

**HOUSING FINANCE IN EMERGING MARKETS -  
Experiences and Challenges**

**HOUSING FINANCE POLICY  
FOR LOW-INCOME FAMILIES**  
THE CASE OF THE STATE OF SÃO PAULO BRAZIL

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**CDHU – São Paulo State Housing and Urban  
Development Company**

## **HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges**

### **Major Topics**

- ❑ Socioeconomic Context**
- ❑ Dimension of Housing Needs**
- ❑ Brazilian Housing Finance Policy :  
scope and limitations**
- ❑ Housing Policy- the case of the State  
of São Paulo : main features and  
perspectives.**

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## Major Topics

### ☐ Socio-economic Context

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## The Socio economic Context

### POPULATION-2000

South America 297 Million

**Brazil 169 Million**

### GDP -2000

South America USD 1,269 trillion

**Brazil: USD 601.7 billion**

### GDP PER CAPITA -2000

➤ **Brazil USD 3.5 thousand**

➤ **Argentina USD 7.7 thousand**

➤ **Uruguay USD 6.0 thousand**

➤ **Venezuela USD 5.1 thousand**

➤ **Chile USD 5.0 thousand**





## HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

### The Socio economic Context

## Brazil: social & economic inequalities

*Brazil has the highest income concentration index in South America*

### Gini Index:

Argentina (2002) **0.590**

Brazil (2001) **0.639**

Bolivia (2002) **0.610**

Chile (2000) **0.559**

Colombia (2002) **0.575**

Ecuador (2002) **0.513**

Paraguay (2001) **0.570**

Peru (2001) **0.525**

Uruguay (2002) **0.455**

Venezuela (2002) **0.500**

Source: CEPAL (2003)

## HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

### The Socio economic Context

## Brazil: social & economic inequalities

### National Household Income Distribution

share on total income

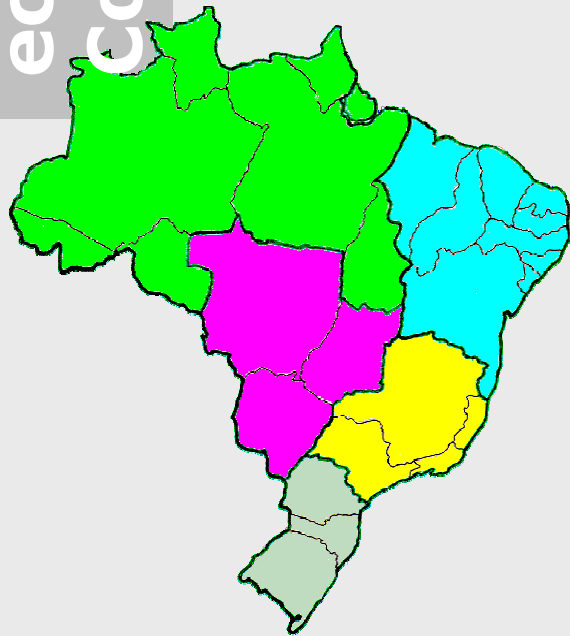
	40% Poorest	10% Richest		40% Poorest	10% Richest
Argentina	13.4	42.1	Ecuador	24,3	34,3
Brazil	10.2	46.8	Paraguay	12,9	37,3
Bolivia	9.5	41.0	Peru	13,4	33,5
Chile	13.8	40.3	Uruguay	21,6	27,3
Colombia	11.9	39.1	Venezuela	14.3	31.3

Source: CEPAL (2003)

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## The Socio economic Context

### Brazilian Regions: Demographic & Economic Indicators



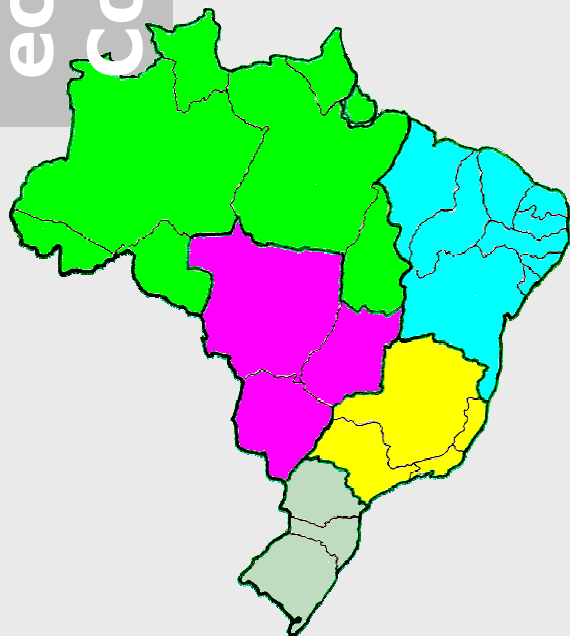
REGIONS	POP (million)	URBAN RATE	GPD (1999) Per capita (thousand)
North	12.98	70%	USD 2.1
Northeast	47.7	69%	USD 1.6
Central- West	11.6	86%	USD 5.4
Southeast	72.3	91%	USD 6.5
South	25.0	81%	USD 5.7
BRAZIL	169.5	81%	USD 4.8

Source: IBGE Census 2000 & IBGE National Accounts 2000

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

The Socio  
economic  
Context

## Brazilian Regions: Inequalities- Income Concentration



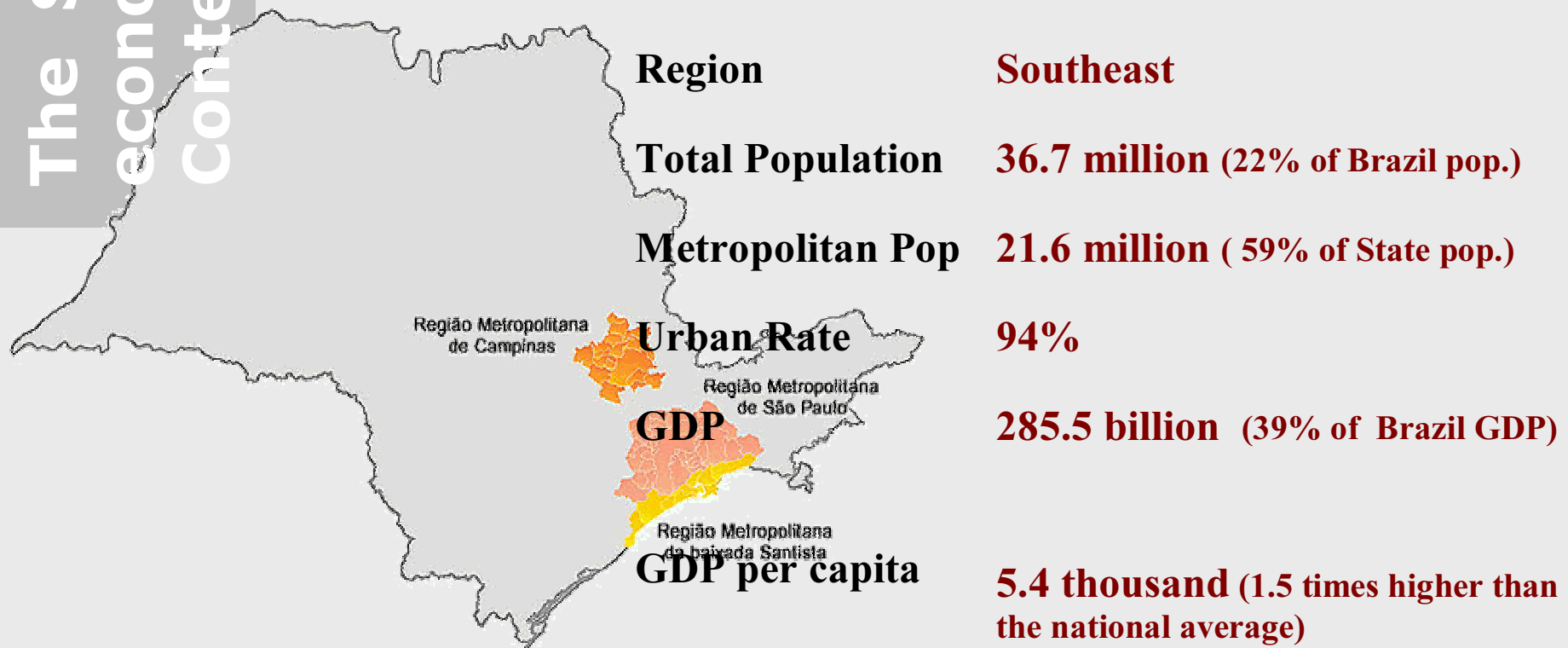
REGIONS	Share of Total Income %		Average working population income: ratio of the 10% richest to the 40% poorest,
	50% poorest	1% richest	
North	16.1	14.2	15.8
Northeast	16.1	16.5	18.8
Central-West	13.9	14,2	18.9
Southeast	15.5	12.4	15.7
South	16.5	11.9	14.0
BRAZIL	14.4	13.5	18.0

Source: IBGE PNAD 2002 ( National Research)

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## The Socio economic Context

### São Paulo State: Demographic & Economic Indicators



Source: IBGE PNAD 2002 ( National Research)

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

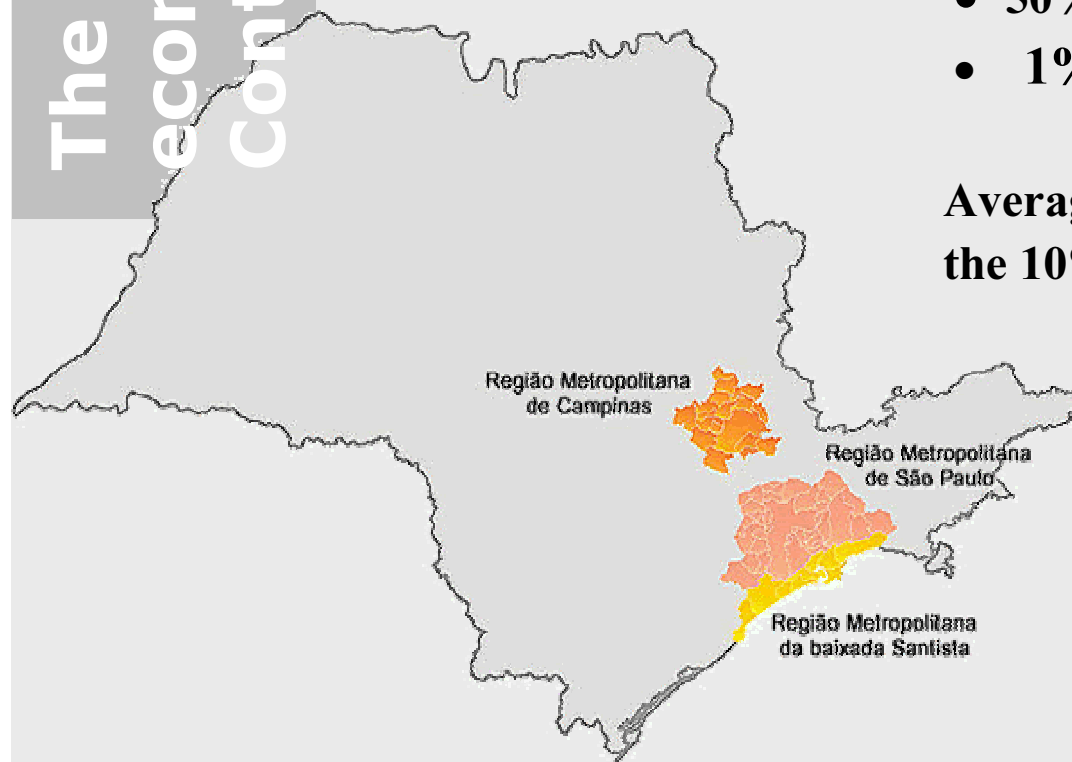
## The Socio economic Context

### São Paulo: Inequalities- Income Concentration

#### Share of Total Income:

- 50% of the poorest families: **16,0%**
- 1% of the richest families: **12.6%**

Average working population income ratio of  
the 10% richest to the 40% poorest, **14.4**



Source: IBGE PNAD 2002 ( National Research)

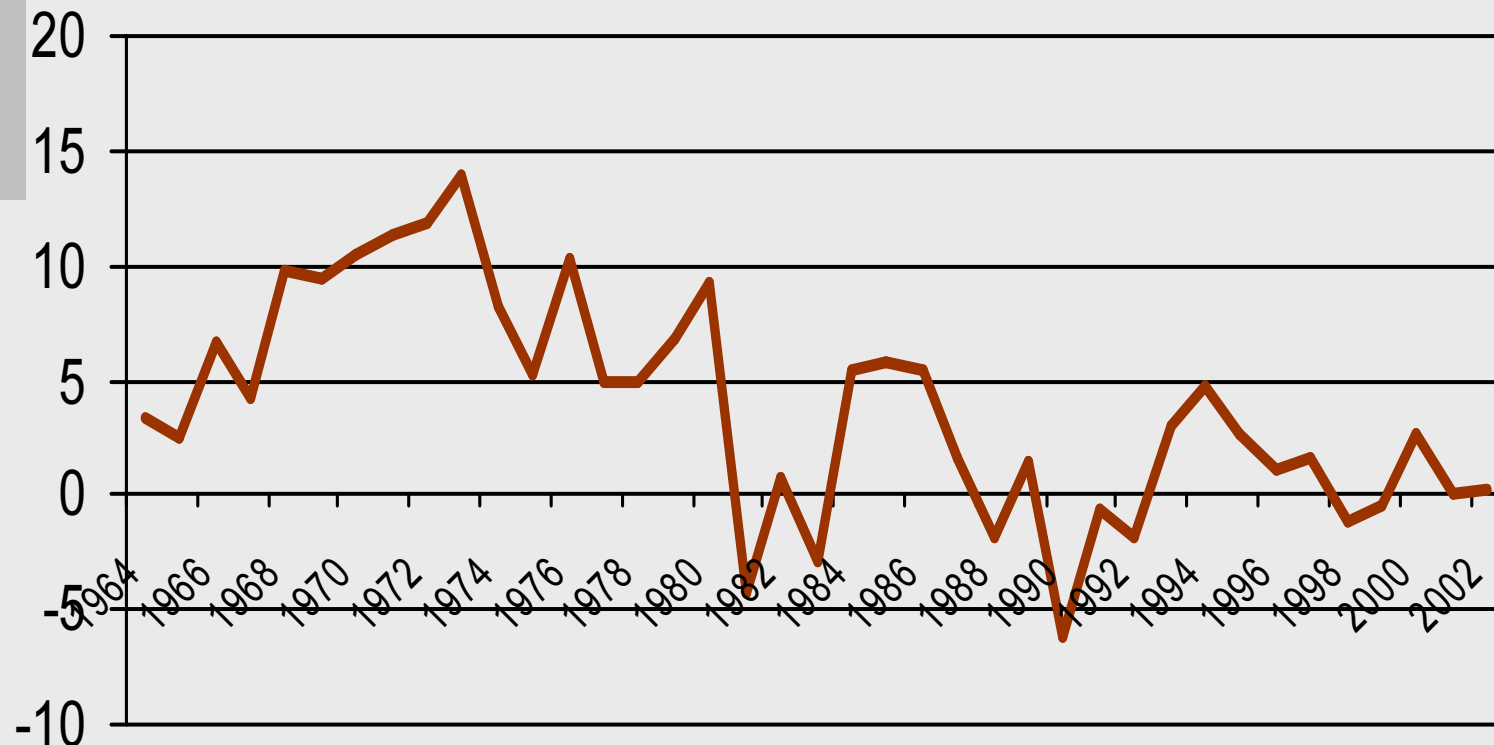
# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

The Socio  
economic  
Context

**Brazil:** historical periods : 1964-1984 1985-1990 1990-2004

## GDP Growth rate 1964-2002

— GDP rate  
growth



## HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

### Major Topics

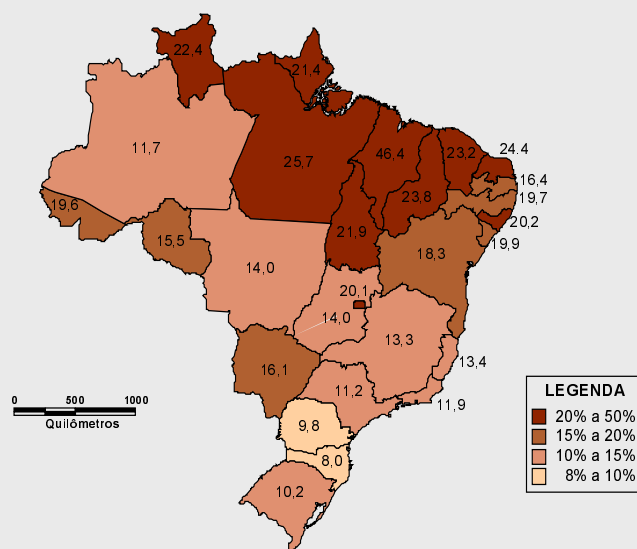
# □ Dimension of Housing Needs



# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## The Housing Needs

### The Dimension of the Housing Issue in Brazil and São Paulo



REGIONS	Housing Deficit (thousand )	% over the region dwelling stock
North	411.6	20.2%
Northeast	2,631.7	23.0%
Central-West	488.4	15.4%
Southeast	2,412.4	11.9%
S. Paulo State	1,161.7	11.2%
South	690.3	9.6%
BRAZIL	6,656.5	14.8%

Source: IBGE PNAD 2002 ( National Research)

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## The Housing Needs

### The Dimension of the Housing Issue

MAIN FEATURE: HOUSING DEFICIT1		BRAZIL	S.PAULO
% urban area		81.3%	96.1%
% households earning up to 3 minimum salaries		84.0%	72.8%
COMPONENTS OF THE HOUSING DEFICIT		BRAZIL	S.PAULO
extended household		56.1%	63.9%
dwellings with precarious building materials		24.0%	8.3%
excessive rental costs		18.0%	30.9%
replacement: physical depreciation		1.8%	2.4%

Source: Fundação João Pinheiro 2002

## HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

### The Housing Needs

## The Dimension of the Housing Issue

### INADEQUATE DWELLINGS

(do not require new housing units )

BRAZIL

S.PAULO

**overcrowded**

**2 million**

**780.8 thousand**

**under irregular land tenure**

**1.5 million**

**442.5 thousand**

**lacking basic infrastructure**

**10.2 million**

**580.1 thousand**

**lacking internal sanitary facilities**

**1.4 million**

**122.0 thousand**

Source: Fundação João Pinheiro 2002

## HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

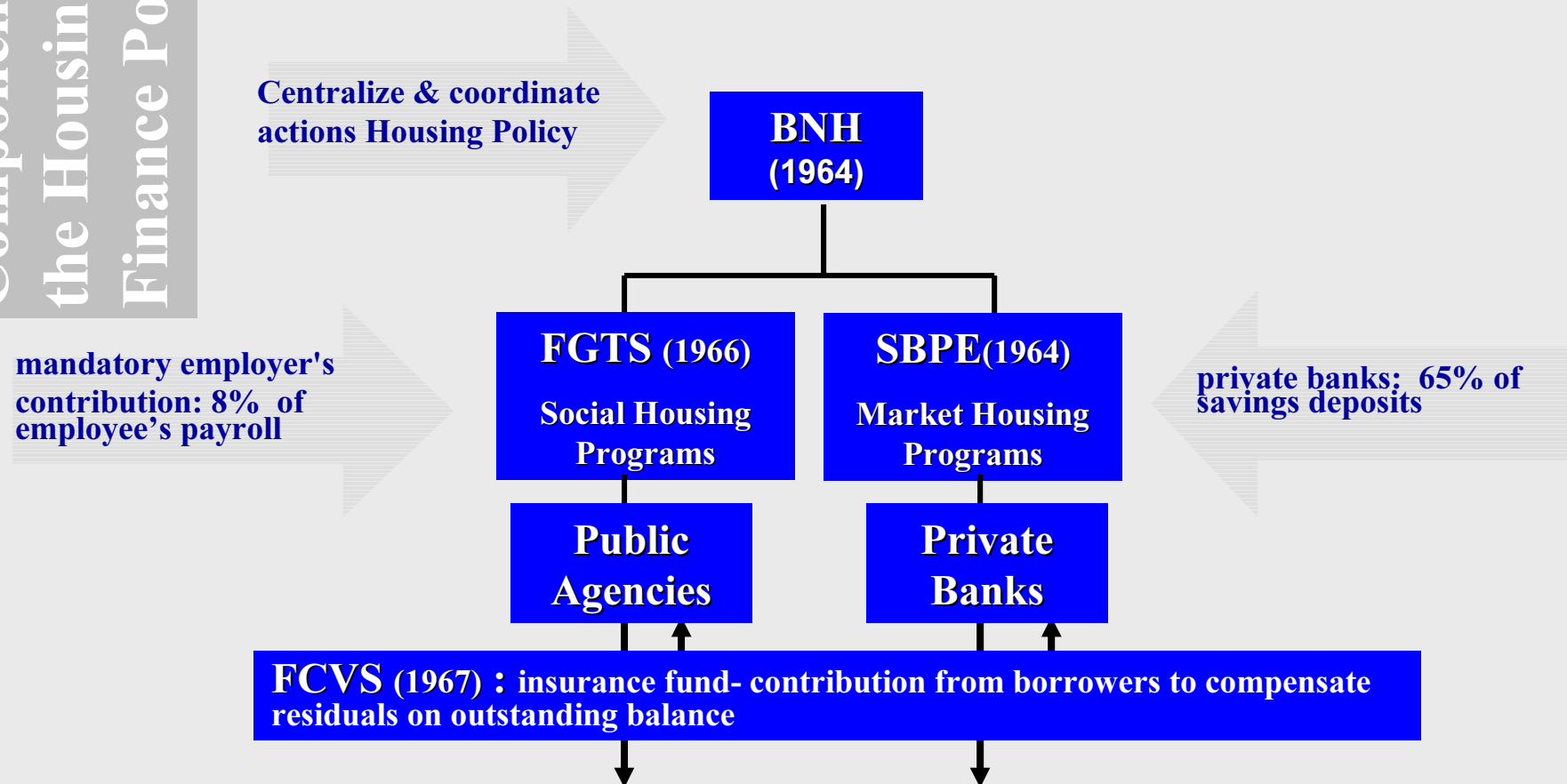
### Major Topics

- ❑ **Brazilian Housing Finance Policy : scope and limitations**

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## Components of the Housing Finance Policy

### Brazilian Housing Finance Policy :scope and limitations



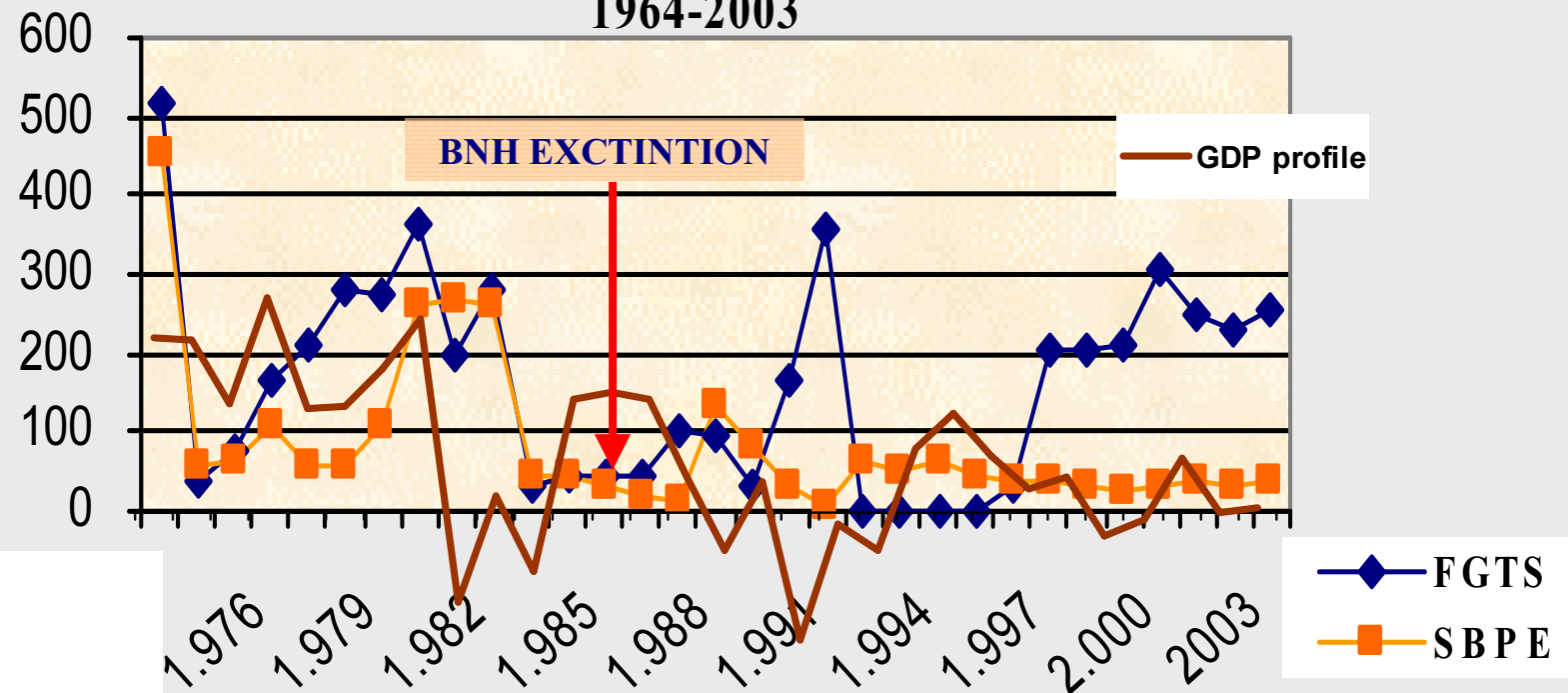
**HOUSING & URBAN DEVELOPMENT PROGRAMS**

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

Housing Finance  
Policy  
Performance

## ◆ Housing Finance Policy & the cyclical evolution of the Brazilian economy

GDP growth "profile"  
FGTS & SPBE in Housing Units  
1964-2003



## HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

Housing Finance  
Policy  
Performance

### System's financial balance

- ➔ cyclical evolution of the Brazilian economy
- ➔ reproductive capacity: sustainability of the return on investments

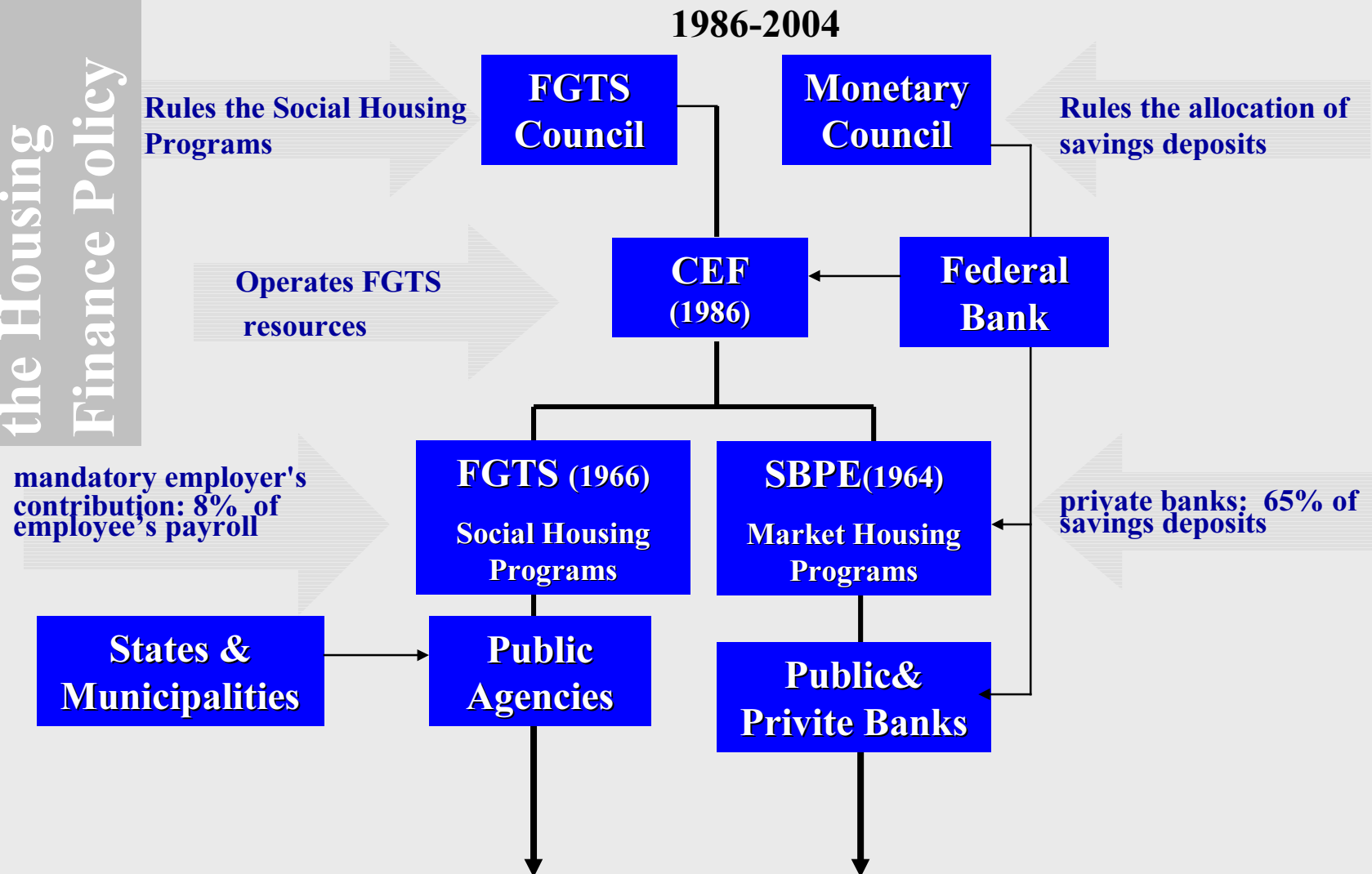
◆ defaults on payments of financial contracts :  
➤ over 50% (1984)

- ◆ negative impact :
- FGTS decrease 50% (1979-1985)
  - SBPE decrease 25% (1980-1985)
  - Mismanagement of FCVS

**BNH Extinction (1986)**

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## Components of the Housing Finance Policy



**HOUSING & URBAN DEVELOPMENT PROGRAMS**



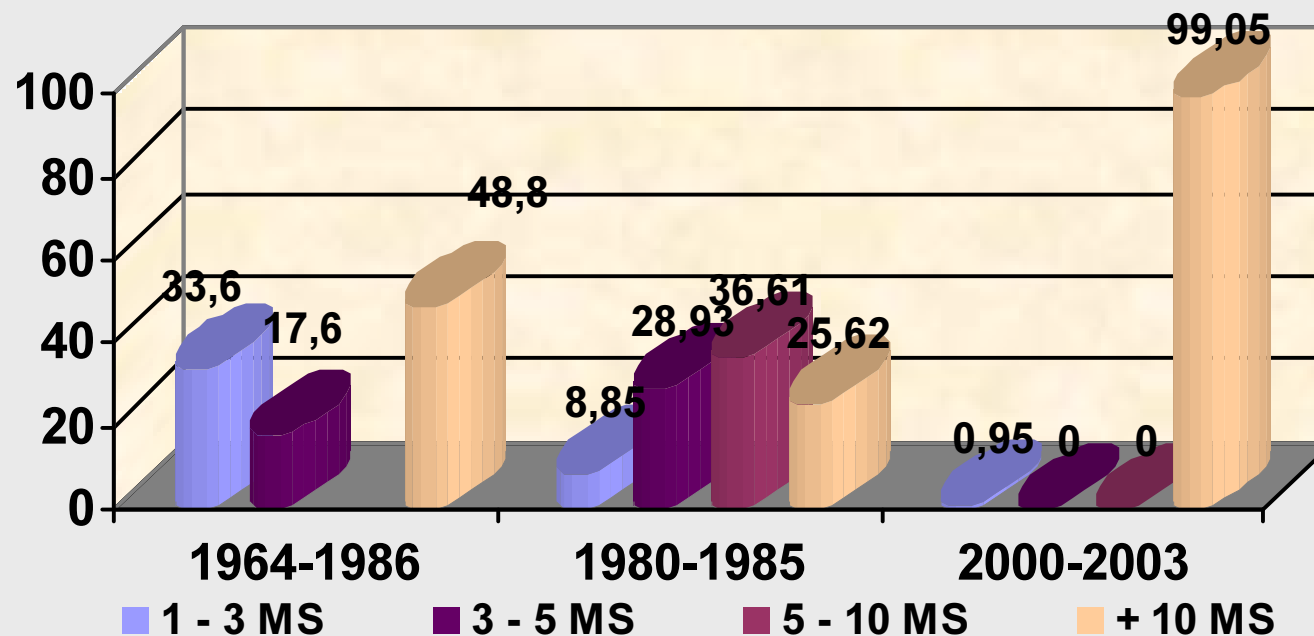
# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

Housing Finance  
Policy  
Performance

## MAIN RESULTS

### ◆ Regressive allocation

➤ FGTS resources: its target shifted to higher income families with ability to meet mortgage payments -1964-1986 1980-1985 and 2000-2003 (%)



# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

Housing Finance  
Policy  
Performance

## MAIN RESULTS

### ◆ Closed-circuit system:

- Real State Financial System ( 1997)
- Mortgage-backed securities and securitization companies

### Macro economic Context:

- high interest rates (16% per year)
- high income concentration
- slow growth rate
- Incomplete and fragmented regulatory framework for real estate transactions

➡ **Place limitations to the sector expansion**

## **HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges**

### **Major Topics**

- ❑ Housing Policy- the case of the State of São Paulo : main features and perspectives.**

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## The Housing Finance Policy: State of São Paulo

### State of São Paulo - Financial Resources for Housing

- ◆ **1964- 1984:**
  - Linked to the national housing policy and finance system models
- ◆ **1985- 1989:**
  - The national housing policy and finance system undergoes discontinued and disconnected action and resources
  - The housing policy at state level starts to be financed by fiscal resources
- ◆ **1990-2002:**
  - A new state government law provides the allocation of resources specifically to low income housing
  - The state housing policy gains total autonomy from the national finance system

## HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

### The Housing Finance Policy: State of São Paulo

#### State of São Paulo - Financial Resources for Housing

##### ◆ Law nº 6,556 - 11/30/1989

- The Circulation of Merchandise Tax ( ICMS ) of 17% raises to 18%.
- The 1% increase in this tax is channeled to housing programs implemented by CDHU.
- **CDHU** is in charge of for developing and running Housing Programs in the State of São Paulo.

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

The Housing  
Finance Policy:  
State of São Paulo

## State of São Paulo - Financial Resources for Housing

◆ What does this increase represent for the housing policy?

	1st Period (17 years)	2nd Period (4 years)	3rd Period (11 years)
	1967-1984	1985-1989	1990-2004
Housing units(**)	41,473	19,356	298,368
Average per year	2,440	4,839	19,861
Investments USD 1000	414,730(*)	188,285	3,973,342
Average per year	24,396(*)	47,071	174,023

Source: Thecnical documents- CDHU

(\*)Estimates

(\*\*) until June 2004

# **HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges**

**The Housing  
Finance Policy:  
State of São Paulo**

## **CDHU - GENERAL DATA**

- ◆ **37 years in activity**
- ◆ **635 municipalities assisted (93% of the State)**
- ◆ **357.318 housing units commercialized**
- ◆ **272.000 mortgage holders**
- ◆ **12 Regional Offices**
- ◆ **1041 employees**

## **HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges**

**The Housing  
Finance Policy:  
State of São Paulo**

### **MAIN GOALS CDHU HOUSING POLICY**

- ◆ **Priority of assistance: households earning from 1 to 3 times the minimum salary (1 minimum salary = US\$ 87)**
- ◆ **Housing production on a large scale basis**
- ◆ **Subsidy Policy: to afford housing services for the poor**



# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

The Housing  
Finance Policy:  
State of São Paulo

## SUBSIDY POLICE

- ◆ **Direct subsidy** to families according to their monthly income;
- ◆ Subsidy is granted through a **temporary and non-transferable** discount on a full mortgage payment basis
- ◆ **Cross subsidy** (non subsidized families pay tax-added installments to make-up for the amount of subsidy granted to the very low-income families)

Monthly income	Mortgage installment	% of income
US\$87 to US\$ 261	US\$13 to US\$ 39	15%
US\$262 to US\$ 435	US\$262 to US\$ 435	20%

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

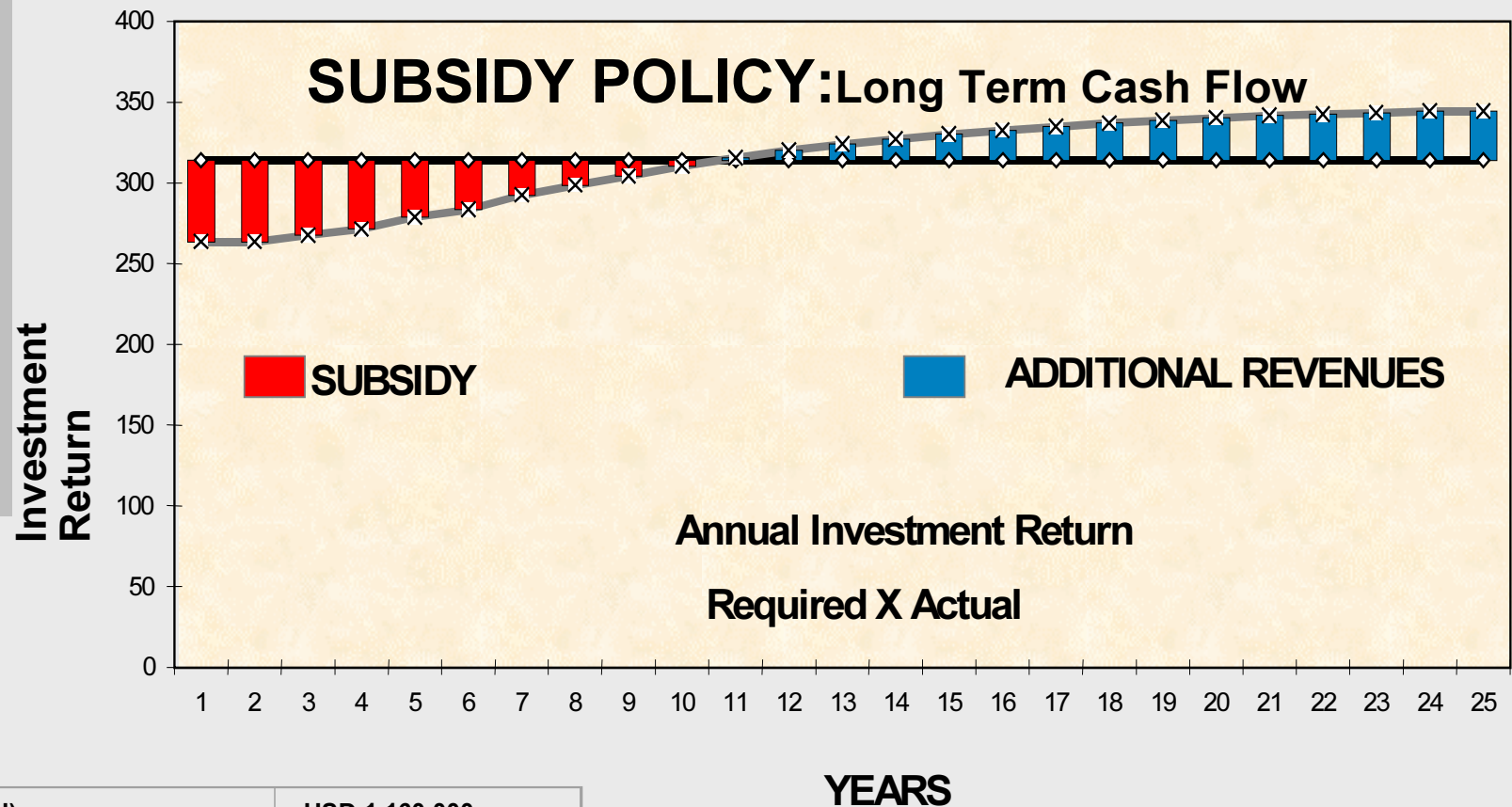
## The Housing Finance Policy: State of São Paulo

### SUBSIDY POLICE

▪Housing Investment Cost	USD 11,600
▪Average yearly interest rate	3.2%
▪Loan repayment period	300 months
▪Monthly housing unit insurance payment:in the case of death, permanent disability	USD 8,14
▪Additional rate to offset subsidies	10%
▪Monthly payment	USD 70,72
▪Full monthly payment ( with additional revenue):	USD 77,79
▪Monthly mortgage payment of <i>subsidized families</i> earning from <b>1 to 4.67</b> minimum salaries	From USD 13,00 to USD77,60 (with discount bonus)
▪Monthly mortgage payment of <i>non-subsidized families</i> earning from <b>4.68 to 10</b> minimum salaries.	USD 77,79 (without discount bonus)
▪Subsidy decreasing rate over 25 years	4% per year

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## The Housing Finance Policy: State of São Paulo

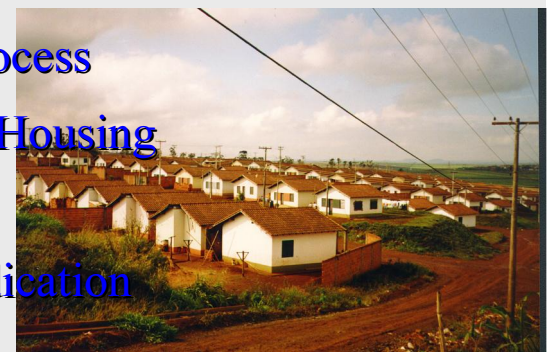


Investment (Total)	USD 1,160,000
Expected return ( 300 months)	USD 2,121,600
Granted Subsidy (Total)	USD 166,517
Additional Revenue (Total)	USD 166,517

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## HOUSING PROGRAMS

1. Self-help Construction with Municipalities
2. Slum & Risk Areas Eradication Program
3. Housing and Urban Improvements
4. Social Housing Complex - Bidding Process
5. Mutual-help Construction with Social Housing Associations (Mutirão)
6. Collectively-Occupied Dwellings Eradication (PAC - Cortiços)
7. Rural Housing Supply
8. Housing for Indian Communities
9. Housing Loans
10. Micro Credit





# **HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges**

**Housing  
Programs**



## **SELF-HELP CONSTRUCTION WITH MUNICIPALITIES**

◆ **CDHU provides financial resources to local governments to acquire building materials+ labor training and administration for construction through self help process+project + partial urban infrastructure**

◆ **Municipalities counterpart: Land+ ground leveling works+ partial urban infrastructure+ technical guidance in the construction process**

**AVERAGE COST (CDHU): USD 3.500 per housing unit**

**COUNTERPART( Municipalities): USD 2.100 per housing unit**

# **HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges**

## **Housing Programs**

### **MUTUAL HELP CONSTRUCTION WITH SOCIAL HOUSING ASSOCIATIONS**

◆ **CDHU provides land, projects, urban infrastructure and financial resources transferred to organized mutual help associations, to acquire building materials to build their own housing units through mutual help construction.**

**AVERAGE COST (CDHU):  
US\$ 9.500 per housing unit**



# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## Housing programs

### COLLECTIVELY-OCCUPIED DWELLINGS

◆ **CDHU provides financial resource to upgrade old dwellings and build new ones mainly in downtown areas, aiming at improving living conditions in degraded AREAS**

**AVERAGE COST (CDHU):  
USD 12,000 per housing unit  
plus USD 4,700 up front  
subsidy**





# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## Housing Programs

### Housing Complex

◆ CDHU provides land, projects, leveling works, urban infrastructure and the social housing complex construction through a bidding process



**AVERAGE COST (CDHU):  
USD 12,000 per housing unit**



# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## Housing Programs

### HOUSING AND URBAN IMPROVEMENTS

◆ CDHU provides financial resource to urbanization and resettlements of squatters in slum, shantytowns and risky and vulnerable areas.

➤ Cost : varies according to each project



◆ Municipalities' counterpart: Defining or indicating the project area, supplying the projects, contracting the builders, supervising workers, promoting land tenure regularization and taking responsibility for the social assistance to households.

➤ Cost (CDHU) : limited to  
USD 1,500 per each dwelling

## **HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges**

### **Major Constraints**

- ◆ **The subsidy policy did not present the expected results, on the grounds of the sustainability of the system**
  - **families faking their monthly income so as to be entitled to a higher amount of subsidy**
  - **different monthly installments**
  - **for the same housing unit type, there are for different housing unit type a same income stratum**
  - **mismatch between increases on housing production costs and household income**

# HOUSING FINANCE POLICY IN EMERGING MARKETS- Experiences and Challenges

## Challenges and Perspectives

◆ **Housing Finance Policy of the state of São Paulo requires reformulation:**

➤ **institutional framework & financial procedures**

- **State Housing Council**
- **representatives of the three governmental levels**
- **the private sector and social movements**
- **decentralizing housing policy**

- **financial balance : the total return of the investments**
- **more explicit procedures : subsidy policy**
- **identify sources and amount of revenues to be channeled to subsidy policy**
- **ensure stable funding : State Housing Fund**

## State Housing System

- **legislative bill**