ghana I traveled to Johannesburg, Cape Town, and Durban and on to Cairo, where I saw firsthand the rundown, ramshackle, and decrepit conditions people live in near the heart of what are otherwise beautiful cities.

And this is why I am pleased to be with you today, to talk with you about housing and urbanization issues in Africa and to work with you and my fellow panelists to identify solutions.

Specifically, I want to spend my time with you to address three broad issues: the growing problem of urbanization in Africa, the ramifications of urbanization on those who live in the informal settlements, and Habitat for Humanity's recommendations on how the United States and the international community can help address these challenges.

AFRICA'S URBAN HOUSING CRISIS

While it can be acknowledged that substantial numbers of people in the developing world now benefit from better health and education, and from attaining personal well-being in a more prosperous world, significant numbers have been left outside of the development process. African economies have been growing by close to 5 percent over the last decade and democracy has been gradually taking root, according to the United Nations Development Program. Yet at the current rate of progress, poverty in Africa will increase over the next 10 years instead of being halved. This makes African countries unlikely candidates for more conventional forms of development cooperation in the new U.S. foreign aid framework.

Within this century, Africa will shift from a predominately rural continent to an urban one. More than half of Africa's nearly 750 million people will live in cities within 20 years. And as nearly 70 percent of the rural population is expected to migrate to cities, the combined population of African cities is expected to double every 14 to 18 years, according to the United Nations. Because most of these people are coming into the city from poor rural regions to find work, opportunities, and a better life, they bring very little with them but their hopes and dreams. As a result, the systems that have traditionally held cities together are failing.

What does poverty look like in the cities? I think we have all witnessed it. For the most part, the urban poor are left outside of the progress in the cities. In the few cases that land is provided by the governments for the masses of people entering the city each day, it is poorly located, out of the range of social services and employment, and too expensive for the poor to acquire. The majority of people who need housing in urban areas in Africa, therefore, settle in informal settlements that are closer to possible employment and public transportation, but often unsuitable for human habitation. They do not have legal property rights. They do not have basic services. They usually do not even have proper building materials. They build shelters using the materials they can obtain.

It has been reported that households generally allocate 10 to 15 percent of their income to shelter—whether it's a tent, a hut, or collection of discarded materials or an abandoned car. They settle wherever they can find space—on pavements, ravines, garbage dumps, or drainage channels—as long as the site is marginal enough to deter displacement and close enough to transportation and employment opportunities. Even if their incomes rise, they won't increase their allocation to shelter above 15 percent unless they have some security of occupancy as owners or renters.¹

These informal settlements soon became established communities—communities of families living in poorly constructed houses, in overcrowded conditions, and with inadequate infrastructure services. And the number of these communities continues to grow each day.

RAMIFICATION OF URBANIZATION

There are numerous ramifications to this rapid growth of urban poverty—from the individual level to the global.

Densely populated urban settlements with poor sanitation, vermin, and poor shelter from the rain are ripe breeding grounds for illness and disease. An Emory University research study on Habitat for Humanity's work in Malawi provided evidence of the impact of improved housing on social indicators. Children under 5 living in Habitat for Humanity houses showed a 44 percent reduction in malaria, respiratory, or gastrointestinal diseases compared to children living in traditional houses. The researchers concluded that the effect of improved housing on the health of young children was as high as that of water and sanitation programs.²

With irregular incomes, food is sometimes scarce; yet there are rarely opportunities for self-sustaining urban agriculture. As residents of informal settlements, these families lack access to social facilities such as schools, clinics, libraries, and recreational facilities. This often leads to a survival of the fittest mentality, with communities competing for scarce opportunities and resources.

The lack of secure tenure also contributes to the inhabitants' inability to invest privately in their own home or in public infrastructure. Thus, the potential for social stabilization and wealth creation is absent.

For the United States, helping the world's poor develop has become a national security issue as well. As is stated in the 2002 National Security Strategy and reinforced in the 2006 strategy, "A world where some live in comfort and plenty, while half of the human race lives on less than \$2 a day, is neither just nor stable. Including all of the world's poor in an expanding circle of development—and opportunity—is a moral imperative and one of the top priorities of U.S. international policy."

And yet housing—a stabilizing force in its own right—remains an underserved and often ignored area in the field of international aid and development. While education, health, the environment, good governance, and economic growth—all sectors that are critically connected to and dependent on adequate housing—are addressed in bilateral, multilateral, and nongovernmental organization strategies for development, housing is not.

Let me give you a few examples.

¹The Center for Urban Development Studies, Harvard University Graduate School of Design, Housing Microfinance Initiative, May 2000.

²Wolf et al., The Effect of Improved Housing on Illness in Children Under 5 Years Old in Northern Malawi: Cross Sectional Study, *BMJ* 322; May 19, 2001.

- None of the eight Millennium Development Goals (MDGs) adopted by a majority of the world's countries at the U.N. Conference in 2001 and all of the leading development institutions, directly address the critical issue of lack of affordable housing. Although Goal 7 Target 11 of the MDGs focuses on improving the living conditions of at least 100 million slum dwellers by 2015, the development of new or improved housing is not mentioned as a method to meet that goal.
- Housing is not one of the major sectors identified by the African Development Bank, and they made no loans or grants in the area of urban development between 2001 and 2003.
- The focus given to housing by U.S. foreign assistance has dramatically declined in recent years. For many years, USAID had a housing guaranty program that provided \$100 million or more each year in loans to developing countries and a network of regional offices that provided assistance in housing policies and programs with particular attention to the needs of lower income groups. These programs have essentially been eliminated.

With the increasing needs, both in Africa and globally, for improved housing and the specific challenges faced with the rapidly increasing population of urban poor, an increased focus on housing is a critical need.

The inhabitants of these informal settlements possess focus, talent, and enthusiasm. The rise in the large informal sectors in urban areas of the developing world, including Africa, is evidence of the abundant entrepreneurial capacity of those who reside in these areas. And they have an astonishing ability to wring a profit out of very little.

The value of savings and assets they have accumulated is immense—calculated to be as much as 40 times the foreign aid received throughout the world since World War II.³ Unfortunately, these assets and resources are held in defective forms—such as houses built on land with no recorded ownership rights, that are unserviced, poorly managed, and with little appreciable value.

Housing, however, presents a key instrument for generating wealth and stability in Africa and thereby alleviating urban poverty. For example:

- Housing provides a fundamental precondition to personal wealth creation. It provides the collateral necessary for credit and the development of local and national financial institutions.
- Housing provides a nexus for economic development by providing access to an array of construction jobs, which enables recent migrants' entrance to the urban economy. It also provides a stimulus to the production of construction materials, construction services, and housing related to enterprise development.
- Finally, housing is the locus of individual, familial, and community stability. And it can be the catalyst for social and democratic development.

The success story of the first homeowner in Ghana, as I mentioned earlier, provides anecdotal evidence of these facts.

In addition, World Bank policy research indicates that strengthening poor people's land rights and easing barriers to land transactions can set in motion a range of social and economic benefits including improved governance, empowerment of women and other marginalized people, increased private investment, and more rapid economic growth.⁴

CRITICAL NEEDS AND RECOMMENDATIONS

These findings and Habitat for Humanity's experience in Africa leads me to point out three critical changes that can impact urban poverty housing:

- First, we must improve land tenure and property rights systems for the poor so they have security of occupancy and the ability to collateralize these assets to obtain loans for education, enterprise creation, and other life-enhancing pursuits.
- Second, local governments must provide services and infrastructure to poor communities in informal settlements and slums.
- Third, it is critical to secure affordable urban land in appropriate settings so Habitat for Humanity and organizations like ours can build communities of low-income housing that allow people to become healthy, contributing members of society.

³DeSoto, Hernando, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books (2003).

⁴World Bank; *Land Policies for Growth and Poverty Reduction*, Volume 1; June 2003.

With these broad goals in mind, Habitat for Humanity recommends the following two significant actions this committee can take to address the issue of poverty housing in Africa.

- Reestablish housing and shelter issues as a major priority of the U.S. Government foreign aid package by allocating more funding to USAID and other agencies for programs that address affordable housing, city planning, service delivery, financing—especially microfinancing for the poor, and local economic development.
- Create a commission to study the critical issues of affordable housing, especially urban poverty and slums, and seek ways to improve the lives of the millions of people worldwide in need of adequate and affordable shelter. With funding support, Habitat for Humanity is prepared to lead both this comprehensive study of the impact of housing on poverty reduction and a monitoring process to support policies that encourage increased access to affordable shelter.

CONCLUSION

Mr. Chairman, this hearing is an important step in what could be a significant and successful effort to address poverty housing in Africa. Your invitation for this panel to present recommendations is evidence of this committee's recognition of the critical role housing plays in international development.

I thank you again for this opportunity to share these recommendations. And Habitat for Humanity looks forward to working with this committee to ensure that people in Africa and around the world have access to safe, decent, and affordable homes. I would be happy to take any questions you might have.

Senator FEINGOLD. Thank you both for your presentations. If it makes you feel any better, when lawyers go for the Supreme Court, they prepare very carefully their presentations. Within about a minute, they are interrupted with questions and never get to finish them.

So anyway, I appreciate it. And you know, the Chairman has a tremendous background obviously in the housing area. I've been a member of this subcommittee, now it's my 14th year. So together, we do care about the valuable information you provided us. He necessarily had to leave. So, I am going to ask a few more questions before concluding the hearing.

First, a more general question for both of you. You've painted an important picture for us. I guess my base question is what are the priorities? Given that resources are finite, my question for you is where do we begin? I appreciate all the work that's going on, but do we start with infrastructure? Do we start with rural economic development to prevent migration to urban centers? Do we start with appropriate legal systems or frameworks? And I realize that, you know sometimes you do more than one thing at a time. But realistically, lay out for me what an appropriate sequencing of programs would look like. And let's start with Dr. Tibaijuka.

Dr. TIBAIJUKA. Thank you. Mr. Chairman, I narrated in my presentation, a simple package of clear interventions on the normative and operational front. The normative front is very important, because you have to put the policy environment right for decent housing to emerge at any scale, whether that is financed by the homeowners themselves or that is rental housing, but the legal framework has to be there. And that's why in our work we approach a policy framework as part of good urban governance. Because without that, it would be very difficult.

The many banks in Africa are swamped with excess liquidity. It is not always shortage of money. It is shortage over environment in which investments can take place. So, when you pair along with that, you build into institution building. The institutions are not in

place. And without the institutions it becomes very difficult to move to scale. You can have small pilot projects here and there, but from the United Nations perspective, we are talking about the Habitat Agenda, which is adequate shelter for all. So, scale matters.

And for scale to matter, we need institution building. So, that's why technical assistance, capacity building, and policy reforms become important, then to unleash and make it possible to invest in housing. So when the policy environment is right, the institutions are supported. Then we need realty investment. And that investment could also come very easily from the private sector. There is much that needs to be overcome and that's where the countries—the leading countries like the United States—come in. Because for example, the biggest challenge to creating enhancement in Africa and you know, international participation, is the foreign exchange risk. Because if you bring dollars into African economies, after some time it can be very tricky. So you have to give local currency—you know, loans. And that is a very key issue on which we are looking for solutions to go around this.

But therefore I would like to say, to answer the question, is that we need both the hardware and software of things. And the software of things is the policy, the institutions, and then the investment.

Senator FEINGOLD. Well said. Very well said. Mr. Reckford

Mr. RECKFORD. Sir, we would certainly support that. I think there are two sides from our perspective, as well. One side is really on demonstrating we would stipulate that if we're serious about poverty, we would certainly support that we need to deal with water issues, food issues, education, and healthcare. What we would like to—what we have seen overwhelmingly, is that decent shelter becomes a precondition or an enabler of all of those in other improvements. And so, we would like, on a very practical side, to in a comprehensive way globally, to demonstrate and prove that case to move more international assistance into shelter, so that we create more permanent transition for families out of poverty.

And so, we would be pleased to help in that process of first, proving the case for how shelter does break the cycle of poverty. And then on the second side in supporting the policy is, we are trying to create a global housing index, which would then monitor these housing policies country by country and try to create some accountability for good housing policy and changing the conditions that allow more creation of affordable housing.

Senator FEINGOLD. Now, I've seen how those indexes or indices can work very well as has with the Transparency International and others. It's really something I've found useful in my work, especially with African countries.

Shouldn't there be concern about potential unrest or violence when developing initiatives to reduce slums? If so, how are these concerns or threats being reduced? And if not, why do you think this is so?

Dr. TIBAIJUKA. Yes. I would like to say, that indeed when you have very high concentrations of you know, populations and very precarious and appalling living conditions, things can become very tricky. In fact, some upgrading itself was a highly political activity.

We are trying to—that's why I emphasized in my presentation the role of governments, but who are the heads of states. In many African countries we are encouraging the head of state to be himself—now we have one lady and maybe herself—a patron of the slum activity. Because people are surviving, slum dwellers are very hardworking and decent people. They take care of themselves, as I have already testified. But they can be easily manipulated. A number of young people in slums are sucked into unsocial behavior and not because they are decided by the people, but because of violence and a lack of alternative activity.

So, we would like to say that—I talked about safety and security, and that's why it is in the interest of following the word of advice: to empower the urban poor. The urban poor not clearly knows, but of course, if people idle they can be easily distracted.

I would like to say that in our approach on the—our Global Campaign for Security of Tenure, we encourage city governments to enter dialog with urban poor. Because the urban poor need to be empowered, not be harassed. They should be supported because they are trying to survive and they have adopted very ingenious survival strategies, themselves. So when you dialog with them, you can go very far. You can locate them sometimes. For example, if you can see the one in Kibera, they are just staying very near anyway. There is a case for relocation of that population. But we do not support the United Nations in our campaigns. We do not support arbitrary forced evictions.

I was recently working in Zimbabwe on that very difficult question. What we recommended is a dialog, so that you can listen to people, you know by balancing interest of all parties. So, a win-win situation for everybody. Otherwise, they can become quite chaotic.

Senator FEINGOLD. Thank you. Mr. Reckford.

Mr. RECKFORD. One of the reasons we're so passionate about home ownership is because we see that when people own a home and then have a stake in their community, it changes that view. And so, we strongly support Secure Tenure, because we see the evidence. We believe very much in the ability of people to solve their own problems if they're given the chance. So, small home improvement loans as well as building houses, so that the combination of very small amounts of capital available with Secure Tenure, these are very entrepreneurial people and then can actually change these communities quite dramatically. And the problem is, if they are moved to places where they don't have access to transportation and jobs, it doesn't solve the problem and then we end up in the same cycle.

But what we have seen, there is a wonderful study in Argentina that was done accidentally. They tried to give Secure Tenure to an entire settlement and only about half of the homeowners received legal title, the other half didn't. So, you had a 20-year horizon where half of a community had security in their homes and the other half never knew if they could stay. It was fascinating. Over 20 years, not only were the homes dramatically improved on all the markers of quality of life, education, success of their children, and health that half of the families did better as well—

Senator FEINGOLD. What—the one's with the tenure?

Mr. RECKFORD [continuing]. That owned the—that had security in their homes.

Senator FEINGOLD. Well finally, are you hampered by domestic or foreign legislation outside of issues of lack of funding that prevent you from completing or more successfully implementing your programs?

Dr. Tibajuka.

Dr. TIBAJUKA. Mr. Chairman, the legislation, as I said, there are areas where sometimes the legislature, their framework is not enabling you on the table to do your activities. Now for us, as the United Nations agents of course, we work across—we work on all parts of the world and we can—we are discussing Africa today, but we are also working in Latin America, where there are also a set of challenges. Particularly, the land ownership there in most of the municipalities don't own most of the land. The land belongs to some families and you know, regularization becomes a trick activity. If the mayor tries to do something, it can be easily taken to court and you know to win the case, it is very difficult in many cities in Latin America, for example, to put up what we normally recommend, the prohibitive tax to be able to take away people who are just absentee owners of land which are now for villas. But you will find that sometimes the judicial systems are maybe conservative, so that they may not win the case, and then it becomes very difficult.

In Africa there is a lot of public land, but the problem's infrastructure, it can be very restrictive. That land is available but it is far away and there is no infrastructure to come into the business district, so people don't want that land. As the United Nations, we adapt ourselves to the laws of the land. But where the laws are restrictive, we try to advocate to promote a more progressive regime.

Senator FEINGOLD. Thank you.

Mr. Reckford.

Mr. RECKFORD. What we're finding is a full range, as you look worldwide, you know, at where we are, there are places of where the governments are a wonderful partner in the solution. I think there are also places where it would be safe to say, we are almost working in spite of the conditions or doing our best despite conditions.

The biggest places for us would be around issues of getting title to build with families. So actually being able to—it's not finding land, but finding land that will be secure. And then in the urban areas, it is actually just finding land period, increasingly, to be able to build on. And we're finding at the extremes, governments that say everyone should have a free house and then don't do anything about it, sort of create a disastrous environment for attempting to create an ownership society and with accountability.

At the other extreme, systems, or level of enforcement, or judicial issues that really are stacked against the poor being able to own property of any kind and lots of manipulation in those processes. But it is—so we think it's both—I mean, that we recognize at Habitat, our primary role is to work with these families to build as many homes as possible. But increasingly we're finding if we don't get involved in advocacy to impact the conditions that are causing

poverty housing, we're losing ground despite the tens of thousands of homes we build.

Senator FEINGOLD. Well first to conclude, let me thank Chairman Martinez for his leadership in calling a hearing of this quality, on this issue. Second, I want to thank all the panelists, not only for your leadership in this area, but your testimony. But also, for your patience today with the somewhat confused hearing in terms of the back and forth.

But third, let me just say that even though I've a lot more to absorb on this, having worked on issues related to Africa for 14 years, having been I believe, to Kibera, having seen places like this in Cape Town, and in Angola, Ghana, and other places. It is helpful, encouraging, to hear people talk about ways that we might make this better, make it work. Because that's one of the hardest things when you're in Africa—to see those slums. It just gives you a feeling sometime of hopelessness. And your testimony today combats that and so I'm inspired by it, I appreciate it. And I know the Chairman feels the same way, as well.

So, we look forward to working with you. That concludes the hearing.

[Whereupon, at 4:04 p.m., the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

RESPONSES OF JONATHAN RECKFORD AND DARLENE WILLIAMS TO QUESTIONS SUBMITTED BY SENATOR OBAMA

HOW IS THE U.S. GOVERNMENT ORGANIZED?

Question. As this panel points out, the causes of housing and urbanization problems stem from a range of factors—poverty, lack of government capacity, stagnation of rural income level, employment opportunities in urban areas, lack of political will to tackle the issue, high fertility rates, and underdeveloped property markets and finance systems.

I could go on but this gives you an idea of complex factors involved. These factors cut across a number of different agencies in our foreign assistance structure from AID to Treasury to the State Department to HUD to OPIC.

I have made the point in previous hearings that our foreign aid structure is increasingly disjointed. In the panel's view, is the U.S. Government properly organized to deal with these complicated, cross-cutting issues? Is there an effective strategy? Is there proper coordination?

Answer by Jonathan Reckford.—In recent months, the administration has been moving to reform the foreign aid structure and the strategic direction of foreign assistance to improve coherence. This is still an on-going process making it difficult to comment on the structure of an emerging aid framework. The new perspective, however, is to define the challenges and opportunities for global aid from the viewpoint of U.S. security. What has emerged thus far is an intense effort to form a new alignment between the U.S. security, defense, foreign policy, and aid communities in response to dramatic changes in the world over the past two decades. Under this realignment, the lines between USAID and State Department and the military are becoming blurred.

In terms of what to expect at the end of the reform process, it is now clear that the Secretary of State is to play a more significant role in providing strategic guidance to U.S. foreign assistance, and aid-receiving countries are to be categorized based on an as yet unclear set of development conditions. Aid resources will be deployed based on U.S. assistance objectives as determined by State beginning fiscal year 2008.

In principle, this should improve the coordination of our global aid strategy. Nevertheless, we are concerned that more resources are being channeled through special initiatives like the Millennium Challenge Account and the President's Emergency Plan for AIDS Relief (PEPFAR) and away from the USAID country missions. We are also concerned that with State being more engaged, short-term political consid-

erations will trump longer-term development needs. This, combined with the continuing staff reductions at USAID, makes it increasingly difficult to see how all of this leads to improved U.S. Government aid effectiveness.

The fact that the administration is undertaking these far-ranging changes is an implicit admission that the U.S. Government is not well organized to deal with the complex issues and there is a need to formulate a more effective strategy and to better coordinate foreign assistance. How this will work in practice, however, remains very unclear.

Answer by Darlene Williams.—Yes, presently all of HUD's international activities are undertaken in close coordination with the State Department and frequently with other U.S. Government agencies such as the U.S. Agency for International Development (USAID), the Millennium Challenge Corporation (MCC), the Overseas Private Investment Corporation (OPIC), the Department of Transportation, and the Department of the Interior. As the new framework for foreign assistance reform is implemented, HUD will be working with the State Department's Office of the Director of Foreign Assistance. Because housing and safe and functioning cities play an important role in the five priority objectives of the new foreign assistance strategic framework, HUD will coordinate all its international activities with the new Office of the Director of Foreign Assistance.

Because HUD's legislative authority for international affairs limits HUD activities to "exchanges of data and experiences" in support of U.S. foreign policy, most of HUD's international activities take the form of meetings and conferences. It is not unusual for a U.S. Ambassador to ask the Secretary of HUD to visit a particular country for these purposes.

Frequently HUD's participation is requested by the Department of State as in the case of representing the United States on UN-HABITAT's Governing Board and the Human Settlements Committee of the U.N. Economic Commission for Europe. In addition, the State Department has asked HUD to participate with other U.S. Government agencies in the U.N. Committee for Sustainable Development.

Some activities are initiated by HUD, for example, a series of government-to-government forums with the Government of Spain. These forums were proposed and agreed upon by the Spanish Minister of Infrastructure and the HUD Secretary (at that time, Secretary Mel Martinez). The forums were cleared and supported by the State Department and they attended both forums held in Spain. Depending upon the topic of the forum, HUD partnered with other U.S. Government agencies, e.g., with the Department of Transportation on the finance and construction technology forums and with the Department of the Interior on the historic preservation forum. HUD and UN-HABITAT recently sponsored a forum in East Africa on housing finance. USAID participated in the forum. HUD has invited the MCC to participate in a HUD panel on Donor Coordination at the World Urban Forum in Vancouver, Canada, June 2006.

All Memorandums of Cooperation which HUD enters into with other countries are cleared and translated by the State Department. Representatives of the State Department are present at the signings.

ROLE OF CHICAGO COMMUNITY DEVELOPMENT BANK

Question. One of the problems associated with rapid urbanization in Africa is underemployment or underemployment. A key to dealing with this problem is ensuring that lower-income entrepreneurs have access to credit.

My understanding is that all too often African banks demand large amounts of collateral before granting loans, preventing lower-income, small-scale entrepreneurs from gaining access to capital to grow their businesses.

I know that ShoreBank—a community development bank that started on the south side of Chicago—is working on this issue. They are trying to get financial institutions to change their approach by looking at other factors, such as cash flows, when making loans. This can be a win-win, with the institutions making high-performing loans while providing smaller businesses with the capital to fuel their growth. Mr. Smith, I am glad to see that you note the good work of ShoreBank in your opening statement.

Can the panel speak to this issue? What are some other things that we can be doing to ensure more widespread access to capital?

Answer by Jonathan Reckford.—Ensuring more widespread access to finance by middle- and lower-income groups involves not only a change in approach by private lenders but also significant changes in the legal framework as it relates to contract enforcement in many African countries. In some countries it may also mean cleaning up the banking system and strengthening the regulatory and supervisory system for the entire financial sector. The banking system in many African countries

is faced with a large amount of bad debt and/or liquidity constraints and cannot provide wholesale or individual long-term funds at an efficient rate for housing finance or for small enterprise operators. Moreover, high inflation levels in some countries exacerbate interest rate and liquidity risks associated with providing financing to groups perceived as high risks.

An additional constraint related to housing finance is the high cost of housing and land in urban areas, in relation to incomes. As a result, incremental single family house acquisition is the prevalent way to accumulate assets in rural areas and in urban informal settlements. Only a small proportion of all required houses are built by the formal sector in many countries.

In view of the foregoing, many NGOs are now involved in providing noncollateral-based loans on the basis of established membership in lending programs to expand access to capital. Habitat for Humanity has become, in effect, a non-bank lender providing no profit loans to enable the poor to purchase homes.

To ensure more widespread access to capital requires a two-prong approach for future U.S. Government assistance. At one level, countries need assistance to create policy environments that reduce the risk associated with lending. At another level, formal primary mortgage systems need to be developed to increase the number of households that have access to formal construction finance; extend credit to lower-income small-scale entrepreneurs that already own a house in the informal sector; and enhance rural land tenure.

Answer by Darlene Williams.—New enterprises in Africa are vital for the expansion of employment and economic growth. Credit sources must be expanded. A growing number of lending institutions in a market environment of freedom and competition can assist entrepreneurial ventures and support the further extension of credit to smaller, inherently riskier business ventures. Banks that broaden their underwriting guidelines to include cash flow and other factors would be helpful. To increase access to much needed capital, African Governments should make greater efforts to reduce restrictions on financial flows and promote incentives that will attract both foreign and domestic capital and credit.

In this regard, we are pleased to enclose HUD's new publication on the Evolution of the U.S. Housing Finance System: A Historical Survey and Lessons for Emerging Mortgage Markets. This history provides useful lessons for governments in developing countries, including Africa, on how the United States developed policies and programs which vastly expanded the availability of housing credit. This document is now being translated into French for distribution in French-speaking African countries.

In addition, HUD is planning to publish, next year, a guide for policy analysis, Reforming African Housing Markets. This is the second such guide—the first was a cooperative effort between the Inter-American Development Bank and HUD entitled, Reforming Latin American Housing Markets. The Guides examine the economic, social, and legal dimensions of housing markets in Africa and Latin America and show how more available financing and a greater role for the private sector can help a developing country move its housing sector to function more effectively as a market.

Further information on microfinance in the United States can be obtained through the Community Development Finance Institution (CDFI) program at the Department of the Treasury.

ROLE OF LEGAL STRUCTURES

Question. My understanding is that over 60 percent of people in Africa living in urban areas reside in slums and informal settlements. Countless people also make their livings in the informal or "grey" economies where they don't have the formal legal rights or protections to engage in these types of economic activities.

In "The Other Path" and "The Mystery of Capital," Hernando DeSoto notes that many developing countries lack an integrated formal property system, leading to only informal ownership of land and goods. This causes a number of distortions such as the undercapitalization of businesses, the inability to enter into and enforce complex contracts, and inhibits investment in homes and property.

Mr. Smith, in your opening testimony, I noticed that AID is working with Mr. DeSoto's organization.

I am wondering what the panel thinks of these types of efforts? What is the role of property and business rights in dealing with the challenges of housing and urbanization in Africa?

Answer by Jonathan Reckford.—The World Bank notes that housing investments typically account for 2 to 8 percent of a country's GNP while residential real estate

represents 30 percent of the world's wealth. UNCHS¹ estimates that only 3 percent of outstanding credit in low-income countries is held in the form of housing loans (compared to 27 percent in high-income countries), signifying a severe scarcity in affordable loan products for the housing sector. And yet, housing is a major component of wealth, forming the major portfolio asset for most households. In addition to increasing the personal assets of the family, investment in housing can also mean an investment in small and microenterprises. Industry experts believe that between 30 to 60 percent² of all Small Medium and Micro Enterprise (SMME) operators use their homes as the primary place of business.

These statistics support the conclusion of DeSoto's organization. Nevertheless, the core of DeSoto's work is not about property or business rights in a Western sense but about systems that transform informal methods of giving recognition to title into more formal instruments that are tradable and that can be collateralized. In this respect, it is the recognition of the right to property that forms the basis of asset-backed loans. Imposition of a titling system based on the U.S. model, and not taking into consideration the process outlined by DeSoto, is a short-term measure that is bound to create as many problems as it resolves.

Notwithstanding, a move toward more secure tenure and greater ownership of housing assets can contribute significantly to the effort to bring the poor into the formal economy. But this is just one aspect of the challenges of housing and urbanization in Africa. Most African urban centers now host populations two to three times the capacity of the social infrastructure. Considerable investments need to be made to expand the social infrastructure and improve human capital. More enabling environments need to be created to allow small- and medium-size entrepreneurs to thrive. And the vast social inequality needs to be addressed.

Answer by Darlene Williams.—The DeSoto studies are among the most original and insightful research in the problem of “informal” or “grey” economies of nations where governments overregulate labor and capital investment. They show that informal economies arise and develop among poor and low-income populations for the purpose of meeting their need for housing, transportation, and other basic goods and services which are not being met in the formal economy because of legal barriers to entrepreneurship and ownership. Unfortunately and tragically, ownership, investment, and contracts in “informal” sectors are unrecognized and unsupported by governments and therefore remain unsecured and unenforceable by law.

Private property rights, the enforcement of contracts, lower taxation, and reducing regulatory burdens such as price controls and licensing procedures are all either foundational or very helpful for the purpose of expanding the availability of affordable housing and increasing employment and enterprise in Africa and other nations with large informal economies.

DRAMATIC CHANGES ON THE AFRICAN LANDSCAPE

Question. It seems that Africa is on the brink of a dramatically changed landscape—it is experiencing the fastest rate of urbanization in the world. As a result, more than half of Africa's 750 million people will live in cities within 20 years and the combined populations of Africa's cities will double every 14 to 18 years.

Mr. Reckford, in your opening statement you say that because of these dynamic changes “the systems that have traditionally held cities together are failing.”

Can the panel elaborate on what the African urban landscape will look like over the next two decades and how African and United States strategies should shift to deal with these dynamic changes?

Answer by Jonathan Reckford.—Some interesting statistics were presented in the statement by Dr. Anna Kajumulo Tibaijuka, the Executive Director of UN-HABITAT. She pointed out that Africa is the fastest urbanizing continent in the world. With an annual urban growth rate of 4.87 percent, Africa's cities are growing twice as fast as those of Latin America and Asia. In 2001, nearly 72 percent of city residents lived in slums. In the next 25 years, 400 million people will be added—about four out of every five will find their way into slums unless there is a dramatic change in the way African cities are developing. Land prices will increase in the face of rising demand. How the African urban landscape will look over the next two decades depends on the level of priority given to the emerging challenges over the short to medium term.

African cities are generally unable to cope with high rates of urbanization. Experience shows that slum upgrading alone is not an effective response. Forward spatial planning is required, but rarely done. Provisioning for affordable housing is hope-

¹ UNCHS—United Nations Human Settlement Program.

² Cities Alliance; Shelter Finance for The Poor Series; April 2003.

lessly inadequate. When land is allocated, it is never adequate and is located on the periphery or on marginal locations where the poor are placed at permanent disadvantage in access to income-earning opportunities, basic services, and transport. Colonial systems of land titling and allocation have not been updated.

The migration to urban areas, however, presents unique opportunities. One of which is that the per capita cost of delivery of assistance will drop because of the high population concentration. Moreover, unique market opportunities will emerge for goods and services that could not be provided to disparate rural populations. Those who migrate to cities are invariably the more entrepreneurial, and programs that build their capacity to establish and run small businesses will have a greater chance of success.

United States assistance strategies should, first of all, recognize these dynamic shifts. Programs that place greater emphasis on rural development could slow, but certainly will not stop, the urbanization trend. The U.S. Government has been in many cases reluctant to support scaling up of urban programs under the impression that these programs benefit the urban elite or fuel urbanization. But urban centers will provide the engine for private sector-led growth over the foreseeable future. A strategy shift that recognizes this reality and channels resources into strategic, physical, and operational planning, and at the same time seeks to link rural areas to the opportunities of the urban marketplace will establish the basis for sustainable growth in Africa.

Answer by Darlene Williams.—It is widely accepted that the future of Africa will be determined in its cities where the majority of the people will live and where the political and economic decisions affecting all Africans, whether urban or rural, will be made. The question then is, how best can the United States Government assist the African Governments to cope with the vast tide of people in these urban regions and to help them meet their expectations for a better life?

In regard to HUD's potential role within the new framework guiding U.S. foreign assistance, the Department can draw on the extensive American experience and research affecting housing markets and urban governance. While HUD is prohibited by statute from engaging in international technical assistance, the Department has the authority to organize forums and conferences where American experts, both from the Government and private sectors, can interact with African Government officials, planners, and developers on many key development issues in housing and urban policy.

An example of this approach was the High-Level East Africa Peer Exchange on "Government Enablement of Private Sector Lending for Affordable Housing," which was held in Kampala, Uganda, in November 2005, jointly organized by HUD, the Government of Uganda, and UN-HABITAT. By limiting participation to a select number of officials and financial sector executives from Uganda, Kenya, and Tanzania, and involving them in intense discussion with American experts, this forum provided for an exchange of policy ideas and practical problem-solving experience in technically difficult areas. Using this template, HUD is planning a similar "Peer Exchange" on this topic in Accra, Ghana, in November 2006, in concert with both UN-HABITAT and the Ghanaian Government.

In regard to issues in urban policy, an example of HUD's approach is illustrated by the conference on "Cities in Change," held in August 2004, in Johannesburg, South Africa. HUD, through a contract with the U.S.-based International Downtown Association (IDA), was the prime organizer of this event. Experts from the United States and the United Kingdom worked closely with their counterparts in South Africa to highlight the importance of international comparative experiences in addressing common urban problems, such as community economic development, public-private partnerships, and social issues in housing. It should be noted that South Africa's experiences have a strong "multiplier effect." What is done there influences thinking throughout the African continent on ways to modernize national and local economies.

Through exchanges of this type, HUD is also able to introduce a number of useful policy research studies from the United States to assist African policy makers think through some of the more difficult housing policy issues. For example, HUD has just published a study, *Evolution of the U.S. Housing Finance System: A Historical Survey and Lessons for Emerging Mortgage Markets*, and is planning another report on *Reforming African Housing Markets: A Guide for Policy Analysis*, based on a similar study on Latin American housing markets published by the Inter-American Development Bank (IADB) in 2004 with HUD's technical assistance.

POVERTY ON THE RISE IN AFRICA—A NEW APPROACH

Question. Mr. Reckford, you note in your opening statement that despite the fact that African economies have been growing at 5 percent a year, poverty in Africa will increase over the next 10 years. And that this makes African countries unlikely candidates for more conventional forms of development cooperation in the new United States foreign aid framework.

Can the panel elaborate on this issue? Should we be thinking about different types of assistance programs to deal with this issue? What would these programs look like?

Answer by Jonathan Reckford.—In his remarks, Mr. Reckford alluded to the 2004 White Paper and the subsequent USAID/State Department Policy Framework for Bilateral Aid published in January 2006. The documents laid out the scope and nature of the challenges we face in the next 10 to 20 years, defined the adjustments that need to be made, and outlined five core operational goals for U.S. foreign aid. Furthermore, aid-receiving states are placed into three categories—transformational development states, fragile states, and strategic states. It is our view that this narrow categorization would classify most African countries as fragile states and unlikely candidates for conventional forms of development cooperation.

We are pleased to note, however, that subsequent presentations of the new USAID Administrator and Director of Foreign Assistance, Ambassador Randall Tobias, seem to recognize the difficulty of this form of classification given the concurrent and mutually reinforcing challenges evident across the developing and transitional countries—Africa included. In his April 26 presentation to the House Appropriations Committee, Tobias announced that the 154 developing and transitional countries have now been placed into five categories. The new strategy is to design aid programs in those countries on the basis of specific challenges to achieving the priority goals of U.S. assistance.

But a shift in resources to special initiatives such as the Millennium Challenge Corporation is likely to have a negative impact on funding for NGO's. Moving from community-centered to government-centered funding will limit the participation of civil society and NGOs in U.S. Government-funded programs because there is a low level of interest in funding NGO's and civil society activities in most of the countries eligible for MCA assistance. More resources need to be channeled to assistance programs that build relationships with and capacity of NGO's in the delivery of U.S. foreign aid.

Answer by Darlene Williams.—This is outside HUD's purview.

RURAL AGRICULTURAL COMPONENT

Question. It seems that there are two parts of the urbanization issue. One part is the "pull" factors which include: possible job opportunities, city-based education, limited social services, and infrastructure.

The other part deals with the "push" factors such as rural poverty caused by soil degradation, overgrazing, poor farm marketing outlets, and lack of access to farming inputs.

Shouldn't a large part of our strategy to deal with this issue involve rural agricultural development and conservation of farmlands? I know Mr. Natsios made this a priority when he was AID administrator, but will this issue continue to receive increased time, attention, and resources now that he has departed?

Answer by Jonathan Reckford.—There was a fundamental flaw in the belief that rural agricultural development and conservation of farmlands will stem the flow of urbanization. The underlying assumption is that efforts to mitigate the effects of the "push" factors will counterbalance the "pull" factors, but the evidence in urbanizing countries does not support that. When examining rural out-migration in Africa, complex factors come into play. In fact, as rural agricultural production becomes more efficient and farming communities earn more for their labor, there is a release of surplus labor from the agrarian economy. This surplus labor eventually finds its way among the urban poor. Moreover, rural dwellers, as they become better off, tend to send their offspring to urban areas in search of different nonfarm skill sets and opportunities.

There has to be a balanced approach to urban and rural development with one major goal being to adjust markets that are skewed against rural dwellers and change the fundamental relationship between urban areas and their periphery to one that is more symbiotic. Furthermore, in most African countries, one or two urban centers become the lifetime destination of a large proportion of the rural population. Other nodes of "development" need to be established in the geographic

space. More support for spatial planning should be provided to begin to address these complex issues.

In this respect, we are pleased to note that USAID intends to make urbanization a cross-cutting theme in its new strategic framework for Africa. It would be important to continue the dialog with key partners at all levels, especially NGOs, to develop new approaches to achieving more balanced spatial development.

Answer by Darlene Williams.—This is outside HUD's purview.

ACCESS TO WATER AND PUBLIC HEALTH ISSUES

Question. One of the key challenges faced by growing urban centers is the provision of water and sanitation services to their residents.

Lack of access to clean drinking water, as well as water for irrigation, is also an important factor in driving rural residents to cities. The increased pressure on already limited sanitation services in those cities is in turn resulting in dangerously contaminated water supplies and increased incidences of water-borne diseases—dysentery and cholera.

In many places, communities have organized themselves to provide their settlements with sewage removal services or an informal water supply system. What efforts are being undertaken to work with more community organizations on this critical public health issue?

Answer by Jonathan Reckford.—Part of United States Government assistance should be directed to helping African Governments at the national and subnational levels to create decent and viable communities. This includes creating sustainable models for long-term development and management of water and sanitation systems and affordable housing. While local participation might take care of immediate needs, there are multiple players (including the private sector) involved in the sustainable delivery of water and sanitation services. Habitat for Humanity already has a strategy to address sanitation needs of its partner families and is looking at ways to help participate in resolving issues related to water provision.

Answer by Darlene Williams.—This is outside HUD's purview.

MICROFINANCE

Question. We have all heard about the impact that micro-loans can have for many in the developing world, particularly women. In recent years, the microfinance movement has expanded beyond the traditional model of providing small loans for women to invest in their farms or small businesses.

For example, there are now innovative projects that help women establish savings accounts at banks that only they can access using fingerprint identification technology. Other projects are looking at providing insurance to farmers whose crops are vulnerable to drought, or life insurance for families. Some programs are even looking at ways to support the efforts of groups of women who are caring for orphans, providing them with opportunities to save their funds collectively.

What further role could the expanded use of microfinance projects like this play in addressing urbanization and housing issues in Africa? What more can we do to support those efforts?

Answer by Jonathan Reckford.—Because of the high cost of homeownership in relation to income among Africa's urban poor, formal banking sector financing will continue to remain inaccessible. Financial services will have to be delivered via microfinance institutions. What is missing in most programs, however, is a process whereby successful entrepreneurs can graduate from microfinance to the formal banking sector to access larger loans for larger projects. More investment in housing microfinance can fill the gap by helping to build assets that can, at some point, be collateralized.

Experience in Africa, where Habitat is using a grant from PEPFAR to build assets of families impacted by HIV/AIDS, also reveals that microfinance can meet the needs of special groups. It brings the poor into stable income, asset ownership, and the formal economy. It can also create the environment for the proper delivery of care and prevention services and restore family assets lost due to the impact of HIV/AIDS.

Capitalization of funds for lending to the poor, however, remains a challenge. Due to interest rate and liquidity risks associated with lending in Africa, most commercial banks cannot funnel needed capital into housing microfinance. Therefore, the technical assistance provided to microfinance institutions to improve processes and procedures for loan origination and servicing need to be matched with more funds for working capital and housing loans to the poor.

Answer by Darlene Williams.—Normally, HUD's international activities are limited by legislation to "exchanges of information" in support of U.S. foreign policy. However, in 1999, under instructions from Congress and authority from the U.S. Agency for International Development (USAID), \$10 million was transferred from USAID to HUD to respond to the widespread hurricane damage in Central America and the Caribbean in late 1998. HUD then designed and managed what was to become the only international reconstruction effort ever undertaken by the Department. All funds were obligated by early 2002.

As part of this program, HUD dedicated \$1.6 million for microfinance projects in Central America and the Caribbean. The microfinance program capitalized two new revolving micro-loan projects for both housing repair and microenterprises in the Dominican Republic and in El Salvador.

Housing microfinance looks to merge the elements from microfinance and traditional housing finance (e.g., mortgages). HUD designed a program to help poor families build and repair incrementally through a process commonly known as progressive build. The first loan may replace a leaky roof in desperate need of repair; the second loan may give a family a concrete floor for the first time; and eventually a third loan might add an additional room for a large family.

In addition, sweat equity was utilized toward the purchase of homes and the program specifically assisted by making available housing grants to numerous poor families through small financial institutions in the Caribbean.

HUD also effectively looked to enhance the local population's capacity through the microfinancing program. Microfinance projects can compensate the lack of the "formal" banking sector's ability to service people with limited resources. HUD's microfinance projects, with an average loan size of about \$1,300, were geared to the single head of household, the majority being women. By improving women's economic conditions, HUD sought to increase employment productivity, family incomes, and holistically general living conditions.

In strengthening the microfinance lending institutions, HUD funded training for both the lenders in best practices in loan administration and borrowers in debt management. Handbooks were also developed for training the institutions in basic mortgage origination, underwriting, and servicing to guide bank-lending activities and to help establish a mini-secondary mortgage facility. These handbooks are especially geared toward lower-income households, and may be adapted for use by mortgage lending institutions in many countries.

HUD has the experience and the ability to expand on the innovations in microfinance, not only by working in housing and microenterprise development, but also by moving beyond the traditional and building stronger economically viable communities.

LETTER FROM THE INTERNATIONAL HOUSING COALITION

INTERNATIONAL HOUSING COALITION,
Washington, DC, May 2, 2006.

Hon. MEL MARTINEZ,
U.S. Senate,
Washington, DC.

DEAR SENATOR MARTINEZ: The International Housing Coalition (IHC) submits this letter for the record in support of the efforts of your subcommittee to better understand and highlight the problems of poor and inadequate housing conditions in Africa in a hearing of the Subcommittee on Africa on May 4, 2006. The IHC, a private, nonprofit organization, was recently set up by the National Association of Realtors (NAR), Habitat for Humanity International (HHI) and the Canadian Real Estate Association (CREA) to seek to raise the priority among international donors and governments in developing countries of housing the world's poor and slum dwellers in support of the Millennium Development Goals of the United Nations.

Rapid urbanization throughout Africa is creating a serious housing shortage and intensifying the problem of tens of millions who live in poor and unsanitary housing conditions and lack access to basic services. There are many reasons why housing problems in Africa are so severe:

- Incomes in developing countries in Africa are low and only the small middle class can afford a complete house without unaffordable public subsidies.
- Many countries lack the capital, capacity, policies, and resources to invest in infrastructure to develop and make land available for housing for low- and moderate-income families on a large scale.

- Many countries have a policy environment that prevents or discourages the development of affordable housing and housing for the poor, most of which has to be done by the private, formal and informal business and NGO sectors. A major constraint is the widespread lack of a rule of law.
- Generally, African housing development and finance institutions are young and weak; in some cases, unwieldy and inefficient public development organizations are given preference over more efficient and capable private entrepreneurs.
- There is imprecise and uneven information on the magnitude of the housing problem in particular countries and the extent of donor interest and involvement in housing in the region.
- In spite of the need for housing and lack of good data, it is clear that donors for the most part are currently investing less in the housing sector than they did 10 or 20 years ago. It is not clear why this is the case because housing is more than better shelter. Housing generates jobs, provides an investment vehicle for homeowners, impacts on matters of health and safety, and fosters stability.

On the positive side:

- In some countries capital markets are developing, creating opportunities for domestic investment and particularly for long-term finance which could provide unsubsidized financing for an unserved portion of the market.
- In some countries, microfinance institutions are increasing their lending for housing improvements, tailored to meet the needs of most slum-dwellers.
- In some countries, as democracy spreads, there is recognition that the rule of law and legal remedies for nonpayment are critical.
- USAID's Development Credit Authority is an important credit-enhancement tool to support viable housing finance institutions if supported by adequate technical assistance resources.

Here are some actions that could be taken to improve the housing situation in Africa:

- An important first step in addressing the problem would be to get a better understanding of the housing situation in particular countries in Africa by investing in the collection of better information about housing conditions and needs. There also is a need to develop better measures and definitions and methodologies for assessing housing conditions.
- At the same time, we need to have a clearer understanding of what the donor community is doing to improve housing conditions in Africa in terms of both technical and capital assistance.
- The international donor community should be giving more attention to the issue of housing. Donor programs can help to improve the institutional capacity of public and private stakeholders. Donors can invest more in housing in recognition of its direct and indirect importance to national economic development activity, political stability, and social welfare.
- Assistance programs should be giving more attention to the linkages between better housing and more jobs and better health, education, and welfare.
- There is a need to facilitate and improve the exchange of information, ideas, and best practices among countries of the region and provide technical training to different housing sector actors.
- USAID has a very small staff involved with housing matters and there is a lack of priority for housing assistance despite the fact that housing improvement can be a major development tool. USAID needs to recognize the increasing opportunities for slum dwellers and the poor is complicated and requires a long-term commitment (i.e., 10 years).
- USAID should expand its use of Development Credit Authority to help build the essential housing finance institutions. This effort needs a significant technical assistance component.

The IHC believes that greater efforts to improve housing in Africa will result in important development and economic benefits in the region. The IHC is prepared to contribute to those efforts by helping to develop effective housing policies, programs, and institutions; facilitating the exchange of information; and building coalitions to address developmental problems.

Sincerely,

PETER KIMM,
Chairman of the Board IHC.