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Reforming Housing Policies in Latin America Learning from Experience

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A Summary

- *The Lessons of Experience (1950s – 1980s)*
 - *1st Generation: Public Housing Projects*
 - *2nd Generation: Public Housing Banks*
 - *The problems of supply side intervention*
- *The 3rd Generation Model*
 - *Basic Principles*
 - *Promoting private mortgage markets*
 - *Designing demand side subsidies*
 - *Liberalizing land markets*
 - *Promoting micro lending*
- *Conclusion: re-shuffle roles of public and private sectors*

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The Lessons of Experience (1)

- *The 1st Generation 1950s - 1970s*
 - *Projects: Slum clearance and public housing projects*
 - *Focus on physical construction*
 - *Role of private sector: construction contracts*
- *The 2nd Generation 1960s - 1980s*
 - *Projects: sites and services and neighborhood up grading*
 - *Focus on housing banks*
 - *Role of private sector: turnkey contracts*
- *Supply side interventions*

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Characteristic Problems of Supply Side Interventions

Supply Side Interventions								
Some Characteristics Problems								
Principal problems								
Policy instruments	Consumption inefficiency	Regressive subsidy	Production inefficiency	Land market distortions	Financial damage to agency	Finance sector distortion	Off budget costs	Comments
Fiscal credits		X					X	
Public production of housing projects	X		X	X				In OECD generally for rent
Subsidized interest rates		X				X	X	
Forced savings to Housing Fund	X	X	X	X	X	X	X	Housing funds combine use of other instruments
Distribution of Public Lands	X			X	X		X	Often by the facto tolerance of land invasions
Utilities services: below cost	X	X		X	X			Resulting in the "development premium"
Public Banks with nonperforming loans		X			X	X	X	

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Basic Principles / lessons learnt

- *DON'T deliver subsidies through credit*
- *DON'T involve government in loan management*
- *DON'T involve (central) government in new housing production*

- *DO encourage strong financial markets*
- *DO use demand side subsidies*
- *DO use multiple housing suppliers*
- *DO promote efficient land markets*
- *Do involve local governments*

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Characteristic Components

- *Develop private mortgage markets*
- *Design Demand Side Subsidies*
- *Liberalize land markets*
- *Develop micro lending*
- *Promote local projects for neighborhood up grading*

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Developing Private Mortgage Markets Characteristic constraints / interventions (1)

- *Public agencies supplying credit / producing new housing*
 - *Gradual wind down of public agencies' supply functions*
 - *Switch resources into demand side subsidies ('vouchers')*
- *Inhospitable legal framework*
 - *Strengthen property registration: liens and 3rd party access*
 - *Mortgage foreclosure: seniority and speed of execution*
- *Weak private lenders*
 - *Strengthen prudential regulation*
 - *Support product innovation / IT*

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Developing Private Mortgage Markets Characteristic constraints / interventions (2)

- *Limited provision of support services*
 - *mortgage insurers/ appraisers/ credit bureaus*
- *Shortage of long term investors*
 - *Pension reforms*
- *Income level & distribution*
 - *Current limits on access:
monthly HH Income \$600 - \$800*
 - *Role of demand side subsidies:
Give access to HH income: \$400 - \$600*

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Designing Demand Side Subsidies (1)

- *Goals*
 - *Expand commercial mortgage market*
- *Guiding Principles*
 - *Targeting, equity & transparency*
 - *Leverage private resources*
 - *Scale & sustainability for government expenditure*
- *Technical Parameters*
 - *Level of household expenditures/household income*
 - *Ratios: Subsidy/Downpayment/Loan*

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Designing Demand Side Subsidies (2)

- *Instrumental Alternatives*
 - *Initial buydown v. gradual withdrawal*
 - *Contract savings v. up front downpayment*
 - *First comers v. periodic competition*
- *Uses: purchase/rental/improvement*
- *Subsidies for Housing Improvement*
 - *Focus on infrastructure rather than house*
 - *Focus on neighborhoods rather than individuals*
 - *Focus on housing intermediaries: NGOs*
 - *Role for municipal supply*

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Liberalizing Land Markets

- *What's the problem?*
 - *Demographic transformation and demand for urban land*
 - *Land use regulation and perversity of good intentions*
 - *Truncated legal market*
 - *Pervasive informal tenure and investment disincentive*
- *What are the solutions?*
 - *Reduce regulatory standards for subdivisions: encourage private low cost private supply*
 - *Massive legislation program: manage backlog of urban informality*

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Promoting MicroFinance

- *Strengthen regulatory framework*
- *Build on existing private micro lenders*
- *Encourage “use” rather than “product” innovation*
- *Link to n’hood upgrading and subsidy programs*
- *IF shortage of funds is constraint: use 2nd tier not 1st tier agency (all on-lending at full market rates)*

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Conclusion: New Way of doing Business for Public and Private Sectors

- *Role of government: Tight focus on*
 - *Policy design*
 - *Regulatory Issues: espec. financial sector*
 - *National land issues: registry, regularization legislation*
 - *Information and consumer protection*
 - *Subsidies: financing and allocation*
 - *Local government : executing n'hood up-grading,
land use regulation*

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Conclusion: New Way of doing Business for Public and Private Sectors

- *Role of Commercial Private Sector*
 - *Developers: land assembly and development*
 - *Construction Firms: marketing and production*
 - *Banks: supplying mortgage finance / micro finance*
- *Role of NGOs: support low income households*
 - *Articulate demand / Provide technical skills*
 - *Facilitate community organization*
 - *Organize n'hood upgrading*
 - *Provide micro credit (in some instances)*

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