

Institutional Aspects of Housing Production in Brazil (1964-2004)

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Abstract

This paper presents the impact and changes in institutional aspects on housing production in Brazil. It covers the period (1964-2004). when there was an institutionalized housing policy – centralized by the National Housing Bank (BNH) which managed a specific financing system– through a period characterized by the absence of a comprehensive housing policy, up to the legal and institutional framework under which housing construction industry operates nowadays, and financing perspectives. It analyses how housing financing has operated with lack of a specific institutional framework in the period after the BNH extinction, 1986. What have been the results and in which terms the low performance of housing construction industry contributed to increase urban housing deficit. In the latest period, 1995-2004, it covers in detail the advances in legislation, the process of representation of the housing construction sector and it's relationship with the public sector. The new framework operating in a less regulatory environment and the initiatives of this specific economic sector to tackle financing, the recent goals, new possibilities and the quality of the relationship of the private and public agents. It also brings a qualified mapping of the representative institutions, how they operate and influence public policies and the initiatives of this economic sector to develop new legislation. Finally there is an overview of the results and programs of the private and the public sector working together in order to enable improvements in housing construction, to increase quality guarantees and cost reduction, oriented to access alternative finance resources.

1 Introduction

In the beginning of the 60's, housing needs were seen as a problem under the responsibility of the government. The democratic governments, at this time, were looking for policies to meet the demand by promoting housing as a social benefit, as so, included in government expenditures.

Urban housing problems were then clearly understood as a result of the migration process and home ownership was crucial for this migrant to guarantee the necessary stability to live in the cities.

At this time, housing needs, oriented to meet population growth, were around 600 thousand/year.

Between 30's and 40's the existing housing stock went through rapid deterioration, due to the increase in urban migration and few number of new constructions. In the 50's the situation improved when urban growth was followed by economic development. Housing deficit was 'stabilized' around 4 million at the 70's, increasing during the next years, as urbanization process accelerated. In the 80's the estimated deficit indicated the necessity of 5 million housing units.[1]

In 1964, starting from the recognition that there was a lack of a systematic approach to deal with housing problems, both from the public and the private sector, the Congress approved the Law 4380/1964 establishing three main points, as here below.

- adjustment of currency depreciation in real estate contracts of social interest;
- a specific financial system for housing financing promoting home ownership, a part of the national monetary system;
- the creation of real estate credit societies and the National Housing Bank (BNH), this one with the responsibility to manage the home ownership financial system

This law was part of a monetary reform implemented in the first years of the military regime, when the objective was the modernization of the country. Government policy commanded a rational and efficient allocation of public investments to support capital development, guiding government expenditures to investments in infrastructure. The modernization of the state included the constitution of a few number of public enterprises and to stimulate, the existing state's companies, mainly those operating public infrastructure utilities.[2]

The main principle of the housing policy, during 70's and part of the 80's, was, apart from meeting housing necessities, financing the building construction sector as a counter cycle measure to generate new jobs and face the recess of the economy.

Twenty two years of BNH existence provided 6.8 millions housing credits, 76% benefited low-income people and 24% middle class. But in terms of amount of financing the 24% represented 58% of the total investments in housing, 1964-86.

It can also be said that housing policy, at this time, was guided mainly by economic reasons, losing what happened to be a democratic view of the problem, when housing was understood as a social need. In this sense the Housing Financing System (SFH) was mostly criticized as an instrument to privilege urban middle classes instead of low income classes.

This shock of ideas in the society, later on, has influenced the legislators of the new Brazilian Constitution of 1988, to include shelter as a social right in the same level as it is health and education.

2 Housing financing

From the beginning, the housing financing system (SFH) was composed by two funding. The labor's guarantee fund (FGTS), a compulsory fund and non inflationary resource, and the Brazilian Savings and Loans System (SBPE), which constitute a market fund.

Till 1986, the management of this two funds under the principles of self sustainability and cross subsidy happen to be inadequate in a context of low economic growth and the finance problems generated to the BNH administration lead to the extinction of that institution in 1986 and before that, in 1979, the real state credit societies had been extinguished.[3]

Although the lack of a government policy for the housing sector is recognized since the BNH extinction, no structured action has been implemented. The opportunities of investments in this area has been mainly oriented to reduce housing deficit with poor results.

The urban housing deficit estimated in 3.8 millions of housing units in 1997, with 95% concentrated on low income people, has recently been estimated in 6,6 millions. [1]

Still there is no consensus when talking about subsidies or public investments concerning the objective of reducing low income housing deficit. The question stands in two possibilities: to stimulate in large scale the building sector and generate job , or to allocate government resources on low income housing production and meet 95% of the urban housing deficit.

The preoccupation concerning the low capability of the urban poor population to access credit is responsible for the pressure upon the public sector in order to provide government resources to finance low income housing production. Back to the dilemma of social housing and the market economy functioning in Brazil.

Although, nowadays there is no such a institution like the BNH to centralize housing policy and the fact that the abrupt interruption of its activities has imposed several constraints, the housing financing system is still operating under the control of the Brazilian Central Bank and the management of the Federal Savings Bank (CAIXA).

The CAIXA is simultaneously the manager and an agent of the SFH, responsible for 88% of the total housing credits.

Starting from the 90's, the SFH had two important changes, following fiscal adjustments due to economic stabilization plans.

At first, the SFH concentrated credit in re financing the existing housing stock; those investments usually allocated in housing production.

The Individual Letter of Credit, CCI, and the Letter of Credit for new housing units, CCIP, oriented to middle classes home ownership, had the benefit of reducing credit risk.

The savings and loan system, as part of the SFH, responded for only 1,5% of the housing production in the country, a low performance if compared with the situation before 86 when the SBPE financed 58% of the housing production.

As to reinforce funding for middle class home ownership, another remainder guarantee fund, the FGTS's guarantee credit contracts, FCVS, were also put together with the FGTS.

Later on, in 2002, in order to focus on urban poor, others funding were put together with the SFH. The Supporting Fund for Working People, FAT, and the remainder of an abolished fund for social support, FDS, this last one to finance the housing rental program.

The results of those changes can be seen in the following table and can be compared with previous results, between 64-86, pointing the total of 5 million housing credits.

Table 1: Distribution of Loans by Program and Funding [4]

ProgramFunding	1996	1997	1998	1999	2000	2001	2002	2003	2004
CCIP-FGTS	2780	26703	37610	37610	43195	29268	17836	11989	11470
CCI-FGTS	2724	145551	166422	166422	236845	214489	175519	174232	165064
CCI-SBPE	74	28557	49255	49255	55527	18634	3508	1830	9547
CCIP-FAT							430	362	249
CCI-FAT							8695	2844	2903
CCIP-PSH							9934	18373	18518
CCI-PSH							7080	8926	24546
Total	5578	200811	253287	253287	335567	262391	223002	218556	232297

3 Perspective for the building sector

About 70% of all investments in the country go to the building construction chain, which participate with 13,5% of the GNP, 8% due to the housing construction sector, considering material, services and administration.

The building economic sector, mainly small size companies, 50% of them with not more than 9 employees, is important for it's capability of job generation.

In the last 20 years the building sector depended on government measures to eliminate risks of the activity in a conjunction of high interests rates and the low payment capability of the population, generating a lack between asset and liability.

Facing the perspective of a tax reform, the housing construction sector representative demonstrated the great impact of taxation in housing production as follow.[5]

- 50%, starting from the negotiation of the land, the enterprise, till the liquidation of the loan that is passed to the purchaser;
- 9.3% taxes paid during the construction process;
- 23% over with the installments revenues.

The Counsel of Building Construction (CBIC) is the main representative of the building economic sector, member of the National Industry Federation, it is the congregation of the regional entrepreneurs unions. It's importance is growing since they started acting in a more autonomous way concerning the government.

3.1 Changes in Legislation

There is a great effort of the building sector representatives to re-establish the conditions for a mass production as it happened in the past and they are pushing government to develop a new regulatory framework.

From the side of the government there is no such a policy, although many initiatives have been tackled since the 90's when new housing programs and funding were incorporated to the SFH.

The institutional and regulatory framework is changing and many laws have been approved recently. Some of them looking closely on the interest of the housing construction economic sector and others related to an urban reform.

In terms of urban development, the Law 9785/99 is important in terms of promoting changes in land regulation, recuperating municipalities competence to regulate urban land, as established in the Constitution and replacing a law of the military regime.

The City Statements, Law 10.257/01, was established for the protection of poor people living in the cities. This law responds for a demand of civil society mobilization and concerns about new urban instruments of land use control, instruct the municipalities to incorporate in their own codes and laws.

Two laws were important to develop housing production. The Law 9.514/97, which established the Real State Financing System (SFI), oriented to reduce credit risk in long term and the Law 3.065/04, which promotes guarantees for the purchaser in case of insolvency of the entrepreneur.

The National Monetary Counsel is responsible for a set of regulation reducing the compulsory and other measures to allow private banks to reinforce the offer of credit for the sector.

In terms of institutional advances, the creation of the Ministry of Cities is the most significant of the last 20 years. It has among its priorities to improve land use and increase the supply of land for low-income housing to arrest the growth of informal settlements.[6]

4 Conclusion

In retrospective, government initiatives seems to be insufficient to meet social needs and to face urban housing deficit which, since the last five decades, does not stop growing. The situation demands a high level of investments in housing production, if the proposal is to reduce housing deficit in a short term.

The new paradigm is to encourage private sector initiatives and to reinforce the regulatory roll of the government.

Although there has been a significant advance in terms of a new regulatory framework, both private and public sector have been waiting for a better economic conjuncture, when the interest rate should go down.

The lack of a housing policy, due to the institutional crisis that followed the BNH extinction, seems to be crucial, influencing negatively the rhythm of the housing production and increasing housing deficit.

On the side of the economic agent, the strategy is to gain productivity with cost reduction and better quality production. This sector is facing sustainability problems and the diagnosis demonstrate lack in environmental management, working labor security, design and technology.[7]

Government and the building construction sector are integrating efforts to develop construction quality absorbing the concept of the National Program of Quality and Productivity, based on the ISO certificate system. Reviewing the previous concept of quality and trying to customize product and give more flexibility to the negotiation with the client.

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