

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB1489

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| Operation Name | Second Programmatic Loan for Sustainable & Equitable Growth: Supporting Housing Sector Policy |
| Region | LATIN AMERICA AND CARIBBEAN |
| Sector | Other social services (100%) |
| Project ID | P078716 |
| Borrower(s) | THE GOVERNMENT OF BRAZIL |
| Implementing Agency | INISTRY OF FINANCE |
| Date PID Prepared | March 24, 2005 |
| Estimated Date of Appraisal Authorization | April 14, 2005 |
| Estimated Date of Board Approval | June 28, 2005 |

1. Key development issues and rationale for Bank involvement

The Government is committed to a Low Income Housing strategy aimed at improving the living conditions of the poor and strengthen their access to assets, notably housing and serviced/serviceable land, and to expand new housing construction in the formal housing market while maintaining fiscal discipline. Specifically, the Government's agenda includes efforts to: (a) develop a sound national policy and institutional framework for housing and urban development; (b) strengthen the housing credit and savings systems, and provide incentives for the housing finance market to expand as well as move "downmarket"; (c) reform the existing federal housing subsidy system to increase the affordability of housing solutions for the lower income groups, and make subsidies more transparent and efficient; and (d) reduce the costs of formal urban land development by strengthening land legislation and regulations and real property registries and rights so as to increase the supply of serviced and serviceable land.

The final goal is to improve the wealth basis of the poor and the living conditions of the 20% of the population that lives in less-than-adequate housing conditions (40 to 50% in some states) and would be an important element in the efforts to improve public health and environmental conditions in which the urban poor live¹. The government program aims to support the expansion of the housing finance system and to facilitate the construction of new low-income housing. The approach builds on the country's comparative advantage in having active private developer and construction markets and sophisticated financial systems which can be called upon to play a role in the development of the housing markets. It further benefits from international lessons on housing sector interventions, including the need to address housing and urban policy reform in a comprehensive manner, to address the linkages between (a) public sector subsidy programs for the poor; (b) the financial sector and formal housing finance markets; and (c) "real" side issues, including markets for land and the construction sector.

Housing Policy and Poverty. The government has committed itself to the objective of reducing Brazil's rate of extreme poverty by 50% by the year 2015. The strategy to achieve this objective includes sustained economic growth based on financial stability, investments in the poor through better education, health and other social services as well as improved access to physical and financial capital improved access and enhanced social protection including social assistance and conditional cash transfers linked to specific social targets. World Bank financed projects support several elements of this poverty reduction strategy World Bank analysis shows that the government poverty reduction strategy can be achieved through a combination of 4.5% annual growth, continued increases in educational outcomes and human capital and further improvements in social policies. The proposed reforms would have a bearing on poverty reduction by: (a) increasing access of the poor to essential shelter services; (b) enhancing the capacity to accumulate and improve housing assets, by expanding access to housing

¹ Including the achievement of Millennium Development Goal (MDG) 7.

credit and upfront subsidies for housing, Indirectly, access to improved shelter in poor communities has been demonstrated to lead to improved self-image, higher returns for children's education and increasing opportunities for better paid jobs.²

The reforms the Government is undertaking will help increase the access to adequate shelter in different ways, including:

- (a) better targeted subsidies to the poor (formerly excluded from all the housing subsidize public lending);
- (b) improved availability of mortgage credit to low income families – with the benefit of teaching the financial market how to work with this type of clients and therefore contributing to risk reduction;
- (c) contributing to a more liquid and seamless housing finance market attracting a wider base of resources for the low income segment; and
- (d) expansion of the policy making capacity of government entities in terms of land policy, regulations and other supply bottlenecks.

2. Proposed objective(s)

The objective of the program is to support the Government's efforts to improve access of the poor to improved housing and serviced/serviceable land, while maintaining fiscal discipline. Brazil has witnessed enormous progress in all economic and social fronts, the exception being the critical situation of the shelter for the poor. Continuing urban growth, coupled with persisting income inequality and absence of targeted shelter policies, has led to a situation where more than 60% of the households coming to the market are unable to find an affordable shelter solution and join the ranks of informality. The Government is committed to address this challenge by supporting the needs of the very poor and the development of a market that could and should cater to the less poor.

Specifically, the proposed operation supports the Government in its efforts to: (a) develop a sound national policy and institutional framework for housing and urban development; (b) strengthen the housing credit and savings systems, and provide incentives for the housing finance market to expand as well as move “downmarket”; (c) design and implement a unified federal housing subsidy system to address the affordability of housing solutions for the poor; and (d) reduce the costs of formal urban land development by strengthening land legislation and regulations and real property registries.

3. Preliminary description

The proposed operation is part of a cluster of operations which support the Government of Brazil in its growth agenda. This loan focuses on housing sector reform and is integrated in the Growth Programmatic Series. The proposed loan, in an amount of US\$500 million, will support initiatives already completed. It will be

² Access to adequate shelter or housing services can help predict subsequent improvement in both cash income of the family as well as its well-being measured by health indicators, education performance (including dropout rates) and probability of exiting extreme poverty (Geoffrey Payne, 2004). In addition to providing shelter, housing also plays a more standard role as an asset, as acquisition for the urban poor offers the opportunity for small incremental investments (World Bank, November 2004, Report No 30465, The Urban Poor in Latin America). The returns to housing as an asset include the flow of housing services it provides some of which can be monetized in case of need by taking in new tenants or extended household members who share in the upkeep of the household . In addition, homeownership provides a constant flow of services and frees the family from the constraint of having to generate a fixed sum for rent every month. Given the large share of the poor employed in the informal markets, the poor will prefer to own they own shelter and avoid commitment to a fixed and regular payment as a housing rent. This can be important especially at time of crisis: in Uruguay, 10% of renters declared they had to move following the crisis in order to cut down on cash payments. Evidence from surveys on risk management in Chile and Peru finds that investment in housing acts as a substitute for formal retirement systems. Home ownership in LAC tends to be higher than in other parts of the world and some authors tend to believe that this is a way to cope with uncertainty and the negative consequences of financial crisis and macroeconomic disasters.

accompanied by a Technical Assistance Loan to assist the Government in pursuing its housing policy and design the necessary policy reforms which will be supported by the Bank by a follow-up loan (for \$400 million) and an investment-linked SWAp to finance an integrated subsidy program and the national urban upgrading efforts.

4. Environment Aspects

Not applicable.

5. Tentative financing

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| Source: | (\$m.) |
| BORROWER | 0 |
| INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | 500 |
| Total | 500 |

6. Contact point

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