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HOUSING AND EQUITY

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INTRODUCTION

The Regional Meeting of Ministers and High-level Authorities of the Housing and Urban Development Sector in Latin America and the Caribbean is an initiative of by the Ministry of Housing and Urban Development of Chile (MINVU), organized by the Economic Commission for Latin America and the Caribbean (ECLAC), to be held from 16-20 March 1992, at ECLAC headquarters in Santiago, Chile. Besides MINVU and ECLAC, the meeting is co-sponsored by the United Nations Development Programme (UNDP), the United Nations Centre for Human Settlements (UNCHS-Habitat) and the Inter-American Development Bank (IDB).

The objective of the meeting is to analyze the sector’s main trends in the region and the feasibility of establishing a mechanism for coordinating and exchanging experiences at the ministerial level.

This document is a synthesis of the contents of one of the two presentations on the subject "focusing resources on low-cost housing and the capacity to recover costs".

The ECLAC Division of the Environment and Human Settlements endeavours to analyze this and other subjects from the point of view of development, in the conviction that the solutions to problems in the home, its built environment and in human settlements in general, have been hampered by development processes that have failed to establish a proper balance between economic growth and equity.

This contribution to the meeting has been structured in such a way as to facilitate the debate on prevalent approaches in the region, and to contribute to the generation of general principles and concrete actions in order to permit adjustments in line with the specific conditions of each country. The current situation is well known, which is why, except for some reference to its most relevant aspects, this document directly deals with the possibilities for overcoming the obstacles preventing the successful dealing with solutions to the problems, particularly those pertaining to family income, physical and financial costs, organization and financial resources of the sector.
I. HOUSING, DEVELOPMENT AND EQUITY

The explanation for the main trends in human settlements, urban development, housing and low-cost housing in particular, cannot be removed from the political, social and economic context in which they occur and on which they act.

In turn, a renewed approach for undertaking the necessary adjustments must necessarily be based on the recognition that today’s problems are the outcome of past economic and social policies, which is why the sector must link the subject of housing and human settlements to the general theme of development. This approach must not only prevail at the level of the State, government and actors within the sector in order to reach agreements and decisions capable of leading to equity. It also forces direct action to be taken toward this end in the economic activities generated by the sector, and in which it can intervene in the ways indicated throughout the document.

With the foregoing in mind, this document presents some concepts that should be considered from the perspective of social equity, which is understood to mean equal opportunities for participating in the welfare, social positions and possessions that the housing sector generates. The concept of housing used, includes the household and its built environment, particularly infrastructure and service facilities, with a view to resolving primarily the accumulated problems and the future needs of middle, low and extremely low income sectors.

Latin America and the Caribbean have undergone profound political and economic changes in recent years. An ever-growing number of countries are applying policies of integration into the world economy, accompanied by a more cautious handling of macroeconomic aggregates and by a new view of the public sector’s role in promoting development. This is being accomplished through strategies designed to overcome the economic crisis affecting the region since the eighties and to achieve sustained economic and social development. In some proposals, the central element of these strategies features the incorporation of technical progress into productive activities, for the purpose of basing social progress on the increased productivity of individuals, firms and the economy as a whole.

Likewise, and with very few exceptions, democratic processes are becoming consolidated in the region. Thus, despite the fact that much still remains to be done in translating democratic forms of government into a democratic culture in the management of nations, one can observe a slow but consistent consolidation of participatory practices that include the citizenry through national, regional and local management of development. Notwithstanding the foregoing, the political evolution and economic
changes underway have not been accompanied by changes of similar intensity in achieving genuine equity. The persistence of trends that run counter to social equity jeopardize the sustainability of economic change and of democracy itself.

In this context, the changes that the region is undergoing provide great opportunities for reviewing the design and application of sectoral policies that contribute to both economic development and social equity. The thoughts presented in this document are an attempt to point out how the housing and human settlements sector can contribute to both objectives, over and above the simple delivery of housing, infrastructure, facilities and services it has traditionally been concerned with.

The question nevertheless remains whether in Latin America and the Caribbean, which enjoy a long and varied history of housing policy implementation, the design of innovative housing strategies and programmes constitutes the main challenge, or whether in actual fact, this consists of overcoming the stumbling blocks set up by economic, social and sometimes institutional structures that have systematically impeded the successful application and permanence of these strategies and programmes.

Notwithstanding the recognition that there is room for improvement in the design of strictly sectoral policies and that these should be carried out, there is the conviction that in overcoming the obstacles that hinder the housing management process, steps can be taken that offer great returns in addressing this social demand, as well as maximizing the economic and distribution impact of the activities generated and maintained by investment in housing.

Within the framework of the criteria presented, it is pertinent to examine some traits of regional development that have determined the characteristics of housing activity and the obstacles it faces in becoming an effective instrument for promoting social equity, economic growth and consequently, development:

a) The acute housing problems that exist are more a physical and social expression of inequity than one of insufficient economic growth.

If the region’s population grew at an average yearly rate of close to 2.52% between 1950 and 1990, the economy grew at an average rate of 4.3%. Despite this clear and direct relationship, the housing situation has worsened. In fact, although the coverage of some services improved during this period, the housing shortage increased from 10% to approximately 30%. Measured in qualitative terms, the gap could be wider still.
The high concentration of income — enhanced even more in recent years — added to the lack of redistributive inclinations in the region, has created structural conditions of poverty in broad sectors of the population and consequently, an incapacity of these to put together the resources to satisfy their basic needs, among these, that of shelter.

Despite improvements in the mechanical quality of construction in formal housing programmes for lower and middle income groups, in many cases one sees a serious reduction in their sanitary quality and less areas and volumes for engaging in normal family and economic activities and in offering a healthy interior environment. Apparently this is the result of an excessive concern for matching available resources to coverage targets aspired to by governments, and of the low priority given to housing quality.

The settlement areas of lower income groups demonstrate what in the region has become a physical expression of social segregation. These areas are located in the periphery of cities or in internal pockets, sometimes in older inner city areas. Besides the drain on income caused by the added expense to inhabitants of getting to their work-places or of shopping in small stores at higher prices, the spatial concentration of poverty means a persistent incapacity to generate significant economic activities that have a positive impact on their milieu. The role of these communities is reduced to the export of labour, which is generally poorly paid, which is why they cannot adequately contribute to the development of the areas in which they live.

b) States were taken unawares by the speed of population and urban growth from the forties onward, and, unlike what occurred in older or recently industrialized countries, when faced with urban expansion, they did not always act as "strong and planning" States".

The problems generated by rapid demographic growth and its concentration in cities has generally been interpreted and dealt with using strictly sectoral criteria, isolated from other social and economic programme areas. This attitude has undermined the strength and unity of purpose of public and private actions. Often the policies and programmes applied to a same sector not only lack coordination, but have even been inconsistent.

The evolving needs have frequently outstripped planning and sectoral management instruments, which were not always the most suited for the magnitude of the challenges faced. Public sector performance has had its ups and downs and has varied from country to country. But a low resource allocation and management capacity has prevailed, and the public sector has been content with its role as passive budget consumer. Likewise, sectoral organisms have shown little capacity for steering the behaviour of the various
agents that take part in the housing process, in the interest of equity.

The concepts and forms adopted for direct intervention by the State and in formulating housing solutions and meeting urban needs have in many cases been clearly inconsistent with the low priority assigned by central governments to the sector. This has led to chronic conditions where limited budgets are combined with low public programme coverage. At the same time it has served to discourage the intervention of other sector agents.

Besides, many governments, presumably in their desire to ensure the technical quality of their programmes and the proper behaviour of the various agents that intervene in the construction of habitat, have introduced complex and at times disproportionate administrative and normative instruments to regulate the sector's activity. Not only has the progressive rigidity of these instruments, not allowed its initial objective to be reached, but it has tended to discourage sectoral activity and to generate avoidable costs in formal programmes. On the other hand, lower income sectors have simply ignored these standards and, for better or for worse, have built a large part of the cities of the region.

c) The necessary change for optimizing the sector's contribution to the economy, equity and to environmental sustainability, has been hampered by a limited view of sectoral policies.

Reducing the housing problem to the availability of public resources has in many cases generated a tendency to direct sectoral policies towards practices peculiar to the culture of poverty. Thus, the sectoral task is frequently understood as the maximization of the number of housing solutions to be provided with the scarce resources available, and the fact that the sector is responsible for facilitating access to adequate shelter and permanence in it for the population as a whole is overlooked.

This has often created untenable situations with respect to the quality and location of housing solutions provided. Many programmes that provide for the progressive improvement of an initial housing core do not succeed in bringing it about, due to the lack of an economic and social setting that would allow for it. Likewise, the economies obtained by a housing programme frequently mean greater diseconomies for society as a whole, owing to the additional costs it generates in the operation of urban systems or the additional costs for the families that locate in them.

The current conditions of human settlements demand a systemic view of the housing process and the development of policies to generate incentives and to intervene in each element of the process. In other words, it is necessary to go from a restricted view of the role of the public sector as a mere provider of housing
units to another that includes the role of facilitator of the operation of processes and agents in order to ensure access to adequate shelter and habitat.

d) It is essential for housing planners, programmers and designers to clearly perceive that the pursuit of concrete ways to achieve development is not exclusively an economic domain and less still one based on macroeconomic views, although these may provide the strategic framework necessary to guarantee the coherence of sectoral actions.

The advance towards development requires sectoral contributions that go beyond the mere delivery of goods or services that pertain to each; greater contributions are found in ways of doing things.

The housing sector and that of human settlements provides concrete opportunities for contributing to all development variables, which have not always been considered in sectoral policies. The most viable and specific refer to:

i) Expanding the opportunities for productive development;

ii) Generating stable and adequate employment to allow for the specialization and progressive training of the personnel employed in the sector;

iii) Favouring a more equitable distribution of the income generated by investment within the sector;

iv) Easing the balance of payments by a more intensive use of local inputs that make the most of the comparative advantages of the natural resources available;

v) Helping to obtain a more balanced geographic distribution of the economic activities involved; and

vi) Opting for technological profiles most suited to environmentally sustainable development.

e) The State, the agents that intervene in the sector, and national communities have been slow in identifying and assuming the necessary changes in order to be consistent with the adoption of development strategies based on the operation of the market and business initiative.

In order to ensure their successful implementation, all development policies essentially require the willingness and adequate behaviour of the various social sectors and agents involved in their execution. Otherwise, formal policies enunciated become mere declarations of intent and the actual policy is that applied by agents with the greatest power and initiative. If the
current economic and social conditions of the region are taken as an indicator of the actual policies implemented in it, and therefore, of the behavior of agents that have intervened in its development, it becomes clear that this is the area in which greatest changes have to be introduced. Thus, notwithstanding the need to do so, it will not suffice to enunciate the need to restructure the functions of the public sector in order to undertake a project of modernization, productive transformation and equity, if it is not accompanied by a similar restructuring of the behaviour of other agents and groups involved in its development.

f) Experiences gathered in the region show that under current circumstances, the solution of housing and urban development problems requires as a first priority overcoming obstacles in income, physical cost, financial cost, resources and organization.

The central idea that inspires the ways outlined for getting around these obstacles consists of recognizing --as the region has done but has still not sufficiently incorporated-- that equity is not only an objective, but is also a requirement for development, and that without it there can be no significant progress made in the area of housing. Attempts to attenuate the shortfalls and to eventually satisfy demands for shelter requires the generation of mechanisms and the creation of an environment that facilitates changing the enormous potential housing demand into effective demand. This should take place within the framework of a process in which income rises and physical and financial costs fall; in which public resources are used on the basis of investment rather than spending criteria; in which organization forms which have proven efficient and capable of attracting and directing savings are recovered; and lastly, in which intersectoral planning is used as an integrating method of work and as an ordering tool for a conscious and rational type of urban development.

II. OBSTACLES TO BE OVERCOME

A. FAMILY INCOME

It is widely known that the insufficient and irregular family income of broad sectors of the population and the problems in improving it are the main causes that prevent their access to adequate shelter. On the other hand, one cannot ignore that these same groups are undertaking significant investment in their dwellings through non-formal channels, and that in many countries these represent most of the sectoral activity. However, the deficiencies observed in these types of solutions show the need for developing ways to optimize the resources allocated.
In this respect, the sector's policies would have to change radically and recognize that their responsibility is not limited to administering the 7% sectoral investment, but also to acting as promoters for optimizing the use of the irregular and scarce incomes of most of the population. The sector should create the necessary mechanisms to pool and reproduce the limited surplus of these irregular incomes, as well as to remove the barriers that prevent capitalizing the surplus generated by the existing housing stock, and that this should serve as a basis for generating greater income.

With regard to the need to increase family income and to the housing sector's competence to intervene in this field, it is necessary to stress the influence that the economic activity generated by public and private investment in housing has on the income of families that occupy or may occupy a place in all employment or production categories. It should be remembered that this activity is very important within the national economy as a whole and is made up of harvesting, extractive, small-scale and industrial activities that provide the intermediate goods and inputs; of the design and construction phases per se; of the marketing, operation and maintenance of the built environment; and of the enormous variety of services surrounding all these activities.

In keeping with the preceding, the sector's public institutions should ready themselves to act, using the instruments within their reach, on all the economic activities generated by investment in infrastructure, service facilities, construction and housing. One of these instruments, and perhaps the most important for improving family income is a technological policy consistent with a strategy for productive transformation with equity as a means to achieve true national development. Thus, the sector should assume the task of exerting an influence so that, through the progressive incorporation of technical progress, the productivity of labour and capital can increase and the chain of positive impacts can be set in motion.

The increase in family income is associated with these impacts, on the condition that lower costs lead to lower prices. This outcome would increase effective demand encouraging the expansion of industrial supply and services, which means economic growth, and consequently, greater income and employment, including permanent and specialized employment. If this process of economic growth is accompanied by measures (e.g. technological combinations that are economically and socially more efficient) which directly promote a better spatial and social distribution of income generated by investment, a direct improvement in income and a greater geographic distribution of it would be obtained. In turn, distributive equity would restart the virtuous circle as a result of the expansion of the general goods and services market.
The implementation of such a policy requires an efficient State that can coordinate actions with private enterprises, industrial, technological and academic sectors and demand in order to achieve the systematic incorporation of technological progress into the various phases of the housing process and to increase capital productivity.

B. PHYSICAL COST

It is a known fact that the physical cost of housing and its setting is primarily composed of the value of land, its urbanization and the buildings themselves. The causes underlying the excessive costs of many programmes are also known. Some of these are the speculation on developable land, an inadequate industrial park, technological backwardness, adopted housing typologies and excessive and rigid standards. The problems associated with land will not be dealt with in this document, since they warrant a more in-depth discussion.

With the exception of a few countries, the regional industrial park tied to construction suffers from gaps in coverage, insufficient quality and variety and high costs which mainly result from the use of backward technologies, the oligopolistic nature of production and its operation within a narrow and imperfect market. This situation obviously requires external impulses that communicate a positive dynamic of greater productivity and lower costs.

If one accepts the fact that the cost of physical housing inputs is a reflection of the relation between supply and demand, the sector has a clear opportunity to steer the latter in order that it transmits to the supply, the demands for greater coverage, variety, quality and lower prices. This also requires some degree of complementary support for the productive sector in order to facilitate its technological modernization and increased productivity.

One possibility of the sector to generate the above-mentioned changes is to contribute to reestablishing the balance between supply that is very often highly concentrated and dispersed demand lacking the capacity to pressure for prices, quality and variety. In order to achieve this objective, the sector can encourage the grouping of demand into corporate or associative institutions, and utilize public sector investment as the focal point for a sufficiently strong and unified block of demand that emits clear signals to supply.

The technical expression of these signals will only be adequate if the project’s design stage is transformed into a genuine decision-making process, that is aware that the typologies,
technological combinations and construction systems to be developed have a concrete impact on both cost aspects and on economic, social and environmental development variables. Therefore, the sector needs to support the technicians, professionals, researchers and academics in order for these variables to be incorporated into design activities.

Lastly, the implementation of this policy requires that the sector undergo a conceptual change in formulating design and construction standards for housing and its environment, evolving from a criterion of rigid product-descriptive standards to flexible quality-descriptive standards, that create room for innovation and variety.

C. FINANCIAL COST

The oftentimes unnecessary use of capital throughout the entire productive process and its high financial cost (particularly in the marketing of housing) which results from rigid administrative practices of the housing sector, is particularly important, both for its effect on the final costs and for its tendency to act against lower income groups. However, the sector's capacity to influence the interest rates used is limited. Neither does it have the capacity to intervene in the appreciation of the capital applied by industrial, construction or real estate firms to production.

Despite these restrictions, the sector can act in two main areas. First, it can review its administrative procedures and bureaucratic excesses which generate the unnecessary use of capital in the various housing production transactions (retentions, bank guarantees, bonds, delays in payment to suppliers and contractors, payments for supervisory activities, etc.)

Second, it can support the creation of financial mechanisms and the operation of organization forms that manage and multiply money at a lower cost and at higher rates of return for savers than those of the traditional financial network. These mechanisms should be capable of attending to the housing activity of lower income sectors, which is the predominant sector in many countries of the region.

D. FINANCIAL RESOURCES

Housing shortages in the region are primarily attributed to the lack of financial resources of individuals and institutions. However, there are two sides to this shortage: the volume available and the way and intention with which it has been used. The region
has attempted various ways to accumulate and allocate resources. Besides an insufficient allocation of resources from any angle one looks at it, the public sector has shown a persistent trend towards neglecting its recovery and reproduction. The responsibility for this negligence that benefitted only a few and the least needy, is partly attributable to inflation. There are examples in the region where procedures have been applied for maintaining the value of resources allocated for housing. However, since they were not accompanied by similar efforts for maintaining the value of income, they have tended to diminish the effective demand of housing and have jeopardized the continuity of these efforts.

With respect to the intentionality of the use of resources, it is evident that in terms of the city, priority was given to infrastructure and service facilities and that this investment was aimed primarily at resolving the needs of the groups most capable of influencing public resource allocation. Private resources flowed towards these same urban areas.

The increase in absolute terms of financial resources applicable to housing passes through increased family income and saving and that of the nation as a whole. At this level the sector is seen as able to contribute by intervening in investment-generating economic activities. There are also opportunities for directing greater resources towards the sector by attracting part of the long-term institutional saving (pension funds, insurance, etc.), or private capital which can be directed at rental housing.

The relative increase of resources, on the other hand, depends on the way and intentionality with which it is allocated. A first policy change in this respect would involve dropping the criteria that shelter for the poor is the exclusive responsibility of the State, and that the latter should be responsible for poverty management and for adopting a new outlook in which its role involvesconcerting and organizing the entire national community to act in eradicating poverty.

In line with the foregoing and assuming continuous progress in economic reform policies and in those tending to formalize the economy and employment, it seems pertinent to reconsider the forced savings systems included in the remuneration for work applied by organizations administered by the buyers with the support and vigilance of the State.

Another important policy change required in the region is to endow the public budget with the character of working capital, doing away with the attitude of viewing it as a consumable budget. This means that the public sector should adopt an appropriate behaviour in its resource allocation, to ensure that the latter complements or triggers the mobilization of other private and institutional resources, thus maximizing the returns on public investment.
E. ORGANIZATION

To implement the ideas presented above, adjustments in organization are required in order for the actions of public and private agents of the sector to be more effective. These adjustments primarily correspond to the need to adopt systemic approaches and procedures; to the recognition that the current allotment of the public function in and outside the sector, the entrepreneurial dispersion, the existence of dispersed housing demand, and the scarcity of participatory channels for regional and local institutionality severely affect the operation of the sector as a whole.

The organization of the sector, necessary for facilitating its contributions to development and for improving its strictly sectoral role, making it truly systemic, requires simultaneous changes in public institutionality, the business sector and housing demand as a whole.

The appropriate profile for the sector’s public institutionality at national, regional and local level --including the municipality as an important component-- arises from a public sector determined to abandon passive practices restricted to mere sectoral technique, and be inclined to greater openness towards communities from all social spectra and willing to head agreements between the sectors, firms, demand groups and other agents involved in the housing process. The objective of adopting a concerted style for conceiving and implementing actions, involves grouping agents around common goals and undertaking projects at a sufficient large scale to not only attend to housing in its limited sense, with greater chances of success, but also to its setting and to populated centres in general.

On the other hand, the organization external to the sector essentially requires ways to group sets of demands, such as the cooperatives in existence. Other forms of organization that have arisen in the region with varying degrees of success, such as associations to attract and direct savings or mutual funds, whose objects are broader than housing, are part of the regional store and their operation can be reviewed and improved.

The objective of bringing together demand, beyond balancing the concentration of supply, is to obtain economies of scale and to have access to projects with greater capacity for optimizing the development of the habitat as a whole.

Finally, the firms located at all stages of the housing production and marketing process are responsible for the challenges of becoming modernized and increasing their productivity, tailoring their performance to the demands for equity and development. This means growing in order to fill the gaps in coverage and quality of
housing inputs, which prevent the sector from functioning more efficiently in economic, social and environmental terms. In this respect, the systemic nature of the sectoral organization that is propounded includes the support and conduct of government over and above those pertaining to business, in order to be able to undertake the necessary changes and to do so in the right direction.

Notes

1. ECLAC (Economic Commission for Latin America and the Caribbean) (1991), *La equidad en el panorama social de América Latina durante los años ochenta*, Santiago, Chile.

2. Source: CELADE (Latin American Demographic Centre) (1991), Boletín Demográfico, año 24, No 48, Santiago, Chile.


4. Fajnzylber, Fernando (1990), "Industrialización en América Latina: de la "caja negra" al "casillero vacío", *Cuadernos de la CEPAL*, No. 60, Santiago, Chile.