

# Scaling up housing programs for the poor in Latin America

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# The housing situation

## The population in Latin America is poorly housed

- Out 127 million households (2000)
  - // 30 million doubled up with other households
  - // 20 million lived in deficient houses
- New house production
  - // The formal sector produced less than 30% of the existing housing stock
  - // The informal sector produced the rest

- The challenge

- /// Built the 30 million houses required to eliminate doubling up
- /// Improve the services provided by 20 million houses
- /// Built 3 million houses per year for new households

## Main causes

- External factors

- /// Slow economic growth
- /// Persistent inequality of income distribution
- /// High proportion of the population in poverty

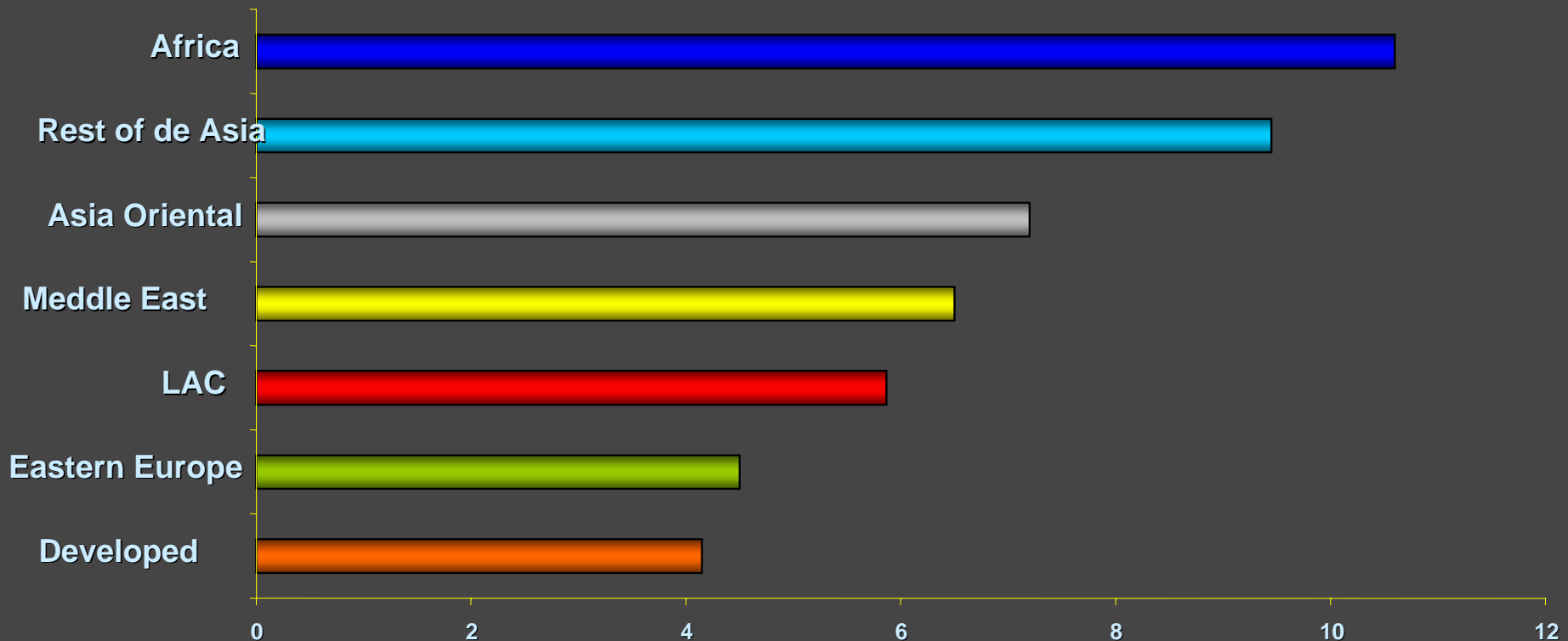
- Housing sector

- /// Deficient housing policies and programs
- /// Escalating land costs
- /// Underdeveloped housing finance systems

Poverty

- **Formal housing is unaffordable for many**
  - /// 40% of the population lives on less than US\$2 a day
  - /// 10% of the population gets 50% of the income

### Housing price to average income ratios



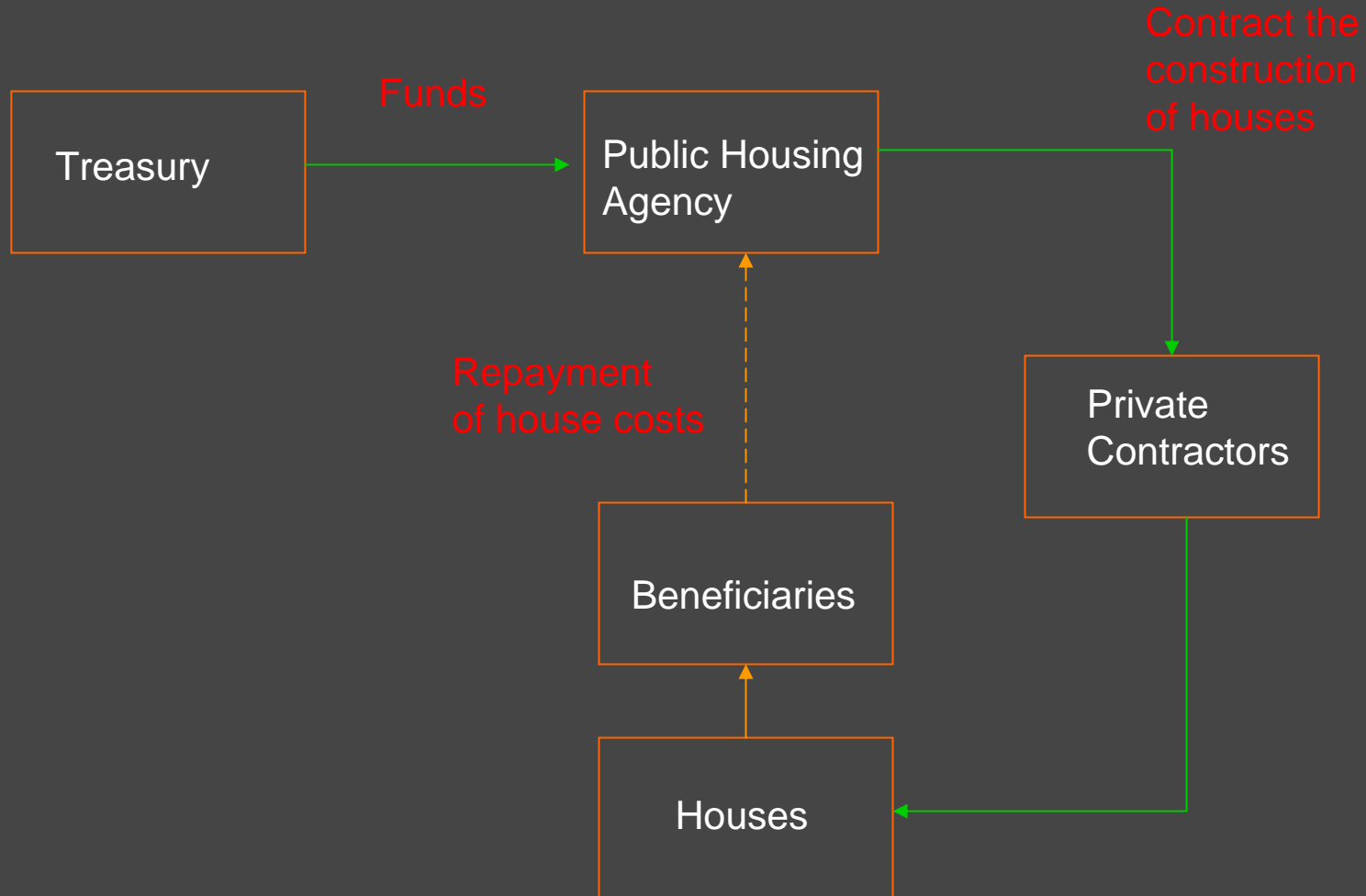
# Housing policies in Latin America: stagnation, progress and setbacks



## Government sponsored affordable housing

- **Public housing institutions**
  - /// Use resources from the national budget to built finished houses for low-income families
- **Public housing funds**
  - /// Use contributions to retirement funds to finance housing loans for low-income families
- **Results**
  - /// Insufficient resources to solve the problem
  - /// High subsidies
  - /// Poor targeting

# Traditional public housing process



## Government sponsored lending for housing

- State-owned mortgage banks
- Savings and loan associations
  - /// Expand the reach of housing finance to middle income families
  - /// Funded by deposits from prospective borrowers and savings from other sectors of the financial system remunerated at below market interest rates
- Results
  - /// Insufficient funds prevented expansion of the system
  - /// High term mismatch risk
  - /// High interest rate risk

Under developed private housing  
finance systems

## Private housing finance a minor player

Mortgage lending for housing in Latin America (selected countries) US and EU

Country	As % of GDP	As % of all lending
Argentina	4.0	15.0
Bolivia	8.5	16.3
Chile	10.8	17.7
Colombia	7.0	25.0
Panama	24.4	26.4
Peru	2.9	9.5
Mexico	2.1	13.5
Uruguay	7.0	15.7
United States	79.6	87.2
European Union	42.6	41.0

- High commercial risk
  - ⚡ Few solvent households

- Collateral risk
  - ⚡ Collateral recovery is costly and slow

	% of debt	Months
• Argentina	25-33	10-18
• Colombia	24.7	45
• Chile	7-13	12-18
• Peru		31
• Uruguay	27-45	24

- High and persistent inflation risk
- Interest rate risk

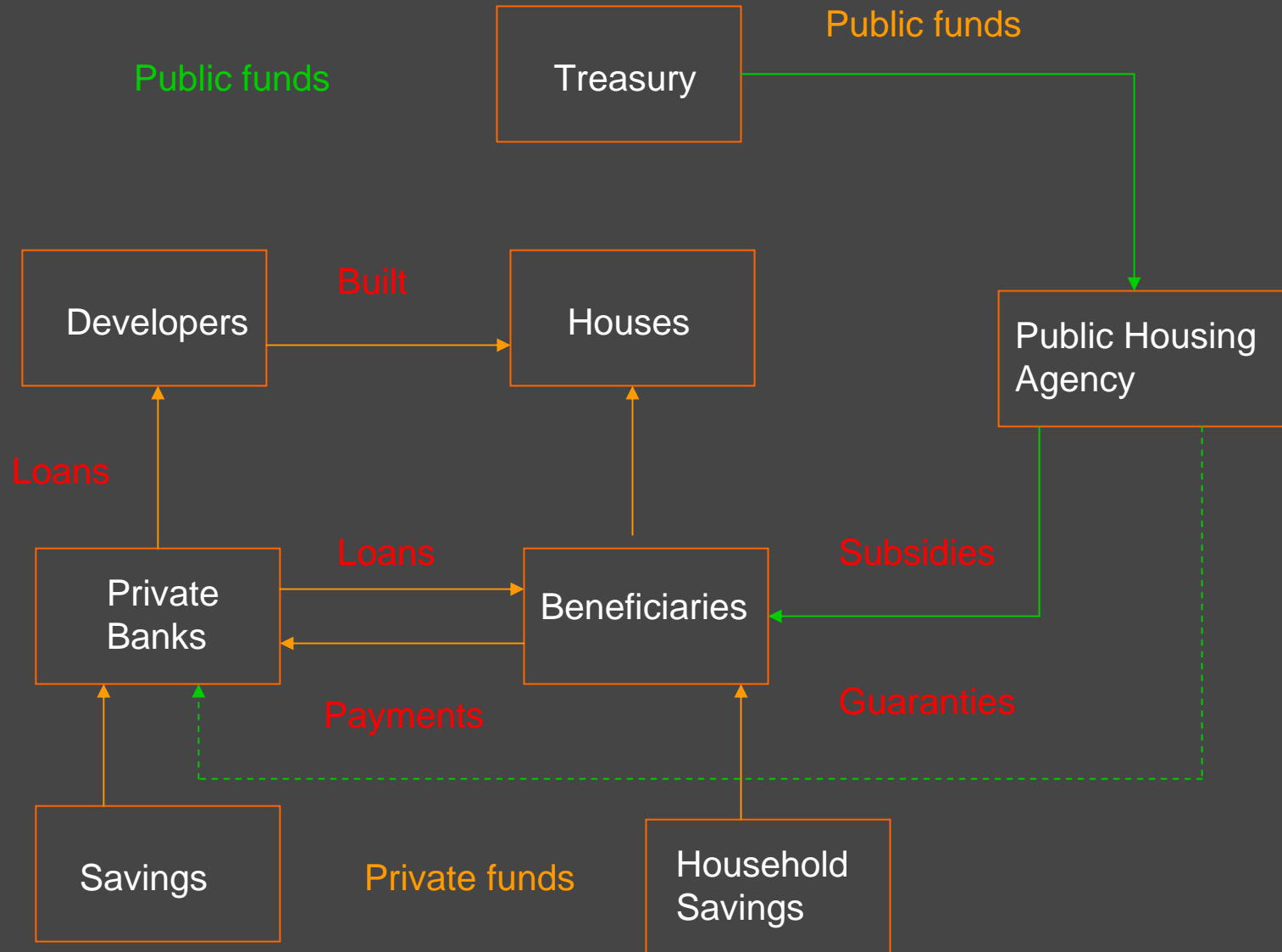
Encouraging trends



- Reforms to housing policy (Chile, Costa Rica, Colombia, Ecuador, Guatemala, Peru)
  - /// Subsidies are directed to support demand for houses and targeted to low-income families
  - /// Housing production and financing is handled by the private sector
  - /// Financial sector reforms facilitate expansion of mortgage financing
  - /// Judiciary reform facilitate the recovery of collateral

- Other reforms facilitate housing sector reforms
  - /// Financial markets development (Colombia, Chile, Mexico, Panama, Costa Rica)
  - /// Reform to pension systems (Bolivia, Colombia, Chile, Mexico, Argentina, Ecuador)

# Reformed public housing process



- The IDB encourages a two-prong approach to the development of the housing sector
  - /// Sector wide reforms to **expand housing production** and mobilize private sector resources to housing
  - /// Programs to **improve the existing stock** of sub standard neighborhood and houses

- Significant progress

- /// Chile
- /// Panama
- /// Costa Rica

- Promising developments

- /// Peru
- /// Mexico

- Uneven progress

- /// Colombia
- /// Bolivia

- Set backs

- /// Argentina
- /// Uruguay

- Little progress

- /// Brazil

# Challenges

- Urban impacts of housing policies
  - /// Urban sprawl
  - /// Urban land price increases
- Promising solutions
  - /// Expand investment in trunk infrastructure
  - /// Zoning and land readjustment to expand the stock of low-cost residential land under public control
  - /// Organize demand to increase bargaining power of land purchasers
  - /// Urban rehabilitation programs

- Households in the lower quintile of the income distribution structure
  - /// Are not covered by the reformed systems of housing delivery
    - /// High credit risk
    - /// Low cost houses do not attract private producers
  - /// They solve their housing problem
    - /// Doubling up with other households
    - /// Moving to informal settlements
  - /// Build and improve their homes in stages



Solutions

- Facilitate the operation of all housing markets
  - ≡ Housing inputs
  - ≡ Housing finance
  - ≡ Household mobility
- Expand the role of the private sector
  - ≡ Produce and sell new houses
  - ≡ Finance house purchase
- Focus public interventions on
  - ≡ The development of mortgage financing
  - ≡ Facilitate low-cost residential land subdivisions
  - ≡ Improve the efficiency of the construction and real estate development industries
  - ≡ New housing products

New housing products for low  
income households

- Public support to the ways how people built homes

- /// Access land via

- \\ Land invasions
    - \\ Illegal land acquisition
    - \\ Legal land acquisition

- /// Gradually

- \\ Adding space
    - \\ Improving quality

- /// Through

- \\ Self help
    - \\ Community help

## Attributes

Process		Year	1	2	3	4	5	6	7	8	9	10
	Attributes											
Lot	Location											
	Secure tenure											
	Land title											
House	Protection											
	Communal potable water											
	In-house water											
	Latrine											
	Sanitary waste water disposal											
	Sufficient space											
	Building quality											
Subdivision	Access roads											
	Paved roads											
	Drainage											
	Hazard protection											
	Public lighting											
Neighborhood	Health services											
	Education services											
	Sport facilities											
	Parks and recreation											
	Activities											
Subdivision	Land subdivision											
	Secure tenure documents											
	Fiscal cadastre											
	Land registration											
Neighborhood	Access road construction											
	Road paving											
	Community water supply											
	In house water supply											
	Individual waste water disposal											
	Sewerage											
	Natural hazard protection											
	Drainage systems											
	Public lighting											
	Education infrastructure											
	Health infrastructure											
	Sports equipment											
	Parks											
Shelter	Initial shelter											
	In house bathroom											
Expansion	Expanded house area											
Improvement	Roof quality											
	Flooring quality											
	Wall quality											
	Doors and windows											
	Bathroom and kitchen											

## Activities

[illegible]

# Responsibilities

Public sector

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	Activities											
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Households

- Many actions can only be executed by the public sector
  - /// Provision of access roads
  - /// Potable water
  - /// Drainage
  - /// Natural hazard protection
- Home improvements can be executed by households if assisted
  - /// Technical assistance
  - /// Legal assistance



## New programs are needed

- Traditional programs

- /// One-off direct subsidies
- /// Mortgage origination improvement
- /// Second tier markets support
- /// Land use and building regulation reform
- /// Settlement upgrading
- /// Land titling

- New programs

- /// Low-cost basic expandable housing
- /// Micro credit for home improvement
- /// Technical assistance for home expansion and improvements
- /// New construction materials development and commercialization

## Objectives of new programs

- Facilitate access to serviced residential land
  - /// New low cost subdivisions
  - /// In filling projects
  - /// Settlement upgrading
- Assist households access to a minimum housing unit
  - /// Integral part of new housing lots
  - /// Construction on own lot
- Promote home expansion and improvements
  - /// Micro credit
  - /// Technical assistance

## Financing of new programs

- **Intergovernmental transfers**
  - /// Low-cost basic expandable housing
  - /// Technical assistance for home expansion and improvements
- **Savings in local currency through the financial system**
  - /// Micro credit for home improvement
- **Households savings**
  - /// Building materials
- **Sweat equity**
  - /// Labor for home improvements

## Execution of new programs

- Coordination of

- /// Higher tier government financing

- /// Regional

- /// National

- /// Local execution

- /// Low-cost basic expandable housing

- /// Technical assistance for home expansion and improvements

- /// Public and private actors

- /// Micro credit financing

- /// New construction materials development and commercialization

- /// Household savings

## Challenges to execution

- Mechanisms to access low cost land for residential uses
- Availability of financial intermediaries with capacity to handle micro credit for home expansion and improvement
- Existence of organizations capable of providing technical assistance to communities and households
- Urban regulations allowing progressive housing construction and completion of infrastructure and services in neighborhoods

## In sum

- **Progressive housing programs**
  - /// Hold the promise of reaching the poor with affordable new housing
  - /// Mobilize households savings and sweat equity contributions expanding the reach of scarce public resources
  - /// Support home improvements by low income households expanding the range and quality of services they receive from their dwellings

- Are challenging

- /// Intergovernmental coordination of financing (income redistribution)
- /// Promote effective execution at the local level
- /// Involve the communities in setting priorities and executing activities
- /// Involve the private sector in
  - \\ Providing micro financing
  - \\ Adequate and affordable building materials and services