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**DEFINING PRINCIPLES FOR  
THE CONCEPTUAL FRAMEWORK OF  
SHELTER SUBSIDIES  
IN ECUADOR**

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# **DEFINING PRINCIPLES FOR THE CONCEPTUAL FRAMEWORK OF SHELTER SUBSIDIES IN ECUADOR**

## **1. INTRODUCTION**

### **1.1 Redistribution of the Role of the State in social affairs. The Facilitating State.**

The Shelter Subsidy System and other consumer subsidies (e.g. water supply and sewerage) require, first of all, a different approach by the government and by society at large toward social matters.

This new social policy requires a different conceptualization from that of the traditional welfare state, which must be supplanted by a facilitating state, which will rely on people's ability to play a leading role, and will facilitate private-sector action.

The new posture does not mean that the government will withdraw from all social action, but merely that it will turn over policy implementation to the private sector and beneficiaries; i.e. the government will play a subsidiary role.

Essentially, in regard to housing, the State's role must be defined as a facilitator of processes, positively influencing market operation, preferring the poorest of the poor and providing the basic conditions for urban development. For these purposes, it must dictate the regulatory norms and establish the control mechanisms that will ensure the process within this conceptual framework.

### **1.2 Social and Housing Policy are National Policies**

A State that has been redefined as outlined above is not enough, if there is not the political will to reach negotiated consensus. For this purpose, a major effort is necessary for mutual comprehension, with the understanding that overcoming poverty is a national task, and not just a job for one political group or

another, or the responsibility of the public sector exclusively, but also for the private sector.

To achieve this, it will be necessary to banish mutual mistrust and reach agreements at least regarding the general principles that we indicate below.

Political competition under democracy creates a need to obtain short-term results. Sometimes this prevents serious, in-depth discussion of long-range proposals entailing efficient, equitable reforms. For any change to be achieved, political groups will have to concentrate on the good of the country, rather than feeling that such an attitude will mean relinquishing their share of power.

There is also great distrust between the public and private sectors and between both sectors and the public.

A new view of such relationships is essential if efficiency is to be attained. Lack of trust multiplies costs and resolves nothing.

The best way for such a relationship to occur is for all stakeholders to assume the good faith of their interlocutors and the rationality of their principles, from their own particular standpoint. In other words, it should be considered that the profit motive will drive the private sector, both the institutions and enterprises and their management, since people form companies to pursue economic returns.

The non-profit private sector also seeks to avoid losing money and tries to do things right, obtaining not only social gains as demanded by the market and their funding sources, but also economic surpluses.

People who are looking for a shelter solution try to obtain it at the lowest possible cost and, for this purpose, are willing to make sacrifices and effort, sometimes more than could be expected. At the same time, they will attempt to maximize input by the national and municipal government and/or institutions charged by law with solving their housing problems.

The State, in turn, will seek a maximum of social and political benefits with the least possible amount of resources.

Therefore, by putting together all the stakeholders, accepting their peculiar characteristics, social policy and housing policy is transformed into national policy.

## **2. FOUNDATIONS FOR A POLICY ON SUBSIDIES**

All modern governments have, as one of their main functions, the duty of protecting and assisting the weakest of its constituents, and establish policies promoting this purpose. Access to acceptable housing is also an aspiration and need for families. This, and the undeniable repercussions that suitable housing has on improving levels of education, health and social coexistence, makes it inarguable that the government must be concerned with these matters.

If the above is clear, then certain foundations must be defined to provide a general framework for action.

### **2.1 Preference for People with the Lowest Income Level**

Everyone agrees that the government should help those who need help the most, but does this actually happen?

In traditional policies, although this may be the intention, a series of aspects interfere, to generally prevent the target population from enjoying the government's efforts, which are basically geared toward benefitting the sectors that have the most influence and appeal. This redirection results in a contradiction: the government's (i.e. everyone's) money is used to accentuate the differences separating the poorest.

So, choosing to prefer the poorest people is an equitable condition for allocation, but at the same time such a process is tremendously difficult, because it is a political choice to favor those with the least pull.

Technically, favoring exclusively the poorest people might not be an optimal solution; if the government ensures this lowest-income sector a solution but makes no provision for the next higher socioeconomic strata, the result will be that people with more money will take over the solutions provided for the poorer ones (through rental, de facto/ actual legal purchase, etc.).

### **2.2 Redistribution of income**

Income redistribution is to be achieved through social policy benefits, in order to provide everyone with a minimum standard of living. However, and as we

have already pointed out, in practice social policy sometimes becomes regressive and contributes to making differences even wider.

Consequently, housing subsidy policy must work to attain actual redistribution of income in order to narrow this gap and provide more equal opportunities.

### **2.3 Emphasis on investment rather than spending**

An equally vital pillar of subsidy policy is for administrative spending in connection with implementation to be held relatively low, especially if the system is highly computerized.

When the State becomes a facilitator and grants subsidies to increase people's savings and to foster demand, the State saves enormous amounts of money, because its duties are circumscribed to merely setting norms; putting out calls to bid or register; receiving, processing and selecting bids; publishing the names of contract awardees; granting certificates and paying for them in due time. Thus, the State acts once, rather than shouldering long-term commitments.

This means that subsidy resources are invested, and promote savings and investment, which generates positive incentives in the economy.

## **3. CONCEPT OF SUBSIDIES AND RELEVANT EFFICIENCY AND EQUITY REQUIREMENTS**

Shelter subsidies are government aid, free of charge, to each family, on a one-time-only basis, so they can gain access to a housing solution. Therefore, it is a donation with a specific purpose, made with resources gleaned from everyone through taxation. The following efficiency and equity criteria must be applied:

### **3.1 Direct**

Direct subsidies are delivered directly to people so they can pay for their shelter solution. People can apply individually or through organized groups, depending on how the procedures are set up.

## **3.2 Transparent**

Systems for application, selection and allocation must be regulated and published, so that applicants, awardees and public opinion will be fully aware of procedures and results.

## **3.3. Objective**

Requirements to qualify for subsidies must be objective. That is, they must be based on measurable parameters that do not depend on subjective interpretation that could distort selection and award systems.

## **3.4 Focussed**

Subsidies must be stratified by homogenous socioeconomic sectors, so that families with similar income levels and aspirations will compete with each other for the benefits.

## **3.5 Decentralized**

Subsidies must cover the entire country, without discriminating among the urban and rural sectors. For this purpose, it is indispensable for the institution operating subsidies to be represented nationwide.

## **3.6 One-time-only**

Each family may receive only one subsidy.

## **3.7 Complementary**

Subsidies are always part of shelter solution financing. They must always be accompanied by families' prior saving and by borrowing, when required.

## **4. EXPECTED EFFECTS OF SUBSIDIES**

### **4.1 Solution of a social problem**

Shelter subsidies, especially if more of them are granted, will contribute to solving a serious social problem, as already stated. This is essential for the State and for society at large. Improved standards of health and education have much to do with housing improvements.

### **4.2 Contribution to stimulating the economy**

First of all, requiring savings as an unavoidable prerequisite for receiving subsidies contributes to the habit of putting off consumption in order to accumulate capital for investment. This is a key to encouraging people to save, guaranteeing savings, and making it profitable to save.

Secondly, the subsidy takes potential demand for shelter and makes it a reality, which drives production and the investment system.

### **4.3 Contribution to improving quality and lowering prices**

When the market is informed that there will be funding for demand, this provides companies with the assurance that they will be able to sell their products, so they can work on a medium-term planning basis.

Therefore, without artificial barriers to competition, product quality and pricing must improve.

### **4.4 Involving people in the economic system, enabling them to make use of their freedom to choose**

The market economy is socially justified if it manages to incorporate sizable population segments. It has consolidated in developed countries precisely because a significant portion of the public benefits from that development, by exercising their economic freedom.

This does not happen in developing countries, because we develop on two levels: some sectors of the economy grow, consolidate and share in technology,

whereas others backslide and are preyed upon. Consequently, ways must be found to get public policy to achieve positive effects on the public, not only from the standpoint of suitably focussing benefits, but also to trigger an attitude of self-reliance.

I feel that one of the main virtues of the system of subsidizing shelter demand is that it changes the State's paternalistic attitude of making decisions for people, into an attitude of inviting the public to freely choose within a mechanism of free prices, which are influenced by consumers' choices.

Therefore, although it is intangible, it is highly valuable for people:

- to be free to choose their shelter solution, within the range of their possibilities;
- to save, which not only helps them pay for their home, but also grants them self-respect;
- to be free to choose where to save, how much and according to what conditions (term, etc.);
- to choose their advisors and technical assistance;
- to choose the location of their shelter solution;
- to decide whether to apply for housing individually, or by associating with others.

#### **4.5 Increased productivity**

The greatest incentive to increasing productivity is free-market competition. This will increase if the rules of play are established on a medium-term basis.

This must be clear: we will encourage productivity improvement through internal housing-sector factors, and also because housing must compete with other sectors of economic activity.

Competition for public resources will occur within the government, which is why an efficient, equitable shelter policy is the best tool; in competing for

investment, the key elements will be security and profitability; and the determining factors in competition for people's savings will be the above factors, plus shelter solutions' accessibility.

## **4.6 Reinforced specialization**

When housing subsidies are created and stakeholders are the State, people who need homes, and the private sector, then specialization becomes necessary.

This generates new companies, each playing different roles (organizing and advising applicants and buyers, designing and building homes, financing homebuilding and buying, etc.). This specialization improves performance in the various areas of action.