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### **Chapter 8 - Urban and Housing Policy from Lula to Dilma: Social Inclusion with Territorial Segregation**

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Between the severe economic crisis of the early 1980s, which resulted in dismantling the Housing Finance System (*Sistema Financeiro de Habitação*), and the creation of the Ministry of Cities (*Ministério das Cidades*) in 2003, which initiated a new phase of housing policy under the Lula administration, Brazil underwent one of the most interesting processes of transition from dictatorship to democracy (Stepan, 1989; Kingstone and Power, 2000; 2008). Thanks to this process, not only was the election of a leftist president with a popular background possible in 2002, but also Lula's government was successful in its commitment to structural transformations that would confront the country's severe social inequalities and guarantee social rights to the excluded population. This transition can only be fully understood in light of a series of phenomena: a wide range of popular and social mobilizations, the construction of civil organizations, and the formulation of public policies with the participation of society at large, all of which characterized the country during this period.

One facet of this process was the struggle for the construction of new paradigms in urban and housing policies, based on principles such as the social function of property, the right to proper housing, the universalization of access to basic sanitation and to quality public transportation, and the democratic administration of the city. These principles were articulated in a widespread movement, one that was both complex and multifaceted, known as the Movement for Urban Reform (*Movimento pela Reforma Urbana*). By aggregating numerous organizations and mobilizations, the movement surged forward throughout this period, garnering victories and concrete experiences in the name of ensuring urban rights. The proposals crafted during this period, later incorporated into the municipal administrations that were dominated by

the Workers' Party, served as examples of public policies formed 'bottom up,' with significant popular participation.

This long series of events, in which society took the leading role, began with a popular initiative to include urban reform in the 1987–88 review of the Constitution. For the first time, the initiative enabled the establishment of a specific department for urban development in the Brazilian Constitution, thereby introducing the principles of the social function of property and the right to housing. This development unfolded along with the concrete experiences of municipal administrations that, throughout the 1990s, introduced participative forms of management: the mobilization in support of the City Statute, approved by Congress (2001); the approval of the Constitutional Amendment Bill that introduced housing as a constitutional social right (2000); and the formulation of the Housing Project (1999–2000), structuring a strategy for resolving the country's housing deficit.

This process culminated in the creation of the Ministry of Cities by the Lula administration in 2003, enlisted with the responsibility of coordinating a new urban policy at national level and thereby involving sectorial policies such as housing, environmental sanitation and urban transport, which opened new horizons for ensuring the right to housing.

This chapter seeks to assess the housing and urban politics of both the Lula administration and the (early) Dilma administration, with the aim of identifying advances and obstacles with regard to ensuring the right to housing and to the city itself.

### **Background: the crisis of the military regime, democratization and the dismantling of the housing policy**

The failure of the economic model implemented by the military regime in the early 1980s generated a recession, a higher rate of unemployment and a drop in wage levels; it marked the beginning of a new era. This process had enormous repercussions in the Financial Housing System (*Sistema Financeiro da*

*Habitacão*, SFH), generating a strong credit default among borrowers and consequently reduced investment capacity of the SFH. In a climate of substantial popular mobilization alongside the democratization process, the critics of the National Housing Bank (*Banco Nacional de Habitação*, BNH) were incensed and joined the fight against the authoritarian regime with which the institution was closely associated (Maricato, 1997).

With the end of the military regime, it was hoped that the ‘New Republic’ would renovate housing policy. However, for political expediency, President José Sarney (PMDB, 1985–89) resolved that the BNH would be abolished rather than housing policy be reformulated, thus transferring management of the Financial Housing System to the Federal Savings Bank (*Caixa Econômica Federal*). The decision had nothing to do with housing policy: its aim was to empower the president, who formerly had neither control of the BNH nor the political force to change its direction, as indicated by the state governors of the PMDB (Aragão, 1997).

The decision to abolish the BNH, without replacing it with another institution, was executed without the resistance of society and public opinion, as the bank had become one of the most hated institutions in the country. With inflation reaching frightening levels, the BNH was characterized by the image that ‘the more you pay, the more you owe.’ Outstanding balances and installments of borrowers, by virtue of the monetary adjustment mechanism, were growing at a faster pace than salaries, which were subjected to a sharp crunch in the beginning of the 1980s, while scandals involving the misuse of SFH funds were reported with high frequency.

With the end of the BNH, what was lost was a nationwide structure that, for better or worse, had accumulated enormous experience, trained professionals and financed the greatest housing project in the history of the country that, albeit with misconceptions, was at least established. As a result, there emerged a void and an effective national housing policy ceased to exist. Shortly thereafter, the Ministry of Urban Development (*Ministério do Desenvolvimento Urbano*) was also abolished, further dismantling the nascent

institutional structure focused on the urban and housing sector, which had barely begun to be organized.

From this moment onwards, the lack of priority for urban issues became obvious. Between the abolishment of the BNH in 1986 and the creation of the Ministry of Cities in 2003, the sector of the federal government responsible for the administration of housing policy was subordinated to seven different administrative structures, evidence of discontinuity and a lack of strategy to tackle the problem (Bonduki, 1998a).

The Federal Savings Bank became the financial agent of the SFH, precariously absorbing the expertise, personnel and archives of the former BNH. The regulation of housing credit and of the SFH as a whole passed to the National Monetary Council (*Conselho Monetário Nacional*), becoming an instrument of monetary policy that led to tighter control over the granting of mortgage loans. Misguided policy decisions marred by allegations of corruption, along with a release of contracts beyond the control of the FGTS during the Collor administration in 1990, resulted in a total shutdown of financing through FGTS resources between 1991 and 1995 (Carvalho and Sobrinho, 1992).

The financial deficit generated by the default crisis of the early 1980s led to a reduction in housing investment in order to recover the funds of the SFH. In this regard, financing and housing production was further limited, while housing problems for the poor became more severe with unemployment and loss of income among the urban population, which characterized the last two decades of the twentieth century. The favelas (shantytowns) began to grow at much higher rates than the urban population as a whole.

To cope with this situation, several municipalities and states launched housing programs that were financed through alternative sources, particularly budgetary resources, thereby adopting principles and assumptions different from those that had been adopted by the BNH. However, given the State's fiscal crisis, these investments fell short of necessity and, moreover, the

absence of a financial design prevented their use as subsidies for the loans granted by the SFH (Bonduki, 1998b).

During this period, a national strategy to address the issue of housing ceased to exist, leaving a void that was filled in a fragmentary, yet creative, way by municipalities and states. This led to a gradual transfer of responsibilities to the states and municipalities, keeping the Constitution of 1988 as a framework, which made housing a competitive assignment for the three branches of government. With democratization and the growth in mobilization of housing movements, the pressure heightened for the greater participation of local authorities in the housing issue. As we shall see later, local administrations became the principle interlocutors of popular organizations and assumed responsibility for addressing social demands, as they were in direct contact with the problems of the poor population.

### **The legacy of the FHC government: economic stability, low investment and recovery of the SFH**

During the administration of Fernando Henrique Cardoso (PSDB, 1995–2002) and with the introduction of the real (BRL), economic stability and a gradual resumption of financing for housing and sanitation were achieved at a national level through the resources of the FGTS, after several years of paralysis. A consistent housing policy was not structured at this time, but the assumptions that guided the action were fundamentally different from those that predominated during the period of the BNH, thereby directing the formulation of new programs (*Ministério do Planejamento e Orçamento*, 1996a; 1996b). Macroeconomic policy, marked by a restriction of credit and public spending, prevented any forceful or massive action to addressing housing problems. The restrictive character adopted by the government created a culture of fiscal responsibility that, although exaggerated, had the merit of generating conditions for a recuperation of the financial health of the FGTS and the investment capacity of the SFH. This opportunity was little exploited in the Fernando

Henrique Cardoso (FHC) administration and the first two years of the Lula administration, but permitted the great leap that was initiated in the year 2005 (Instituto Via Pública, 2004).

Although, at first glance, the changes introduced could indicate a renovation in the way that the housing issue was treated by the federal government, breaking the rigid perspective inherited from the times of the BNH, they did not in fact succeed in leveraging a new housing policy and ultimately generated a set of adverse effects in social, economic and urban terms. Between 1995 and 2003 (including the first year of the Lula administration), around 1.7 million loans were contracted, totaling a little more than BRL 22 billion. Out of these funds, only 22 percent of the contracts and 36 percent of the funds were allocated to produce 364,000 new units in nine years. To understand this in comparative terms, the FGTS had financed the same number of units in only one year (1980) (Instituto Via Pública, 2004).

These programs did not interfere positively in the fight against the housing shortage, particularly in low-income segments. A traditional characteristic of housing policy in Brazil was maintained or even accentuated: privileged treatment of the middle class. Between 1995 and 2003, 78.8 percent of the total funds were allocated to households with an income higher than five times the minimum wage, with only 8.5 percent destined for low-income households (up to three times the minimum wage), which constitutes 83.2 percent of the quantitative deficit (Instituto Via Pública, 2004).

The Residential Leasing Program (*Programa de Arrendamento Residencial*, PAR) was created in 1999 and was dedicated to the production of new rental units, together with the Housing Subsidies Program (Programa de Subsídio Habitacional). The two programs brought with them an important novelty at the federal level: subsidies with funds from the National Treasury to support the construction of housing for the low-income population.

The PAR brought an innovation, incorporated as a cornerstone in the housing policy proposals formulated by the Housing Project and implemented by the Lula administration: a mix of resources comprised of a returnable source

(FGTS) and a non-returnable source, so as to enable assistance to the population that did not have income compatible with the cost of financing a housing unit. It can be said that these two programs, by way of introducing a non-returnable fund (the Federal Budget or other sources), were ground zero for federal government actions under the new National Housing Policy (*Política Nacional de Habitação*) implemented by the Lula administration.

### **The roots of Lula's national housing policy: municipal experiences and the Workers' Party approach to government**

Given the absence of a national policy, the trend of decentralized housing policies grew (as we saw previously, facilitated by the Constitution of 1988) and a broad set of pioneering experiences emerged with social housing by municipal administrations, based on assumptions alternative to those employed by the centralized and homogeneous model of the BNH. These proposals were marked by diversity and by innovative assumptions about tackling the housing problem that would become one of the formative elements of the policy implemented by the Lula administration 20 years later (Maricato, 2001). This new housing policy formulated by the Lula administration, therefore, inherited the long development process that originated in the first directly elected state and municipal governments (Bonduki, 1997).

Although these initiatives were not implemented on the scale required, they were important seeds because they had been dialogued with the actual city and were realized with budgetary funds that had been provided to promote popular participation. Out of all the municipal experiences, the social housing program of the municipality of São Paulo (1989–92) that was implemented by the Luiza Erundina administration, elected by the Workers' Party, stands out as a true laboratory experiment for alternatives addressing the issue in an innovative way; within this process were born several proposals that were later developed by the Lula administration. The intervention was remarkable, pointing to the inclusion of housing as a fundamental element for the creation

of the city, and for the implementation of new forms of management, with a great diversity of programs and quality of projects (Bonduki, 2014).

The housing intervention in Sao Paulo during this period occurred at an unprecedented scale for municipal programs: in four years, almost 250 projects were developed and nearly 70,000 families were involved. It was not a pilot, but rather a program with the objective of generating a demonstrative effect that another kind of housing policy was possible. With high-quality architecture and appropriate urban integration, innovative project references were developed and associated with new forms of administration, such as self-governed *mutirão* (collective work effort). A relationship between housing production and urban policy was pursued despite institutional and political constraints.

An aggressive policy of expropriation of vacant urban spaces with existing infrastructure introduced a new logic of urban integration, which broke with the traditional peripheral locations of large housing complexes. The projects were aligned with the urban policy that proposed to combat empty properties and unused plots of land. In the favelas, the policy attempted to facilitate urbanization, except if the favela was very dense and was very well located, in which case it would opt for a full reconstruction of the settlement to keep the population in the same area. Along the same lines, another program was implemented in Rio de Janeiro with a different urban design. Led by mayor César Maia, the conservative administration introduced *Favela-Bairro* (favela-neighborhood), the biggest program of favela upgrading until that time, reinforcing the proposition that urbanization is the best option for dealing with the problem of precarious urban settlements.

Enabling social housing projects in city centers was another innovation of this period. Pilot projects developed in São Paulo between 1989 and 1992 showed that this was possible at costs consistent with the income from traditional projects and that it even had advantages for the city, with a reduction in transport needs, mixture of social classes, diversified use of urban space, and the effective utilization of infrastructure and equipment. In this seemingly utopian era, at the turn of the century, it began to be advocated more broadly



that it was possible to break the historic urban segregation that cast the poor out to the periphery.

These pioneering experiments served as effective demonstrations for the housing movement, which continued to advance its cause, not only for the right to housing but also the right to the city. Beginning in 1996, the occupation of vacant buildings in historic city centers was becoming common, initially in São Paulo and then in other major Brazilian cities such as Rio de Janeiro, Porto Alegre, Salvador and Recife.

The creation of the federal government's Residential Leasing Program (PAR) in 1999 gave some encouragement to this approach and opened up the possibility of financing interventions in city centers. However, this type of venture was unimpressive from a quantitative point of view; less than 1 percent of units financed by the PAR were of this type (Maleronka, 2004).

Municipal and state experiments, funded by resources from their respective levels of government, showed to the housing movements that it was fundamental to fight so that the State would make available budgetary resources to finance the production of low-income housing. In 1996, several programs of this new phase were selected as successful examples to be included in the Brazilian Report for the United Nations Conference on Human Settlements – Habitat II, which helped to bolster support for a new way to address the housing problem (Bonduki, 1997). This group of experiments was fundamental for the creation of a large program for the urbanization of favelas under the Lula administration.

### **The national housing policy of the first Lula administration: The construction of a bottom-up public policy**

From the outset of the twenty-first century began a new period in the history of public housing policy in Brazil (Bonduki, 2014). By any interpretation, it is undisputable that the inclusion of the right to housing in the Constitution (2000), the Statute of the City (2001), the creation of the Ministry of Cities

(2003) and the formulation of a new national housing policy (2004) are important milestones. Beyond that, the economic situation of the country changed significantly throughout the first decade of the century, thus allowing for a significant increase in investment, in both social and commercial housing. The point of departure of the new National Housing Policy occurred in 1999 and 2000, when the Citizens' Institute (*Instituto Cidadania*), coordinated by Luiz Inácio Lula da Silva, launched an enticing proposal: to develop a plan that would permit stabilization, in terms to be defined, of the housing problem in the country. The proposal was part of a set of projects from the institute aimed at the construction of development projects that would associate the resolution of social issues with economic growth and job creation, having in mind the electoral campaign of 2002 (Instituto Cidadania, 2000).

Launched in 2000, the housing project presented proposals in three dimensions – social management and control, financial design, and urban-land elements – and faced the issue not only in the context of the federal government, but also in consideration of the various agents who bear some responsibility for the housing problem, in both the public and private domains. The establishment of the National Housing System (*Sistema Nacional de Habitação*) was proposed, formed by the three branches of the federal government, it would act as a formal structure under the coordination of a new ministry known as the Ministry of Cities (Instituto Cidadania, 2000; Maricato, 2001).

Social control would be exercised by the Council of Cities (*Conselho das Cidades*) and similar agencies in states and municipalities, which would be fit to manage housing funds that concentrate budgetary resources to subsidize the poor. In this regard, the priority would be the approval of the bill by popular initiative for the establishment of the National Housing Fund (*Fundo Nacional de Habitação*), a flagship of the housing movement that had been bogged down in Congress since 1991.

In summary, taking into account all three dimensions of the housing project, the proposals would be: to approve the Statute of the City to facilitate

access to land and make this cheaper, combat idle property speculation, and implement property development in the municipalities according to master plans; to create a new institutional structure, with social participation and control, as well as intergovernmental and inter-sectorial coordination; and to create a new financing and subsidy model. With this base established, there should be a wide enough range of programs to ensure handling of the various types of urban and housing problems, with a level of diversity that would encompass the different regions and categories of cities.

In the initial phase of the first term of the Lula administration (from 2003 to July 2005), the proposals related to institutional and urban issues advanced more rapidly than the financing model. The Ministry of Cities was created on the first day of the government, seeking to establish sectorial policies and to address the urban issue with four national secretariats (Housing, Sanitation, Urban Mobility and Urban Programs). A team committed to the urban reform agenda, the struggle for the right to housing and the proposals of the housing policy, assumed the key posts of the ministry. In October of 2003, the First National Conference of Cities (*1ª Conferência Nacional das Cidades*) was held, with 2,500 delegates elected in an extensive process of social mobilization in more than 3,000 municipalities, consolidating the foundations of government action. As a result, the creation and composition of the National Housing Council (*Conselho Nacional de Habitação*) was proposed, and consequently installed in 2004 (Ministério das Cidades, 2004).

The Statute of the City began to be implemented through a national campaign for the Participative Master Plan (*Plano Diretor Participativo*), developed by the Department of Urban Programs. It sought to qualify professionals and community leaders who, among other things, would introduce urban instruments capable of combatting real estate speculation and ensuring urbanized land for housing production. Between 2001 and 2006, about 2,000 municipalities developed their own master plans with very different results. Regardless, the federal government had achieved for the first time, through a democratic and participative process, broad action throughout the entire

territory to implementing a planning instrument, which was furthermore associated with the housing issue. This milestone ushered in a debate and the possibility of putting into place instruments of urban reform.

In spite of this considerable progress, the staff of the Ministry of Cities, under the coordination of Minister Olívio Dutra, encountered enormous difficulties in implementing proposals in the area of financing, given a rigid monetary policy still under the relatively orthodox control of the Ministry of Finance (*Ministério da Fazenda*) and Central Bank (*Banco Central*). In 2003 and 2004, budgetary resources became scarce, while the FGTS programs created in the previous administration continued to prevail, despite the efforts of the Ministry of Cities to prioritize the low-income population. Even a more flexible use of the FGTS was met with resistance, and therefore was adopted only gradually.

During this period the new National Housing Policy (*Política Nacional de Habitação*, PNH) was formalized. Without significant subsidies, though, the fiscal vision of the federal savings bank prevailed and alterations in the granting of credit were minimal. The creation of the National Social Housing Fund (*Fundo Nacional de Habitação de Interesse Social*, FNHIS), proposed by a popular legislative initiative, reiterated a commitment made by the president at the first National Conference of Cities that public resources would be directed toward enabling housing subsidies. FNHIS, however, encountered opposition from the government's economic policy team, delaying the Fund's approval until 2005 and, after strong pressure from the housing movement, its installation in 2006. Instead of being institutionalized like a financial fund, which was the original proposal, it was introduced as a budget fund with a more limited role. The government, meanwhile, pledged to contribute BRL 1 billion per year to subsidize housing programs, a value that had never before been reached. Additionally, a resolution of the FGTS trustee council extended the possibility of the fund being utilized for housing subsidies. The same legislation that created the FNHIS also established the National System of Social Housing (*Sistema Nacional de Habitação de Interesse Social*,

SNHIS), as a basis for enabling the coordination of the three federal entities. It also required that states and municipalities create an institutional structure with municipal or state funds, council and plans, as a condition to having access to federal resources and thus contributing to a new, decentralized institutional design.

Little by little, key elements for the implementation of a new housing policy were being incorporated, with the support and mobilization of the social sectors represented in the Council of Cities. In 2005, housing subsidies were amplified with funds from the FGTS, enabling greater service to the low-income population. Despite these advances, the established regulations failed to provide appropriate solutions for the poor population in metropolitan areas. Services provided to those individuals and families earning up to three times the minimum wage constituted 26 percent of the total in 2003, reached 46 percent in 2005 and jumped to 65 percent in 2007. These official numbers released by the Federal Savings Bank, however, should be relativized because the minimum wage increased significantly during this period.

### **The Lula administration's reconciliation with the construction industry**

The strategy formed by the National Housing Policy was based on strengthening the ability of the market to use the resources of the SFH to respond to the needs of the middle and lower middle classes in a way that would ensure that government subsidies could be directed toward the low-income population. In this sense, the government substantially altered its previous position and began to support the strengthening of the private sector and to stimulate investment in the construction industry.

Therefore, the Lula administration undertook fundamental measures to increase market-driven production of housing. A new Resolution of the Central Bank began requiring banks to use the resources of savings accounts to finance housing, as stipulated by the law that regulated the SFH. In 2004, Congress approved Public Law 10-931 with strong support from the government and the

private sector, providing for legal security in the market through mortgaging housing loans and by obligating the payment of undisputed debt in the case of a legal conflict between the borrower and financial agent and/or promoter.

In a favorable environment of high economic growth, these measures generated an enormous increase in the production and sales of housing units to the middle class. The investment in housing in the private sector, with resources from the Brazilian Savings and Loan System (*Sistema Brasileiro de Poupança e Empréstimo*, SBPE) jumped from BRL 2.2 billion in 2002 to BRL 50 billion in 2010. While focusing on the middle class, the significant supply of housing units contributed to tackling the housing shortage because the formal and informal housing markets were interconnected. The lack of available housing options in the medium segments tended to elevate the cost of popular housing, even if informal, and those social housing units that were produced with subsidies were ‘milked’ by those who didn’t have the appropriate necessities, as has happened in the entire history of public production.

This new situation led to the initial public offerings of twenty-four real estate companies, a significant investment of foreign capital and an overwhelming demand for land. The speculative process that took place between 2007 and 2008 came to be known as the real estate ‘boom’. This demand created land disputes with devastating effects on the production of social housing.

Faced with the need to expand their market, many companies that were traditionally focused on the upper and upper-middle classes created subsidiaries specialized in cheaper products and targeted the lower-middle class, a segment that had grown significantly with the economic and wage policies of the Lula administration but still had insufficient income to obtain housing built for the private market. The feasibility of private mortgages for this segment has been crucial for tackling the housing issue.

## **The National Housing Plan and the My House, My Life Program (*Programa Minha Casa Minha Vida*)**

A new housing policy was heading toward implementation, linked with other sectorial policies, and influenced by the ideals of the urban reform movement. The macroeconomic conditions of the country had been improving significantly, suggesting that the proposed financial model could be viable and thus implying that a significant extension of mortgage credit and non-onerous resources would be directed toward housing subsidies, elements that were indispensable for definitively coping with the problem. This framework was validated by the creation of the Acceleration of Growth Program (*Programa de Aceleração do Crescimento*, PAC) in 2007 and the My House, My Life Program (*Programa Minha Casa Minha Vida*, PMCMV) in 2009. PAC was concentrated on implanting large infrastructure projects, and included among its components a social program known as the Urbanization of Precarious Settlements (*Urbanização de Assentamentos Precários*). The program allocated unused budgetary resources to the housing sector, thereby enabling the implementation of the largest territorial inclusion program that had ever been conducted in the country.

As a result, between 2002 and 2008, the total resources dedicated to housing increased from about BRL 8 billion to more than BRL 42 billion, as illustrated in Graph 1. For the first time since the days of the BNH, which saw the allocation of sufficient resources to develop massive housing programs, there arose the tangible prospect of a significant contribution of resources to the subsidy. As a result, a much stronger impact on the housing shortage of low-income sectors was made possible.

In this context, from 2007 to 2008, the National Housing Plan (*Plano Nacional de Habitação*, or PlanHab) was formulated as one of the proposed components of the new PNH (Ministério das Cidades, 2009a). Its objective was to satisfy the housing needs of the country within 15 years. Developed by a participative methodology along with the consultation of the Housing and

Human Settling Laboratory (*Laboratório de Habitação e Assentamentos Humanos*) of the College of Architecture and Urbanism at the University of Sao Paulo (FAU-USP) and the Via Pública Institute, PlanHab was conceived as a strategic long-term plan with a temporal horizon of 2023, but was structured with operational milestones to be implemented in the short and medium term.

To overcome the traditional homogeneity with which the housing issue was treated in the past, PlanHab developed proposals, action strategies and goals that took into account the diversity of the housing issue, the different categories of municipalities, regional specifications and the different perspectives of each social segment. The strategy proposed simultaneous actions in four areas considered to be indispensable: (1) financing and subsidies; (2) institutional arrangements; (3) production chain in the construction industry; and (4) urban, land and environmental strategies.

A progressive extension of budgetary resources was proposed to achieve a stable allocation of 2 percent of the federal budget (*Orçamento Geral da União*) and 1 percent of the state and municipal budgets (a percentage three times greater than that which was being applied until the introduction of the PAC), the level of support required to achieve a massive alleviation of the housing shortage through the creation of a new subsidy policy. This was based on the segmentation of demand by levels of service, grouped according to the borrower's capacity to repay the loan.

According to the proposed financial design, the poorest group without the capacity to repay a loan would benefit from a complete subsidy, while families who had taken financing as part of the total cost of a housing unit, but were considered risky by financial agents, would have access to partial subsidies. At the same time, the Guarantee Fund (*Fundo Garantidor*), upon its creation, would have the role of extending the capacity of this group of families to obtain financing.

The vision that guided PlanHab, however, considered the Brazilian housing problem to be not only a financial issue, but also one that required the development of other fundamental elements. It observed, among other things,



the lack of capacity of the municipalities, state and even the financial agent (Caixa, the Federal Savings Bank) to operate on a large scale; the constraints of the production chain, whose output is generally low in productivity and lacks the architectural and urban planning quality to meet the most urgent demand; the difficulty of access and the cost of urbanized and regularized land for the production of social housing, in adequate urban and environmental conditions.

All of these aspects were considered obstacles to massive production, even though there was a significant investment of resources. Because of this, strategies and actions were proposed to simultaneously involve the four elements mentioned above (financial resources, operating capacity of the banks, the construction sector, and land) as a prerequisite to be able to achieve good results. In this sense, PlanHab was a fundamental instrument for directing housing policy in the long term, finding itself in a more favorable situation than ever to face and resolve the housing shortage in a new way.

In the second half of 2008, however, when PlanHab was just being completed, the international economic crisis hit Brazil and generated uncertainty and paralysis of the real estate sector, caught in the counter flow as it was in the process of accelerating production. The situation seemed out of control, with sharp drops in share prices of these companies on the stock exchange and obvious impacts on the activities of the sector, which suffered a substantial decline for the last months of the year. This situation was crucial to the government's decision to invest vigorously in the housing sector to prevent the crisis from worsening. As a result, formulation of what would become the My House, My Life Program was initiated. The proposal, developed initially within the Ministry of Finance, originated as an anti-cyclical emergency action to support the private sector and avoid an increase in unemployment and the risk of a severe recession, a credible threat at the turn of 2008–2009.

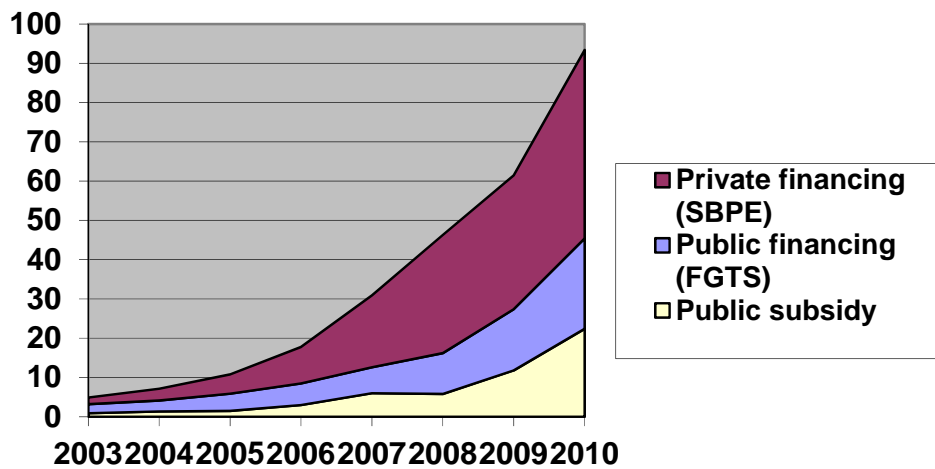
The intervention of the National Housing Secretary of the Ministry of Cities, launched during the development of the National Housing Plan (PlanHab), made it possible for the anti-cyclical action to gain popular support, incorporating part of the strategy that was still being formulated. Born of this

process, with the goal of enabling the construction of 1 million houses by the end of 2010, was the My House, My Life Program (PMCMV). The government's willingness to apply abundant resources to boosting construction, an attitude generated by the crisis, accelerated its decision to implement the financial aspect of PlanHab, which under normal conditions would have been met with strong resistance from the Ministry of Finance and would have undergone a lengthy implementation process. Under these circumstances, the government decided to allocate BRL 26 billion in subsidies to the production of new units, adding value to what was already planned by the PAC for the urbanization of precarious housing. The proposal was eventually adopted, which in practice was the most optimistic scenario proposed by PlanHab, attaining an investment of 2 percent of the federal budget for housing subsidies, a level that, according to the original proposed strategy, should take a few years to reach (Ministério das Cidades, 2009b).

In addition to this sudden increase in resources, other measures for financing PlanHab were proposed and adopted to reduce the cost of housing, such as tax relief for Social Housing (*Habitação de Interesse Social*, HIS), a decrease in the price of homeowners insurance and the creation of the Guarantee Fund (which resumed the idea of the guarantee fund proposed in the Housing Project), all of which had a positive impact on access to both social and commercial housing.

The PMCMV eventually incorporated the logic that provided for the allocation of subsidies and funding proposed by PlanHab, related to the creditworthiness of beneficiaries. With the contribution of this program, plus the significant increase of investments based on resources from the Brazilian Savings and Loan System, the growth of investment of resources in housing was extraordinary from 2006 onwards, reaching more than BRL 90 billion in 2010, as shown in Figure 8.1 below.

**Figure 8.1 Evolution of investments in housing in Brazil, 2003–2010**



Source: Brasil – Ministério das Cidades (2010)

The new program, however, left out numerous guidelines proposed by PlanHab to ensure better housing assistance and better urban integration. Just as BNH did during the military regime, it was focused exclusively on the production of finished units, an approach that attended to the demands of the construction industry but brushed aside other options for dealing with the housing shortage. In addition to funding and grants for finished units, PlanHab had designed a range of housing programs to lower unit costs and to be better attuned to the popular process of housing production (such as urbanized lots complemented by the financing of construction materials and technical assistance). The program had the potential to assist a greater number of families at a lower unit cost, a prospect that was very suitable for medium and small municipalities.

For this reason, the quantitative goal of the My House, My Life Program 1 (from 2009 to 2010) directed toward the low-income population, which amounted to 400,000 units, was timid compared to the need, despite the enormous resources available for subsidy. As a result, the distribution of units by income level adopted by the PMCMV was far from being proportional to the profile of the housing shortage. In 2009, 91 percent of the accumulated housing

shortage (i.e. almost 6.5 million households according to the traditional method of calculation, or 5.9 million if adjusted to the new method of calculation) was borne by those individuals and families earning up to three times minimum wage and who received full subsidies. This income group was considered a priority in the guidelines of the National Housing Policy, yet they were allocated only 400,000 units (40 percent of the overall goal of the program), a number that met only 6 percent of the accumulated deficit. (Bonduki, 2009) (Tables 8.1 8.2).

**Table 8.1 Resources allocated to the My House, My Life Program 1**

Type of service	Resources (in billions BRL)
Housing subsidies – up to 1,375	16
Financing subsidies – up to 2,700	10
Infrastructural financing	5
Guarantee Fund for Housing	2
Production Chain Financing	1
TOTAL	34

Source: Brasil – Ministério das Cidades (2009)

**Table 8.2 Goals of the My House, My Life Program 1 and the accumulated housing shortage by income level**

Income Level (relative to minimum wage)	Accumulat ed shortage (%)	Goals of PMCMV (%)	Accumulat ed shortage (thousands)	Goals of PMCMV (thousands )	Accumulated shortage satisfied (%)
up to 3MW	91	40	6,550	400	6
from 3 to 6MW	6	40	430	400	93
from 6 to 10MW	3	20	210	200	95
Total	100	100	7,200	1,000	14

Source: Bonduki (2009), with figures from the Fundação João Pinheiro (2007).

By not adopting the totality of strategies that PlanHab deemed essential, the PMCMV only managed to address the housing issue in an incomplete manner. Without prioritizing a land strategy, at the same time as the demand for land viable for housing production increased, the program generated an appreciation of land and plot prices and real estate speculation that prejudiced social development projects. This problem tended to generate the transfer of subsidy to the owners of the land, partially undermining the precepts of the program.

PlanHab had proposed a localization subsidy, adding value to its reputation for stimulation projects in dense, central areas; the PMCMV, by establishing a single ceiling of unit value for each region, wound up driving the projects to peripheral locations, in areas poor in employment, infrastructure and equipment, which created a demand for transportation, and hence a financial and human cost. Although it is clear that the proper location of projects depends heavily on the municipalities (on their master plans, their housing plans and the urban instruments that they regulate), it is the role of the federal government to stimulate the deployment of new projects in locations that are better equipped and that generate less urban, social and environmental costs – even more so when it yields a powerful steering tool: abundant resources for subsidy. The PlanHab proposed to incentivize municipalities by granting priority access to resources to those that were structured institutionally and would adopt correct land and urban policies. These policies included the institution of progressive taxes to combat underutilized real estate. That, however, has not been taken forward.

The only breakthrough in the urban land department of the PMCMV, a program that became a priority in the last two years of the Lula administration, was the inclusion of a specific section that facilitated the land regulation of favelas, in the Law Project (*Projeto de Lei*) that governed the program. This enabled the adoption of legal provisions proposed in the revision of Public Law 6.766/79 and which had been stuck in Congress until this point. The initiative shows that the government could have taken advantage of the opportunity of

creating this program to incorporate other strategies that fell under the institutional and urban-land departments of the PlanHab.

### **The results of the PMCMV 1**

As predicted, the My House, My Life Program was an important resumption of massive housing production, but from the qualitative point of view it left much to be desired.

As shown in Table 8.3, between 2009 and 2010, the program contracted a total of 1,005,128 housing units in different forms. Of these, only 237,824 units had been delivered by 31 December 2010, and the remaining was still in the production phase. Altogether, these contracts totaled BRL 53.16 billion , including resources from the federal budget and from the FGTS (onerous and non-onerous). By the end of 2011, a total of 719,000 units had been delivered.

According to official data, which can be distorted by the omission of income declarations, the total number of contracted units which were destined to households earning up to three times the minimum wage (BRL 1,395) far exceeded the initial proposal of 400,000 and reached 571,321 units, or 42.8 percent more than the target that was originally provisioned for this income level, which is extremely positive.

**Table 8.3 Contracted units of the My House My Life Program (PMCMV 1) by income level**

<b>Income level (minimum wage – MW)</b>	<b>Original goal (housing units)</b>	<b>Contracted housing units</b>	<b>Contracted relative to goal (%)</b>
Up to 3MW	400,000	571,321	143
From 3 to 6MW	400,000	284,772	71
From 6 to 10MW	200,000	149,035	75
<b>TOTAL</b>	<b>1,000,000</b>	<b>1,005,128</b>	<b>101</b>

*Source:* Caixa Econômica Federal

Despite the positive performance in quantitative terms, the regional distribution was unbalanced since the number of units contracted in the Northeast in Level 1 (up to 3MW) represented 10.3 percent of the housing shortage in this bracket, and in the Southeast it only accounted for 6.1 percent. This discrepancy and the weak performance in the Southeast region, the most urbanized region of the country, and where the largest cities are concentrated, is evidence of the difficulty of viable housing solutions in metropolitan areas, where the cost of land bears greater weight and where it is necessary to design housing production with a more sophisticated funding and urban policy. This problem is a consequence of the lack of land and urban strategy in the program.

Although there are exceptions – high-quality housing projects embedded within the urban fabric – the vast majority of the projects of the PMCMV are located at the outskirts of cities, far from jobs and disconnected from the existing urban fabric or from urban expansion projects, with housing projects that lack architectural quality and identity within the local communities. Therefore, it can be said that the program, despite its success in regard to resuming housing production, suffers from the absence of a more consistent approach to addressing the urban issue.

It is no coincidence that an administration so esteemed as Lula's, which on its first day created the Ministry of Cities with the vision of articulating urban policies, ended with a one billion reais building program. The administration succeeded in contributing an impressive subsidy, as had never happened before, to serve the low-income population. It did not, however, pay attention to important urban and land issues, and instead tackled the housing problem predominantly by constructing tiny houses and small apartment buildings on the urban periphery with projects of low architectural quality and poor planning.

This result is one of the consequences of the weakening of the Ministry of Cities which arose from the moment that it was sacrificed for a 'policy of governability', implying that it came to be directed by a political group that did

not have a coherent program to address the complexity of the urban issue in Brazil but rather sought only to generate more of the same.

In July of 2005, Olívio Dutra was substituted by Márcio Fortes, who was appointed in the middle of the most severe political crisis of the Lula administration by the Popular Party (*Partido Popular*, PP) of which the president of the House at the time, Severino Cavalcanti, was a member. The change represented the beginning of the process of dismantling a department that sought to structure itself to exercise its role of formulator of a nationwide urban policy. In 2007, with the substitution of all national secretaries of the ministry appointed by Dutra, with the exception of the National Housing Secretary, this process unfortunately advanced even further. At the same time, it is important to note that the heart of the federal government, including the chief of staff's office, the Ministry of Finance, the Federal Savings Bank and the president himself, was all much more concerned to render quantitative results (direct impacts on the economy and generation of jobs and immediate political gains offered by the program) than the city project itself was, with its implicit focus on qualitative solutions.

In summary, it can be concluded, albeit contradictory, that the conditions for solving the housing problem in Brazil – especially from a financial perspective – became much more favorable from the moment Lula took office. However, the administration's success in effectively coping with the housing deficit is questionable. Despite the fact that the shortage may have formally been reduced, the urban and environmental effects may still exacerbate other urban problems such as transport mobility and pollution, contributing to the severe crisis that is faced by Brazilian cities.

### **From Lula to Dilma: PMCMV 2 and the great urban and housing challenges in Brazil**

It is undisputable that Brazil has undergone a very interesting process of constructing a public policy in the area of urban and housing development. It is



a true bottom-up policy that began in the 1980s. Social participation in this debate was intense and social actors, especially social movements and progressive technocrats, had a decisive role in the formulation of proposals and alternatives that contradicted the traditional logic of the sector.

Just as the housing policy was structured during the first Lula administration and went on to receive greater resources (that coincided with the change of management executives of the Ministry of Cities, with the departure of some of the key activists committed to this process), there was greater influence from the private sector and therein emerged the adoption of proposals that would distance the agenda from urban reform. This process culminated with the launch of the My House, My Life Program in 2009, where corporate interests weighed much more heavily than the historic allies of the Lula administration. This moment could be considered to be an inflection point, with the project changing from a bottom-up to a top-down public policy.

With its peculiar background in the construction of an urban and housing policy, and conducting itself in a participatory manner, Brazil could advance considerably beyond what was achieved in the first stage of the My House, My Life Program. The launch of a second stage of the program in 2011, during the Dilma administration, presented the opportunity to take one step beyond that which was realized by Lula. The quantitative goal established by the new government was even more ambitious: 2.4 million units, 1.4 million of which being dedicated to households with incomes up to three times the minimum wage, which meant a greater focus on that segment of social interest. During the first year of the new government, 457,000 units were contracted, a considerable result given that the regulation of the PMCMV 2 was only approved in the middle of 2011.

The great challenge that the Dilma administration faced was overcoming a restricted and disjointed vision of urban policy, where sectoral insulation predominates within the Ministry of Cities itself and where physical goals and quantitative results were objectives to be reached without observing qualitative aspects. The federal government, including the Ministry of Cities,

did not yet possess the clarity of vision to realize that it was necessary to change the development model of Brazilian cities, which is based on social segregation, real estate speculation and prioritizing of economic interests linked to the supply of urban goods and services, such as the automobile industry, real estate developers, contractors of public works, urban transportation companies, etc.

For these reasons, there seemed to be no real commitment to forcing municipalities to break with this pattern, a shift that could be induced through the creation of stimuli and restrictions on the transfer of resources from the federal to the municipal level, for programs like My House, My Life. Without the interjection of the federal government, only the municipalities that have administrations which are conscientious about the need to create new development patterns, and which are capable of formulating a more consistent urban housing policy, will effectively benefit from the exceptional advantage (from a financial point of view) offered by the new housing policy introduced by Lula and continued by Dilma, in particular by subsidy and financing conditions.

In conclusion, it can be said that there is much to be done to advance the structure of a new urban housing policy that is consistent across the country. The necessary advances require a new management approach, with profound changes in the way that the Ministry of Cities is operated. It is this great challenge that the Dilma administration has not yet dared to face, while the situation of Brazilian cities continues to deteriorate.

It is worth quoting a phrase used frequently by Fernando Haddad in his victorious 2012 campaign for mayor of São Paulo: 'since Lula, life has improved a lot from the doorway into the house, but outside, the situation remains very difficult' (my translation) (Rede Brasil Atual, 2011). Though used in another context, the statement is succinct in describing the results of the new Brazilian housing policy: the housing conditions improved significantly for those who obtained housing and continue to be bad for those who didn't; for

both, in the meantime, the urban conditions have become much worse. This is the great challenge that lays ahead for the coming years.

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