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**THE IMPACT OF CURRENT GLOBAL HOUSING STRATEGIES  
ON THE DEVELOPMENT OF THE HOUSING SECTOR  
IN COLOMBIA**

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## ABSTRACT

The process of global urbanisation is projected to continue increasing, so that by the year 2000, 2.4 billion inhabitants will live in big cities. "The speed of urbanisation in developing countries today is not faster than normal, but the numbers involved are unprecedented" (Harris 1992). This paper recognises the importance of current global shelter strategies for developing countries. It examines the impact upon the poor of past and present global shelter strategies and speculates upon the prospects for the future development of those strategies.

Colombia is used as a case study because it has been an innovator and close follower of global shelter strategies since the 1970s. It has not, however managed to solve its housing problems. It will be seen here that Colombia's housing strategies have experienced the same failures as those noted by the most recent World Bank policy paper (World Bank 1992) and that some of the current strategies have already been tried in Colombia with no significant beneficial results upon the poor. This paper argues that the political, economical and social environment should be taken into account before applying any general model and that many developing countries are unable to counter and respond adequately to the proposed 'free market strategy' at the speed that modern economies require.

The ability of a free market economy to provide cheap housing with reasonable profit margins remains to be proved. In Colombia, according to the Central Housing Institute's statistics, markets are providing enough housing, yet the only way for most people to acquire housing is by availing of the state subsidy, and even with the help of this the poorest groups of the population do not have incomes sufficient to afford market supplied housing. Current World Bank housing policies encourage governments to 'enable' the housing market to work but they also propose the gradual abolition of subsidies. This policy could leave the poor completely dependent on the success or failure of the free market and the private sector. However, in the case of Colombia at present, subsidies are the only means available for the lower income sector to acquire housing. This paper concludes that a single course of action is risky as its failure can lead to serious social instability.

# THE IMPACT OF CURRENT GLOBAL HOUSING STRATEGIES ON THE DEVELOPMENT OF THE HOUSING SECTOR IN COLOMBIA

## 1. INTRODUCTION

The rapid growth of urban populations has been accompanied by the growth of poverty and environmental degradation. This is especially true of developing countries during the last sixty years.<sup>1</sup> These problems have in many cases been caused and exacerbated by the inability of governments and related decision-making institutions to provide effective policies.

It was not until 1976 in Vancouver that the problem of shelter was put on the international agenda. The 'Vancouver Declaration' focused on the role of the public sector and the International Agencies in formulating their own strategies and on the provision of individual related projects. However, this trend was seen to have had little effect on improving the living conditions of the poor or on the housing sector as a whole. The strategies benefited very few and marginalised the interrelationship of other key issues like land, finance and the urban environment.

Since the 'Vancouver Declaration' in 1976 and the World Bank sector paper in 1975, the focus of shelter strategies has been changing. These policies were followed by the paper delivered by the World Bank in 1984, called; 'Housing and Financial Institutions in Developing Countries', through the Vienna recommendation in 1986, to the United Nations Strategy for Shelter to the year 2000 in 1988. In 1991 two papers were delivered, the World Bank paper 'Urban Policy and Economic Development: an agenda for the 1990's', which placed emphasis on the economic role of cities and the United Nations Development Programme strategy paper called; 'Cities People and Poverty'. The latest document of importance is the World Bank Sector Paper 'Housing: Enabling Markets to Work', published in September 1992.

This paper examines the evolution and the current trends of these strategies and their impact on the urban poor. It looks particularly at the prospects for the future based on current World Bank housing policy. It also recognises the importance of these current strategies in influencing the current policies of developing countries and the faith that is placed in them. Thus it attempts to look to the future while analysing the past. For this purpose, Colombia is used as a case study to demonstrate that even though the country has been an active innovator and has closely followed the trend of internationally recommended housing policies since the

1970's, it has not managed to solve its housing problems.

The World Bank's approach to housing and urban development has been changing over the course of the last twenty years. During the ten years (1970-80) the Bank's strategy concentrated on lending for individual projects. This was followed by a decade which saw the Bank changing its focus to housing finance development and looking for more participation in the housing sector's operations. Since 1990, the Bank has developed a policy which aims to "enable markets to work". This emphasises the need to look at the housing sector as a free market, in a macro-economic context.

The World Bank Housing Sector Policy Paper of 1993 is arguably one of the most important documents concerning housing problems in the developing world, if only because of the enormous influence which the Bank itself exerts. As with the UN Global Shelter Strategy, it focuses on the "enabling" role of governments for the housing sector as a whole.

The Bank's paper emphasises the impact of the housing sector on the broader economy, and suggests that the sector generates employment, increases investment and therefore creates fiscal and financial sector enrichment and improvement. The paper has not, however, addressed itself adequately to the primary issue of housing the poor.

In examining these issues with respect to Colombia, this paper is divided into three main sections:

Section 1 examines the evolution of world trends in housing and the relevant policies, expectations and proposals. It then studies current world trends in shelter strategies including the United Nations proposal 'Global Strategy for Shelter to the Year 2000' and its approach to solving the housing problems of the poor. Emphasis will be placed on examining the World Bank's most recent housing policy paper's proposals and the role of the participants in the process. Finally some considerations are drawn from the point of view of the poor.

Three main issues have been identified: 1) the role of the housing sector in macro-economic policies; 2) the power of decision-makers and the role of the different parties in the decision making process and; 3) the finance system and its limitations. These issues form the core and basis for the analysis of the Colombian housing sector.

This section will question whether an efficient housing market can, by itself, solve the problems of the poor and whether formal supply would be acceptable for all parties in the housing process. However, the Bank suggests that in a free market economy, where there is demand there will be supply to provide for all levels of the population.

Section 2 provides an in-depth analysis of the housing sector in Colombia according to the issues identified in the first section. It studies the relationship of macro-economic and sectoral policies on the economy, the development of policies inherited from previous governments and their main strategies in providing shelter for the poor. It also examines the role of governments and of the private formal and informal sectors in the production and finance of housing for the lower income groups of the population.

According to issues identified from the current World Bank housing strategy in the previous section this section studies, firstly, the proposed participation of the housing sector in formulating macro-economic policy and its potential performance in the free market economy. The case of Colombia is relevant as a similar strategy was adopted in 1970 with limited benefits for the poor. This section therefore examines the role of the Colombian housing sector policies on the national economy and on social development during the last two decades and compares them with those policies which the World Bank is currently advocating. It also assesses the consequences of those responses for the poor.

Secondly, it discusses the question of who holds the power of decision-making and what the roles of the different parties involved are. It is therefore necessary to study what the role of government, institutions and markets should be, according to the World Bank policy paper, and to compare it to the past and to the current Colombian government's role in housing.

The issue of finance is also discussed. The importance of this issue rests on the possibility of the poor having access to housing. This section examines the role of the public, private and informal sectors in the finance of housing. However, many questions remain unanswered, such as the ability of markets to maintain their profit margins while providing housing for households with low, uncertain and irregular incomes.

Finally, Section 3 offers a speculative evaluation of the possible implications of the new policies on the urban poor by looking at past strategies and their effect on the sector and in particular their implications on the provision and finance of housing for the poor in Colombia. It questions whether an efficient market can solve the problems of the poor and whether such formal supply would be acceptable to all relevant parties. 'Acceptable' standards for the formal sector have

generally been much more costly than the ones provided by the informal sector, which at the same time have been the only option for low income groups in gaining access to housing. It is therefore important to question the ability of formal markets to produce low cost housing at a reasonable profit margin and to ask who will be responsible for any inability of formal markets to improve housing provision and address the social problems they entail?

## **2. THE EVOLUTION OF SHELTER STRATEGIES AND THE IDENTIFICATION OF CURRENT TRENDS**

### **2.1 Introduction**

The Vancouver action plan in 1976 introduced the importance of the informal sector's role in improving existing settlements. It also recognised the need for realistic standards and for an improvement in the public sector's role. However these needs were not seriously addressed and only individual projects which failed to incorporate the interrelationship of other key issues were realised with no positive visible effects on the sector or on the economy as a whole.

The problem of the urban poor continued to increase and the 1975 World Bank paper focused its attention on poverty alleviation. The result of this policy was a series of 'Site and Services' and 'Self-help' housing programmes. In 1984 the 'Housing and Financial Institutions in Developing Countries' policy document was published by the World Bank. This emphasised the need for developing countries governments to "encourage financial innovation in the provision of housing finance to households on a financially viable basis" (as far as the upper level of the informal sector) and "to develop specific programmes for the lower income households who could still contemplate some form of house ownership with the major focus centred on urban infrastructure and services" (World Bank 1984).

These issues were taken over by the Vienna recommendations in 1986. Key words like 'enabling environments', 'co-operation', 'efficacy' and 'financial sustainability' emerged. The role of governments was to change from housing provider to policy 'enabler' in order to incorporate shelter as an integral part of the national macro-economic plans. Urban development and housing finance were emphasised in a framework which placed the private sector on the stage as the main actor with respect to the housing agenda with the need to develop innovative housing-finance institutions.

A further development of the enabling approach was presented by the general assembly of the United Nations

in 1988 with the launch of "The Global Strategy for Shelter to the Year 2000". This was intended to close the International Year of Shelter for the homeless in 1987 with a long-term implementation-oriented effort. This came in the wake of world recognition of the principle that adequate shelter was a basic human right. The UNCHS promotes enabling strategies for mobilising human and financial resources and marshals the input of local authorities, community groups and other NGOs in the development of housing, sanitation and other projects.

In order to respond to this obligation, the Global Strategy for Shelter called for a change in shelter policies. It encouraged an "enabling approach" to be

adopted which was to be applied at national and international level.

The 'enabling' approach meant that shelter strategies were to become self-sustainable, and therefore that all participants involved in the process should interact, co-ordinate, re-organise and revise their roles towards the new approach. The role of communities in the decision making process was emphasised so that they could determine their own set of priorities and the pace and extent of the development process.

At national level, the government's role became oriented towards policy-making and institutional support, which was aimed at concentrating on the highest priority needs, while the private sector played a leading role. The need for clear and "measurable" objectives was emphasised, together with the need for a gradual re-organisation of the housing sector, a better distribution of financial resources and improvements in the provision of land and infrastructure. International intervention was considered to be fundamental after governmental recognition of the need for changing policies, so that each agency's programmes would be congruent with national strategies and in accordance with the Global Strategy for Shelter. International agencies were asked to re-evaluate their strategies on urban issues.

In 1991, the World Bank crystallised and defined the new orthodoxy on the urban sector. This "combined both the emphasis on the economically productive role of cities and the style of assistance relating to governments as facilitators rather than providers" (Harris, 1992, Introduction). The main priorities then were ameliorating poverty and protecting and improving the environment. This strategy was followed by the United Nations Development Programme with its paper "Cities, People and Poverty: Urban development co-operation for the 1990's" (Harris, 1992). This paper further emphasised the role of aid assistance on attending countries' governments' priorities. It also stressed the importance of the social and human dimension of economic development.

The new paradigm of the important role of the housing sector on the macro-economic environment forms the basis of the World Bank Housing Sector Policy Paper.

## **2.2 The World Bank Housing Sector Policy Paper 'Housing: Enabling Markets To Work'**

The purpose of this section is not to provide a detailed analysis of what the World Bank is advocating but to raise some questions of deeper significance. These questions relate in particular to the consequences and effects those policies may have on the availability, affordability and quality of the housing provision for the poor.

## **Macro-economic Policies.**

The latest World Bank housing sector policy paper as well as the Global Strategy for Shelter to the Year 2000 focuses on the 'enabling' role of governments. The importance of governments changing their former role as the providers of finished houses to adopting an 'enabling' managing role of the housing sector as a whole is emphasised throughout the paper.

This chapter will study the background policies that gave birth to the latest housing policy. It will examine the instruments the World Bank proposes to apply to the process they term 'enabling housing policy', its future role and the principles used for the assessment in the housing sector. The analysis of the paper will be carried out with particular emphasis on benefiting the poor in the short and long term. Therefore, it recognises the need for structural measurements for well functioning housing markets.

### **a. Background**

The World Bank has been evolving its role in the housing sector during the last two decades. Its lending policy for finished and particular projects such as site and services is recognised to have failed because it did not achieve full cost recovery from beneficiaries which meant that subsidies had to be provided with no chance of replicability. It was in 1980 that the Bank shifted its role to housing-finance projects in order to support 'the financial, fiscal and housing sector concerns', which, as they stated in their paper, led to an increase in the scope and leverage of the Bank's group-operations in the housing sector.

The Bank's reasons for changing its approach is a result of the following realities learned over the lending years:

1. Project success depended on the market's overall distortion in the housing sector and the economy.
2. The informal housing sector had an important role in the provision and improvement of housing and, according to the Bank, this sector is "the most likely to benefit from enabling strategies".
3. The Bank's projects were usually small scale which did not have an effect on the housing sector as a whole.
4. The government's role was focused on individual projects instead of co-ordinating the whole housing sector.

For these reasons, the Bank decided to shift its policies to encourage broad institutional reform making regulatory changes and encouraging new trends in lending.

### **b. The Housing Sector as a Fundamental part of**

The active role of the construction sector in macro-economic policies has been the main issue in the new policy. Developing countries generally invest between 1% and 3% of their resources in housing while in advanced countries investment in the construction industry is between 3% and 6%, which statistically is generally the same amount as is invested in other industries. (World Bank, 1992). Investment in the housing sector is also advocated by the Bank because of its durability, adaptability and relatively low maintenance costs. This makes it an investment with potential for long and stable flows of housing services.

However, one of the most important reasons for supporting the housing sector is the effect of a distorted housing market on the macro-economic performance. Housing market distortion is followed by under-investment, a decrease in personal savings, an increase in interest rates, inflation, unemployment and particularly important in the developing world, imbalances of payments. Although the need for recognising the importance of supporting and encouraging the construction sector has been recognised by many developing countries, few questions have been asked about its implications upon the poor who create the biggest demand for houses in many developing countries. The World Bank's paper implies that with free markets there will be supply to meet the demand; However, this paper will argue that at least in the case of Colombia the solution is not as simple as that.

The Bank places special consideration on the factors that affect the housing sector. These are: the government's attitude towards the provision of infrastructure, regulation of land and housing development, organisation of the construction and materials industry, and the involvement of the public sector in the production of houses and the way it responds to shifts in demand. On the issue of housing finance the paper emphasises the importance of security of tenure so that this can be used as collateral in securing loans and as an asset. However, the bank does not specify how this 'enabling' role will materialise, where the capital comes from and what the incentives are for all parties.

### **c. Enabling the Housing Market to Work**

When questioning how to achieve a "well functioning market" the role of the government is fundamental as an organiser, regulator and supporter. The paper gives a series of guidelines and instruments for the demand and supply side to be supported by governments. Moreover the "model" identifies a slightly different kind of approach for lower-income countries, highly-indebted middle-income countries, formerly centrally-planned countries and prosperous middle income countries.

### i) The Demand side Strategies

On the Demand side there are three main "instruments" to be implemented. The first is the development of property rights through programmes of land-registration, infrastructure improvements, and the transfer of public-owned land tenure to residents to allow them to be used as collateral for housing finance and to encourage investment in housing. However, when considering legality, titling implies the imposition by central governments of related taxes and surcharges. This does not appeal to informal households who already enjoy relative security.

The second main instrument suggested for improvements on the demand side is the development of a mortgage finance system. The formal housing finance system has not traditionally been easily accessed by the poor because of the high risk that they represent to the lenders. The instruments proposed to improve the functioning of the finance systems are therefore contradictory and do not alleviate the plight of the poor.

On the one hand the paper encourages the finance institutions to lend at positive rates to avoid interest-rate subsidies. In order to protect the institutions interests it suggests that households provide personal or group guarantees plus the provision of land or housing as collateral, which one would argue is an almost impossible demand for the lowest income groups.

On the other hand the paper encourages finance institutions to find innovative arrangements for providing housing finance for the poor such as mutual guarantees and flexible payment schedules collected at source or with more frequency. It also encourages small-scale institutions to work at the demand-rhythm and to lend at competitive rates to the "appropriate borrowers". However in the case of many developing countries the demand for cheap housing is so great that few small scale institutions could manage to supply the demand. The institutes are also encouraged to rely on high levels of supervision and to adopt informal finance systems through the use of short term loans to "savings clubs". Finally, it suggests that institutions should be regulated to encourage them to lend to all income groups.

Indexation and variable interest-rates have been recommended for countries prone to inflation. Although Colombia's indexation system is shown as a good example of an alternative approach to financing housing, it will be seen later that although it improved the construction sector overall, the benefits went to the middle and high income levels of the population.<sup>ii</sup>

The government's role in the financial system is restricted to removing bureaucratic impediments, to reducing risk by giving title to property, to strengthening

foreclosure and "ensuring that institutions make prudent investment" (World Bank Policy Paper, p.20, 1993). Once again in the case of the poor, one can question the logic of this by asking if it is profitable to invest in something very cheap with uncertain repayment.

The third main instrument used is the rationalisation of subsidies thereby ensuring that the programmes are appropriate, at an affordable scale, well targeted, measurable and transparent. Unfortunately leakage and off-budget subsidies have been common in many countries. Subsidies, 'if necessary', are proposed to be drawn as a single loan, which according to the Bank is better for tenure, regularisation programs and land development infrastructure. However the benefit to the poor is questionable if they are going to be charged the market value of the land.

### ii) The Supply Side Strategies

On the supply side there are four instruments proposed in which governments play very important roles. Provision of infrastructure is described to be limited firstly by the government's unwillingness to provide services, as it does not produce foreign exchange which is very important in developing countries with large debts and imbalance of payments ; secondly, by large projects requiring large amounts of money and time; and thirdly, by the low cost-recovery mechanisms used by infrastructure agencies. With the intention of solving the lack of provision of basic infrastructure it is proposed that institutions co-ordinate infrastructure agencies towards land development, while governments should aim to privatise the agencies, co-ordinate physical planning and budgeting and promote land re-adjustment.

The guidelines for solving the problems of the poor are: to gradually improve the quality of housing simultaneously with the acquisition of tenure rights and to leave the provision for the poor to the private sector. The paper states that cost recovery is difficult unless it matches the demand. Nonetheless, it remains to be seen if the private sector will participate in the provision of housing if the demand, due to its cost has to be below environmental standards.

The Bank suggests regulating land and housing developments to respond to the shortage of supply by, (a) establishing legally affordable standards that do not compromise health and safety and by, (b) protecting the environment "by allowing large areas of agricultural land in the urban fringe to be utilised so as not to restrict supply<sup>iii</sup> which means changing planning and zoning strategies for the cities. This is an important issue for discussion because of the difficulty in finding a compromise between affordable and acceptable standards of living.

The third instrument recommended is the organisation of the building industry in order to avoid limited monopolies, to encourage competition in the market-place and to increase production and variety. It is proposed to allow small firms to enter into the industry, to reduce import controls, to reduce legislation barriers and in some cases for the government to promote related research.

The last instrument and perhaps the most important one from the point of view of power of decision-making is the support of a housing institution frame work to manage the sector as a whole. The Bank states that public-housing institutions are not working and that the entry of the private sector on the supply side is fundamental for positive change in this regard.

Governments are encouraged to assume a new role of ensuring that the housing sector works and to produce affordable housing for all (World Bank 1993:87) The paper advises the creation of a "central institution" with authority to issue guidelines and regulations, to bring together all the influencing agencies and to generate a broad housing policy in consultation with NGO's, the private sector and the general public involved in housing policies formulation. The objectives of these central institutions are to obtain, analyse and publish data of the market's performance.

The paper also proposes to establish local institutions as branches of the central institution. However, the local institutions' authority can be overwritten by the central institution (Ibid:87). The most questionable issue in the new role of this central institute is that on the one hand the bank proposes decentralisation and, on the other hand, the decision-making power (regulations) is centralised in the institution. The experience of central offices in many countries and certainly in Colombia has involved many employees working without co-ordination and becoming so bureaucratic that the institute payroll became a burden thereby dissipating enormously the institute resources and investments.<sup>iv</sup>

Finally, the table on the next page shows a summary of the recommendations that enable housing markets to work. However this paper argues that there are geographical, cultural, social and economic factors that effect a market's performance. Therefore, although the following recommendations proposed by the Bank are good guidelines, they can not be applied in isolation from the respective country's characteristics.

#### **d. The Role of the World Bank**

The importance in mentioning the role of the World Bank in this paper is that, as has been stated in the introduction, the Bank and Colombia have had, and will continue to have, a strong relationship throughout the second half of this century. Therefore, following the

recommendations of the Bank is a condition for future lending.

The Bank's new main objectives are focused on assisting governments to view the housing sector as a whole, understanding the critical role of macro-economic performance, and transforming the role of the government to that of 'enabler'. Another important objective for the Bank is to maintain a high level of innovation in measuring and monitoring the housing sector's performance.

As noted above, the Bank's focus has shifted from sites and services, through Housing-finance Development to Housing-Policy Development-loans as an evolutionary process that has responded to experience, as stated at the beginning of this chapter.<sup>v</sup> The Bank suggests that most of its future urban investment will be towards the aim of their recent housing paper and, in order to be effective, "loans should contain explicit conditionality regarding

## THE DO'S AND DON'TS IN ENABLING MARKETS TO WORK

INSTRUMENTS	DO	DON'T
Developing Property rights	<ul style="list-style-type: none"> <li>+ Regularise land tenure</li> <li>+ Expand land registration</li> <li>+ Privatised public housing stock</li> <li>+ Establish property taxation</li> </ul>	<ul style="list-style-type: none"> <li>- Institute costly titling system</li> <li>- Engage in mass eviction</li> <li>- Nationalise land</li> <li>- Discourage land transactions</li> </ul>
Developing mortgage finance	<ul style="list-style-type: none"> <li>+ Allow private sector to lend</li> <li>+ Lend at positive market rates</li> <li>+ Enforce foreclosure laws</li> <li>+ Ensure prudential regulation</li> <li>+ Introduce better loan instruments</li> </ul>	<ul style="list-style-type: none"> <li>- Allow interest-rate subsidies</li> <li>- Discriminate against rental housing investment</li> <li>- Neglect resource mobilisation</li> <li>- Allow high default rates</li> </ul>
Rationalising subsidies	<ul style="list-style-type: none"> <li>+ Make subsidies transparent</li> <li>+ Target subsidies to the poor</li> <li>+ Subsidise people not houses</li> <li>+ Subject subsidies to review</li> </ul>	<ul style="list-style-type: none"> <li>- Build subsidised public housing</li> <li>- Allow for hidden subsidies</li> <li>- Let subsidies distort prices</li> <li>- Use rent control as a subsidy</li> </ul>
Providing infrastructure	<ul style="list-style-type: none"> <li>+ Co-ordinate land development</li> <li>+ Emphasise cost recovery</li> <li>+ Base provision on demand</li> <li>+ Improve slum infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>- Allow bias against infrastructure investment</li> <li>- Use environmental concerns as reasons for slum clearance</li> </ul>
Regulating land & housing development	<ul style="list-style-type: none"> <li>+ Reduce regulatory complexity</li> <li>+ Assess cost of regulation</li> <li>+ Remove price distortions</li> <li>+ Remove artificial shortages</li> </ul>	<ul style="list-style-type: none"> <li>- Impose unaffordable standards</li> <li>- Maintain unenforceable rules</li> <li>- Design project without link to regulatory/ institutional reform</li> </ul>
Organising the building industry	<ul style="list-style-type: none"> <li>+ Eliminate monopoly practices</li> <li>+ Encourage small-firm entry</li> <li>+ Reduce import controls</li> <li>+ Support building research</li> </ul>	<ul style="list-style-type: none"> <li>- Allow long permit delays</li> <li>- Institute regulations inhibiting competition</li> <li>- Continue public monopolies</li> </ul>
Developing a policy & Institutional framework	<ul style="list-style-type: none"> <li>+ Balance public/ private sector roles</li> <li>+ Create a forum for managing the housing sector as a whole</li> <li>+ Develop enabling strategies</li> <li>+ Monitor sector performance</li> </ul>	<ul style="list-style-type: none"> <li>- Engage in direct public housing delivery</li> <li>- Neglect local government role</li> <li>- Retain financially unsustainable institutions</li> </ul>

Source: World Bank Housing Policy Paper. September 1992

broader institutional and regulatory objectives." (World Bank 1992:29)

The Bank's loans are focused on the institutions responsible for bringing together all major public agencies, for accelerating the development of property rights, for controlling the housing-finance delivery, for administering subsidies, for the provision of infrastructure in slums and squatter settlements, for bringing together infrastructure agencies and for reviewing the impact of regulations on the sector's performance.

In addition to its lending role the Bank "will seek to assist developing countries with research in the housing sector". However one must not remain without questioning the latter assistance as suggested by David Sims, 1993, "the intellectual capital can be very costly"<sup>vi</sup> The research programmes are proposed to be carried out by central institutes at national and regional level. This is certainly very important for policy-making, however, the questions are: who does the research and are they aware of the country's culture and its idiosyncrasies; how accurate are they and how many people and institutions are doing the same work and how much does it cost in relation to what is achieved?

The complexity of macro-economic policies, the role of the housing sector, governments and institutions and the financial policies are not independent of cultural and chronological development of the individual countries in order to evaluate their possibilities and complexity. In response to this, section 3 will examine these issues in the context of Colombia.

### **2.3 Some Considerations from the Point of View of the Poor**

The previous section has looked at the evolution of world housing strategies and has focused on the latest world Bank housing policy paper which, as has been mentioned before, is potentially one of the most influential papers on housing strategies in developing countries.

It has already been mentioned that there are three main points identified from the Bank's paper.

1. The given importance of the housing sector on macro-economic policies and its market-oriented approach;
2. The new "enabling" role given to governments and institutions, placing the responsibility for housing provision on the private sector; and
3. The liberalisation of the financial sector and its functions.

It is important to emphasise again that the concern of the following considerations is the impact of those World Bank policies on the very poor. Undoubtedly, well-functioning housing-markets will improve the performance of macro-economic policies and of the housing sector as a whole. However, this paper questions the capacity of free markets alone to solve the housing problems of the poor.

Housing shelter strategies have been transferred from the social domain to the economic domain, relying on well-functioning markets and their major role in macro-economic policies. This change of focus transfers the responsibility for housing production to the private sector. Whether they can provide cheap housing for the poor remains to be seen.

The World Bank suggests that the liberalisation of the financial sector and the privatisation of the housing sector (in conjunction with public enterprises) are necessary, in order to introduce the housing sector into macro-economic planning. Nevertheless it could be argued that a housing solution which has to be sold cheaply and which has uncertain repayment and return is not attractive to the private sector, which generally seeks profit, reductions in costs and market competition. Furthermore, for private financial institutions the transaction and administration costs (checking employment, income, social security records, etc.) involved in processing low-income loans can be very high for little return.

The importance of this policy paper is evident if we consider that many World Bank borrowers will be applying these strategies to their national development and housing policies and that the majority of the housing "deficit" in developing countries is located in the lowest income levels of the population. Therefore it is important to question whether there is any evidence of success with the free-market housing approach, or will this be another failure, as was the Direct Project approach (individual projects for individual problems) or Sites and Services (provision of a plot with services to allow for self-built housing). With these policies very few people benefited and those who did were generally higher income families rather than those most in need.

The United States government's approach to housing changed from providing federal aid for public housing in 1968 to minimal federal involvement (which included the enabling role and privatisation) in housing during the Reagan administration in the 1980's.<sup>vii</sup> This particular is one of the issues that the World Bank is advocating today for developing countries. However, it has been said that "The combination of declining housing assistance and a shrinking social wage weakened the low-income group's ability to obtain adequate shelter" (Marshall, Richard, 1990:42).

Moreover, the number of homeless during the Reagan administration increased by 250,000-3 million (the difference in numbers was due to calculating problems; however, it did increase with privatisation and the enabling approach). It is also emphasised that, although on a different basis than in developing countries, "western countries privatisation policies also appear to engender a greater role for the family in housing provision and for the non-profit sector in urban development more generally" (Ibid., Willem van Vliet in "Privatisation and decentralisation of housing" quotes Forrest in 1988; and Tosi in 1989). That is not to say that formal markets do not work, but that the lowest income sectors of the population are often left on the periphery not only with regard to issues of housing but with health, education and employment. Furthermore, placing so much faith in one course of action limits the opportunity for success, and indeed ultimately stifles innovation in non-market housing provision.

In view of this, it is important to clarify that housing and housing finance do not operate in isolation, but depend upon many other factors. For instance, variations in productivity, profit, inflation, labour markets, real earnings, social issues, political orientations, recessions and booms can worsen or strengthen the existing conditions in all sectors of the economy. In addition, an urban centre's relative success or failure is not easy to evaluate, as it does not depend only on economics. Other issues, like culture, geography and climate are very important for the development of policies in the sector. However, credit and assistance from international agencies depends on how well countries are adopting the market principles which can be affected by many of the factors mentioned above.

Unquestionably the need for restructuring the housing sector is fundamental. The issues addressed at project level are by no means as influential as those at structural institutional level. For instance issues of deep social scope like land-reform cannot be solved by individual projects or by regulating the market, but require fundamental and basic intervention at institutional level.

With respect to the financial sector the Bank recognises that the informal sector has a significant contribution to make. Therefore the informal sector should be encouraged to contribute to economic growth with public revenue rather than being "a drain on limited public resources" (World Bank Policy, 1992). However, this paper argues that in many developing countries the informal sector has been the only option for the lowest income groups, and that one of the reasons that it works at affordable prices is because of its illegal condition. In other words, legality increases the value, and therefore, formalising the informal makes it unaffordable. (Payne 1993). Another important point with respect to the informal sector is that with formalisation, the creation of property rights will mean having to pay taxes, which

therefore does not appeal to people that already have relatively secure tenure. (Bulldozing policies have ceased).

The next consideration is, who has the responsibility and the power when faced with solving the problem of the poor with a market approach? Well-functioning housing markets can be limited by many factors; these include: underdeveloped mortgage banks, inefficient real estate agencies, insufficient funds for loans and limited private capital. There is also a need for efficient technical and professional resources which have the ability to move quickly to respond to market conditions. In addition, institutions will have to consider involving the new young professionals, trained for today's market, to avoid stagnation.

It is also important to consider that the government's 'enabling' role market, without political motivation or intervention, can limit the implementation of policies, in which case no body is responsible for the provision of housing for the poor. Moreover, the Bank is advocating the abolition of subsidies or that they be maintained while the housing sector is in structural reform for social safety. Obviously the abolition of subsidies can represent a big reduction in national expenditure, but it can also reduce the possibility of the very poor in acquiring houses in open markets and therefore cause growth in poverty adding to the numbers of dispossessed. We can only speculate on the consequences; either the markets produce enough affordable housing to absorb the lowest income sector demand, or the informal housing provision increases. In that case, the question is, who will be responsible for the social and environmental effects if the policies encourage the abrogation of responsibilities and duties of the government and state.

The World Bank and the United Nations are supporting measurement programmes (collecting and analysing housing data) to assess the housing sectors performance and to formulate further policies. This paper does not argue that this is not necessary, but yet it questions the reliability of the information being obtained, and the cost of the people involved in this research and its applicability in countries where there is wide-scale corruption and where each new administration starts the policy from scratch, with new plans, limiting the philosophy of long-term solutions.

The final consideration to be made is that a single approach to solve the housing problems can be risky and, even more so, when there are no responsibilities and there is always a danger that strategies are not implemented.

### **3. AN ANALYSIS OF THE COLOMBIAN HOUSING SECTOR**

The scope of this section is not to cover in detail all the factors that influence the Colombian housing sector but to concentrate on those important issues that are directly related to the new World Bank strategies. It is also important to emphasise that the housing problem in Colombia is not homogeneous, the problems are different in rural areas and they vary from city to city. However in this paper only the urban problem of big cities is analysed.

### 3.1 The Dimension of the Problem

Colombia has been passing through a very rapid urbanisation process during the second half of this century, The urban population has increased eight fold, from 2.5 million in 1938 to almost 20 million in 1985.<sup>viii</sup>

This process of accelerated growth has created a huge increase in housing demand in urban areas which has not been satisfactorily resolved by the current government; its predecessors or their policies. This has had deep social consequences which has led governments to change their traditional housing policies and to experiment with innovative housing strategies for the poor. Although the general economic performance indicators in Colombia register growth<sup>ix</sup> this contrasts with the social indicators, where a third of the population i.e. 33% of the total households (1,700,000 households ) lack adequate living conditions in their homes.<sup>x</sup>

Colombia's housing problems with respect to the lowest income sectors are of a varied nature; however, statistics (although no always reliable) can show the extent of the problem. There are two ways of measuring poverty in Colombia - by income and by unsatisfied basic need.<sup>xi</sup> "Of the total Colombian population in 1985 (27,575,023); 45.6% i.e. (12,561,139 inhabitants) have unsatisfied basic needs (UNB) and are therefore classified as poor (Utria quotes *La pobreza en Colombia* Vol. II DNP, PNUD, UNICEF, DANE, Bogota 1988.<sup>xii</sup> Of almost 6 million (47.7% of the UBN total) 64% live in cities of more than 40,000 inhabitants.

The extent of the urban poverty is exposed in a study done by Utria stating that 22.7% of the homes in large cities are poor or suffer from unsatisfied basic needs and 7.3% live in misery. "In fact among the homes affected by overcrowding, lack of services and poor quality shelter, 340,199 (35.14%) earn less than one minimum salary (ms); 244,093 (25.21%) earn between 1 and 2 ms; 128,747 (13.30%) earn between 2 and 3 ms, and 175,881 (18.16%) earn between 3 and 5 ms. (Utria quotes *Informe del departamento de investigaciones economicas*. Bogota 1990, CAMACOL).

These figures demonstrate that very few families with this income level can have access to formal market housing. Since the minimum price of a serviced site is 45

ms which requires a household income of 2.1 ms. Furthermore a minimum finished core house costs 115 ms requiring 5 ms per household. (Ibid. page 33, 1989) this is reinforced by the DANE figure of 56.0% of urban households earning less than 2.5 ms which is the same cost of the monthly household food basket. It can be deduced from these figures that approximately 67% of the urban poor cannot even afford the basic monthly bread basket. Moreover, apart from the denominated "housing deficit", natural growth and migration movement is estimated to increase the demand to 100,000 new houses a year. (DNP, 1990).

The reasons for and evolution of the housing sector problems or limitations for low-income families to have access to housing can be simplified in the following five points:

- 1.The difficulties encountered by low income groups in acquiring formal credit, the insufficient provision of serviced land and the difficulties of land regulations. For instance, families with income instability (less than four minimum salaries a month or \$113.00, 00 Colombian pesos in November 1992) and low-saving capacity do not earn enough to provide guarantees to the formal financing system and are therefore unable to participate in long-term borrowing.
- 2.The insecurity of tenure prevents them from securing guarantees and loans for improvement.
- 3.Savings and housing corporations have been reluctant to lend to households with incomes below four minimum salaries, even though it is obligatory for the institutions to attend to this level of demand. Many of them prefer to pay the fine or to finance the highest of each compulsory level, thus creating a disincentive for the private construction of low-income housing.
- 4.The low income housing offered by the state did not meet demands and some of its resources got distracted to financing other income levels that could have been accessed through the formal market.
- 5.The withholding of urban sites from the market in order to increase their value speculatively.

One of the results of these limitations has been the development of land invasions and 'pirate urbanisation'. These type of settlements are generally located in risk areas at the margins of the municipal norms, without services or construction permits yet they represent the only realistic buying option for low-income families.

Cities have grown outside the urban planning norms. It is estimated that in the last two decades almost 40% of

construction was realised informally outside the urban basic services perimeter. It has been proved that the cost of providing services is much higher after settlements are consolidated. Despite all the social and physical disadvantages pirate urbanisation has been favourable for a large part of the population. The illegal status is reflected in the price and in its repayment flexibility, making it an accessible solution for low income families.

For many decades the state had been transferring national resources through non recoverable subsidies. However it has been demonstrated that only 15% of those subsidies have reached the poor (earning less than 2ms) whereas higher incomes and well "connected" people were the main beneficiaries.<sup>xiii</sup>

The current national development plan blames over centralisation of public activities; the lack of encouragement to the private sector; and the government's inefficient role in the production and financing of housing for the existing housing problems.

### **3.2 Macro-economic and Housing Sector Policies and Strategies**

This section analyses and identifies the success or failure of macro-economic and housing policies in Colombia during the last two decades. In particular it examines the provision of shelter for the poor. In order to focus on the objective of this section it is considered necessary to study in detail some administrations policies that are either similar or completely opposite to the current recommended World Bank policies and to provide a framework for the evolution of the policies and their effects.

#### **a. Background up to 1982**

When studying the Colombian policies it is important to mention the 'National Front coalition' pact of 1958. Under this agreement Colombia's government was shared alternatively between the conservative and liberal parties for sixteen years. It also implied sharing on an equal basis public sector positions.

In the period from 1952 to 1973 Colombia reached the maximum level of population growth in its main urban centres. According to Dane population census the rural and urban population distribution changed from 61.1% and 38.9% in 1951 to 36.4% and 63.6 % respectively. (CINEP, 'La vivienda Popular hoy en Colombia', p. 194)

This accelerated growth aggravated the housing and social services problems in the main cities. At the beginning of the sixties the government tried to address the problems encountered with emergency measures recommended by the 'Alliance of progress'.<sup>xiv</sup> Those measures included self-build, communal action

organisations for the provision and improvement of housing conditions. Nonetheless, in spite of these measures, cities and communities continued to grow faster than the construction of low cost housing.

According to CENAC's calculations (Centro Nacional de la Construcción) the housing demand not met has been increasing by 27,000 annually of which 71.7% corresponds to low-income levels, even though they account for 50% of the population in major urban centres. These figures demonstrate that neither the government's capital nor private capital has been invested sufficiently in this level. Investment was limited to concrete projects aimed at benefiting selected groups and mechanisms to concentrate savings on the housing market did not exist.

The government's housing policies have been characterised by the provision of heavy subsidies since the 1950's although these only benefited a small proportion of the population. Housing policies in Colombia have usually been characterised by sporadic government efforts.

In contrast to other countries in South America with similar development patterns, Colombia does not have a ministry responsible for housing, construction or human settlement. The 'Consejo Nacional de Política Económica', the Ministry of Economic Development, the National Planning Department (DNP) and the monetary committee are the entities in charge of but not specialised in the planning and definition of housing policies.

As mentioned before, increases in the rate of construction were always slower than the population growth rate, which necessarily increased the number of homeless families in urban centres. This fact obliged the government to react by creating institutions like the Central Mortgage Bank (1932), the Territorial Credit Institute (1938), the National Savings Fund (1968), and the National Planning Department in the public sector. The role of these institutions and their evolution will be discussed later on in this section.

When analysing the evolution of housing policies in Colombia it is necessary to start with the Pastrana Borrero administration (1970-1974) whose "Las Cuatro Estrategias" national development plan considered for the first time urban and construction development as a 'primer' strategy towards creating macro-economic development. It is important to discuss the policies of this period and their effects on the poor in greater depth as the general policy has many similar characteristics to that which the current World Bank housing strategies are advocating.

The accelerated change of urban areas discussed above produced a growing demand for accommodation and a

concentration of investment in urban areas and urban land property. The basis for the formulation of the construction sector as a 'generator' of economic development strategy was founded on the following reasoning:

The construction sector participation in the GDP increased from 1.2% of the total urban development in 1969 to 2.4% in 1970. ('Cuatro estrategias' Development plan). Two main points were deduced from those figures. Firstly, the effect on employment was encouraging as it registered an increase in employment in the transport and manufactured goods sectors from 3.5% in 1951 to 4.7% in 1970. Secondly, these figures did not allow for illegal low income housing which accounted for 40% of built houses (DNP, 1970).

The "Cuatro Estrategias" policy for low income housing was limited to supporting and organising the self-built process. It was justified by its adaptability to low-income conditions and by stating that government social housing programmes could not produce results with the traditional type of financing because of its incapacity to collect and organise the demand resources.

The role of the public sector shifted from direct action to support for the existing illegal housing process by giving them tenure, services, and other facilities instead of bulldozing them as it used to before 1960.<sup>xv</sup> This coincided with what professional international philosophy was promoting at the time. Turner, Mangin, E. and Leeds, M. publicised the notion that squatter settlements in developing countries should not be viewed as a problem but as a solution and that they were "slums of hope" not "slums of despair" like USA central cities.<sup>xvi</sup>

It was in 1972 that the 'normas minimas' decree was introduced (updated in 1979) as an answer to informal development. It consisted in the lowering of standards to facilitate the entry of low-income areas into the formal sector. However, very few 'normas minimas' projects were approved. Up to 1983 only eight or nine planning permissions were granted per year, while the so called 'pirate' urbanisation (subdivision of land without authorisation) continued to increase. For instance, according to the DNP the 'pirate market' in Bogota between 1969 and 1985 constituted 56.4% of the low income settlements. (This will be discussed more deeply in the role of the informal sector.)

From the market point of view, the increase in demand for housing reached a total of 445,000 houses in 1973. Even though there was an increase in the number of housing units built, the shortfall of housing continued to grow up to a figure of 1,000,000 in 1985. (CINEP, 'La Vivienda Popular Hoy en Colombia' p. 202).

Since 1970 the construction of housing and infrastructure has been one of the most important issues of development plans although with different purposes and with different results. The effects of these policies and their development will be summarised after the description of the housing sector actors in the process and the financial system at the end of this section.

During this period the housing construction sector experienced its greatest boom, with the inauguration of the real constant value savings system (UPAC) and its savings and mortgage corporations (Utria 1989). It underwent an important process of housing production during that time. However the market had concentrated on the middle and high income strata of the population.

The following two administrations did not produce any significant policies therefore only the main general policy will be mentioned. The Lopez Michelsen administration (1974-1978) through its National Plan 'Para Cerrar la Brecha' (To close the gap) established the idea of cities in the cities as forms of integral urban developments. It was around this time that the first major conference on human settlement and shelter problems took place in Vancouver (1976). This put the shelter problems of the poor on the international agenda. The outcome of this meeting placed emphasis on the project approach from the public sector. Programmes like Sites and Services and Self Help Housing were promoted.

The Turbay Ayala administration (1978-1982) with its plan of 'National Integration' strengthened investment in basic infrastructure and took measures to encourage decentralisation, giving more power to regional and local institutions. During this administration with its decentralisation policy, investment was concentrated in other social areas like health, education and employment and did not allow for low-income-housing while Housing Savings Corporations (CAVs) only financed the population capable of taking on the interest rates of the time. This in its turn caused a considerable growth in informal housing solutions.

It was only during the 1982-1986 administration that the role of the housing sector in the macro-economic policies was re-activated again from the "Cuatro Estrategias Plan" of the Pastrana administration (1970-1974). However, this time the focus was on alleviating the housing problems in the low income sector of the population.

#### **b. Policies 1982-1986**

"Fair Change", the national plan of the Betancur Cuartas administration (1982-1986) envisaged urban development for the production of growth and for income redistribution.

When analysing the impact of previous policies, it is noticeable that the housing demand increased mainly in the lowest incomes levels. For instance, in Bogota the demand for low income housing in 1980 was 66%. (CENAC, 'El Drama de la Vivienda en Colombia', p.204, 1985) However the supply to this income level was only 2% while the supply available for higher incomes was 28%. (Ortiz Duran, C., 1993 shows the housing deficit and proposals of that period in tables 2 to 6).

The consequences of this fact are well known as reported by CENAC. Between 1973 and 1981 illegal housing built in Bogota accounted for 42.5% and in many intermediate cities illegal constructions accounted for up to 78.5%. The demand for illegal land and houses continued to increase although it was not because this solution was cheaper but because the government had been focusing attention on producing higher cost housing. In 1982 the then President Betancur Cuartas encountered what was serious social and economical instability, which he used to his advantage for his political campaign. Slogans like "When we build houses for the poor we are building the peace" emerged. (Maria Eugenia Rojas Moreno, manager of the ICT housing institute)

The fact that the country's fiscal situation was on the brink of collapse did not stop President Betancur from fulfilling his election promise of abolishing down payments for the "poor" ('El Espectador' newspaper, 20th of April 1982). He helped the poor to finance their housing by ordering the savings corporations to dedicate 30% of their resources for housing of less than 50 minimum salaries. He also promised to reduce interest rates, to stop service charges from increasing and to prevent the creation of any new taxes during his presidency. His main aim was to build 400,000 houses during his time in office.

From the market point of view the national plan "Fair Change" proposed the building of 400,000 houses of which 35% (140,000 houses) was for "popular housing". This was made up of self-build sites and services and core houses 30.5%, basic solutions 33.3%, popular solutions 32.8% and housing improvements 3.4%. (Rojas, Maria Eugenia, 'ICT en cifras' Housing programme, 1984). The ICT assumed the responsibility of providing 67% of the basic solutions, 68% for low income, 61% for middle income and 10% for high income, leaving the rest to the private sector.

The following administration, President Barco (1986-1990) tried to rehabilitate and improve the housing stock through the "Social Economy" policy plan. This policy followed the Vienna 1986 conference recommendation where the "enabling" concept was first introduced. It was here that the formal and informal private sector, urban development, and housing finance were emphasised. This new "enabling" approach and the

new fundamental role of the finance system on the macro-economic performance were later ratified by the UN Global Strategy for Shelter. Under this strategy a "programme for human settlement was adopted. The actions were primarily directed towards the rehabilitation of urban settlements without basic services or settlements with physical and environmental risks; followed by the development of new settlements and improvement and refurbishment of urban areas.

The main instruments for these policies were; community participation through associations, organisations, and self-build groups, with municipal participation in a co-ordinating, financially intermediary role and as a producer. Besides that, public institutions were to provide technical assistance and credit to the municipality and individual families.

Housing policies were previously established by the 'Consejo Nacional de Política Económica' (CONPES), the Ministry of Development, the National Planning Department and the Monetary Committee. For this reason the new policy created the "Central Unit of Housing (UNCEVI) where all the other entities met to co-ordinate their activities. The main role of UNCEVI was to facilitate the housing sectors functions. This administration gave a special role to what Barco called "housing of social interest" (Vivienda de Interés Social).

President Barco's policy objectives were to "harmonise social aims with macro-economic policy and especially with the widening of the internal market and generation of employment through self-build and subsidies" In order to fulfil the objectives law 9 of 1989 was created. With respect to finance, this law not only regulated the finance of low income housing leaving this sector practically outside the market (as it prohibited finance institutions from giving loans in the UPAC system to this income sector) but it made monthly repayments dependant on the legal minimum salary. In consequence this law seems to have blocked the production of low income housing while middle and high income housing grew to saturation and clandestine urban development increased.

The government tried to provide low income housing in an orderly fashion through two large projects: Bolivar City in Bogota and Agua Blanca in Cali (Colombia's second largest city). Services, health, education and loans for self-build progressive development were provided by the government with help from the Inter American Development Bank. However, the results seem to have been very limited because of the extra-cost of providing services on bad quality land and because it attracted more people from rural areas with the prospect of generous solutions. (Utria, 1989).

The urban reform of 1989 was created to govern over land use and distribution (including sanctioning illegal

urbanisers and legalising tenure titles of settlements) so that low income families could have access to land in conditions that allowed them to be in an acceptable location, with public spaces and "to have a right to the city" (Carlos Marulanda minister of development, HABITAT Conference. Cartagena 1989).

### c. The Creation of a New Housing System

The current president, Gaviria Trujillo (1990-1994) proposes to shift the national resources to encourage municipal participation and private sector participation in the production of social housing through direct subsidies. According to his plan "540,000 houses will be provided"

During the last decade government's policies have moved from looking at general economic performance towards a broader social agenda in an attempt to maintain peace as part of the national development plan. However more than one third of the population in Colombia is considered to be poor (13 million) of which only 20% has access to any type of basic health service and only 60% has access to water and sewerage services. (DNP, 1990)

This situation has been a challenge for many decades and is now for president Gaviria to tackle. The "La Revolucion Pacifica" plan is the national development plan of the 1990-1994 administration which "concentrates its efforts in very selected areas. It aims to strengthen justice and security and invest in the construction of transport infrastructure, roads, the rehabilitation of the railways, and the modernisation of the ports, to guarantee success to the "commercial opening". Extension of basic public services, including water and sewerage, will be promoted; it will improve the quality of education and health coverage and 500,000 houses will be constructed or improved, surpassing past efforts". (DNP, 'La revolucion Pacifica' Development plan, 1991, page 256)

Gaviria's housing policy focuses on promoting the participation of municipalities, popular housing organisations and on encouraging the private sector to participate in the housing sector. This policy has created a new 'National housing system' (Sistema Nacional de Vivienda de Interes Social SINAVIS) with the objective of integrating and co-ordinating all the institutions involved and allocating their activities. The role of the government in the new system is to co-ordinate, plan, direct and evaluate the actions of the public and private entities according to the fulfilment of national plan policies.

With the creation of the national housing system came the establishment of 'housing family credit'. This consisted of government contributions in cash or kind

to help low income groups to acquire what is called 'housing of social interest' (V.I.S), or to improve or legalise their own house. The programme considers V.I.S. houses of less than 6,982,200 i.e. 135 minimum legal salaries (ms) in cities of more than 500,000 inhabitants; 6,200,000 i.e. 120 ms in cities between 100,000 and 500,000 inhabitants and 5,172,000 i.e. 100 ms in cities of less than 100,000 inhabitants.

The government's family housing subsidies are to be administrated by three entities; the INURBE (previously called ICT), the Agrarian Fund and Compensation Funds. The resources come from the VAT on cement profits, the interest rates on importation and a portion of the payroll income in the case of the compensation funds, and contributions from the National Savings Fund and the Military Housing Fund. The subsidy programme consists of direct distribution to the beneficiaries avoiding the high bureaucratic costs. It is given either in an individual or collective form to rural and urban areas. (DNP 1991).

The individual subsidies i.e. 12 ms are mainly focused upon families with incomes between 2-4 ms which correspond to houses of 50 ms and 135 ms. This is considered the minimum that the private sector and the CAVs can finance. The collective subsidy i.e. 15 ms is the one that organised families seek for a self-build housing plan. This subsidy was created for families with less than 2 ms income to enable the acquisition of formal finance credit. This subsidy corresponds to housing solutions of less than 50 ms which allows the family to acquire a site with services and a 'core' house. This type of subsidy is designed to cover that section of the population on low income which up to now has been solving the housing problem through 'pirate' urbanisation or collective invasions. (DNP, 'la revolucion pacifica' development plan p. 256, 1991).

The parameters under which the subsidies are expressed were changed in July 1992 from Minimum monthly salaries to UPACs (units of constant acquisitive power) which correspond to 210 UPACs for individual subsidies and 262 UPACs for collective subsidies. These figures are paid to the correspondent value in pesos at the moment of the deed signature.

The housing solutions plan for 1994 ('La Revolucion Pacifica' National Development Plan) shows that of 66% of new houses provided in urban areas only 13% were for families with incomes of less than 2 ms. Which brings us to the conclusion that the plan will not respond effectively to the housing problems if, as was mentioned before, according to DANE 56.0% of the urban families income is less than 2.5 ms. (Utria, p. 12, 1989)

Another important point of discussion is the program subsidy allocation process and its results up to now. The

process consists of 6 stages:

1. Application from entities or groups that are in the position of supplying VIS housing. This includes a description of the plan or project.
2. INURBE studies the project.
3. Those 'eligible projects' will be published in the media and the INURBE.
4. People interested in this solution, if it fits their economic situation then fill in a form, in which applicants state they have a minimum of 5% of the house value.
5. The INURBE will select the beneficiaries through a computerised system according to the applicants contribution. and the beneficiaries will then be notified.
6. The subsidy will be awarded and provided directly to the vendor against the title deed.

However, according to the studies done by the DNP, it is necessary to develop adjustments for the effective disbursement of the subsidies. For instance of 31,271 subsidies allocated, only 400 families actually received the subsidy between September 1990 and December 1991. It has also been reported that public notaries have not sufficiently simplified the paper-work involved in increasing the loan's reimbursement.

### 3.3 The Role of State Housing Institutions

#### a. The Territorial Credit Institute (ICT)

The Territorial Credit Institute (ICT) has been the main 'instrument' for the government in developing the housing sector since its foundation in 1938. Its main function was to provide housing for the low income sectors. This was achieved through capital support from the national budget, national and international credit,<sup>xvii</sup> compulsory investment quotas from the banking sector, insurance and capitalisation companies, savings and loan corporations, through resources from its own investments and a tax on cement construction.

The Institute had relied on the national budget in the 1940s for funding, which led to financial difficulties because of the heavy subsidies involved. At the end of the 1950s the government decided to inject funds into the Institute from abroad. These were provided by several North American agencies during the 'Alliance of Progress' period ('La Alliance Para El Progreso'), which was created by President Kennedy in the 1960's to alleviate the social tensions in Latin America. Its main aims were to increase the supply of low income housing and to provide basic services to urban and rural areas.

However, the devaluation in 1960 affected the institute's finances and it was then decided to omit foreign capital

investments and to force finance institutions and private agencies to invest in the institute (Inversiones Forzosas). The ICT's resources in 1979-1982 came from the national budget, financial resources of internal origin and the institutes own rents, which amounted to 26.8%, 28% and 45.2% respectively. (CINEP, Controversia 123-124, p.83, 1985).

The institute's main intervention was during the period 1982-1986, when the government took on the responsibility of building 400.000 houses, with this institution as the main producer of housing for the low income sector. "From 1984, the ICT concentrated its actions almost exclusively on the promotion and financing of the minimal and basic house (26-46 sq.m.)". The functioning of the institution is well described by Molina (1990) as "an intermediary between private companies and land owners on the one hand and low income people on the other". The ICT bought plots (generally located at the periphery of the city) from local land owners, contracts private companies for the construction of infrastructure and the dwellings at commercial prices, and finances the product for the final user through a credit system that usually offers amortisation of fifteen years". (Molina, H, p.296, 1990)

The government decided to back the ICT's activities and to multiply its capacity of producing low income housing by providing substantially more resources which resulted in a huge debt for the institute. (SINEP, controversia 123-124, p.90, 1985).

However, the reasons given for this debt are contradictory according to the different parties. On the one hand the government has been accused of creating the institute's financial crisis with the argument that not enough resources and support were given (Robledo, J 1985). On the other hand it was argued that the cost of servicing the debt of \$33,000 million Colombian pesos in 1985 was too high. The repayment was equivalent to \$17,000 million pesos a year or 51% of the loan total.<sup>xviii</sup> In addition to this, the ICT was criticised because of its large numbers of personnel (3,200) whose monthly payroll was equivalent to the annual investment.<sup>xix</sup> Moreover the housing and savings corporations protested to the government by arguing that by forcing CAVs to invest in the ICT and by putting their deposits profits in the "Banco de la Republica" they were getting the UPAC savers to finance part of the fiscal deficit". (Negocios No 27, Magazine, pp. 27-28, 1985)

Housing production during this period has been severely criticised. Firstly because of the lack of cost recoverability; it gave credit at negative interest rates and the abolishment of down payment did not stimulate

savings. Secondly, for the poor quality of housing produced, "they became the main 'pirate' urbanisers of the country" by building programmes without licences, services and with no consideration for climatic or cultural aspects. (DNP, 'La revolucion Pacifica', 1991). Thirdly, because the ICT bought 11 million m<sup>2</sup> of land, which was not developed leading to land price speculation. The Institute itself put the blame on a "populist policy" which offered houses without down payment, and, on the lack of household affordability-capacity studies used in the allocation system. (Pacheco, E., ICT general manager, Cartage de Indias, April 24 1989). The following administration blamed the high degree of bureaucracy and operational costs as well as the others factors already mentioned for the inefficiency of the ICT. Between 1988 and 1989 the ICT's activities became paralysed because of its financial situation. To alleviate the problem, 10% of sales tax transfers on cement was dedicated to refinancing the institution.

In summary, in the last 15 years only 30% of the public and private resources went back to the ICT; the rest was wasted in excessive construction costs, land purchases, bureaucratic expenditure and the inefficiency of the system. Moreover 90% of its portfolio was in default; it had a \$123,000 million pesos debt, its assets were inefficiently used and badly managed and finally the environment of crisis created internal tension and lack of commitment (INURBE, May 1993).

The required adjustments to the ICT were proposed by the DNP in September 1990. It required a change in the central role of the 'National Housing System of Social Interest', using subsidies as the main instrument for the construction of housing. Its role in technical support to municipalities with projects was also emphasised. This gradual change of role from producer to promoter was created to allow the institution to fulfil a social objective without getting involved in construction or finance.

#### **b. The INURBE: The New Face of the Institute**

The new Gaviria administration (1990-1994) organised the institute's changes into three stages: In 1990 a decree determined a restructuring which dispensed with the services of 1,074 employees from the ICT by July 1991. This left 1,921 employees (INURBE May 1993). Furthermore the ICT's income was frozen and its portfolio was refinanced at 10 years with 21% interest. It was also allowed to cancel its debt by selling its assets, land and portfolio. The second stage, up to January 1992, saw the number of personnel continue to be reduced down to 626 and the ICT's structure was transferred to INURBE. The main objectives of this disposition were not only to take advantage of the assets inherited by the ICT but also to avoid the negative aspects by separating the administration of the two parts

of the institution. To build a new image was necessary, but it was also important to create an atmosphere of credibility and confidence in the new institution and in the new housing policy. The third stage from January 1992 to August 1994 involved the consolidation of the organisation.

According to the national development plan INURBE's main objective is "to facilitate access to housing for those who cannot achieve this access through the formal market because of their low income and savings". The plan's strategies can be summarised as follows: firstly it is to give technical assistance to municipalities by giving them the results of the inventory of sub-normal housing so they can use them for future development plans; secondly it is to administer the resources of the housing family subsidy in a transparent and fair way by using systematised processes which are independent from institution employees' direct management and by deciding which housing programs are 'eligible' for acquisition with the housing subsidy. As part of the new image and its 'enabler' role, the INURBE is developing many instruments of communication to publicise the new housing policy, its coverage and performance. These include videos, leaflets, booklets and the main public media: national newspaper, radio, magazines and regional newspapers. This will include information about the problems to be encountered, what is on offer, the allocation of subsidies and resources; details of those projects declared "eligible", applications, and the finance available.

The evolution and results of the INURBE have been evaluated by the institution itself with respect to the objectives proposed. However, it is important to compare and evaluate both evolution and results according to the impact upon the poorest strata, as they form the greatest proportion of those in need of housing.

According to INURBE, over the space of two years, 1990-1992, they have promoted the supply of 58.9% (172,000) of housing solutions and have given 36% of the subsidies they aimed to provide. Of these, 172,000 houses, 59% have been for households of less than 2 minimum salaries; 23% between 2 and 4 minimum salaries and 16% for improvements.

On the supply side, the following table shows the importance of private sector participation. It also shows that the provision has concentrated on houses that cost less than 30 minimum salaries i.e. 51.8% and in between 70-135 ms, i.e., 37.5%. (INURBE, 'Del ICT al INURBE', May 1993).

With respect to the allocation of individual subsidies, 90.7% have gone to families with incomes between 2 and 4 ms. These families could (according to the national plan) afford a house of 50-135 minimum salaries. However 54.5% of the families have applied for housing solutions of less than 30 minimum salaries. Furthermore according to INURBE, from December 1992 applicants for Sites and Services and for improvements have show a growth tendency. (INURBE May 1993). These figures could be interpreted in two ways: on the one hand families could be going on the safe side by acquiring houses of lower value than the value they could afford or on the other hand the affordability capacity was lower that what the housing plan expected.

"Special projects emerge as a result of the need to attend to social emergency situations" (INURBE, May 1993). These kinds of projects are developed in settlements which because of their characteristics require a prompt action in finance and execution from the government. It should, however be noted that the pursuit of such policies may result in a reversion to the discredited "individual projects" policies, where few benefited.

Finally, according to CAMACOL in April 1993 only 19% of the subsidies allocated were effectively handed over after two years of its allocation. Up to this time the proposed supply side figures had been met while the demand side figures were not achieved. This was because of the difficulty for households in gaining access to a solution which was located in the upper price range of the VIS (Housing of Social Interest) or because of bureaucratic obstructions stopped them from entering the formal finance sector.

The government has thankfully reacted to these fact by creating a new decree. Decree No. 1851 of 1992 implemented what is called "the system of programmed savings" through the CAVs which will

### INDIVIDUAL SUPPLY, 1993

Total Eligible Solutions	164.031
Total Individual Solutions 55.16%	90.484
Total Programmes	648

Types of supplier	%	Types of Solutions	%	Price range	%
Private				<30 SML	51.8%
Contractors	69.97%	New houses	49.150%		
OPV'S - JAC	13.08%	Urban Sites	50.170%	31-50	6.0%
Municipals	16.95%	Used houses	0.0006%	51-70	4.0%

				71-100	12.0%
				101-135	25.5%

Source: Del Inurbe al ICT, April 1993

allow subsidies to be credited to the down payment at the moment of allocation. The application of this law will hopefully improve the efficiency of the subsidies. Nevertheless there are other factors of major importance which affect the well functioning of the programme. The support in the way the resources are provided from the government in order to continue the subsidy allocations is fundamental for the well functioning and credibility of the plan. For instance according to INURBE (Quoted by CAMACOL, 'Sector edificador evolucion y perspectivas', 1992-1993) the Institute only had resources for 8,000 (\$9,000 million) subsidies in the month of June 1993 while the required amount was \$85,000 (75,600 subsidies) to maintain the rhythm register up to then. The uncertainty from the demand side could reduce the supply of this type of housing solution.

### 3.4 The Financial System

In Colombia, there are many public and private institutions involved in the housing related financial system; however, for the purpose of this paper, only the most influential institutions in the field of financial backing for urban low income housing are mentioned. Public institutions like the BCH have been disengaging from this role since the implementation in 1972 of the Constant Value System (UPAC) and the advent of housing mortgage corporations (CAVs) in the private sector. (This is explained in great detail later because its importance and coverage in the housing finance sector).

#### a. Public Finance Institutions.

##### i) The Central Mortgage Bank (BCH)

This was created in 1932 (attached to the Treasury Ministry). Its function was to manage and invest public savings and to finance and promote housing projects. Up to 1975 it supplied mortgage credit for the construction and acquisition of housing by middle and high income groups. From 1975 onwards its functions were extended to finance urban development and it has been used by the government as an integral part in the implementation and development of housing policies.

The resources of the BCH are derived from mortgage bonds, capital bonds, real constant value bonds from the social security institute (ISS) and resources from UPAC. Its contribution to housing supply has been 11,783 housing solutions in 1985; 11,768 in 1986; 17,557 in 1987; 9,832 in 1988 and 12,361 in 1989. (Utria p.14,

1989) Since 1990 the BCH's role has evolved to accommodate the markets which by their nature have been more difficult for the private sector to participate in. These markets include: second-hand houses, urban projects of special interest, renovations, extensions, housing subdivisions and refurbishment's. (DNP, National housing plan, 1991)

##### ii) The National Savings Fund (FNA)

The National Savings Fund was founded in 1968 and is part of the Ministry of Economic Development. Its function is to provide housing and finance for public sector employees. The resources of the FNA are derived from the statuarly imposed savings of 8.33% of the monthly salary (redundancy money), a share from taxes, and its own portfolio recovery. It has been changing its activities from middle income to low income sectors. In 1989 the entity was lending 75% of its resources to people earning less than 2.5 minimum salaries at 10 to 12% while the inflation rate was between 25-27%. This effectively was a subsidy through interest rates. This was recognised as being one of the best ways for the government to generate income re-distribution according to the FNA director in 1989. (Paredes, O., Cartagena Conference, 1989).

Other public agencies have an important role in the provision and finance of housing for their respective employees such as the Military Housing Fund, the popular housing funds (CVP) and other funds in the rural sector. The evolution of the entities' participation and the value of its participation in housing finance are shown in Ortiz Duran, C., 1993 in Tables 10 and 11. It can be noted that the role of public entities in finance decreased while the private sector finance took over.

#### b. The Private Sector

This sector mainly represents those who can manage to finance and build from their own resources; the informal sector, housing corporations (organisation, co-operative actions) and 'Saving and Loan Corporations'. These are described below as they have played a very important role in finance.

##### i) The Saving and Loan Corporations (CAVs)

As mentioned before, the first attempt to include the housing sector in macro-economic policies was during the 1970-1974 Pastrana administration. Public investment had traditionally been financed with tax revenues or with foreign loans. However those who could not afford to procure formal housing finance had

to revert to personal savings (deposit interest rates were 4% in 1971 at the time when inflation reached 15% per annum). The lack of incentive to save produced by those figures led to the creation of the new finance system.

In order to "protect savers from unfair monetary erosion, to protect their heritage" (Currie, L., 1972) to guarantee growth according to price fluctuation and to maintain interest rates at a reasonable level to stimulate savings, the Constant Value System (UPAC) and its saving mortgage corporations were created in 1972. However the cost of living has always been higher than the UPAC index. For instance the UPAC index in the period 1975/78 was 2.35% while the cost of living rate was 2.68%; in the period 1979/82 the relation was 4.67% to 6.66% and 9.66% to 13.76% respectively in the period 1983/86. (Table 12 shows the evolution of the UPAC index in relation to cost of living, construction cost and monthly income in Colombia between 1970-19870 in Ortiz Duran, C., 1993).

This system is well described by Utria as "consisting of a national savings and loans system, based upon real constant value; i.e. savings are protected against inflation and devaluation through daily monetary correction, which ensures the constant value of capital saved, in addition to corresponding interest payments" (Utria, p. 14, 1989).<sup>xx</sup>

The operation of the system is backed by the savings and mortgage fund (FAVI) of the Bank of the Republic, created in 1973. Its function is to solve liquidity problems faced by the Savings and Loan corporations by lending resources when they become illiquid, and receiving their surplus financial resources in case of excess liquidity, all based on the aforementioned system of monetary correction and interest. This new financing system has succeeded in attracting 30% of national savings (Utria 1989). Nevertheless the system has been criticised by being "elitist" because of its limited accessibility to low income groups. In its defence, its creator Professor Launchlin Currie (ex-World Bank functionary) argued that "The benefits for the popular sectors would come from general economic prosperity and that it should not be assumed that the lack of a direct policy for poverty means the lack of interest in it". (Robledo, J., p.51, quotes Currie, L., *La politica urbana en un marco macroeconomica*, p.22, Canal Ramirez-Antares). He also stated that the housing problem of the poor was not primarily related to housing or the high cost thereof, but that basically it was a problem of poverty, and that challenging poverty by creating well paid employment was the solution. However little was done about this or about housing the poor.

This antecedent, together with the fact that the inflation rate placed the monetary correction factor at a very high level for the users of the system (thereby distorting the capital market and the industrial activities), forced the

1974-1978 administration to curtail the activities of the system. Eventually the government tried to dismantle it but were unsuccessful because of the reactions of the corporations, the UPAC's growth and the support from construction-companies. Furthermore, this administration changed the previous administration's philosophy to encompass a gradual liberation of the economy, by giving special attention to anti-inflationary and stabilisation policies. Another important characteristic of this period was that the CAVs institutions were allowed to lend for construction materials and for activities which had nothing to do with housing like for example, the constructions of hotels.

The effects of the coffee boom in 1974-78 (related to crop failure in Brazil due to frost) started to disappear in 1979. Inflation, unemployment and interest rates were increasing, while national exports were decreasing forcing Colombia into a recession. The response of the 1978-1982 administration to this was to increase the monetary correction from 19% to 21% in September 1980, in order to attract savings and to acquire greater market competitiveness. (Giraldo, F and Lopez, H., p.119, 1987).

With the onset of recession a new philosophy emerged aimed at re-orienting the UPAC system towards tackling the problem of low income housing finance. Decree Number 893 on April 3 1981 completely changed the role of the CAVs, in directing their attentions to middle and low income levels and excluding high income groups. It abolished credit from CAVs to high income levels and distributed their resources as follows: 82% for the construction and acquisition of new or used houses and 15% for the rest of the activities financed by the system. The distribution of lending in proportion to the price of the housing solution was also regulated. For instance a minimum of 22% was to be allocated for houses of less than 2,500 UPAC; 20% for houses ranging from 2,501 to 500 UPACs and 40% for 5,000 to 10,000 UPAC's. It completely eliminated the finance of housing for more than 10,000 UPACs i.e. \$4,370,000 Colombian pesos at the time of the decree. (Giraldo and Lopez, 1987).

However, this issue generated a strong adverse reaction resulting in the introduction of new decrees. Participation was increased from 20% to 24% for housing between 2,500-5,000 UPACs; it was reduced from 40% to 18% for housing between 5,000 to 10,000 UPACs and finally allowed 18% for houses of more than 10,000 UPACs which had not been allowed before. Indeed in 1981 CAVs paid out \$28,309 million pesos of which 75.35% went to construction companies; 21.83% went for individual loans; and 2.82% to the iron, cement and brick industries. In spite of this, the UPAC system continued to attract savings.

The events of this period are also significant given their

similarity to some of the current World Bank policies. The focus was placed on returning to the monetarist philosophy of "free markets"; on increasing credits for the procurement of construction materials, especially to industries specialised in the production of prefabricated housing and on the redistribution of housing stock. The effect of this monetarist policy was high inflation, high external debt, and high levels of unemployment; which in turn added to the global economic crisis. (Giraldo & Lopez 1987). This created a framework for much of the political and social instability and violence of the 1980's which led to the 1982-86 presidential campaign, a prime component of which was the instigation of a peace process and dialogue between the politically far left and right in an effort to retain social and economic stability.

A return to government finance for low income families and reactivating the CAVs was the main change of the Betancur administration. In the first year of the period 1982-1986 an economic emergency was declared in the financial sector. Thus, three distinctive phases of action can be noted. The first one placed emphasis on solving the nation's financial problems by controlling inflation and promoting production; the second, around 1983, tried to diminish the fiscal deficit by promoting exports through subsidies, devaluation and import controls;

the third was directed towards the management of the income surplus generated from the coffee boom in 1985.

With the intention of re-establishing the construction sector as a generator of economic development, it was proposed to increase monetary capture by the CAVs by increasing the monetarist correction from 21% to 23% in 1982. However, the main strategy, contrary to the 'Cuatro Estrategias' plan aim in 1970, was designed to benefit medium and low income sectors for whom a new UPAC system was created. A scheme of different interest rates allowed the transfer of funds from high income to low income housing (cross-subsidy).

At the end of 1984 about 57% of the housing target set by the national development plan was achieved of which 80% was completed by the ICT assisted by directed funds from central government. The monetary correction increased from 23% to 46.55% in 1984 in order to capture more deposits. This fact added to the general economic improvement in the Colombian economy (due to the coffee boom) really benefited the system.

The housing policy during this period showed an inclination towards low income levels. It established different interest rates; it obliged CAVs to invest 25% of their resources in houses of less than 1,000 UPACs; it abolished down payments with counterproductive results. Firstly, credit was given to people who had no repayment capacity, as well as limiting the resources potential of further investment in housing (Giraldo, F., 1987). In fact, this subsidy policy and the forced investment of CAVs on houses without down payment led to the creation of the so called "defaulter portfolio" by this administration.

The housing policy of this period demonstrated the difficulties encountered in financing the low income sector of the population through the UPAC System unless the subsidy were administered by the national fiscal effort rather than by the savings income. (Giraldo, 1989, p. 161).

During the 1986-1990 administration, the UPAC system was reformed in order to apply its social policy of eradicating absolute poverty more effectively. However these changes were counterproductive to economic recovery and to those efforts directed towards increasing employment. Besides that, CAVs were de-capitalised as the government obliged them to direct 87.5% of funds to low income housing and to increase the repayment period from 15 to 20 years. However law 9 of 1989 prohibited loans from the UPAC system to low income sectors and therefore restrained them from financing 30.000 low income housing units in the first year of its implementation. (Utria, p. 27, 1989).

Changing the existing law was the first task of the present administration to allow the UPAC system to give credit for houses of less than 135 ms value and so to finance the beneficiaries of the subsidies (families earning less than 4 ms) by introducing what is called 'UPAC Social'. In 1992 the CAVs were compelled to direct 18% of their income from lending to 'Housing of Social Interest (VIS).

According to CAMACOL, CAVs have financed half of the housing solutions presented by the programme of individual subsidy. Besides that a new requirement from the Ministry of Development and approved by the 'Bank of the Republic' stated that CAVs were to donate \$50,000 million Colombian pesos in 1991 and \$100,000 million in 1992. (DNP, 'Avances del programa de vivienda social', December 1991). The results of the first years of the current administrations are beginning to be seen; 1992 registered the maximum construction growth ever. Yet many factors like low levels of inflation, low interest rates, improvements in the issues of licences paper work, the increase by 99% of CAVs credits and many others contributed to this achievement. However by the end of the year the system wanted to change the formula for the monetarian correction because of its disadvantageous position with respect to normal banks. CAVs were offering 23.93% on deposits while banks offer 27%. Consequently law 35 of January 1993 following the principles of the open market allows CAVs to give credit to areas other than construction and allows them to manage credit cards, and pursue other activities that until now have been carried out by banks or commercial finance companies.

The main objectives of this new law are to make CAVs more competitive with the rest of the finance system, to widen their radius of action, and to provide incentives for investment by 'providing better services to the clients' while continuing to specialise in construction. However one can not help thinking that better prospects elsewhere can change the direction away from the construction industry, and therefore from the opportunity to acquire housing for the poor.

### c. The Informal Sector

The role of the Informal sector in the provision and finance of housing in Colombia deserves in-depth analysis as its role has been of great magnitude. However, studying its complexity is outside of the scope of this paper. Yet it is important to briefly mention its role in the provision and finance of housing in order to set the scene of the housing problem.

In Colombia there are two types of informal housing provision; land invasion and what is known as 'pirate subdivisions'. Of these two, land invasion is more difficult to successfully apply because of restrictions (although it depends on the city's characteristics). 'Pirate

subdivisions' on the other hand have therefore proved themselves to be a more secure alternative for low income groups. 'Pirate subdivisions' provide land generally on the periphery of cities, on poor sites and without infrastructure. However the inherently more accessible purchasing arrangements are the only feasible way for low income groups to obtain land. In effect, according to Molina in 1990, the cost of a 60-72 sq.m plot is approximately 20% of that of a dwelling located in a legal development area incorporating 'minimal norm' standards. The 'minimal norms as described before were introduced in 1972 in order to establish realistic norms to allow the improvement of 'sub-normal areas' and therefore to compete with and phase out illegal land development. However, 'minimal norms' never replaced 'pirate subdivisions' (Molina H., 1990).

"Until now there has not been a substantial substitution between the 'legally regulated' and 'pirate' markets. (Molina U., 1990). This has been explained by the fact that informal provisions were still cheaper than the 'minimal norms' and because 'minimal norms' did not cater for the lowest percentage of the low income sector. On the other hand it did decrease during the period 1974-1985. This was because of the then availability of low price highly subsidised housing and because it utilised those sites that would otherwise have been used by informal subdividers (Molina, 1990). The table below shows the evolution and role of the 'pirate Market' and other types of housing provision in Bogota. It can be noted that the biggest increase coincide with the decentralisation policy of the 1978/82 period.

With respect to the financial system it has been demonstrated elsewhere in this paper that the UPAC system and the government institutions did not cover the supply or finance demand of the lowest income levels of the population. Indeed the UPAC system represented the privatisation of the housing sector. The public sector in 1971 represented 98% of housing production, decreasing to 29% by 1989 leaving 70% to the CAVs. A consequence of this can be seen in the increasing low income housing deficit and the origin of speculative developers.

Moreover, according to DANE, (National Administrative Department of Statistics) between 65% and 70% of homes in Bogota in 1982 were being built by the informal sector through self-build or progressive development. The informal type of solution represented the only real alternative to

groups who did not have access to housing because of the lack of finance and the market distortion generated by the construction of high income solutions. This was the setting for the growth and development of the "Pirate Urbanisers" solutions (which generally were sites without services) to attend to the low income group's growing demand.

Finally, it is important to mention that non-profit organisations and the church are assuming a fundamental role in the provision and finance of low-income housing in Colombia. These institutions have been replacing the role of governments and markets in the provision of low-income housing by introducing innovative activities and ideas with the aim of helping the poorest.

### 3.5 Some Further considerations

We have studied very briefly the development of policies, the financial sector and the role of institutions involved in the housing sector in Colombia up to date. To discuss the Colombian housing sector alone requires an in-depth analysis of other related elements outside the scope of this paper. However in this paper some significant elements of importance with respect to the new housing policies are considered.

The important thing to bear in mind is that only 110,000 houses are produced a year in Colombia, while the 'deficit' or need is for 286,800, and, that at least 20% of the population in need could not afford to participate even if such a provision was available. In fact it can be seen that neither governments nor the markets are providing enough units or financing them on time. Besides that, the household income of a large part of the population is too low to enable their participation and the government housing subsidy is limited because of ineffective policies and government's shortage of capital.

When analysing the evolution of macro-economic policies in Colombia it can be seen that the

#### LAND DEVELOPMENT ATTRIBUTED TO ILLEGAL ('PIRATE') AND LEGAL ('MINIMAL NORMS') LAND SUBDIVISION PROJECTS (IN HECTARES)

Period	Total	Pirate	Minimal Norms
Before 1967	217.2	217.2	
1968-1973	447.9	447.9	
1974-1979	638.9	212.4 (34%)	426.0 (66%)
1980-1982	648.9	441.6 (69%)	207.3 (31%)
1983-1985	528.0	79.2* (16%)	448.8 (84%)
TOTAL	2,480.4	1,389.3	1,082.1

\* For 1983-84 only

Source: Unit for the improvement and co-ordination on neighbourhoods. Working Document, 1986. (Molina, U., 1990).

housing sector has occupied a central role in the national economy's plans particularly those of the conservative administrations of 1970-1974 and 1982-1986. However, policies of the former were market oriented whereas those of the latter were socially oriented. Nevertheless these policies have also been disrupted and changed by other administrations. Macro economic, housing and many other sector policies in Colombia are generally changed every four years with the advent of a new administration thus it can be demonstrated that a coherent long term policy does not exist.

Some conclusions have been drawn from the study of macro-economic and housing sector policies:

- a) many city conditions and factors influence the impact or capacity of markets to improve the housing situation of the poor;
- b) it could be more effective to use a range of actions to stimulate demand and supply rather than individual programmes;
- c) local conditions and variations should be taken into account in order to ensure long-term effects.

From the state institutional level (the ICT), it has been seen that there is a wide gap between rhetoric and reality. This institution failed because of its inefficiency, lack of foresight, stagnation of bureaucrats out of date for today's economic situation and this continues to be one of the most difficult problems to solve in Colombian society.

The market approach introduced in 1972 through the new Indexation system did not cover low income groups. (Jaramillo, S., 1985, Davila, J., 1984), yet, the UPAC system has and continues to attract a considerable high percentage of private savings. The rate of construction of housing increased from 4.5% in the period 1964-73 and to 4.6% between 1973-1985. This growth occurred at a stable rate and did not occur as a result of the introduction of the UPAC system. The UPAC system superseded the traditional state finance system. In the second period housing was mostly built by UPAC. However it did not cater for low income groups and the character of sub-normality was not eliminated. Central government through the ICT and the Municipal Funds did not produce and finance housing at the same rate as demand. Land Invasion and 'pirate' development outside the formal financial market were the only option for the poor during this period. However, since the beginning of the current administration's housing policy programme and thanks to the subsidy policy, the UPAC system has managed to finance lower although by no means the lowest income groups of the population.

The results of the free market philosophy are too

difficult to evaluate at this time. For instance on the one hand according to CAMACOL's figures 1992 showed the maximum growth in construction known in Colombian history. Yet this can not be attributed only to the CAVs activities, many other factors such as the low levels of inflation, the reduction in interest rates, better exchange rate management and the return of capital to the country as well as the influence of more easily available construction licences are very important factors when assessing

the performance of the sector. On the other hand it has been said that the expectations for 1993 were not high because of material limitations and mainly because of over-stretched state finance resources both of which are very significant in the financing of low income housing. The lack of resources needed to continue with the subsidies added to delays in handing the subsidies over, damages credibility and creates uncertainty in the system. This can discourage construction companies involved from participating in the production of low income housing solutions. Construction companies have also been restricted by high construction costs, the long term paperwork procedures and the lack of serviced land appropriate for development at reasonable prices.

The table on the next page shows that the housing plan's aim has been met on the supply side while great limitations have been found on the demand side. It has been said that only 19% of the subsidies allocated have actually been handed over. Two years have elapsed since they were allocated while the plan estimated a maximum of 12 months for 'individual' subsidies, and 18 months for 'collective' subsidies. This indicates that although there have been changes in the administrative sector there are still obstructions in the procedures for the effective handing over of the subsidies to construction companies or associations.

Finally, from the financial point of view, it can be deduced that housing and mortgage lending do not come in isolation. They are influenced by general economic variations, productivity, profit, inflation, labour markets, and social and income factors.

## 4. CONCLUSIONS

### 4.1 The Impact on the Poor: Some Speculations in Relation to Current World Bank Policies.

The first point to be raised with regard to the current national development plan is to note that this has slavishly followed international trends towards the establishment of a free market system forgetting that the free market's aim is to earn profit rather than to improve the living conditions of the most needy. The plan addresses the symptoms and concentrates on the alleviation of these symptoms by satisfying basic needs,

rather than addressing the issue of poverty at root level in its relationship with employment, civil rights, crime and corruption.

Two reasons can be identified for this type of approach: firstly, the plan relies on optimism in achieving acceptable rates of economic growth and secondly the plan is designed according to figures which claim that only 25% of the Colombian population suffers from income related poverty while 40% suffer from unsatisfied basic needs (explained

#### AIMS AND EXECUTION OF HOUSING OF SOCIAL INTEREST (VIS)

Year	Aim No. of Houses	No. of Solutions declared eligible	Execution %
1991	64,511	45,135	69.96
1992	70,038	73,869	105.47
1993	75,513	45,027	59.63
1994	85,526	-	-
TOTAL	292,588	164,031	56.06

Source: D.N.P. Development plan "la revolucion Pacifica" and INURBE. From Sector edificador evolucion y perspectivas, 1992-1993, CAMACOL.

earlier). However, according to DANE and an investigation carried out by Libardo Sarmiento, 40.8% of the Colombian population in 1990 lived below the poverty line (poverty level is measured according to income, related with the ability to acquire the basic food basket.) which in Colombia is measured at three minimum monthly salaries.

The current national housing plan expects to reach 58.3% of the poor population and to reduce that portion of the population living in poverty by 7.5% (9,687,000 inhabitants) at the end of the administration. However, it has been seen throughout this paper that free markets generally benefit many but the lowest incomes groups.

This paper has examined the current world housing policies promoted by some of the most influential institutions in developing countries. Three main issues were identified from the World Bank Paper which were then used in an examination of the Colombian housing sector. This paper recognises that a deeper study of those important issues is necessary before drawing any conclusions with respect to the possible impact of the current policies on the poor. Nonetheless it is, hopefully a starting point and it establishes some important issues to be pursued. Two main rationalisations can be derived from the development of this thesis, firstly it is

important for developing countries to question any new policy and, to compare the policy to the historical development and reality of the countries own housing sector before applying them blindly rather than discussing the policies effects afterwards. Secondly, it is important to question the possible coverage of a single course of action for problems of social, political and economic content.

From the policy implementation point of view it has been seen that the Colombian housing sector has been simultaneously following international housing strategies for at least the last two decades. Nevertheless, as has been shown, the housing problem continues to increase and is mainly reflected on the poor. However, one of the reasons for the failure of these policies is the fact that macro-

economic and sectoral policies are generally changed every four years with the change of administration thus there are no long term policies and therefore no long-term solutions or effects. Moreover such policies do not have time to show any impact by the time the new presidential campaign is criticising the previous policies failure and promoting a 'new' solution.

One of the main findings of this paper is the similarity

between those policies advocated in the current World Bank housing paper and the policies of the 1970 -1974 administration which promoted the construction sector as a prime strategy of development. It is, of course, important to clarify that the political, social and economical circumstances that prevailed then are different today. Yet the same differences can be identified between countries that are about to apply those policies. During the 1970-1974 administration the construction sector was viewed from the point of view of productivity.

The policy followed similar patterns to what the Bank is suggesting today. The free market policy showed an increase in the participation of the construction sector in the GDP, however, it had very little impact on providing housing or in improving the living conditions of the poor. In fact, informal housing provisions and rentals seem to have increased considerably as this was the only alternative for the poor. (Davila, 1984).

The other period that demands attention was during the 1982-1986 administration because it incorporated the construction sector not only as a growth generator but as a social instrument (a response to the tremendous social tensions of the time). This administration can be considered to be at the other extreme of what World Bank policies are suggesting with respect to the role of the government. The government took upon itself the responsibility of producing and financing housing for the poorest sectors of the population. The results of this policy have been studied in detail in the content of this paper, however, it is important to emphasise that even though the subsidy exceeded the government's expenditure capacity the philosophy could have been right in the context of the environment of social unrest at the time. This is something which is not taken into account in many housing policies.

The final observation from the point of view of policy, is of course, the role of the construction sector in the current policy. The Gaviria administration (1990-1994) has been criticised because of the lack of any specific sector as a generator of development. It applies the policies of the previous two decades in one plan and places emphasis on decentralisation and liberalisation which as has been said before follows current world economic tendencies. The fact that Colombia's economic growth has been restricted by narco-traffic, terrorism, paramilitarism, guerrilla, organised crime, social problems and corruption in the administrative sector have been the main reasons for the current administration's focusing its attention on social infrastructure as a means of preventing the violence. However the national policy does not tackle the problem at root level. For instance the main strategy for social infrastructure is education which is a very important issue in development. However, the proposal is not quality oriented which is contradictory to the

labour specialisation that economic liberalisation requires, that is to say that if a well educated and technically proficient work force is not available, then only the social elite can be involved in development.

Another factor that is relevant to the current World Bank housing policy paper is that of the financial sector. The Bank suggests leaving finance in the hands of the private sector through 'innovative finance systems' and that supply will respond to demand in a well functioning market. However it can be argued, in the case of Colombia that although the introduction of an innovative finance system like UPAC succeeded in attracting private savings, the construction activity was concentrated in the middle and higher income sectors of the population.

From the evolution and the effects of the UPAC system studied in the body of this thesis it is possible to draw some conclusions about the factors that affect the system. The UPAC system has changed over the course of the various administrations, from being the main source of construction finance, through to being almost eliminated, accused of causing inflation during two liberal administrations, and given an important role in financing low income housing during the 1982-86 administration by restricting and regulating the direction of its investments. Today the UPAC system has managed to meet part of the low income housing sector finance demand, however, not the majority, as it has been concentrated in the top layer of the VIS. It is also important to highlight the influence of free markets in the housing finance system. The UPAC system, and the CAVs were created with the aim of assisting the construction sector. However, in January 1993 its radius of action was widened, allowing them to invest in other industries and assuming other activities in order to enable them to compete with the rest of the financial sector. The consequences cannot yet be seen; however, there is a danger of leaving the construction sector for more profitable sectors.

As a result of this the government has recently been formulating new decrees in order to provide incentives towards financing these type of housing solutions. It mainly focuses upon improvement, subdivision and credit facilities. Moreover, INURBE is planning to dedicate 90% of its resources for collective subsidies to housing of less than 50 ms giving priority to relocation of settlements which are located in risk areas, followed by programmes in collaboration with municipalities for land and public services and lastly for new houses. Despite this, and contrary to what the World Bank is suggesting, subsidies at least in Colombia at this moment are fundamental as the lowest income groups, especially people from the informal sector have no other means of gaining access to formal finance.

The last observation to be taken into account is the role

of the government institutions in the housing sector. It has been seen in this paper that the main housing institution in Colombia: INURBE (formerly ICT) has been the government's representative of the housing sector, following national and international housing policies and assuming responsibility for the provision and finance of housing for low income groups. However, historically the institution up to the current administration has drained government resources with very little benefit for the poor.

Four main factors of inefficiency can be identified: Firstly, the stagnation of a large number of employees not required who could not control the number of houses produced (for instance at that time 20,000 houses were lost and nobody knew who had them or where they were built) (El Siglo newspaper, 20 January 1990). Secondly, the corruption factor among employees was rife, giving subsidies to friends and higher income groups and reducing any beneficial effect to be gained. Thirdly, the lack of foresight in its land investments as they were generally located in environmentally risky areas which could not be sold to the private sector, and finally the poor quality of housing speedily produced in order to fulfil a national plan. Certainly, other external factors affected the institution yet its main problem was its own burden.

The new name and new functions of the institution are also following international advice. Its main function is to allocate and administrate the subsidies resources and to provide incentives for all the participants in the process. However, up to now according to CAMACOL, the institute has failed to hand over 81% of the subsidies already allocated. It has nevertheless continued to study and measure the housing need in different regions which hopefully will be used in future policies and programmes.

Finally it is important to discuss the role of the government and the impact of the policies on the informal sector. The World bank encourages governments to manage the housing sector as a major economic sector, to adopt appropriate standards, to adopt pricing and cost recovery and to enable the housing market to work (which as we have seen has also been proposed in the current Colombian housing policy). However, this paper raises doubts about the prospects of the stagnated administrative sector on administering applications efficiently and also about the institution's financial capacity to continue giving subsidies if the government is not providing them on time. Despite this, one of the main findings of this study is that without intervention in income distribution the subsidy is the only way for many to obtain housing today and therefore it should not disappear, as the World Bank is advocating.

With respect to the informal sector, this paper concludes

that at the moment the new system is reaching more poorer groups than before, yet it still does not cover the lowest income sectors. This could mean that a portion of the population is still solving its housing problems either by renting or by illegal means. It is important to mention that the participation of NGOs and community based institutions in non-conventional finance systems is increasing and strengthening.

It must be emphasised that insofar as the housing sector is concerned, a great deal more research must be done in order to speculate and clarify trends, successes and failures. However, for the purpose of this paper it is important to emphasise that whatever changes or policies are applied, the poor remain at the margin of the solutions. Therefore it is important to point out that special attention must be directed to the impact of such policies on the poor, specially in a free market system with its profit philosophy.

Finally, this paper has no answer to solving the problem of housing the poor, but it has tried to rationalise the pros and cons of the 'free market' system and hopefully raises discussion and questions about its effect on the poor. With respect to the Colombian housing sector, the government has in 1993 approved the creation of a vice-ministry of housing which hopefully will place special attention on the great majority: the lowest income. It is important to recognise that its creation shows the concern and the urge for housing solutions and that there have been improvements at least in the social conscience, which is in one way, a way forward.

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## ABBREVIATIONS AND DEFINITIONS

BCH(Banco Central Hipotecario) Central Mortgage Bank.

CAMACOL(Camara Colombiana de la Construccion) Colombian Chamber of Construction.

CAVs(Corporaciones de Ahorro y Vivienda) Saving and Housing Corporations.

CENAC (Centro Nacional de la Construccion) National Construction Centre.

CINEP (Centro de Investigacion y Educacion Popular) Investigation and Popular Education Centre.

CONPES (Consejo Nacional de Politica Economica) National Cabinet of Economic Politics.

DNP (Departamento Nacional de Planeacion) National Planning Department.

DANE (Departamento Nacional de Estadisticas) National Department of Statistics.

FNA (Fondo Nacional del Ahorro) National Savings Fund.

ICT (Instituto de Credito Territorial) Territorial Credit Institute.

INURBE(Instituto Nacional de Vivienda de Interes Social y Reforma Urbana) National Institute of Social Housing and Urban Reform, (formerly ICT).

(ms)Monthly minimum legal salary.

NGOsNon Governmental Organisations.

PovertyThe statistics used are based on Colombian poverty definitions which are poverty line and unsatisfied basic needs (see note no. 12).

UNCEVI(Unidad Central de Vivienda) Central Unit of Housing.

UNDPUnited Nations Development Programme.

UPAC (Sistema de Ahorro de Valor Constante) Constant Real Value Saving System.

VIS (Vivienda de Interes Social) Housing of less than 4 ms. value.

## NOTES

- i. Inhabitants in cities worldwide increased from 300 million in 1950 to 1.8 billion in 1980 and the UN projects that it will reach 4 billion by the year 2020. (Harris, N., 1992, Cities in the 1990, UCL Press Limited, London).
- ii. The UPAC indexation system is studied in detail in chapter two, and it demonstrates that the poorest groups of the population did not benefit.
- iii. It has been very difficult to achieve a balance between affordable and environmental standards. There are priorities in solving the problems of the poor. For instance good location is fundamental for their income possibilities and distance from work adds to transport and pollution costs.
- iv. It was said in 1986 that the payroll of the ICT (State Housing Institute in Colombia) was eleven times higher than their investment. The ICT is studied in more depth in section three.
- v. It is important to point out that "the bank's change in the type of loans has changed the countries obtaining them. The per capita income of countries receiving Bank loans has increased over the 1972-1980 period. This change did not reflect a conscious Bank decision to shift operations to higher-income countries, but a direct consequence of the issues addressed in projects" (World Bank Policy Paper, September 1992).
- vi. David Sims also questions who the audience is for what is written; the accuracy of what is translated; and criticises the need for numbers (even if they are not accurate); the time and cost of sending people to seminars and missions, and the duplication and lack of co-ordination in the institutions. (Conference, Royal Institute of Planning, July 1993)
- vii. The Reagan administration reduced the housing subsidy budget from \$31.5 billion in 1978 to \$9.5 billion in 1987 and the total housing budget from \$29.3 billion in 1981 to \$16.3 billion in 1982. (Vliet, W. and J. Weesep, Government and Housing, article by Marshall M.A. p.41).
- viii. Between 1938 and 1985 the total population of Colombia increased from 8.7 million to 29.2 million which means that it increased 3.4 times while the urban population increased 8 times from 2.5 million to 19.8 million. The urban proportion changed from 30% and 70% to 70% and 30% respectively during this period. (Colombian National Census, 1985). Abbreviations and Definitions can be found at the end of this document.
- ix. Between 1981 and 1989 Colombian income per capita grew by 1.7 percent with inflation relatively under control at about 23% in the same period. (Gilbert, A., "The provision of public services and the debt crisis in Latin America: the case of Bogota", Economic Geography 66, pp. 349-361).
- x. The indicators of housing conditions are determined by: the level of permanence of the house construction materials, the provision of basic services, the degree of overcrowding (more than three people per room), the number of people economically dependant on one person and the lack of education.
- xi. In Colombia the period between 1985 and 1990 showed a significant decrease of the population suffering from 'Unsatisfied Basic Needs' (UBN) while poverty calculated by the poverty line method was oscillating. (DNP, 'La Revolucion Pacifica plan', p. 664, 1991).
- xii. According to 'La pobreza en Colombia volumen II' poverty has been studied and classified following the known 'Unsatisfied Basic Needs Method' This method identifies and classifies the conditions of poverty of households on the basis of the following five indicators:
  - 1 Households in sub-standard houses.
  - 2 Households in housing lacking basic services.
  - 3 Households living in conditions of critical overcrowding.
  - 4 Households affected by high economic dependency.
  - 5 Households affected by scholar absenteeism.

Every household affected by one or more of the above indicators is classified as poor or affected by unsatisfied basic needs (UBN). Every household affected by two or more indicators is classified as living in misery.

xiii. In 1989 the National media published that many positions in the ICT were given to benefit friends. (El Siglo, June 6 1989, page 4-b)

xiv. The 'Alianza para el Progreso' programme was designed by President Kennedy with the objective of alleviating social tensions in Latin America.

xv. The plan proposes to develop land provision, credit (small loans at short term), public services technical assistance, consolidation of existing settlements, and re-zoning programmes.

xvi. Peattie, L., 1982, "Some Second thoughts on Sites and Services", Habitat International, Vol 6 No 1/2 pp. 132-139 quotes Stokes, C.S., August 1962, "A Theory of Slums", Land Economics, Vol 38 No 3 pp. 187-197.

xvii. In 1962 the ICT received funds from the Inter American Bank of Development and the Inter American Development Alliance as part of Kennedy's 'Alianza para el Progreso' programme.

xviii. Alvaro Pinzon Angel - ICT ex-manager - published figures of the ICT expenditure in 1988 as follows: 54.3% for debt service, 10.3% for administration and only 35.4% for investment. It can be noted that the administration cost is almost a third of their investments. (El Siglo, June 6 1989, page 4-b).

xix. The ICT was losing \$7,350 million a year and it was calculated that 1,500 employees were surplus to requirements. (La Republica, 20 April 1989, pp 3-4, Luis Alberto Gonzales).

xx. It was argued that the UPAC did not protect the 'Peso' (Colombian currency) from devaluation by saying that "if one person invested \$100 pesos in September 1973 (when UPAC had that value) in June 1985 the value of that unit was \$972.74 pesos, while during the same period the cost of living had risen to \$1,491 pesos. This means that the loss per unit in that period was \$518.50 pesos. However the Institute of Housing and Saving Corporations ICAV argued that the problem was due to the government's imposition of keeping the monetary correction up to 23% even when the cost of living was higher. (Negocios, November 1985).