Policy Brief

July 2016
PB-16/21

Housing Policies in Africa & Brazil: The role of PPPs for low-income housing

By Marcus Vinicius de Freitas

Summary

Housing is part of the United Nations 11th Sustainable Development Goal, which is to "make cities inclusive, safe, resilient and sustainable". One of the most important targets of such a goal is to "ensure access for all to adequate, safe and affordable housing[1] and basic services and upgrade slums". Since 2007, the world has faced rising inequality, insecurity and climate change impact. According to UN Habitat, 54% of the world´s population currently live in cities. By 2050, this number should reach 60%. A new vision is required to plan and finance housing with the improvement of living conditions.

In 2010, around 1 billion urban households lacked decent housing. There is a deficit of more than 1 billion new homes with an estimated cost of US$ 650 billion per year. Approximately 30% of urban population in developing countries live in slums. While this percentage is lower than in 2000, when it was at 39%, the issue is not only providing housing in quantity, but quality too, which is an essential factor to secure well-being and shelter for a healthy and fulfilling life.

Although globalisation has affected the economic growth of the last two decades, financial resources have decreased for public housing, particularly affecting those who are more vulnerable and disadvantaged. Conventional sources of funding—government especially—will not be able to meet demand, particularly with an ever increasing competition due to the challenges imposed by globalisation.

Globalisation, affirms Clapham (Clapham, 2006), is a movement that has led national governments to reorient themselves with much less room for manoeuvre in spending and taxation. A tighter control on public sector borrowing and the impossibility to raise taxation at the top end of the social economic pyramid are now a reality. As a result, Giddens recognises that public policy, housing included, is not suited to address the challenges imposed by an urbanised society. As a result, deficits in public housing are widespread, both in the developed and developing world.

Most involvement by governments in housing has focused on home-ownership for the middle-class and the challenge to reduce the number of slums. The purpose of this Policy Brief is to discuss how to deal with decreasing government funds for public housing through Public-Private Partnerships (PPPs), to address the challenges of

1. According to UN-HABITAT (2011), affordable housing is that which is "adequate in quality and location and does not cost so much that it prohibits its occupants meeting other basic living costs or threatens their enjoyment of basic human rights."

public housing needs, and how governmental programs may at times crowd out private interest in public housing, through PPPs.

Housing as Social Policy

Social policy discussions have sought to establish areas where governments should play a greater role to address social needs. Macbeath (Macbeath, 1957) recognised that social policies, which govern the activities of individuals and groups, affect collective interest. However, determining what social policy still represents a challenge, especially when the issue of welfare of citizens is considered.

Is social policy more geared towards welfare, or is it more focused on the well-being of individuals? Redistribution systems result from such discussion and play an essential role in restructuring societies to meet citizens' needs. Choices by governments reflect their commitment to address the means and ends of social policy. Social spending should reflect the fluctuating needs of the population, which will vary from time to time. What societies care about is the main determinant for the allocation of public funds. The level of caring, however, is directly related to the economic resources available. The way countries use their resources will determine whether they are developed or developing.

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Housing has become a bottleneck due to the reduced availability of credit and access to financing, since humanity has steadily moved to urban areas and the cost of urban land has risen faster than inflation in fast-growing cities of emerging countries. In addition, only a small minority has had access to mortgages for home financing.

For low-income populations, only substantial government subsidies have ameliorated their situation with the goal to redistribute the population based on worker mobility or fight the spreading of slums and precarious temporary (in many circumstances long-term) dwellings without access to basic services, such as electricity, water and sewage. Direct demand subsidy programmes have been adopted in many Latin American countries – Colombia, Costa Rica, Ecuador, Venezuela, Paraguay and Uruguay, to name a few – in order to address such needs.

The production of public housing for low income households, however, has decreased, leading to deprived neighbourhoods, increased poverty, homelessness, and the corresponding negative downward dynamic. This is where Giddens (Giddens, 1990) recognises that a "regenerative welfare" should consider the role governments have in order to improve self-esteem, identity and lifestyle of the population. To address such issues, governments face multiple choices and dilemmas whose deliberation is done based on the availability of public funds.

Governments alone cannot deliver housing for low-income population. Private funds are necessary to provide adequate and affordable low-income housing, particularly to address ever-increasing problems of homelessness, mostly in developing countries, where millions of people live on the streets or in poor housing conditions. Such numbers may increase in scenarios where there is a rapidly aging population with mobility restrictions and age-related disabilities that greatly affect the earning capacity to meet the costs of living and housing expenses.

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It is also essential to develop a network of activities for the areas where public housing is provided in order to ensure that a market economy is developed locally to provide jobs and economic activities for those close to the location, and that a sense of community is built in a positive manner.

According to UN Habitat (UN Habitat, 2016), there is a general recognition that the market has failed to provide affordable housing for low-income households, particularly in rapidly urbanizing parts of the world. This policy failure is daunting for its negative impact and the stressful challenges it imposes on societies, such as increasing urban poverty and inequality. Housing financing should be at the centre of the policy debate.

Public-Private Partnerships (PPPs)

Housing is, therefore, a quintessential matter for cities and people. It is a matter of social inclusion, welfare and domestic security. Despite these, the state has shrunk and the private sector has not been able to provide enough funds to address housing supply.

Private sector engagement through mortgage financing has been a successful tool in many countries to address middle-class housing needs. This, however, has not been true when it came to low-income affordable housing. Micro-financiers have not been attracted to such transactions in the developing world. State subsidies have not addressed such demand effectively either.

There are several reasons for such matter: (i) a much higher demand, particularly in developing countries; (ii) inefficient channels to secure payback; (iii) the political use of low-income housing for electoral gain; (iv) inability to avoid the creation of a dependence sentiment in those receiving the house; and (v) the challenges imposed by globalisation and other relevant state costs such as healthcare and education.

In order to address such challenges, Public-Private Partnerships (PPPs) should play an important role by addressing a more favourable and flexible regulatory and financial framework to meet housing demands.

PPPs have included arrangements for better interactions between the public, the private and the not-for-profit sectors, with contributions and risk sharing by each of the players. Though not a privatisation, PPPs vary in the level of government involvement in each of the implemented projects.

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The idea of a PPP investment in housing and urban infrastructure started in the early 1990s, with different levels of success –from low in the developing to high in the developed countries, particularly Canada, the Netherlands and the United Kingdom. In the latter, PPPs have contributed significantly to lowering costs and increasing operating efficiencies in urban development.

By introducing the private sector into public housing through PPPs, a diverse range of skills, plus the disentanglement from regulatory policies, should reduce housing development costs.

In the United States, PPPs have become the main source of social housing, including military, in which case, for instance, more than 85,000 new and renovated houses and community facilities have been built at 20% lower costs than previous government projects, with much higher operational standards (Apgar, 2011). The United States has stimulated various financing mechanisms for PPPs to thrive.

Private sector supplementation has also been an important source for funding in the United Kingdom, which first introduced the Housing Private Finance Initiative (PFI) to encourage partnerships between the public and private sectors, by providing affordable ways to attract investment to social housing and maximise the value of public funds as risks were transferred from the public to private sector.

This collaborative arrangement to provide services previously offered by governments only is still a matter under great discussion, since there is an ideological inclination on the role governments should play. Nonetheless, the debate on whether PPPs do or do not serve as an alternative to government is relevant to the efficiency in addressing housing needs. In addition, the issue of whether the costs of PPPs should be accounted for in national public accounts or not is another aspect to consider.

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By placing private and public interest together, reduced costs have benefitted sectors such as education, health, prison facilities, urban renewal, etc. The Lagos Megacity Region in Nigeria is, for instance, an interesting empirical evidence that PPPs have added great value to a country by increasing decent and affordable housing stock to a community, with much greater efficiency, better governance and service delivery, through the use of private funding and expertise.

There are, it should be noted, a few challenges on PPPs, such as: (i) the reduced control of public assets and important decisions concerning issues related to public goods; (ii) the loss of accountability, when roles and responsibilities overlap and the taxpayer cannot clearly demand accountability; and (iii) the rigidity of the contracts, since strong guarantees are required to attract private investment for the Special Purpose Vehicle (SPV).

Governments should concentrate their role on providing legal and regulatory frameworks, in addition to financing to ensure private sector engagement. Policy adjustments should include benefits to all those engaged in PPP housing production (material manufacturers and distributors). Such adjustments require active private

sector participation and leadership in order to achieve efficient budget planning and delivery in order to secure a longer-term commitment to the investment. According to UN-Habitat (2006), PPPs have increased urban housing stock in the United Kingdom, India, Turkey, Kenya, China, Malaysia, Zimbabwe and South Africa.

PPPs should be of particular use in cases of building social leasing properties, especially for homeless people who may not even have access to a low-income housing. In such cases, mixed social housing is essential in securing a greater sense of community. Canada´s housing programs for affordable leasing is a particularly successful example to follow.

Mixed housing is an important element to secure better integration and a crossing of cultural and economic levels of society to build better communities. There is, in certain cases, a negative stigma associated with people living in social housing. This can only be avoided by ensuring a mix of different social classes living together and the building of a community where rich, poor and middle class citizens can coexist in a more integrated way. This can also be secured by the creation of public spaces, like parks, squares, and other public equipment where the members of the community can interact.

When this does not happen, areas generally assigned for public housing tend to deteriorate faster and in many cases, as it has been seen in some circumstances in Brazil, fall prey to organised crime and gangs, with an increase in the levels of drug trafficking. In many cases, the deterioration level of such communities may become troublesome and lead to very negative results.

PPPs, therefore, should deliver flexibility and innovation to address an increasing shortage of public funds, with positive economic results for affordable housing. However, in countries where government intervention thrives, it becomes more difficult to engage the private sector or even create the necessary environment to implement PPPs successfully.

The case of Brazil, for instance, can illustrate this matter.

A word on the Brazilian Housing System

Brazil, currently going through its worst recession in history, has gone through major changes over the last two decades. Despite its current challenges as a country, Brazil has been seeking to play a new role in global governance for quite some time. However, income inequality challenges in all sectors, particularly housing, constitute an impediment for further economic advance. With such acute income inequality, deriving mainly from its historical slavery, Brazil cannot be perceived as a first class country due to the social instability such situations cause.

Brazil, observes Hurrell (2009), has reached a global status due to its importance in issues like climate change, nuclear proliferation and economic globalization, a direct result of the Lula Administration bringing the country from the periphery into the core of the international system. In particular, this became more important when Brazil achieved energy self-sufficiency and when the Lula Government started looking to become a relevant oil producer (Hurrell, 2009).

Around 85% of the Brazilian population live in cities, with 60% of the country´s urban population living in 230 of the country´s 5,656 municipalities. Population growth should level off by 2040, according to the Brazilian Bureau of Statistics (IBGE). Per capita gross domestic product is currently at more than USD 10,000.00, with more than 50 million households having recently become a part of the middle class.

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Housing has not been sufficiently addressed by the public or private sector, particularly with regards to high migration flows started during the 1980s. Slums have grown exponentially and the policies implemented have been inefficient to deal with rapid urbanisation. The creation of the Ministry of Cities, in 2003, has enabled local communities to implement urban housing policies. Housing programmes, however, have addressed the production and acquisition of new housing units, and slum upgrading. The Federal Government has been the main provider of housing funds through subsidies allocated from the federal budget. The Federal Housing Finance System has provided housing for low-income households. Families with higher income capacity are generally served by the private market. Funding comes from the Workers´ Severance Fund (FGTS) and the Brazilian Savings and Loans System. Funds for the housing sector rose from USD 4.3 billion to USD 63.8

billion (2003 to 2011), mostly consisting of governmental subsidies.

The housing deficit in Brazil, however, remains high. UN-Habitat (UN Habitat, 2010) reports that in 2008 there was a deficit of 5.45 million dwellings, corresponding to 10% of the national housing stock. This was for the most part a result of: (i) family cohabitation, (ii) more than one household living in the same premise or (iii) housing expenses (rents) about 35% of the family budget.

In 2008, in order to address the international economic crisis, the Federal Government launched MHMLP. Its purpose was to increase production and generate growth by mobilising the construction industry to build housing for low-income population. Such an umbrella programme, highly subsidised by the Federal government, faced transparency issues with regards to the way the main funding source is managed, leading to concerns over the sustainability of the programme in case Brazil were to face an economic downturn. Now that the Brazilian economy is not doing as well, MHMLP will need to be adjusted or even discontinued. PPPs, which could have become a reality, are non-existent due to the governmental programs that have basically crowded out private investment in low-income public housing, actually restraining the emergence of PPPs as an alternative source of funding for housing.

Challenges of the African Housing System

Africa still is the most rural region in the world. Only four out of every ten Africans lives in the urban area. However, the continent is urbanising fast, creating major challenges to affordable housing.

Cities in Africa have been adding many new people to their population every day. Between 2005 and 2010, cities have grown tremendously – Lagos, 1.8 million; Luanda, 1.2 million – to mention a few. This steady population flow has strained urban land and housing, leading to low housing quality, marginalisation, low economic development and increasing rates of poverty. Around 40,000 people are likely to move urban areas in Africa on daily basis until 2030 (UN-HABITAT, 2011).

Conventional housing financing, however, is not widely available due to high down-payment requirements, high interest rates or short loan periods. This has implied fundamental limitations on the availability of affordable housing: approximately 85% of urban dwellers in Africa are not capable to secure housing finance. Additionally, human right issues, affecting women in particular – who own only two percent of land in the developing world – increase the vulnerability of the countries and their poverty levels.

With the exception of South Africa, there seems to be little evidence of large scale affordable housing in the Sub-Saharan Africa. However, progress has been made in other places in Africa, particularly in North Africa, whose countries have experienced negative slum growth together with a decrease in slum dwellers. Egypt, Morocco and Tunisia have been particularly successful in reducing slum populations, due to successful housing policies and programs impacting informal housing and slums.

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The reason for such success is that these countries have facilitated the private sector to provide sustainable urban planning, whereby governments acquire land and mobilise private contractors for housing and infrastructure development. Private sector involvement has been crucial through cross-subsidizing of housing units for low-income households. In that specific situation, the creation in 2004 of the Fonds de Garantie pous les Revenus Irréguliers et Modestes (FOGARIM) by Morocco has encouraged banks to provide long-term credit to low income individuals with an unsteady source of income.

It should be stressed that whenever financing is not available, the majority of the population in urban Africa resorts to building their own houses and/or renting in slums, which comprise more than 50 percent of the African population. Affordable housing is essential to secure a better future for the continent.

Some African countries have adopted the private-public partnership model through a variety of mechanisms to provide tax and land incentives, plus subsidies to stimulate the private sector to develop land and housing. PPPs have been successful in Algeria, Egypt and Ethiopia, increasing housing supply on a large scale and fighting unemployment through housing. The use of PPPs, however, require long-term commitment by the governments to secure private interest to address the needs of low-income households in Africa.

It is interesting to observe that both in Brazil and Africa, PPPs seem to work out as an innovative tool to secure financing for affordable housing.

Policy Recommendations

With regard to housing financing, governments should work a dual strategy: (i) facilitate credit through the banking system to middle income population in a way that governments do not get enticed directly in the mortgage market; and (ii) use PPPs to secure interest by the private sector in affordable housing, particularly destined for low-income population and slum urbanisation.

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As to private sector lending, it should be able to lend at positive market rates, with easier possibility to enforce foreclosure law and governmental regulation to improve loans. Governments should encourage banks to facilitate such loans and not get involved in subsidizing housing for the middle-class. A competitive regulatory framework should provide banking institutions the sense of security enabling them to lend.

As to affordable housing for low-income population, PPPs should be used to develop this market sustainably and to develop building more housing, as well as for slum upgrading, and ensure appropriate supply for those in worse conditions. Through PPPs, government could secure more alternative for housing development for low-income earners. PPPs should provide the means to improve design and efficiency in household dwellings in a way that incomes – as low as they might be – can afford access to basic formal housing; with an increased range of options and increased quality of the housing stock.

Therefore, policy recommendations could be summarized as follows:

1. Governments should dedicate financial and personnel resources to meet housing needs as a top social policy priority.
2. Governments should create competitive regulatory frameworks to secure private sector interest in lending for the middle-class.
3. Governments should create an effective regulatory framework for PPPs to thrive in addressing low-income housing.
4. Governments should avoid getting directly involved in low-income housing financing since their involvement generally crowds out private investment.
5. PPPs can be particularly helpful for social leasing to address the needs of homeless people, which should become a priority group.

With the implementation of such policies, countries may improve housing conditions and effectively impact social policy in a way that would be more beneficial to its citizenry. Better housing policies should encompass not only public housing, but also consider the necessary environment to secure a market economy locally, with jobs, education and opportunity more readily available. The strength of such policies will certainly have a major impact on building better families, communities, societies, and nations. It all starts at home.

About the author, Marcus Vinicius de Freitas

Marcus Vinicius de Freitas is Senior Fellow at OCP Policy Center. He teaches international law and international relations at the undergraduate and graduate levels at The Armando Alvares Penteado Foundation, where he served as the coordinator of their International Relations Programme from December 2012 until December 2013. His professional experience in Washington, DC included the Inter-American Bank and Occidental Petroleum Corporation, where he worked in governmental affairs. He was president of the Sao Paulo Directorate of the Progressive Party, having run for vice governor of the State of Sao Paulo in 2010, where his party polled in third place with more than 1.2 million votes. He also served as the Administrative Director of the Sao Paulo Metropolitan Housing Company until December 2015. Currently, he is the Chief Advisor for Emerging Markets at Providence Group of Companies. Mr. De Freitas holds an LL.B. (Bachelor of Laws) degree from the University of Sao Paulo, a master of laws from Cornell University and a master of arts in economics and international relations from The Johns Hopkins University School of Advanced International Studies (SAIS).

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Ryad Business Center – South, 4th Floor – Mahaj Erryad - Rabat, Morocco
Email : contact@ocppc.ma / Phone : +212 5 37 27 08 08 / Fax : +212 5 37 71 31 54
Website: www.ocppc.ma