FINANCING URBANIZATION IN DEVELOPING COUNTRIES

I. INTRODUCTION

A recognition of the urban population explosion and its ramifications in the developing world is helpful to an understanding of the growth of developing country reliance upon external financing of the costs of urbanization, the problems caused by this reliance, and the need for further development of domestic and foreign financing schemes. Urbanization offers wide opportunities for increased employment, economic output, and savings while simultaneously permitting standards of health and education not possible in rural areas.[1] As these opportunities become apparent to rural area dwellers, migration of population from rural to urban areas often occurs. The urban population in developing countries has increased at an annual rate of five percent in the past twenty-five years, or nearly twice the growth rate of the population as a whole,[2] with half of the increase attributable to migrants from farm areas.[3] More significant than overall urban population growth is the fact that developing country cities are experiencing slum population growth above twenty percent per year, with slum population presently accounting for at least one-third of the total population of many cities.[4]

These cities cannot rely upon domestic savings to provide the financing to accommodate urban expansion. A ten to fifteen percent level of net savings is typical of developing countries, and although savings in the major urban areas are usually two or three times the national average, so, too, is the areas' rate of population increase.[5] Domestic savings can not provide the funds necessary to supply new members of the urban population with the basic requirements of housing, water and sewerage, and education. Even if the total amount of savings could be devoted to new population members, assuming a three percent annual

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[1] INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, WORLD BANK OPERATIONS, SECTORAL PROGRAMS AND POLICIES 425 (1972) [hereinafter cited as WORLD BANK OPERATIONS].

[2] WORLD BANK, 1979 ANNUAL REPORT 22.

[3] WORLD BANK OPERATIONS, *supra* note 1, at 407.

[4] It is reported that more than two-thirds of the families of Calcutta are living in one room. *Id.* at 421.

[5] *Id.* at 422.

population growth rate, the savings per capita would average only from U.S. $500 to $800 (in 1972 values).[6]

These figures are greatly exceeded by the costs of providing civilized living conditions. Available data on the costs of urban infrastructure indicate that water supply and sewerage each cost an average of $100 per capita; conventional low income housing construction costs range from $1000 per family to more than double that amount; primary school costs for projects associated with the World Bank average about $90 per person per year, assuming that one-fifth of the population is in this age bracket; capital costs for employment vary from $400 per worker in more traditional occupations to over $1500 in the modern sector and several times this amount in more capital intensive advanced technology occupations.[7] Despite these rather moderate costs, it is alarming to note that large segments of the urban population are doing without these essentials. Housing construction, for example, generally is at a quarter or less of the United Nations estimated minimum requirements.[8] The World Health Organization has estimated that only one-fourth of the urban population receives public water supply in their homes or courtyards and only half are supplied by public standpipes.[9]

This Note describes means by which developing countries finance their growing urbanization costs. Initial emphasis is placed upon the role and the functioning of international financing organizations, including their administrative and decision-making processes. Subsequent discussion concerns the efficacy of past funding programs and the likelihood of success in present and future projects. Public international lending is not the major source of investment in developing countries, but supplements private and domestic financial sources. The final section of this Note analyzes one type of domestic financing—land taxes and betterment levies, with emphasis on the success of land tax policies in Latin American countries.

II. INTERNATIONAL LENDING ORGANIZATIONS

A. *Sector Involvement*

Before a description of the role and functioning of international organizations is embarked upon, it is useful to understand some of

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[6] *Id.*

[7] *Id.* at 423.

[8] *Id.*

[9] *Id.*

the specific needs within various sectors of urban development. The other Notes in this Symposium address the problems within each sector in detail. A brief discussion of the financing of urban transportation, education, and housing follows.

1. *Transportation*

Development patterns in urban areas are shaped to a large extent by transportation investment decisions. City transportation service is necessary for employment and business and has a large impact on land values and land uses. Although many resources are devoted to transportation, more are needed. Roads and transportation facilities typically occupy from twenty to forty percent of a city's physical space.[10] Total automobile registration in many developing countries, however, is increasing from ten to twenty percent per year, with most of the increase concentrated in a few cities. Bangkok, for example, has seventy-three percent of all automobiles in Thailand, and in Sao Paulo, where population increased by forty-two percent between 1960 and 1967, car registration increased by 324% during the same time span.[11] Clearly, financial aid to transportation should be concentrated in urban areas to meet the rapidly growing needs. Large investments are needed in the urban transport sector to meet the high costs of widening city streets and of constructing urban highways. Construction costs of urban highways are typically above $1 million per lane mile.[12]

Transportation loans and credits have been the largest single component of World Bank Group[13] finance, accounting for more than thirty percent of expenditures, in terms of both lending volume and number of operations.[14] World Bank loans, however, are a small fraction of total investment in transportation, representing only about four percent of the combined public and private investment in the sector.[15] (These statistics include lending for all types of transportation projects.) Urban transportation

[10] This varies greatly, however, with the typical West European or North American city devoting 25% of its urban land space to streets and highways, while Bangkok devotes only 14% of its land to such use, and Calcutta provides a mere 5% to transportation facilities. *Id.* at 176-177.

[11] *Id.* at 177.

[12] *Id.* at 437.

[13] The World Bank Group includes the World Bank, the International Finance Corporation, and the International Development Association.

[14] WORLD BANK OPERATIONS, *supra* note 1, at 151.

[15] *Id.*

projects have constituted a small portion of total lending in the past, and projects approved for World Bank and International Development Association assistance in fiscal year 1979 indicate no change in this allocation. For example, a $110 million Bank loan to Brazil for feeder roads was approved in 1979, along with a $120 million loan to Mexico for general road network modernization and for the purchase of equipment and vehicles.[16] Projects such as these are plentiful; specifically urban projects are scarce. Isolated areas are acquiring better access to markets as well as to social, health, and education services, but this utility also is required by the urban poor, who often live at the periphery of large cities, effectively isolated from employment opportunities, public services and markets.

Private automobile use is a major cause of traffic congestion and air and noise pollution.[17] Investment in urban highways is difficult to justify without complementary steps to restrain further growth of private automobile use. Suggestions for means to do so include schemes for peak-hour charging, a progressive increase in private vehicle taxes with a surcharge for congested cities, the prohibition of private vehicles in central areas at peak hours, and stricter parking enforcement with higher parking charges.[18] Many cities, such as Jakarta, have a municipal vehicle tax, which is a major revenue raiser for local government.[19] Differentially higher tax rates in cities could offset the costs of congestion and pollution, as well as restrain private automobile use, without discouraging the use of motor vehicles in rural areas.

Financing of rapid transit systems has not appealed to international lenders, because most, if not all, rapid transit systems lose money and require heavy public subsidization. The necessary subsidization, in addition to high initial costs, make serious consideration of public transportation projects difficult.[20] The unit cost of public transportation, however, is far less than that of cars: buses and urban railways have a cost per person mile of approximately two U.S. cents, with cars costing between 16.4 and 17.5 U.S. cents per person per mile.[21] Furthermore, a private automobile uses ap-

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[16] WORLD BANK, 1979 ANNUAL REPORT 89-90.

[17] J. LINN, POLICIES FOR EFFICIENT AND EQUITABLE GROWTH IN CITIES IN DEVELOPING COUNTRIES 163 (World Bank Staff Working Paper No. 342, 1979).

[18] WORLD BANK OPERATIONS, *supra* note 1, at 438.

[19] THE DISTRIBUTIVE EFFECTS OF LOCAL GOVERNMENT FINANCES IN COLOMBIA: A REVIEW OF THE EVIDENCE, at 18 n.2 (World Bank Staff Working Paper No. 235, 1976).

[20] WORLD BANK OPERATIONS, *supra* note 1, at 440.

[21] LINN, *supra* note 17, at 162.

proximately nine times more road space per passenger than does a bus.[22] These figures suggest the importance of implementing policies to restrain private automobile use, as mentioned above, as well as the need to develop policies whereby public systems can be more efficiently managed and, therefore, be made more appealing to international lenders. Singapore has developed an effective urban transport policy, consisting of a scheme to alleviate central city congestion by an area licensing of private automobiles and graduated parking fees; control of motor vehicle ownership and use by various tax measures; an improved mass transit system; improvements in traffic management; and a policy of locating employment opportunities close to new housing developments.[23]

2. *Education*

School enrollment in developing countries between 1960 and 1966 increased by nearly fifty-five million primary school students (a forty-two percent increase), by fifteen million at the secondary level (an eighty percent increase), and by two million students in higher education (a ninety-three percent increase).[24] A study of thirty developing countries indicated that between 1960 and 1965, the portion of public expenditures on education increased from thirteen to fifteen percent, with such expenditures rising from three to four percent of national income.[25]

When the first education projects was presented to the World Bank in 1962, the Bank decided to pursue the financing of vocational and technical education and training and of general secondary education, with consideration of other types of projects "only in exceptional cases."[26] Bank lending for education expanded in the late 1960's through the 1970's. As of June 30, 1978, the World Bank had assisted a total of 10,000 educational and training institutions in eighty countries for a total amount estimated at $4.3 billion.[27] Initially, World Bank policy on lending for education was directed to the poorest countries. Only ten percent of the projects in fiscal years 1963 to 1967 were in countries with per capita incomes above U.S. $200. Most education projects at that time were financed by International Development Association (IDA) credits.

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[22] *Id.* at 163.
[23] *Id.* at 174.
[24] WORLD BANK OPERATIONS, *supra* note 1, at 258.
[25] *Id.* at 263.
[26] *Id.* at 265.
[27] WORLD BANK, THE WORLD BANK AND EDUCATION PROJECTS 1 (1979).

Lending for education expanded, however, and in 1970 and 1971 about fifty-one percent of financing was to countries above the IDA credit level of income.[28]

Most of the World Bank lending has gone to secondary education, presumably where most job training occurs. As of 1971, only slightly more than one percent of the Bank's educational funds were allocated to primary education, with seventy-two percent to secondary education, twenty-three percent to universities and post-secondary education, and four percent to adult training.[29] This allocation is likely to be in accord with student needs and resource requirements at each level of education.

World Bank assistance to education has been relatively small in comparison to that afforded other sectors, due to many factors. Education is not directly revenue producing and its economic return is not accurately measurable. Another major difficulty in educational financing is the recurrent cost commitment. Typically, thirty cents per year must be spent by the government for every dollar invested.[30] Additional constraints on educational lending include the inability of the labor force to absorb the educated, the unavailability of qualified teachers, and the need for curriculum, structural, and managerial reforms.[31]

3. *Housing*

As stated in the introduction, developing countries have a population problem which they do not have the resources to meet. Nearly forty-nine percent of the world's 3.7 billion inhabitants live in the developing nations, with approximately 1.8 billion of these people grouped in 300 million households, forty percent of which are low income households.[32] Government programs in most developing countries have failed to provide adequate housing to low income households, except to a small degree. This is due in part to the fact that the diversion of material resources to housing from development construction in other areas adversely affects the rate of economic growth, and in part because when building materials and equipment must be imported, balance of payments problems are accentuated.[33] Urban dwellers seldom seek funds

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[28] WORLD BANK OPERATIONS, *supra* note 1, at 265.
[29] *Id.* at 267.
[30] *Id.* at 269.
[31] *Id.*
[32] Asirwatham, *Low Income Housing Finance*, in 2 LOW INCOME HOUSING—TECHNOLOGY & POLICY 570,585 (1977).
[33] *Id.* at 573.

from private financial institutions in developing countries because they expect to be rejected and because such institutions do not encourage this type of borrowing.[34] Lack of capital, high eligibility criteria, and restrictive loan terms make private funding almost impossibile.

To meet the demands of housing, the urban poor would require a higher level of national savings than is available in developing countries. Using the United Nations norm of needs for countries in the ESCAP region of ten new units every year for every 1000 inhabitants, the norm of housing investment is five to six percent of the GNP in these countries.[35] It is evident that this investment norm is not being met. For example, from national income data on Indonesia, only 2.8% of Indonesia's Gross Domestic Product (GDP) consists of building construction. What proportion of this goes to the housing sector is unknown, but it is clearly below the U.N. level.[36] In 1972, the Philippines devoted only 2.2% of their GDP to residential building construction, while Thailand invested three percent of GDP to such construction.[37] Either policy changes within developing countries must be made or more external financing must be devoted to the housing sector if the subsistance needs of the new population are to be met.

Although housing represents a small portion of GDP, it typically represents a higher percentage of total investment in a country. Housing usually represents well over ten percent of the total private and public investment in a developing country, with the largest part going to urban centers.[38] It has been estimated that more than 200 million new dwellings would be needed in the urban centers of developing countries between 1972 and the end of the century to house additions to the urban population. This total is almost equal to all of the urban dwellings in the world in 1960.[39]

To appreciate the rapid growth of housing needs, one can look to the Philippines. Annual housing requirements have been estimated to be 400,000 units, while annual output is estimated to be only 200,000 units.[40] The public sector plays a minor role in

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[34] *Financing of Low Cost Housing: The Nature of the Problem*, 3 THE URBAN EDGE 1 (1979).

[35] *See* Asirwatham, *supra* note 32, at 574.

[36] *Id. See generally* U.N. REGIONAL HOUSING CENTRE, BANDUNG—LOW COST HOUSING IN INDONESIA (1974).

[37] LINN, *supra* note 17, at 203.

[38] WORLD BANK OPERATIONS, *supra* note 1, at 445.

[39] *Id.*

[40] *See generally* PHILIPPINES NATIONAL ECONOMIC AND DEVELOPMENT ADMINISTRATION, HOUSING IN THE PHILIPPINES (1975).

housing development in the Philippines, with only an estimated five percent of total housing construction in 1971 financed by the government, satisfying only 2.5% of housing needs for that year.[41] Investment in housing from all sources in 1971 was equivalent to 2.24% of GDP or 2.2% of GNP.[42]

Another example of inadequate housing is found in India, where it is estimated that 24 million houses must be added and 76 million homes must be renovated.[43] Using a conservative cost estimate of 5000 rupees per house, the money needed would be 500 billion rupees. In India, up to ninety percent of income is spent on food and clothing, leaving only ten percent for housing and other daily necessities;[44] thus, the bulk of the financing would have to come from other sources. In Madras and Baroda, India, it has been estimated that 6.5% and 6.8%, respectively, of average household income is spent on housing.[45] More money must be made available to these inhabitants.

A number of countries have devised methods to help people meet minimum housing needs. International lending organizations take an active part in providing funds for housing development and in forming national agencies within developing countries to deal with the housing problem. The Inter-American Development Bank, for example, has been responsible for an approximately $800 million investment in housing and related community services in sixteen countries and has helped Latin American governments establish five national housing agencies.[46] United States Agency for International Development (AID) assistance for housing has been primarily through its Office of Housing (OH) and the Latin American Housing and Urban Development division of the Office of Development Resources.[47] The OH was established in 1970 to administer the Housing Investment Guarantee Program (HIG) and to provide other housing services as requested by AID regional bureaus. The HIG program accounts for most of the present United States government commitment to housing assistance. HIG's basic purposes are to support local institutions which mobilize local savings, to specialize in providing long-term

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[41] Asirwatham, *supra* note 32, at 575.

[42] *Id.*

[43] Chaudhari, *Low-Income Housing Finance Problems in Developing Countries*, in 2 LOW-INCOME HOUSING—TECHNOLOGY & POLICY 617, 620 (1977).

[44] *Id.*

[45] LINN, *supra* note 17, at 202.

[46] WORLD BANK OPERATIONS, *supra* note 1, at 508.

[47] *Id.*

housing credit, and to stimulate housing demonstration projects.[48] Congress authorized $780 million to guarantee the housing investments in developing countries of private United States lending institutions—of this amount, $67 million was committed to Africa, $106 million to Asia, and about $346 million to Latin America.[49] These programs provide funds to areas where they were previously unavailable and open doors to housing facilities for the urban poor.

A unique organization is the Foundation for Cooperative Housing (FCH), a non-profit entity established in 1950. The FCH has worked in more than fifty countries since 1962 and has consulted on cooperative and low cost housing opportunities.[50] In collaboration with AID, IDB, and the Organization of American States (OAS), along with various United Nations entities, FCH has assisted in the construction of more than 40,000 homes.[51] In addition, FCH has established local private non-profit housing development organizations in Honduras, Panama, Colombia, Jamaica, Venezuela, Lesotho and Chile. It also has assisted government housing organizations in establishing new departments for special programs in Brazil, Guatemala, Panama, Jamaica, Trinidad, Nicaragua and Korea.[52] FCH currently emphasizes resident participation in housing development, based in part on a cost-recovery theory: people are more likely to pay an association of which they are a member for their housing than to pay a government agency.[53]

Several countries in Asia, Africa and Latin America have developed a method of financing housing construction based upon the West German contract system, in which the participant saves a specified sum in return for a loan constituting a multiple of the amount saved.[54] These savings for housing programs often are supplemented by various types of guarantee and mortgage insurance systems, encouraging the expansion of savings and loan associations, housing cooperatives and building societies.[55] A popular method of guaranteeing housing loans to low income

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[48] *Id.* at 509.

[49] *Id.*

[50] FOUNDATION FOR COOPERATIVE HOUSING, SETTLEMENT SERIES, RESIDENT PARTICIPATION IN THE MANAGEMENT AND FINANCING OF HUMAN SETTLEMENTS 5 (1978).

[51] *Id.*

[52] *Id.*

[53] *Id.* at 2.

[54] *Financing of Low Cost Housing, supra* note 34, at 2.

[55] *Id.*

families is to make loans to groups in the form of "collective responsibility loans."[56] Groups formed specifically for the purpose of borrowing funds become responsible for a default. This group guarantee system aids in financing low cost housing in various ways. For example, more money can be borrowed on easier terms and lenders are encouraged to cooperate because of their faith in the ability of local groups to deal with collection problems more effectively than governments.[57]

Also contributing to the solution of housing problems is the trend toward "site and services" projects, which provide land upon which low income groups may construct their own dwellings, often with organized technical assistance.[58] The typical costs for a family plot under such a project, excluding the cost of the land, average from $300 to $600, and include water and sewerage; roadways and street lighting; space for social facilities; and space for commercial and cultural activities.[59] The attractiveness of these projects becomes obvious when the costs are compared with those for conventional low income housing construction, which run from $1000 per family to more than double that amount.

Another partial solution to the housing problem that is proving quite successful is the development of legislatively established mandatory programs, which require a portion of wages to be contributed to housing. Brazil has implemented such a program. In 1960, a down payment of forty to fifty percent was required to purchase a single family house in Brazil, with the balance due within two to three years.[60] This requirement made the purchase of a house impossible for many Brazilians. To help alleviate the problem, Law No. 4380 was enacted April 21, 1964, which provided

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[56] *Id.*

[57] An example of an organization supporting the notion that groups are more creditworthy than individual borrowers is the Central Guarantee Foundation of Colombia, created in 1977 and funded largely by the Colombia Central Mortgage Bank and the Savings and Loan System. The Foundation is concerned with all aspects of urban development, including infrastructure, transportation and small-scale enterprises, particularly those using self-help and mutual-help approaches. In addition to financing these activities from its own resources or guaranteeing loans made by other institutions, the Foundation provides promotional, organizational and construction assistance. *Financing of Low Cost Housing, supra* note 34, at 2-3.

[58] WORLD BANK OPERATIONS, *supra* note 1, at 447.

[59] A Dakar "site and services" project under consideration by the Bank in 1972 would cost about $300 for the relatively large families concerned, while the average cost per housing unit for sixteen public housing programs in the same city is over $4000 per family. *Id.* at 448.

[60] Walters and Sweet, *Mandatory Financing Programs: A New Policy Solution to Funding Low-Income Housing*, in 2 LOW INCOME HOUSING—TECHNOLOGY & POLICY 609 (1977).

for the creation of the Banco National de Habitação (BNH, or National Housing Bank). The BNH became Brazil's primary means to solve low income housing problems.[61] The law mandated that an employer contribute eight percent of its employees' salaries into a personal account for each employee, which would be allocated to the Funda de Garantia to Tempo de Servico (FTGS) (Time-on-the-Job Guarantee Fund), which is part of the social security system.[62] BNH borrows from FTGS at five percent. Deposits for employees receive no interest for the first four years, with seven percent interest guaranteed from the seventh year of deposit. An employee can draw upon this account only for the following reasons: (1) illness in his family; (2) discharge from employment and remaining unemployed; (3) retirement; or (4) if he desires to buy a home through the Bank.[63]

Qualified applicants may resort to the Housing Finance System, but BNH employs separate lines of credit for civil construction and for housing construction.[64] In the Bank's first few years of operation, it invested 12.8 billion cruzeiros ($980 million U.S.) in urban development, including funds for mass transportation programs, urbanization of peripheral areas, and $1 billion in programs intended for basic sanitation, which currently benefit 1400 municipalities.[65] In other words, the Bank is concerned with the development of all of the amenities that accompany housing as well as housing construction itself.

BNH, in an attempt to achieve its goals according to principles of social justice, sets interest rates which vary from one to ten percent, rising according to family income.[66] A number of housing programs have been established by BNH to meet the demands of lower income families. In 1973, the National Plan of Popular Housing was established to ensure a supply of housing to families earning minimum wages. Housing Companies, managed by the state governments, are responsible for the development of housing projects through BNH direct financing. In 1975, the Sites and Services Financing Program was created to service families with lower incomes than those for whom the Popular Housing Plan was designed. A program for Housing Cooperatives was instituted to

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[61] De Olivera, *BNH—Low Income Housing Finance*, in 2 LOW INCOME HOUSING—TECHNOLOGY AND POLICY 589,620 (1977).

[62] Walters and Sweet, *supra* note 60, at 609.

[63] *Id.* at 609-610.

[64] De Olivera, *supra* note 61, at 595.

[65] *Id.*

[66] *Id.* at 596.

afford its members a home purchase at cost. An Enterprise Program was established to promote the financing of homes to employees of public or private companies. Finally, BNH has a special line of credit with the Social Security Institute, which provides for the construction, purchase, improvement or expansion of dwellings.[67]

Less than three years after the Bank was established, 500,000 units of publicly aided housing were under construction, as compared to a total of less than 164,000 units in the previous twenty-eight years.[68] In its first nine years, BNH financed the building of almost one million homes and completion of an additional two million homes was expected by 1980.[69] The Brazilian Savings and Loan System has grown to become the fourth largest savings and loan system in the world, with BNH directing the use of over $26 billion, seventy percent of which is for housing, with the balance for sanitation and urban development.[70]

An organization similar to BNH was created in Mexico by the enactment of legislation in December 1971, which established the Instituto del Fondo Nacional de la Vivienda para los Trabajadores (INFONAVIT), a banking organization whose control is shared by workers, employers, and the federal government.[71] A five percent payroll tax on employers, deductible for corporate income tax purposes, supplies the bank's resources.[72] A lottery system is used to determine who gets new housing.[73] Loans to workers are given without a down payment and interest is as low as four percent for a ten or twenty-year term, with the additional benefit of life insurance paid by INFONAVIT.[74] As of late 1973, INFONAVIT had financed the construction of 51,196 housing units, 13,223 of which were completed, 13,389 under construction, and 9,947 started.[75] The success of INFONAVIT illustrates the appeal of mandatory saving-for-housing programs.

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[67] *Id.* at 596-597.

[68] Walters and Sweet, *supra* note 60, at 610.

[69] *Id.*

[70] *Generating Funds for Housing*, 13 THE URBAN EDGE 3 (1979).

[71] *Id.* at 612.

[72] *Id.*

[73] *Id.*

[74] For example, a worker earning the minimum wage may purchase a house worth 30,000 pesos (U.S. $2000) on an installment payment of 190 pesos per month (U.S. $15.00). A worker with an income of 1800 pesos per month (U.S. $144) can purchase a house worth 50,000 pesos (U.S. $4400) on monthly installment payments of 325 pesos per month (U.S. $26). Under financing by INFONAVIT, in no case need an employee pay more than 20% of income for housing. *Id.* at 613.

[75] *Id.*

B. *The Status Quo In International Lending*

There is a great deal of financing at the international level, with millions of dollars currently flowing between countries in the form of grants, loans and credits. Although the volume of lending remains high, it is not sufficient to raise all urban dwellers to even the poverty level of subsistance and, indeed, foreign lending appears to be declining in real terms. The World Bank and the International Monetary Fund set a target for the 1970's of six percent average annual growth rates in the Gross Domestic Products (GDP) of the developing countries and of the achievement of an annual flow of Official Development Assistance (ODA) from developed countries of 0.7% of their GNP's.[76] Neither target was met. GDP, the measure of a nation's total output of goods and services minus exports, is an important measure of developing country economic activity because it indicates how much of goods and services produced within a country are consumable by the country, i.e., how much can be devoted to the development of the country and to raising the population's standard of living. Recent GDP growth figures indicate a decrease of 5.2%, while ODA averaged less than half the target.[77] Sweden and the Netherlands are the only countries to have reached the ODA target of 0.7% of GNP set in 1970.[78] Between 1961 and 1975 the GNP's of industrialized nations of North America, Western Europe, Eastern Asia and the Pacific increased by eighty percent in real terms, but relative to their GNP, their aid decreased from 0.53% in 1961 to 0.36% in 1975.[79] According to one author, most of this decline is attributable to political developments, including the relaxation of tensions between the East and West, which weakened ideological and military motives of aid, the decolonization of the 1960's, and the loss of interest of some Western donors when they realized the difficulty new nations have in establishing democratic systems.[80]

In 1961, ODA from the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development[81] amounted to $11.9 billion (0.53% of GNP). The amount

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[76] Gruder, *Setting an Agenda for the 1980s*, 16 FINANCE & DEVELOPMENT 7,11 (1979).

[77] *Id.*

[78] Voorhoeve, *Trends in Official Development Aid*, 14 FINANCE & DEVELOPMENT 10,10 (1977).

[79] *Id.* at 11.

[80] *Id.*

[81] Members of the OECD are Australia, Austria, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

reached $13.6 billion in 1975 (0.36% of GNP). This assistance constituted eighty-three percent of all aid from all sources.[82] Although aid from the United States is still the largest source of DAC aid, at thirty-six percent of the total, it has fallen from 0.53% of GNP in the early 1960's to 0.23% in 1975. Taking into account the effects of inflation, United States aid has declined by 5.6% per year in real terms from 1960 to 1975.[83]

The Organization of Petroleum Exporting Countries (OPEC) has disbursed approximately $8.4 billion of ODA between 1970 and 1975, contributing an average of 1.6% of GNP in 1973 and 1.35% of GNP in 1975.[84] A list of all donors, ranked according to their aid disbursements relative to GNP, is headed by seven OPEC members. Seventy percent of OPEC's bilateral aid from 1974 to 1975, however, was committed to five countries, with the largest share going to Arab and Islamic developing countries.[85]

Virtually all aid from communist nations is bilateral and closely tied to the purchase of donor country goods, with repayment often in kind. Disbursements fluctuate from year to year, declining from about $1.5 billion from 1970 to 1971 to $750 million in 1975 (in 1975 dollar values).[86] The volume of aid from communist countries is low in relation to GNP: the Soviet Union supplied from 0.04% to 0.08% in recent years and the Peoples' Republic of China provided only 0.13% to 0.10% of its GNP in recent years.[87]

The above figures represent lending for all projects, excluding military lending, and are not limited to disbursements for urban development. However, if it is assumed that the allocation of funds to urban projects has remained constant, the figures probably also indicate a trend in lending to city-specific projects.

Third World countries are becoming a more potent force in world politics, now claiming a majority vote in the United Nations General Assembly. Although some of these U.N. members are oil-rich, they share many interests with the less developed nations, including a desire for political independence from the industrialized nations. Despite the fact that most less developed countries remain financially tied to industrialized lender countries, it is also true that industrialized nations are becoming financially tied to

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[82] Voorhoeve, *supra* note 78, at 11.
[83] *Id.*
[84] *Id.* at 12.
[85] *Id.*
[86] *Id.* at 13.
[87] *Id.*

certain developing countries. The United States, for example, has private direct investments in developing countries of a book value in excess of $30 billion, with a market value that perhaps doubles that amount.[88] Five percent of United States corporate profits are derived from developing country investment, which contributes more than $1 billion annually to the United States balance of payments.[89] With such substantial investments in developing countries, the developed nations cannot afford to ignore the consequences of lending patterns, especially in urban areas.

C. *Specific Organizations*

1. *The World Bank*

The purposes of the World Bank are listed in the first of its Articles of Agreement. Its primary tasks are to assist the reconstruction of territories of developed member countries which are destroyed by war and to assist in the development of less developed countries.[90] Two main objectives of World Bank loan policy are to supplement private investment and to promote private lending by means of guarantees or by participation in loans. It is only when private capital is unavailable that the Bank grants loans from its own sources.[91] Only states may be members of the World Bank and, according to Article I section 1(a) of its Articles of Agreement, membership in the International Monetary Fund (IMF) is a condition of Bank membership. Established in 1945 to lend for reconstruction following World War II, the World Bank is the only international organization that can raise money on capital markets as do private corporations.[92] With two kinds of sanctions available on default, cancellation or suspension of a loan, the World Bank has made a profit every year and has never had a default.[93]

After 1960, World Bank lending policy shifted from reconstruction to development finance. The International Development

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[88] UNITED STATES DEP'T OF STATE, THE UNITED STATES AND THE THIRD WORLD, DEP'T OF STATE PUBLICATION 8863, at 3 (1976).

[89] Freeman, *The Role of International Lending in Developing Economies*, 7 VAND J. TRANSNAT'L L. 557,562 (1975).

[90] U. KIRDAR, THE STRUCTURE OF UNITED NATIONS ECONOMIC AID TO UNDERDEVELOPED COUNTRIES 105 (1966).

[91] *Id.*

[92] Hurni, *The "New Style" Lending Policy of the World Bank*, 13 J. WORLD TRADE L. 523,523 (1979).

[93] *Id.* at 524.

Association (IDA) was created to allocate credits on softer terms than World Bank loans. Bank loans have flexible interest rates for up to twenty-five years duration, with a grace period of up to five years. IDA credits (the term "credits" is used to distinguish IDA lending from that of the World Bank itself) have a duration of fifty years at no interest, with a small service charge of 0.75% to cover administrative costs.[94] Thus, the IDA can make funds available for urban projects that would otherwise go unfunded by the World Bank.

To avoid politicization, the Bank permits voting for funding of projects on the basis of quotas.[95] The largest shareholders in the Bank have a ruling majority, with the United States and the United Kingdom exercising 39.38% of voting power.[96] Lending cannot exceed the subscribed capital (approximately U.S. $31 billion at 1976 values) plus interest and reserves, and the Bank accepts only projects with an estimated rate of return in excess of ten percent and costs above $5 million at 1970 values.[97]

Since 1945, the lending criteria of the World Bank have included requirements that investments yield a reasonable rate of return; that the borrower be credit worthy with an annual income per capita no greater than U.S. $1250 at 1976 values; that countries with less than $200 per capita annual income receive most of the IDA credits; that credits be allocated in a way to avoid credit monopolies; and that a country have sufficient absorptive capacity for "bankable projects."[98] If a loan is made to a political subdivision or to a locally owned private enterprise, rather than directly to the government, the loan must be guaranteed either by the government or by its central bank or comparable agency.[99] In determining whether or not to accept a proposed project for Bank assistance, the Bank considers not only the project itself but also the total economic situation of the borrowing country, as well as the effects that the project is likely to have upon that situation. According to the practices of the Bank:

> [T]he assessment of repayment prospects involves an exercise of judgment after consideration of a multitude of factors. The availability of natural resources and the existing productive plant within the country are the obvious starting points, but

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[94] *Id.*

[95] *Id.* at 525.

[96] KIRDAR, *supra* note 90, at 107.

[97] Hurni, *supra* note 92, at 526.

[98] *Id.* at 527.

[99] KIRDAR, *supra* note 90, at 116.

> equally important is the capacity of the country concerned to exploit its resources and operate its productive facilities effectively. The judgment required therefore involves, among other things, an evaluation of the effectiveness of the central administration and of the business community, the availability of managerial supervisory and technical skills, the scale and character of investment, and the economic and financial policies which are likely to be followed, particularly as they affect the level of domestic savings and the flow of foreign capital. The probable impact of all these factors upon the country's future balance of payments must then be assessed in the light of such considerations as the likely prospects for the country's principal exports and imports, and the effect of population increase.[100]

Lending to local agencies, rather than to national governments or national agencies, is infrequent because local institutions tend to be less qualified, less efficient, and often more subject to political pressure.[101] Bank lending usually is disbursed to national agencies, which use the funds throughout their countries for various projects. At times, when lending to local authorities, the Bank has required institutional reforms before disbursement of funds.[102]

The World Bank's policy emphasis has shifted in recent years from the financing of basic infrastructure to on-farm activities. From 1968 to 1972, the proportion of agricultural projects in which participating farmers owned less than five hectares of land increased from seventeen to fifty percent.[103] Since 1973, the World Bank's direct lending for agricultural development in the developing world has grown from $1.4 billion per year to $3.3 billion in 1978, and totaled more than $10 billion over this five-year period. The 1978 figure represents thirty-nine percent of all Bank lending in that year, and over forty percent of all external commitments to agriculture.[104] The primary reason for the policy shift lies in the reorientation of development goals from pure economic growth to "growth with equity" after it became apparent that a trickle-down effect predicted for the benefits of economic expansion had not taken place.[105] Another reason for the shift is the belief that some

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[100] *Id.* at 121.

[101] WORLD BANK OPERATIONS, *supra* note 1, at 458.

[102] In Calcutta, the Bank recommended the formation of a Metropolitan Water Authority to devise and execute a plan for the area's water and sewerage system before lending for such purposes. *Id.*

[103] Freeman, *supra* note 89, at 568.

[104] Yudelman, *Impact of the Bank's Rural Development Lending*, 16 FINANCE & DEVELOPMENT 24,24 (1979).

[105] Hurni, *supra* note 92, at 528.

urban pressures can be alleviated by restraining migration from rural areas and that the best way to do this is to promote development in rural areas. This is, in effect, national urban planning, albeit indirect.

However, the fact remains that of the five percent urban population growth per year, half is made up of rural migrants.[106] Although migrants represent only a fraction of the natural increase in rural population, "only by rapid migration can the population of rural areas be brought into balance with rural resources and productivity, incomes raised, and the poverty of the lowest income rural groups, the landless and the marginal farmers, be reduced."[107] As stated in the introduction, urbanization presents opportunities that are not available in rural areas. This is indicated by the fact that urban areas typically provide about one-half of the total GNP, using only one-fifth of the population.[108] Even if rural employment grows by two percent per year, a four and one-half percent increase in urban employment per year will be necessary to provide sufficient jobs for the national labor force additions, assuming growth rates of twenty percent in urban population and two and a half percent in the labor force.[109] The

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URBAN/RURAL POPULATION OF DEVELOPING COUNTRIES

	1920	1940	1960	1980	2000
Urban Populations (above 20,000 in millions)	69 (6%)	128 (9%)	310 (15%)	693 (22%)	1436 (31%)
Rural and Small Town Populations	1,118 (94%)	1,346 (91%)	1,705 (85%)	2,431 (78%)	3,235 (69%)
Annual Rate of Increase					
—in urban populations	3.19%	3.1%	4.5%	4.1%	3.7%
—in rural populations	0.97%	0.9%	1.2%	1.8%	1.4%

Source: Table 32, *reprinted in* WORLD BANK OPERATIONS, *supra* note 1, at 427.

[107] *Id.* at 427.

[108] In 1940, more than two-thirds of Brazil's population lived in rural areas. Thirty-two years later, urban population represented 56% of the total. In 1970, approximately 83% of Brazil's GNP came from urban activities, where the rate of job supply was as much as seven times that of the rural sector. Estimates indicate that in 1980 Brazil should have 120 million inhabitants, with 80 million living in urban centers. Asirwatham, *supra* note 32, at 590.

[109] The absolute number of jobs required in rural areas still will be much larger than that required in cities, because of the smaller starting base in cities. WORLD BANK OPERATIONS, *supra* note 1, at 429.

evidence, as established by these statistics, suggests the need for more emphasis by the World Bank on lending directly for urban development, for devoting funds to projects that will help more people overall, and for allocating funds that will benefit the economy of the developing country as a whole.

Since 1973, approximately thirty percent of the total lending volume of the World Bank has been through cofinancing with other banks and development funds.[110] "'Cofinancing' refers to any arrangement under which funds from the Bank are associated with funds provided by other sources outside the borrowing country in the financing of a particular project."[111] Under cofinancing schemes, the role of the Bank varies, depending on the wishes of the borrower, the capacity and experience of the co-lender, and the type of cofinancing. Joint financing provides for the financing of a common list of goods and services shared by the Bank and co-lender in agreed proportions.[112] Parallel financing, which is becoming the more popular method of cofinancing, refers to an operation in which the Bank and the co-lender finance different parts of a project.[113] Although cofinancing probably does not induce an absolute increase in funds available to a particular country, it does spread the Bank's funds over a larger number of projects and helps newly established and less adequately staffed agencies choose high priority projects, thereby increasing efficiency of fund allocation. Many agencies rely upon the Bank's involvement in a country's projects in determining whether a borrower is creditworthy. At times, quotas are enlarged for projects cofinanced with the Bank.[114] A recent illustration of World Bank cofinancing is an urban development project approved for Colombia in which the World Bank will provide a loan of $13.5 million and the International Development Bank will make funds available totaling $2 million, both organizations contributing to the total project cost of $35.3 million.[115] It appears likely, then, that increased emphasis on urban projects by the World Bank and the IDA could pull substantial amounts of collateral loans into the area of urban finance.

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[110] Hurni, *supra* note 92, at 526.

[111] Hornstein, *Cofinancing of Bank and IDA Projects*, 14 FINANCE & DEVELOPMENT 40,40 (1977).

[112] *Id.* at 41.

[113] *Id.*

[114] *Id.* at 43.

[115] WORLD BANK, 1979 ANNUAL REPORT 92.

2. *The International Finance Corporation*

Public investment, however, is not sufficient to meet the needs of the urban poor. Therefore, the role of private investment is critical in the economic development of developing countries. The International Finance Corporation (IFC) of the World Bank Group is the most important participant and promoter of private projects of all multilateral development finance institutions.[116] With 108 member countries, 88 of which are developing countries, the IFC shares the common objectives and policies of the World Bank for improving the well-being of the populations of developing countries. The IFC was established in 1956 for the special purpose of promoting the growth of the private sector and of assisting private enterprises in member countries when such enterprises may advance the economic development of host countries.[117] IFC financing normally consists of subscriptions to share capital or long-term loans without a guarantee of repayment by the government.[118] While the form of its financing is unlimited and its terms are flexible, the IFC does not participate in projects dominated by the public sector.[119] Financial assistance from the IFC is made available only if the major share of costs is financed by private investment.[120] In this way, the IFC uses its limited funds to bring together investment opportunities, foreign and domestic private capital, and experienced management for the development and expansion of private enterprise in developing countries.

Since its establishment, the IFC has invested over $1.7 billion in almost 300 enterprises in sixty-two developing countries.[121] It serves as a catalyst to investment; for every $1.00 invested by the IFC, $4.00 are invested by other entities.[122] The IFC and its associated external investors account for almost ten percent of the flow of direct private foreign investment from the OECD countries to the developing world.[123] Scant data is available on the priority the IFC places on urban projects; a plausible estimate would be that it is commensurate with the urban involvement of the other members of the World Bank group. However, the flex-

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[116] OECD, INVESTING IN DEVELOPING COUNTRIES 109 (3d ed. 1975).

[117] *See* INTERNATIONAL FINANCE CORPORATION, 1978 ANNUAL REPORT (preface).

[118] *Id.*

[119] Lowe, *The IFC and the Agribusiness Sector*, 14 FINANCE & DEVELOPMENT 25,25 (1977).

[120] KIRDAR, *supra* note 90, at 185.

[121] *Catalytic Role of IFC is Growing in Importance*, 14 FINANCE & DEVELOPMENT 2,2 (1977).

[122] *Id.*

ibility of IFC programs and their commercial orientation suggest that they could be adapted successfully to urban development projects.

3. *The International Development Association*

The International Development Association (IDA), referred to as the World Bank's "soft loan window," was established in 1960 and since then has obtained its funds from six primary sources: members' initial subscriptions; periodic replenishments provided by richer members; special contributions by members; loans and contributions by nonmembers; grants from the World Bank out of its net income; and IDA's own accumulated net income.[124] IDA resource allocations are based upon four main eligibility criteria: poverty level, lack of creditworthiness, adequate economic performance, and the availability of projects suitable for IDA financing.[125] Ninety percent of IDA lending between 1973 and 1976 went to countries with per capita annual incomes below U.S. $265 in 1975 values.[126]

The IDA is especially active in the sector of water supply and sewerage, in which nine projects currently are being supported. For example, the IDA will provide $16.5 million to Afghanistan; $22 million to Bangladesh; $12.5 million to Guinea; $196 million, $48 million, and $38 million to India for three different projects; $6 million to Lesotho; $8 million to Liberia; and $2.5 million to Senegal, all for water and sewerage-related projects.[127] The apparent rationale for this lending activity is sound. Soft loans are especially appropriate for projects of an essential nature which, particularly in less developed countries, are incapable of bringing a commercially acceptable return on investment.

4. *The Agency for International Development*

The Agency for International Development (AID) is a body within the United States Department of State through which official United States government assistance is granted. Generally speaking, economic aid from the United States has progressed from programs with strong political and security overtones to pro-

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[123] *Id.*
[124] *The Fifth Replenishment of IDA Completed*, 14 FINANCE & DEVELOPMENT 6,6 (1977).
[125] *Id.*
[126] *Id.*
[127] WORLD BANK, 1979 ANNUAL REPORT 92-94.

grams with a more humanitarian orientation. In the 1950's, "foreign aid was justified primarily as a national security measure, needed to strengthen allies and to build up low-income countries so that they would be less vulnerable to Communist invasion or takeover."[128] In the 1960's, a trend emerged which viewed development as a goal in itself.[129] Congress enacted a new Foreign Assistance Act in 1973, which focused upon needs of the poor majority who had not benefited from a trickle-down effect expected from past lending.[130] United States bilateral development aid currently relates mainly to food and nutrition, population and health, education and human resources development, all important to urban development and maintenance.[131] Between 1949 and mid-1970, approximately four percent, or $459.4 million, of AID's capital commitment was for urban development-related projects.[132] AID loans for urban development and housing typically have been of soft terms, which at one time were from three-fourths to one percent interest for forty years, but today are closer to three percent per annum for forty years with a period of grace every ten years.[133]

Congress has not hesitated to attach conditions to its foreign assistance. Although the World Bank refuses to attach any human rights conditions to its loan agreements,[134] the Foreign Assistance Act, as amended, provides that "No assistance may be provided ... to the governments of any country which engages in a consistent pattern of gross violations of internationally recognized human rights . . . unless such assistance will directly benefit the needy people in such country."[135] It is arguable that this is not an exacting standard because virtually any assistance would seem to benefit the needy people of a country. AID may be called upon by congress, nonetheless, "to submit in writing information demonstrating that such assistance" will, indeed, directly benefit the

[128] R. ASHER, DEVELOPMENT ASSISTANCE IN THE SEVENTIES 4 (1970).

[129] UNITED STATES DEPT. OF STATE, *supra* note 88, at 27.

[130] *Id.*

[131] *Id.*

[132] WORLD BANK OPERATIONS, *supra* note 1, at 508.

[133] *Id.* at 509.

[134] The World Bank steadfastly has refused to attach human rights considerations to its loans, basing its legal argument on Article IV § 10 of the IBRD Articles of Agreement, which places the political affairs of member states beyond the Bank's jurisdiction. Only issues of economic significance are to be considered as cretieria for loan issuance. For the argument that economic conditions are affected by a country's human rights record, *see* Marmorstein, *World Bank Power to Consider Human Rights Factors in Loan Decisions*, 13 J. INT'L L. & ECON. 113,120 (1978).

[135] 22 U.S.C. § 2151n (1) (1976).

needy.[136] Another reporting rule was adopted voluntarily. AID, as well as the World Bank, has adopted a policy of requiring environmental studies before approving development assistance loans.[137] It would be most useful if these reporting requirements were combined and adapted for urban project loans, perhaps in the form of an urban impact statement which analyzed social and economic factors.

5. *The International Monetary Fund*

On first impression, the International Monetary Fund (IMF) is not a lending agency which finances economic development. The primary goals of the Fund's programs are: attainment of a certain balance of payments outcome; maintenance of or progress toward freedom of trade and exchange restrictions; and achievement of a high degree of price stability without sacrificing economic growth objectives.[138] Programs cover a wide range of policy measures, including improvement of the fiscal situation, restraint on the growth of credit, implementation of prescribed price and income policies and, where necessary, exchange rate actions.[139] While pursuing macroeconomic goals, the IMF nevertheless has an important impact on urban policies and programs in developing countries.

Three facets of IMF activity which relate to urban problems are: (1) resources are provided to give an opportunity to a member to correct a maladjustment in its balance of payments; (2) resources are disbursed with certain safeguards; and (3) the use of the Fund's resources can be only temporary.[140] Each member's quota forms the basis for the amount of "purchases" it can expect. Under the present Articles of Agreement, seventy-five percent of a member's quota is subscribed in the member's own currency, with the remaining twenty-five percent, or gold tranche, usually subscribed in gold.[141] A purchase from the Fund takes the form of a purchase by the member of currency of other members in exchange for an equivalent amount of its own currency, which is

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[136] UNITED STATES DEP'T. OF STATE, *supra* note 88, at 31.

[137] *Id.* at 23.

[138] Johnson, *Use of Fund Resources and Stand-by Arrangements*, 14 FINANCE & DEVELOPMENT 20 (1977).

[139] *Id.*

[140] *Id.* at 19,20.

[141] *Id.* at 19.

[142] *Id.*

then subject to repurchase.[142] Beyond the gold tranche, there are four credit tranches, each equal to 36.35% of a member's total quota. A member normally may purchase up to four credit tranches under the tranche policy. In the upper credit tranches, direct purchases are rare and limited primarily to instances where serious balance of payments difficulties are caused by natural disasters.[143] Because urban development projects, particularly those for the urban poor, tend either to have low economic rates of return or to take the form of government subsidies, such programs often are reduced or impeded by IMF programs, which focus on the overall economic output and balance of payments of a country. Indeed, among the many conditions and restrictions placed on IMF loans may be found express requirements that a country temporarily curtail some housing programs and price supports for the urban poor.

Despite its occasionally debilitating effects on urban programs, the IMF has steadily enlarged the scale of its lending capabilities and the range of financing programs with which it assists its members. This is due primarily to the sharp increase of balance of payments problems in recent years. A fifty percent increase in quotas was accepted by the Board of Governors in October, 1978.[144] Also in 1978 was the establishment of a longer term Fund facility and the creation of a Trust Fund to provide practically non-interest bearing loans to low-income developing countries out of the profits from the sale of gold.[145] Repayment periods are limited to three to five years under most facilities because of the need to keep the Fund's capital circulating. However, the period may be extended to seven or eight years in cases of supplementary financing and extended Fund facilities, and to ten years in cases of loans from the Trust Fund.[146] These longer term, lower interest loans could mitigate some of the harsher impacts the IMF has on urban projects.

After World War II, creditor nations organized to consider debts owed or guranteed by foreign governments, with IMF involvement constituting an integral part of the debt rescheduling process. The IMF now provides standby arrangements and draw-

[143] Until January 1976, the upper credit tranches were equal to only 25% of a member's total quota. *Id.* at 19-20.

[144] Larosiere, *Toward a Solution of International Economic Problems*, 16 FINANCE & DEVELOPMENT 12,13 (1979).

[145] *Id.*

[146] *Id.* at 14.

ings when a nation agrees to change its policies in accordance with the short-term economic policy recommendations of Fund experts.[147] Standby arrangements are agreements under which a member is guaranteed that during a fixed period of time a stated amount of the Fund's resources will be available to the member whenever it requests a transaction.[148] This makes more money available from creditor nations for development country projects as a country's creditworthiness is enhanced, and also can relieve somewhat the harshness of IMF policies.

6. *Other International Assistance Organizations*

Many organizations provide economic assistance to developing countries, but discussion of them is beyond the scope of this Note. A few of the more active entities are listed with brief mention of some of their activities. During the period from 1964 to 1969, the European Economic Community, through its Fonds Europèen de Dèveloppement, began to grant aid to urban development, initially amounting to about $3.9 million. This amount included expenditures on water supply, drainage, and on sites for dwellings, for improvement of central marketing facilities, and for construction of airports.[149]

Individual European countries have played larger roles, notably France and the United Kingdom. The Caisse Centrale de Cooperation Economique (CCCE) is the disbursement agency for a large part of the French government's investment funds in Africa, Indochina, and French overseas territories. It also works as a delegated agency for Fonds Europèen de Dèveloppement aid to Madagascar, the thirteen African countries where CCCE has offices, and the French overseas territories.[150] Between 1966 and 1969, CCE lent approximately $24.94 million for housing and aided in the construction of about 27,700 housing units.[151] The Commonwealth Development Corporation (CDC) is a British government statutory corporation established in 1948. It initially operated only in developing Commonwealth countries. Since then, however, the CDC has set up twenty-one mortgage finance companies in Africa, East Asia, and the Caribbean.[152]

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[147] Solomon, *Developing Nations and Commercial Banks: The New Dependency*, 12 J. INT'L L. & ECON. 325,342 (1978).

[148] KIRDAR, *supra* note 90, at 162.

[149] WORLD BANK OPERATIONS, *supra* note 1, at 505.

[150] *Id.* at 511.

[151] *Id.*

[152] *Id.* at 512.

Two Western Hemisphere organizations have been prominant in urban development finance. The Organization of American States established a Division of Urban Development in 1966 to give technical assistance in the formulation of development policy and for the transmission of housing and construction technology to member countries.[153] The Inter-American Development Bank (IDB), established in 1960, initially was limited to financing water, sewerage and housing construction, but eventually expanded to financing projects within a framework of integrated urban development programs.[154] Between 1961 and 1970, approximately twenty-one percent of IDB's capital commitment, $864.7 million, went for projects related to urban development.[155]

7. *Evaluation*

Evaluation of the effects of World Bank loans, as well as those of the IDB, AID, the Caisse Centrale, and other organizations, most often centers upon the operational effects of such loans. Among questions asked, for example, are: whether the loan funds were spent for the intended purposes; whether the given road or plant actually was built; and whether the project was completed on time and within cost estimates. At the operational level, where the effects are defineable and measurable, most international lending has had a positive effect.[156] Effects which arguably should be analyzed when determining the impact of a loan, but which are seldom considered, are the technological effect (i.e., was the project technically well constructed? Did it bring new technology or methods to the host country?); the financial effect (were there truly adequate guarantees of repayment? Public banks obtain guarantees from the borrower governments, which private bankers usually do not get); the economic effect (has the lending stimulated domestic capital formation? Has it led to an unequal distribution of incomes?); and the socio-political effect (did it move the borrowing country into a dependency position?).[157] An examination of these and related questions would enable lending institutions to allocate funds more equitably and efficiently. The World Bank has taken the lead in this area with the publication of

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[153] *Id.* at 511.

[154] *Id.* at 507.

[155] *Id.* at 508.

[156] Widdicombe, *The Effect of International Lending Programs in the Developing Nations*, 7 VAND. J. TRANSNAT'L L. 600 (1974).

[157] *Id.* at 600-04.

an annual review of performance audits for its projects.[158] This represents a promising beginning, but presently the reviews are too vague to be of much use to borrowers or lenders.

III. PRIVATE FOREIGN INVESTMENT

Approximately five percent of United States corporate profits are derived from developing country investment.[159] Private corporations and bankers often have not had the recourse to default which is available to public lenders, namely, a borrowing government's guarantee of repayment.[160] Because it is the United States government's policy to encourage private investment in developing countries, United States tax laws have provisions which are designed to encourage such investment, and in 1969 congress took the additional step of establishing the Overseas Private Investment Corporation (OPIC) to provide insurance and guarantees to United States firms against the risks of foreign investment.[161] The OPIC statute provides that OPIC shall undertake "to conduct financing, insurance, and reinsurance operations on a self-sustaining basis, taking into account . . . the economic and financial soundness of projects;" and "to conduct its insurance operations with due regard to principles of risk management including efforts to share its insurance and reinsurance risks . . . ."[162] The statute also provides that the Corporation may support only projects which are responsive to the needs of the host countries' economies, are of value to the economic and social development of the host country, and are consistent with United States balance of payments and employment objectives.[163]

OPIC's Direct Investment Fund extends direct dollar loans and provides for the purchase of convertible debentures, with an initial capital of $40 million.[164] The loans are made at commercial rates, but usually for longer periods of time than those available on the commercial market.[165] Investment Insurance, formerly known as the Specific Risk Guarantee Program, taken over from

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[158] *See, e.g.*, WORLD BANK, 1979 ANNUAL REVIEW OF PROJECT PERFORMANCE AUDIT RESULTS.

[159] Freeman, *supra* note 89, at 562.

[160] UNCTAD, THE ROLE OF PRIVATE ENTERPRISE IN INVESTMENT AND PROMOTION OF EXPORTS IN DEVELOPING COUNTRIES, TD/35/Rev.1 (1968).

[161] *See generally* 22 U.S.C. § 2191 *et seq.* (1976).

[162] 22 U.S.C. § 2191 (a), (d) (1976).

[163] OECD, *supra* note 116, at 96.

[164] *Id.*

[165] As of June 30, 1974, eighteen loans had been authorized for a total of $20.5 million. *Id.* at 98.

AID, offers ninety percent protection against loss from the political risks of inconvertibility of capital and profits, expropriation, war, revolution and insurrection.[166] Insurance is issued for a maximum of twenty years for equity investments and for the term of the loan for debt investments.

The Investment Loan Guarantee Program, formerly the Extended Risk Guarantee Program, also taken over from AID, offers United States lending institutions 100% guarantees, including loan principal and interest, against losses due to any and all risks, with the limitation that risk of loss as to at least ten percent of the total investment of the insured must be borne by the insured.[167] These guarantees are available solely for credits provided by United States institutional and commercial lenders to eligible projects.[168]

Debts incurred by oil-importing developing countries reached $180 billion by the end of 1976, with private commercial banks holding approximately $45 billion of the credits.[169] Foreign expansion by United States banks has taken place at a rapid rate, as evidenced by the fact that in 1960 only eleven United States banks had assets abroad, but, by the end of 1974, 125 banks had foreign branches.[170] The overseas earnings of the five largest United States banks[171] grew by $500 million between 1970 and 1975, while the domestic growth for the same period was only $17 million.[172] Of the long and short-term public and private debt of non-oil exporting developing countries, $180 billion at the end of 1976,[173] commercial banks have provided more than $75 billion, with United States banks supplying approximately $42 billion, or five percent of total United States bank loans.[174]

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[166] Fees are three-tenths of one percent for convertibility coverage and 6/10 of one percent for expropriation and war risks. As of June 30, 1974, outstanding maximum coverage totaled $3.2 billion for inconvertibility, $3.5 billion for expropriation and $3.0 billion for war risks. *Id.* at 96-97.

[167] 22 U.S.C. § 2197(f) (1976). In practice, OPIC loan guarantees generally do not exceed 50% of total project financing. The standard fee for the loan guarantee is 1.75% to 3% per annum on the principal amount. OCED, *supra* note 116, at 98.

[168] 22 U.S.C. § 2197(h) (1976).

[169] Solomon, *Developing Nations and Commercial Banks: The New Dependency*, 12 J. INT'L L. & ECON. 325,325 (1978).

[170] *Id.* at 326.

[171] Bank-America Corp., Citicorp, Chase Manhattan Corp., Manufacturers Hanover Corp., and J.P. Morgan & Co.

[172] T. HANLEY, U.S. MULTINATIONAL BANKING: CURRENT AND PROSPECTIVE STRATEGIES 13 (1976).

[173] Wall Street J., Aug. 18, 1977, at 10, col. 1.

[174] UNITED STATES FEDERAL RESERVE BOARD, RESULTS OF FEDERAL RESERVE SURVEY ON FOREIGN CLAIMS OF U.S. BANKS 1 (1977).

A high percentage of United States bank loans to developing countries are concentrated in one dozen countries and usually are limited to a few select borrowers and have relatively short maturity.[175] A Federal Reserve Bank survey of more than 124 banks with total assets of $1 billion and more than $50 million of credits, reported that of the $45,831 million owed by non-oil-exporting developing countries as of December 31, 1977, sixty-eight percent represented debts of only five countries: Mexico, Brazil, Korea, the Philippines and Taiwan, all of which the World Bank characterizes as high or middle-income developing countries.[176] This indicates that private lenders' concern with risk of default remains a very important consideration, despite such guarantee programs as those provided by OPIC. A greater emphasis on risk

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[175] Ganoe, *Loans to LDCs: Five Myths*, in DEVELOPING COUNTRY DEBT 83 (L. Franko & M. Seiber eds. 1979).

[176]

FOREIGN CLAIMS OF U.S. BANKS AS OF DEC. 31, 1977

A. Higher Income LDCs (per capita income of $2000-$500)
(in millions of U.S. dollars)

Brazil	$11,992	Malaysia	$511
Mexico	11,213	Costa Rica	424
Taiwan	2,805	Dominican Republic	283
Argentina	2,639	Jamaica	247
Peru	1,831	Guatemala	226
Colombia	1,239	Uruguay	203
Chile	821	Zambia	183
Israel	667	Trinidad & Tobago	44
Nicaragua	562	Paraguay	33

Total: $35,982

B. Middle-Income LDCs (per capita income of $500-$200)

Korea	$3,072	Honduras	$253
Philippines	2,049	El Salvador	188
Syria	856	Jordan	101
Thailand	555	Tunisia	95
Morocco	462	Ghana	78
Bolivia	446	Cameroon	60
Egypt	427	Kenya	39
Ivory Coast	347	Senegal	25

Total: $9,050

C. Lower-Income LDCs (per capita income less than $200)

Zaire	$252
Sudan	219
India	187
Malawi	70
Pakistan	59

Total: $790

Source: *Id.* (extracted from Federal Reserve Press Release, June 8, 1978).

evaluation in the lending decision has emerged since the OPEC price increases of 1973-1974. Before these increases, many loans to developing countries carried ten to fifteen-year maturities. After 1973, credit ratings of oil-importing countries weakened and the term of most loans was reduced to five to seven years.[177] Loans were linked to specific risk and performance criteria, including the level of debt-servicing ratio (the ratio of payment of principal and interest on outstanding public debt to export earnings); the direction in which the ratio is moving; estimates of how the debt will be serviced in the future; the type and maturity of the loan; the purpose for which the credit will be used; and a variety of statistical indicia, e.g., per capita income, raw material resources; and several subjective factors such as economic, political, and social stability.[178]

Private banks are beginning to copy the International Monetary Fund by imposing conditions on loans to developing countries. In 1976, Peru agreed to several conditions to qualify as creditworthy, including currency devaluation, export tax increases, the restructuring of import controls, cuts in public spending, and a removal of subsidies from basic foods.[179] The Peruvians also agreed to permit monitoring, by private bankers, of Peru's economic policies, in the form of monthly economic reports from its central bank. Among other conditions was an agreement on compensation for the 1975 expropriation of a subsidiary of a United States mining corporation, and settlement of a dispute involving back taxes of a United States mining consortium, which provided from thirty to forty percent of Peru's foreign exchange.[180] Riots, resignations of key government officials, and a state of national emergency resulted.[181] Such severe economic conditions and resulting social turmoil probably have impeded current and deterred future urban development projects.

A representative example of private banks negotiating with a debtor is the 1976 negotiations with Zaire, which involved a rescheduling of that country's official debt. Through the use of mandatory sanctions upon governmental, economic and financial policies, similar to those recommended by the IMF, Zaire was to

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[177] Klein, *The External Debt Situation of Developing Countries*, 12 FINANCE & DEVELOPMENT 21,24 (1976).

[178] Solomon, *supra* note 169, at 333.

[179] *Id.* at 344.

[180] *Id.*

[181] *Id.* at 345.

bring its private debt servicing into conformity with its original repayment schedule by paying its interest arrears and by depositing arrearages on principal and current principal payments into the Bank for International Settlements. Zaire also would begin a program to attain IMF standby credits. After adherence to the required standards, Citibank was to use its "best efforts" to raise $240 million and Zaire was to release the principal accumulated in the Bank for International Settlements to the creditor banks.[182]

Developing countries need the contribution of foreign investment and aid, but are reluctant to sacrifice simultaneously their independence. Despite the fact that, in most developing countries, the government exercises a high degree of control over foreign investment in the private sector,[183] such foreign private economic involvement in and control over independent political matters in borrower countries remains a substantial problem. In the spring of 1977, when the government of Zaire faced a rebel military force in the copper-rich Shaba province, in addition to the $15 million in nonlethal military supplies from the United States, France contributed a fleet of military planes and 1500 troops were provided by Morocco.[184] Aid also was received from Belgium, Egypt and Sudan. United States private banks remained in close contact with the State and Treasury Departments and, according to published accounts, Citibank's Zaire expert spent one day each week in Washington exchanging views and information with government officials.[185] Bankers forcefully maintained that financial interests did not influence government policy makers, just as government officials denied that any political pressure was placed on banks to make the money available, despite the obvious concentration of loans in certain key countries.[186]

As these examples illustrate, involvement by private banks, particularly United States banks, in lending to developing countries recently has followed the IMF model of placing strict economic conditions on borrower governments. Such conditions are intended to improve the borrowers' balance of payments and currency exchange rates which, in turn, ultimately may lead to

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[182] *Id.* at 346.

[183] UNCTAD, *supra* note 158, at 16.

[184] Solomon, *supra* note 169, at 347.

[185] Manning, *West Fears Domino Effect of Zaire Financial Collapse*, Manchester Guardian, May 5, 1977, at 9; Oberdorfer & Lescaze, *Zaire Nearly Broke*, Washington Post, April 24, 1977, at A1, col. 5.

[186] Solomon, *supra* note 169, at 348.

economic improvement in general and an easing of urban economic problems in particular. However, the experience of Peru shows that private bank loan conditions can exacerbate the circumstances of urban poor. From the standpoint of loan risk assessment, it seems that private lending for balance of payments needs, regardless of the conditions used to ensure ability to repay, may work against other private lending and investment relating to specific projects. Thus, heavy involvement by the private sector in the former type of lending could discourage that sector's involvement in the latter, probably to the detriment of urban development projects.

The example of Zaire suggests another problem. Private bank lending and monitoring activities, when contemporaneous with direct political and military involvement by countries whose banks are making the loans, may be perceived as having political, rather than commercial, motives. This could become a controversial issue in the international lending institutions, with which the private banks often work.

IV. LAND TAX POLICIES

Developing countries have a domestic, although not an exclusive, alternative to international borrowing. Many countries effectively use taxing mechanisms to offset, or in some cases to pay fully, many of the costs of urbanization. Included among the objectives of land tax policies are the desires to provide general revenue, to provide revenue to finance expenditures on public services, to provide incentives for the efficient allocation of resources, and to provide for the distribution of land ownership, land income, and other benefits of land use.[187] One common criticism of existing forms of property taxation is that they impede efficient use of land, primarily by discouraging improvement investments. Because of the difficulty in quantitatively measuring efficiency, the objectives of taxation commonly are stated in the form of lowering land prices, promoting development of vacant land, and curbing land speculation.[188]

There are large variations in the effectiveness of a tax. Factors to be considered are the administrative feasibility of a tax, i.e., whether the tax base can be defined clearly and assessed ac-

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[187] II URBAN LAND POLICY ISSUES AND OPPORTUNITIES 28 (World Bank Staff Working Paper No. 283, 1978) [hereinafter cited as URBAN LAND POLICY ISSUES].

[188] *Id.* at 29.

curately,[189] problems of transition from one tax system to another, political acceptability, and the timing of the tax payment.[190] Important urban land tax bases are: (1) land value alone (site value taxation); (2) total value of land and buildings (general property taxation); (3) changes in land value or in total property values; (4) total value of land when it is transacted; and (5) land area or some other physical, rather than value, measure of land.[191]

One of the most effective land taxes has been a taxation of land value increases. Betterment levies are imposed to recover part of the value of the benefits generated through the construction of public works in the form of increases in the value of properties. An attempt is made to allocate the cost of public works to affected properties in proportion to the benefits conferred, to the potential increase in property values. The levy is imposed on the increase in value of real property resulting from a public works project in relation to the increase of other real property values not benefitting from the project. The process of betterment levy determination may be divided into three stages: determination of the benefit area; determination of the aggregate benefit; and determination of levies to be imposed on each beneficiary.[192]

According to an intensive study of Latin American betterment levy systems, one of the biggest problems to resolve when imposing these levies is the manner in which the necessary supporting legislation for an effective system is to be enacted: "The principle of legality in most legislations regarding taxation calls for acts containing provisions that in general terms identify what is to be taxed and define the taxpayer, the tax base, and the tax rate, thereby specifying the legal circumstances that will give rise to tax liability."[193] Arbitrariness can be eliminated or reduced in the laws if the tax base is defined as the existence of differential benefits derived from a public works project and is imposed on the differential benefits received by each property. A 100% upper

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[189] The usual measure of accuracy in assessment is a coefficient of dispersion of assessment ratios, which measures the average deviation of the assessed value from the market value, after the effect of general underassessment of all property has been accounted for. For a sample of properties in Jakarta, the deviation of assessed value from market value exceeded 50% for more than 2/5 of the properties. Holland & Oldman, *Jakarta—Real Estate Tax Study—Final Report* 18 (World Bank 1972).

[190] URBAN LAND POLICY ISSUES, *supra* note 187, at 30-32.

[191] *Id.* at 32.

[192] For a descriptive analysis and algebraic model to determine these stages, *see* J. MACON & J.M. MAÑON, FINANCING URBAN AND RURAL DEVELOPMENT THROUGH BETTERMENT LEVIES 19 (1977).

[193] *Id.* at 28.

limit must be imposed on the ratio between the amount recoverable (the cost of the public works project) and the sum of the benefits (the total increase in property values).[194] Elimination of arbitrariness, of course, would make the programs more acceptable.

A. *Brazil's Betterment Levy Experience*

Although Brazil appears to be interested in adopting a betterment levy system, as is evidenced by the constitutional existence of the system and the enactment of several laws, the laws are unenforced and the levies practically nonexistent.[195] A levy is considered to be a one-time charge. Brazil defines the surcharge on its rural property tax, assessed on properties adjoining roads, as a tax and, like a tax, it is an annual and permanent charge.[196] Brazil does have a one-time paving fee (tasa de pavimentacion), which is used only for urban roads and consists of a charge to frontage owners in proportion to their frontage lengths for the outer one-third of each side of the road. The city finances the middle strip of pavement.[197] A fundamental disagreement among Brazilians concerning the definition of the betterment levy has been reflected in legislation. Decree Law 195 of 1967, currently in force, provides the conventional formula that the tax base is the difference between the value of the properties before public works and after. It repealed Act 5172, which provided that the value increment is an assumption, on the basis of which the cost of a project must be pro-rated to determine individual liabilities.[198] As the Brazilian experience shows, the use of levies must have solid governmental support if they are to be effective.

B. *Colombia's Experience*

The betterment levy system has been employed in Colombia for nearly six decades and is well institutionalized. It began with Article 3 of National Law 21 of 1921, which defined it as

> [A] contribution from the real property which is benefitted by the execution of works of local public interest, such as the cleaning

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[194] *Id.*

[195] Constitution of the Federal Republic of Brazil, Art. 18 (II), Amendment 1, of Oct. 17, 1979. *See* MACON & MAÑON, *supra* note 192, at 44.

[196] *Id.*

[197] *Id.*

[198] Macon and Mañon were informed by officials in Brazil that the proration of costs provided for in Act 5172 was the only practical way to implement betterment levies in Brazil. *Id.* at 45.

> and channelization of rivers, the construction of dikes to prevent flooding, the drying of lakes, swamps and wetlands, irrigation and other analogous purposes, which contribution is to be exclusively designated to meet the costs required by said works.[199]

The scope of valorization was extended by National Law 1 of 1943 to all "work of public service" and the limitation of recovery of charges to the costs incurred was removed.[200] The definition again was enlarged, to "works of public interest," in 1966 by Legislative Decree No. 1604,[201] thereby expanding the effects of the tax policy.

In Bogota, the Instituto de Desarrollo Urbano (Urban Development Institute or IDU), formerly the Departamento de Valorizacion, is responsible for the construction of major public works and the allocation and implementation of valorization charges.[202] Water and sewerage projects are planned and constructed by a separate body known as the Empresa de Aceuducto y Alcantarillado de Bogota (EAAB).[203] All collections of valorization charges are done by the IDU.[204]

The basic ordinance of 1958 allowed for only one method of allocating valorization charges: to assign a prescribed benefit to each of a series of equally wide parallel zones with an adjustment to take account of differences in lot size and frontage. Today the valorization department need only proceed "in accordance with the characteristics of the project and the nature of the benefits, so that the resulting charges conform to legal norms and principles of equity."[205] This increased administrative authority should allow a more flexible tailoring of valorization to development projects.

Colombia's procedures for imposing the valorization charges involve: (1) a determination of the area of a project; (2) a survey of the taxpayers for personal data and socioeconomic information: (3) a meeting of the identified taxpayers to elect representatives, to participate in the preparation of a budget for the project and in a study to determine the distribution of benefits and tax quotas on the basis of expected gains in property values; (4) a study to deter-

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[199] W. DOEBELE & O. GRIMES, VALORIZATION CHARGES AS A METHOD FOR FINANCING URBAN PUBLIC WORKS: THE EXAMPLE OF BOGOTA, COLOMBIA, (World Bank Staff Working Paper No. 254, 1977).

[200] *Id.*

[201] *Id.* at 6.

[202] MACON & MAÑON, *supra* note 192, at 47.

[203] DOEBELE & GRIMES, *supra* note 199, at 9.

[204] *Id.* at 10.

[205] Acuerdo 5/1967, Art. 2. Doebele & Grimes, *Participation of Beneficiaries in Financing Urban Services: Valorization Charges in Bogotá, Colombia*, 55 LAND ECON. 73 (1979).

mine the levy payable by each owner; (5) approval of final tax records by duly authorized entities; and (6) the payment of the charge, made either in cash at a discount or in installments with interest.[206] The property owners have the right to review and appeal department decisions. Total collections may not exceed the cost of the project plus specified expenses or the amount of the benefits received by property owners.[207]

In determining the amount of a specific levy, several factors are considered and weighed. Each factor is meant to reflect a lesser or greater benefit to the individual piece of property. The most important is the ideal, or basic, factor, which measures the benefits received by each property in the form of indices.[208] Elements which are considered are the distance between the property and the project via existing roads, the accessibility of the property, the current exploitation of the project area (e.g., the quality of existing construction, businesses, etc.), and constraints on use.[209] Other factors are the shape-of-the-lot factor, which is smaller the larger the perimeter is in relation to the frontage; socioeconomic factors allowing a lower taxation for lower income groups;[210] zoning factors based upon the density of the land, with the unit value of land usually greater the higher the density;[211] the factor of change in potential land use; topographic factors, allowing for a lesser value to uneven land;[212] an institutional factor given to public welfare, educational, and charitable organizations; the potential access factor, which accounts for the possibility that eventually access to the project may be more direct; the current use factor, a value ratio above unity applied according to the number of floors of a building on the land; a quality of land factor, which in urban areas is based upon construction possibilities and costs; and the change in distance from business center factor.[213] The product of the basic factor multiplied by all of the others gives the real factor, called a weighted area of land.

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[206] MACON & MAÑON, *supra* note 192, at 48-49.

[207] *Id.* at 49.

[208] *Id.* at 54.

[209] *Id.* at 55.

[210] This departs from orthodox methods because it takes into consideration the ability to pay within a system characterized by the benefit principle. It does appear, however, to have facilitated acceptance of the charge. *Id.* at 58.

[211] This offsets the socioeconomic factor to an extent.

[212] This has been questioned in urban areas where often an unevenness of land enhances its value for landscaping purposes.

[213] MACON & MAÑON, *supra* note 192, at 57-60.

Valorization has enabled Bogota to install public services more rapidly than otherwise would have been possible. The projects have increased the accessibility of many living areas to employment areas.[214] At one time, the ability of an area to pay was considered in the selection of projects, thereby benefitting middle and upper income groups to the exclusion of the lower income sections of the city, but this is less commonly the case now with the weighing of socioeconomic factors.[215] Currently, the amount to be recovered from beneficiaries in a low economic area of the city may be reduced by excluding a large share of project costs, by making up the difference from general tax revenues. Alternatively, a lower burden may be placed on low-income owners, as is done when the socioeconomic factor mentioned above is attached.[216] Although valorization projects do raise land prices initially, they bring services to more land more quickly than could be done by conventional means, thereby exerting a downward pressure on prices.[217] Thus, low income families can afford serviced property sooner than they otherwise could.

Persons able to pay within three months of notice of a valorization charge receive discounts of up to seventeen percent; if payment is made within six months, a nine percent discount applies.[218] Collection of charges, however, is a difficult aspect of the system. As of December 1973, sixty-five percent of all payments remained uncollected. On the average, only slightly more than one-third of charges are collected within the first year of a project, but collection is virtually complete (96.2%) after the twelfth year.[219] In spite of these problems, the revenues collected by the charges often have exceeded fifty percent of the total revenue collected by the general property tax.[220]

C. *The Mexican Experience*

The Mexican congress has promulgated legislation creating a betterment levy system and regulations governing its implementation have been issued. Between 1970 and 1974, betterment levies were adopted under the name of Aportacions para Mejoras

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[214] DOEBELE & GRIMES, *supra* note 199, at 66.
[215] *Id.* at 69.
[216] Doebele & Grimes, *supra* note 205, at 74.
[217] MACON & MAÑON, *supra* note 192, at 70.
[218] *Id.*
[219] Doebele & Grimes, *supra* note 205, at 81.
[220] URBAN LAND POLICY ISSUES, *supra* note 187, at 45.

(Contributions for Improvements) and were used to finance seventy-five percent of projects, amounting to more than U.S. $440 million in cost.[221] The procedure used to implement these charges involves: (1) publication of a decree-law; (2) the establishment of a Property Owners Council (Consejo do Cooperadores); (3) project appraisal, cost studies, determination of benefit areas, and assessment of quotas; and (4) notification of decisions and of levies to be imposed. As in Colombia, taxpayers have the right to request a hearing on any levy decision.[222] While Mexico's betterment levy system appears well designed and should have attained greater effectiveness since the last dates for which statistics are available, its greatest challenge lies ahead. With an exploding urban population, even an efficient levy system probably will not be sufficient. Additional programs will be required. Mexico is not alone in this situation. National land tax policies have improved considerably in recent years, foremost among which is the betterment levy. Yet domestic tax laws are not themselves sufficient for solving the financial problems accompanying urbanization.

V. CONCLUSION

The urban population explosion imposes high costs upon developing countries which cannot be met by domestic sources. These countries have come to rely heavily on external financing supported and orchestrated by the World Bank Group and the IMF. World Bank lending for specific projects has proven effective in certain areas, such as housing, where the international institution lends expertise and the borrower country supports the projects by channeling domestic investment through the use of incentives and subsidies. Private foreign financing of specific projects also has been effective, increasing the funds for projects cofinanced with the World Bank and financing complementary private investments.

Complicating and frustrating urban finance, however, has been the correlation of general economic problems with urbanization problems. As developing countries have turned to external sources for funds to resolve balance of payments problems, the IMF and private banks have responded with loans which have strict economic conditions. These conditions can have a harsh impact on the urban poor and their macroeconomic, short term

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[221] MACON & MAÑON, *supra* note 192, at 72.

[222] *Id.* at 72.

perspective can hamper the development of specific, long term urban projects.

Balance of payments problems and IMF solutions, however, have not completely precluded other efforts to finance urbanization costs. Land tax policies are improving steadily, particularly in the area of betterment levies. Most notable in this regard are the levies implemented by Brazil, Colombia and Mexico. Increased adeptness on the part of developing countries in urban finance offers some hope for handling urbanization. However, the population increases in these countries are of such magnitude that domestic land tax policy alone is not sufficient. Better coordination of international lending for urban development projects with lending for more general economic problems, as well as with domestic investment and tax planning, is required.

Leslie Smith