

A Proposal for National Housing Policy for Honduras

Providing Access to Housing for the Poor



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1 Shelter Situation Analysis

1.1 Basic General Data

The Republic of Honduras has an area of 112,492 km², and is bordered by the republics of El Salvador, Nicaragua and Guatemala and has coasts towards the Pacific and Atlantic oceans. The territory is essentially mountainous, but three geographical areas can be identified: the interior highlands, valleys, and the lowlands in the Caribbean and in the Pacific. The agro climatic and ecological conditions are diverse, allowing the cultivation of a variety of agricultural products, both for domestic consumption and for export.

The political division of the country shows the existence of 18 departments and 298 municipalities. According to the latest Permanent Household Survey, Honduras has 7,415,972 inhabitants, with an average ratio of 4.7 persons per household nationwide. The number of people in rural households (5.0 persons) is higher than that of urban households (4.3 persons). Of the total population, 3,594,357 (48.5%) are men and 3,821,615 (51.5%) are women. The urban population is 3,372,341 (45.5%) inhabitants; and of this approximately 926,481 (27.5%) inhabitants are concentrated in the Central District, while San Pedro Sula

has 549,498 (16.3%) inhabitants. The rural area has as much as 4,043,631 inhabitants (54.5 %).

Of the total of 1,569,125 houses in the country (hosting 1,586,411 households), 49% are located in urban areas. 75% of the national population is of working age; however, the economically active population represents only 38% of those. In men, this ratio is much higher than among women (51.1% and 25.6% respectively). It is estimated that a total of 2,724,364 persons are employed in the country (36.7%). The monthly income per capita nationally is HNL 1,924; this income is higher in urban areas (HNL 2,700) than in rural areas (HNL1,182).

Consistent with information from the Central Bank of Honduras, the average passive interest rate to 90 days in August 2004 was 11.53%; which has had a downward trend until reaching its lowest level in December 2007, that of 7.52%. This reflects the excess liquidity available to the banks, product mainly of the massive influx of remittances.

The exchange rate has stabilized staying at 19.03 lempiras for dollar since October 2005 until December 2007. Inflation in Honduras has reduced significantly the period 2004-2007, especially in the second half of 2006.

1.2 Shelter Related Fact and Figures

Honduras is characterized by maintaining a significant rate of population growth, by a sustained process of urbanization and by a predominantly young population, and with a high rate of formation of new households that are increasingly small and nuclear. These elements determine a big demand for housing in all economic strata, mainly in urban centres.

Each year, the population increases by 162,230 citizens, who comprise about 32,200 new homes. With this rate Honduras ranks among the countries with highest rate of population growth, similar to those of Guatemala (2.6%), Paraguay (2.48%) and only less than Nicaragua (2.8%) and Belize (3.4%). To have a parameter of comparison, America as a whole is growing at a rate of 1.5%. Moreover, the size of households is declining, both urban and rural. Between the census of 1988 and 2001, the average households size fell from 5.52 to 5.04 members per household. As for urban households, the number of household

members fell from of 5.01 to 4.69 in the same period. In rural areas the number fell from 5.94 to 5.39 members per household.

Honduras also shows a high degree of urbanization, if we consider that 74% of the population of America is already living in cities. It is important to mention that Honduras along with Paraguay, shows the highest rate of urbanization in the region (5.54%).

The pace of urbanization presents an explosive nature in some medium-sized cities, especially in the Sula Valley, which is a net recipient of migration of people across the nation. Honduras demonstrates a significant and disturbing urban growth, highlighting the cases of Choloma, Villanueva and San Pedro Sula, which are growing at rates of 8.64, 7.18 and 5.4% respectively. Because of migration from the countryside to the city, the rate of annual population growth in urban areas is higher than population growth of the country in general.

The demographic structure shows a country where young people dominate heavily. In 2001 the population aged below 15 accounted for 42.9% of the total and that below 19 years accounted for 54.3%. At the other end, the population over 65 years accounted for 5.4%. The fertility rate is 4.2, a high rate when compared with Chile (2.4), Costa Rica (2.3), Peru (2.9) and Ecuador (2.8).

The youth of the population and the decreasing size of the urban households are generating a higher rate of formation of urban households, especially in Tegucigalpa and San Pedro Sula, implying that the growth rate of demand for housing is higher in those cities than in rural and smaller urban centres.

1.3 Housing Policy

The Constitution recognizes the right of Hondurans to decent housing. To this end, the Constitution gives the state a mandate to “formulate and implement programmes of social housing” and to “promote, support and regulate the development of systems and mechanisms for the use of internal and external resources to be channelled towards solving the housing problem.” In carrying out its constitutional mandates, the State of Honduras must decide what role it will play at housing, which investment it is ready and capable of doing, and on that basis elaborate a concerted long-term vision that can be sustained over time.

However, a policy governing the housing sector does not exist in Honduras. Some policy proposals have been developed, but all have remained at the draft level. Therefore, there is no law or a state policy to guide national efforts in housing, articulated and agreeded to strengthen the important link between housing and economic development. This implies that national targets for housing, despite their high degree of importance, are not part of the priority objectives of national development, thus being relegated to the background which minimizes their contribution to the welfare of families through access to housing and their impact on poverty reduction. This also affects the relationship between domestic investment in housing and employment, as well as the leverage that housing is producing in the economy, especially in the production and marketing of building materials and the multiplier effect in channeling resources of the family and private organizations. The first step to reach this level of significance is necessarily to build a vision and a policy of public housing, widely debated by all the actors of the society, and claimants of housing solutions, and conceived not as a government policy, which is short term, but as a long-term commitment in the form of a policy of state. Once formulated and implemented, the Housing Policy will enable efficient coordination and optimizing of the use of resources used by the institutions involved, giving national attention to the problem of housing, while unifying the criteria, views and interests between both suppliers and applicants for housing (public and private sectors), or between both home builders and suppliers of goods and services.

1.4 Actors in Shelter Delivery and their Roles

The Ministry of Public Works, Transportation and Housing (SOPTRAVI) is the stewardship of the sector, in accordance with Legislative Decree no. 218-96 of December 1996. The Minister for this portfolio has the greatest degree of hierarchical authority into the sector, acting on behalf of the President of the Republic. The SOPTRAVI shall not exercise any programs or financing function, except in those projects that the national situation (economic, social, environmental) requires, or that are not covered by other players in the housing sub sector (whose participation is a priority as private enterprises and the social sector of the economy).

The leadership of the National Housing Authority is incumbent in the preparation, definition, management and sanction of legal framework; in the preparation and reinforcement of the National Housing Policy through the organs of government competent in state housing politics; in monitoring and evaluating its performance; in proposing periodic adjustments that may be necessary; in proposing and leading political systems and mechanisms needed to implement the policy; in coordinating with other secretaries of state when implementing the programmes so requires.

The General Directorate of Housing and Urbanism (DGVU) is the Ministry's technical unit. Its main functions are to formulate, evaluate, coordinate and update the policy and intervention strategies in the housing and urban development sectors. It proposes and develops national sectoral plans, under the policy according to its rules and regulations, and directs, coordinates and supervises the formulation and implementation of regulated technical standards for housing and settlements.

The National System of Housing and Urban Development is another important player within the sector. It is composed of all natural and legal persons involved in the production, marketing, financing and management of housing (government, private sector, NGO's, civil society, professional associations, forecasting institutes, financial institutions, chambers of construction, developers, municipalities and social housing institutions).

2 Organisation

The Foundation for Development of Urban and Rural Social Housing (FUNDEVI), was born from the merger of two major programs: The Minimum Rural Housing Program (PVMR) and the Integral Program for Improving Urban Housing (PRIMHUR). PVMR was created in 1984 with funding from the Government of the Federal Republic of Germany , through the Bank for Development, KfW and the PRIMHUR in 1992 also with funding from Germany. Later in 1998 the Government of Sweden, through the Swedish International Development Cooperation Agency (Sida) joined the reconstruction effort of the country after the hurricane Mitch.

With the goal of creating an independent institution capable of being self-sustaining over time, FUNDEVI was established in 2000. It was since its origin designed to cover the absence of existing politic-strategic guidelines in the sector, and the lack of structured and effective financial market for the low-income housing. During the process of transition from the two programs into a foundation significant events were experienced including:

- The signing of an agreement with SOPTRAVI and the Interamerican Development Bank (IDB) to implement the programme BID1037 which allocates housing subsidy resources for low-income families.
- The signing of an agreement with the European Union, to run a total of 1,250 housing solutions for families in extreme poverty affected by Chagas disease through the Regional Programme for Reconstruction of Central America (PRRAC).
- Agreement with Sida for the execution of a phase II, which provides funds to operate the micro-credit for housing and loans for infrastructure in two basic areas: A line of financing for Progressive Urbanizations (LUP) and a line of financing for existing settlements (LAE).
- A study for Characterizing the Housing Demand was developed with financial support from the IDB.

These actions contributed undoubtedly to the consolidation of FUNDEVI, turning it into the social housing institution with the greatest impact in the history of Honduras, providing finance to 47,543 low-income families (june 2008), for the construction and improving of houses, legalization of land, and infrastructure. The number of beneficiaries at that date exceeds 198,695 people, and resources by the order of two billion Lempiras are managed for that purpose,.

For its good performance at the national level, FUNDEVI has been effective means of channeling grant funds provided by the cooperating countries, reaching a level of credibility that ensures transparency of operations and ensures that the funding mechanism are used to resolve real housing needs. This position of prominence, allows the institution to influence effectively the development of the housing sector, achieving the feasibility of introducing the government clear and precise proposals for improvement.

3 Shelter Problem

The lack of a legal framework governing the housing sector in Honduras not only implies a lack of rules and structure, but also establishes a system with many players who work so uncoordinated and whose effort is diluted by the lack of a comprehensive approach based on the analysis of viable alternatives to reduce the housing deficit and the role of each in achieving that goal. It is imperative to have a national housing policy to coordinate the effort that increase the effectiveness through proper utilisation of skills and experiences of various actors interacting in the sector, avoiding duplication that involves loss of time and resources, and encouraging sufficient space for discussion between the parties. Therefore, the lack of a national housing policy impacts negatively on the effectiveness and ability to meet the housing needs of low-income families that are unable to provide their own solution and who depend on government or others to achieve decent housing. In turn, the absence of a regulatory framework to identify good practices in housing construction, makes the quality of housing solutions subject to the morales and technical capability of developers and builders, having a direct relationship with the optimization of the housing that the family receives or gets accomplished.

It is the responsibility of the government to conduct activities necessary to draft an effective national housing policy that may solve adverse situations such as:

- The lack of access will cause an increase in informal settlements, disordered low health, high insecurity and risk of political manipulation of needy groups.
- The lower-income families may not have access to formal housing, while the gap between their ability to pay and the cost of housing in the formal market is maintained unless they receive state aid to finance it.
- There will be no possibility of any scheme of mortgage financing, until there is stability and until the actors have a perception of sustained stability.
- There will be no private participation, while there are no clear rules and mechanisms for clear and sustainable funding.

- There will be no clear funding mechanism, while gaps in the period between savings and mortgage loans are not resolved.

However, since the government so far has not done this task, I believe that FUNDEVI is the institution with greater capacity and experience to develop an effective proposal for the housing sector, which includes the requirements and needs of different low income population segments that generally are excluded by requiring conditions not appropriate to their particular situation. The Foundation has the ability to influence the government to consider the proposal, which can be discussed openly with the rest of the actors interacting in the field to achieve in consensus, and then proceed to draft a bill to be presented at the National Congress of the Republic. The Minister of SOPTRAVI being the chairman of the Board of Directors of the Foundation opens a window of opportunity that must be seized in order to strengthen and consolidate the housing sector.

For the foregoing, I believe that my effort can be concluded with the approval of the much needed national housing policy. This is endemic problem in the system, since each government that comes to power has ignored the need to regulate and strengthen the sector, and hence, has not led the implementation of solutions to the problem of housing shortage. Although there have been some efforts by private businesses or by civil society by creating spaces for discussion (forums, seminars or workshops), these activities have been diluted and have not had the desired impact because the individual interests have prevailed and because of the disinterest of the government to reach a concerted vision.

There are many unresolved problems within the sector:

1. **Poverty:** The housing conditions depend on the level of economic development. In measurements taken globally, it has become apparent that the size of a dwelling, its monetary value and quality are directly related to the level of economic development. Looking at housing conditions in Honduras, it is important to remember that we are talking about a poor country, which has to face great challenges as it strives to reduce the housing deficit.
2. **Informality:** Informality is characterized by unregulated access to urban land, where people build high cost and precarious houses with their own effort. The informal settlements have no access to basic services and no

property rights. Along with the precariousness of the building goes high rates of overcrowding.

3. Environmental Risks: Honduras is located in the path of severe tropical storms. The country's exposure to natural disasters remains high, largely due to the weakening of watersheds as a result of the excessive elimination of forests and mountainous rainforest.
4. Limited availability of land suitable for housing: According to a recent survey about 46% of all residential property in Tegucigalpa was obtained through illegal invasions of land. This situation demonstrates the lack of mechanisms that allow access to land for popular settlements, with costs that are appropriate to the income of family groups who are settling in major urban centres.
5. Lack of access to basic services: The housing, to be considered formal and dignified, must have access to basic services, as well as property rights. This essentially determines the health conditions of housing. In the case of Honduras, such access is far from adequate.
6. Restricted access to housing finance: The shortage of accessible permanent housing finance, that is available and reliable is a major factor for delaying the development of formal housing sector in Honduras, and the reason for two thirds of new housing in urban areas being constructed within the informal sector. The informal construction is necessarily gradual. The building materials are bought gradually through the years, at market prices, because the family has no access to housing funding and this way they do not have to pay any interest. The downside is that these poor families end up paying a higher price for materials purchased at retail and that the satisfaction of solving their need for a holistic manner is diluted over time.

These problems prevail to the extent that continued lack of regulations, structure and regulation, condemns low-income sectors to not having access to adequate solutions to solve their housing problem, and determines a low impetus to the struggle to combat high housing deficit in the nation.

4 Proposal for Change and Improvement

The Foundation has extensive experience in working with the lowest income sectors of the population, which allows a realistic view about the challenges, demands and needs facing this segment. It therefore has the capacity to formulate a comprehensive proposal that would allow development of all segments of the population. Likewise, the fact of having managed an international program for granting housing allowance has allowed it to gain experience in most effective mechanisms to achieve a transparent, fair and effective distribution of resources to families that need it most. This knowledge and skill developed by the institution and its staff, faculty to integrate the proposal a feasible and practical mechanism to distribute such aid.

Over time the Foundation has developed a range of financial products and services to respond effectively to the housing needs of low-income families. This diversity of solutions, ranging from long-term loans (mortgage) to microcredit for improvement (trust), not forgetting to mention a very important component of technical assistance for construction (ATC), allows it to include aspects related to each of these alternative solutions. Another aspect which contributes to making FUNDEVI the optimal channel to present the proposal is the fact that throughout its history, the Foundation has promoted the exchange of experiences and skills developed in housing activity, both nationally and internationally, achieving an updated view of the development of the housing sector in the country and around the world. This situation contributes the proposal being practical and appropriate in the current market trends.

For all these reasons, my task will be to develop a proposal for a National Housing Policy to regulate the system (rules, structure and best practices) and to allow proper coordination among all actors interacting in the housing sector, seeking to establish clear rules, creating synergy enough to avoid duplication of efforts and the creation of spaces for discussion and sharing experiences. This proposal will be discussed internally at the Foundation to achieve a comprehensive document that includes all the relevant aspects. Once completed, it will be presented to the Chairman of the Board, who may in due course appoint someone in the ministry for tracking the process of analysis and evaluation of the

latter. This window of opportunity, to take the lead as chairman of the housing sector, surely must be exploited.

Another opportunity presented is the fact that the need to regulate the sector is a view shared by all members of the sector, and some existing bills drawn up by different governments can be used as a basis for drafting the proposal. In that sense, we will make use of the existence of some successful experiences worldwide that can be analysed in order to incorporate specific aspects in the proposal that would make it more practical, effective and updated.

Finally, I have identified that the greatest threat to successfully fulfill my purpose is the indifference with which governments have acted before the problems within the housing sector, showing a continued lack of leadership in the sector which has and thus allowing the dismantling of the same and preventing the necessary synergy to achieve positive results.

Some aspects that the new proposal should contain and that were not included in previous documents are listed below:

- Solve the low investment of private enterprise in housing solutions for low-income segment.
- Propose a solution to the lack of a permanent mechanism for generating resources for subsidized housing.
- Propose ways to solve the serious problems of land tenure and property registration, which hinders access to land.
- Propose measures to tackle Honduras' continued vulnerability to the severe tropical storms.

Principles Of The National Housing Policy

The National Housing Policy, as state policy, emphasizes the need to give special attention to vulnerable groups and create conditions that mitigate and prevent the growth of physical, social and economic vulnerability. Accordingly, all policies, programs and projects in the frame of reference of this Policy, will consider the following principles:

1. Efficiency.
2. Transparency.

3. Integrality.
 4. Social Equity.
 5. Gender Equity.
 6. Participation.
 7. Solidarity.
- Sustainable Development.
9. Risk Prevention.

Policy Guidelines

Objective 1

Increasing the coverage of housing loans provided to the population, particularly for low-income families.

Strategy 1: Expand the resources of the sector institutions, through new instruments to provide funds for housing finance.

Action lines:

- To promote the optimization and efficiency of mechanisms for granting loans and portfolio management of the housing institutions.
- Promoting the participation of private sector intermediaries and banks in financing development to housing to low-income population.
- Encouraging the growth of the construction industry and promote the increased foreign direct investment in the sector.

Strategy 2: Strengthen the capacity of saving and buying of the low-income population, to purchase new or used housing, and stimulate the development of a supply of affordable housing.

Action lines:

- Focus on financing of housing institutions in low-income population.
- Promote the supply of used housing, through funding incentives, appropriate regulations and mechanisms of substitution of collateral.
- Develop mechanisms to encourage financial institutions through the leasing of housing in all its forms.
- Establish improvement and breakthrough technologies to reduce time and enhance the quality of access to the supply of credits and subsidies.

- Promote priority criteria for vulnerable groups such as seniors, people with different abilities or single mothers, so that people can train their heritage from an early age.

Strategy 3: Support funding options for the production of self and social housing, especially in rural areas.

Action lines:

- Promote funding and support for the production of social and self-help housing in rural areas, indigenous groups and urban areas of high deprivation, through mechanisms that promote saving and enhance the resources of public and private financing.
- Encourage the use of new efficient technologies and products for self-help rural housing.

Strategy 4: Strengthen the legalization of the property through the modernization and standardization of systems for registration and public land.

Action lines:

- Promote the modernization of property registration procedures at the national level.
- Promote public awareness campaigns that promote the regularization of tenure and a culture of efficient property registration.
- Promote mechanisms for the reduction of indirect costs for affordable housing.
- To participate in the actions of regularization of ownership and land tenure.

Objective 2

Promote a sustainable housing development.

Strategy 1: Encourage the construction of sustainable housing developments.

Action lines:

- Establish official standards that ensure the quality of housing.
- Promote a program of certification and registration of models that encourage vertical construction, sustainability, equipment, protective measures against climate change and the optimum use of existing infrastructure (especially water

and electricity).

- Promote tax incentives to boost housing and sustainable housing development.
- Promote the exchange of experiences of other countries and agencies.
- Undertake a training program and training of personnel qualified to operate and promote the sustainable housing development, with participation of experts from national and international levels.

Strategy 2: Promote the availability of land suitable for sustainable housing developments, through financial mechanisms for the creation of territorial spaces.

Action lines:

- Encourage the establishment of territorial spaces in departments and municipalities, with the aim of promoting sustainable developments.
- Design prototype master plans for models of projects.
- Develop an inventory of national land-oriented housing in coordination with the competent authorities.

Strategy 3: Promote the updating of regulatory frameworks for governing housing development in the departments and municipalities.

Action lines:

- Coordinate the formulation of the "Construction Standards", to promote quality housing and sustainable housing development.
- Promote a program of standardization and adaptation of regulatory frameworks for state and municipal housing.
- Coordinate arrangements with the departments and municipalities for the simplification of procedures, licenses and authorizations.

Strategy 4: To support the maintenance, improvement and expansion of existing urban and rural housing.

Action lines:

- Develop a program to improve existing housing, in consultation with departments and municipalities.

Objective 3: Strengthen the National System of Housing, through improvements in governance.

Strategy 1: Strengthen the National System of Information and Housing Indicators.

Action lines:

- Implement the National Information System and Housing Indicators.
- Establish certification program for municipalities committed to transparency and access to information, as a tool to ensure the participation of government institutions and the social and private sectors in the development and operation of the National System of Information and Housing Indicators.
- Establish outreach program of indicators for planning sustainable housing development.

Strategy 2: Introduce improvements to governance.

Action lines:

- Automate and modernize the internal processes to improve governance and eliminate costs that do not add value to the shares of housing.
- Develop and establish systems and mechanisms for expanding and facilitating citizen's access to financial services, and for consulting information for decision making in housing.
- Professionalizing public servants in the area of sustainable housing development, through training programs.
- Promote mechanisms to ensure access to public information on the management of housing agencies.

Objective 4: To support a government policy to provide the low-income population to access housing finance, and encourage sustainable housing development.

Strategy 1: Strengthen the State Grants Program funding for housing and other support programs in the industry.

Action lines:

- Develop appropriate systems for the operation of programs and transparent administration and resource efficient.
- Promote awareness campaigns to inform the public about the subsidy programs and how to access their benefits.

Strategy 2: Strengthen savings and purchasing capacity of low-income population, to access to new or used housing, and stimulate the development of a supply of affordable housing.

Action lines:

- Focus on financing of housing institutions in low-income population.
- Promote the supply of housing and used “almost new”, through funding incentives, appropriate regulations and mechanisms of substitution of collateral.
- Participate in actions for adjustment of property and land tenure.

Strategy 3: Support funding options for self and social production of housing, especially in rural areas.

Action lines:

- Promote funding and support to production and social self-help housing in rural areas, indigenous groups and urban areas of high deprivation, through mechanisms that promote saving and enhance the resources of public and private financing.
- Encourage the use of new efficient technologies and products for the construction and improvement of rural housing.

Strategy 4: Support the improvement and expansion of housing.

Action lines:

- Implement a program to improve housing in cooperation with departments and municipalities.
- Promote credit without mortgage products and financial instruments to promote the improvement of housing stock.

Strategy 5: Supporting people with housing needs in the event of natural disasters or when they reside in high-risk areas.

Action lines:

- Develop and implement, with the competent institutions, a methodology for responding to natural disasters favoring.
- Develop diagnostic inventory of housing conditions in high-risk areas, identify options and cost, and support actions to relocate the various orders of government, according to budget availability.

Institutional Framework

Stewardship of Urban and Housing Sector

It is the steering sector to the Secretariat of State in the Public Works, Transportation and Housing, SOPTRAVI, in accordance with Legislative Decree No. 218-96 of December 1996. The Minister for this portfolio is the highest degree of hierarchical authority in the sector, as delegated by the President of the Republic.

It will lead to the body the National Housing System, the preparation, identification, management and under penalty of law, the preparation and entry into force of National Housing Policy by the governing bodies, both of the housing policy state, monitor and evaluate its implementation and propose that periodic adjustments are necessary to propose and lead a political systems and mechanisms needed to implement policy, coordinate with other secretaries of state when the implementation of the programs requires it.

Viceminister of Housing and Urban Development

To ensure the continuity of the political and technical leadership in the sector, the Central Government set up the Viceminister of Housing and Urban Development, a dependency of the Ministry of Transport, Public Works and Housing.

The Vice Ministry will be the political hierarchy of the sector, headed by the Minister in charge of the portfolios of competence SOPTRAVI.

The Vice Ministry will be an instance of top management and therefore does not constitute a new administrative unit, will be only advisory and support staff.

Of the Viceminister depends the Director General of Housing and Urban Development, the technical and administrative instance. The Deputy Minister will act under delegation from the portfolios of Public Works, Transportation and Housing, and will be responsible for the everyday activities of the leadership of the sector.

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