Introduction

Low-income households in developing countries all over the world have to find or build their own housing without state or market support. The poor cannot obtain loans to finance housing because they cannot meet the conditions of the formal banking system. Their incomes are too low and their employment in the informal economy cannot be officially verified. In spite of this lack of finance, the poor are prolific builders. For example, of the 4.4 million housing units constructed in Brazil for the poor between 1995 and 1999, only 700,000 were produced by the formal housing market. Essentially, low-income families in Brazil managed to construct 3.7 million homes for themselves without access to any additional finance (Cavalcanti, 2004). However due to the lack of resources, self-developed housing by the poor is frequently of low-quality and lacking in services and infrastructure.

It was in this context that the Casa Melhor/PAAC housing finance program (Better Home and Programme of Support for Self-building) was developed in the city of Fortaleza in the north-eastern state of Ceará, Brazil. The program provided finance to socially excluded families so that they could improve their homes and living conditions. The initial program is now being replicated in various cities in Brazil and a variant is being implemented in Maracaibo, Venezuela.

Description

The Case Melhor program grew from an older self-help housing program called Mutirão or mutual help. The Mutirão program offered subsidies to community organizations to collectively buy materials and build their own houses. The Mutirão program started well but was terminated by the government in 1990. In 1992, an NGO was formed called Cearah Periferia that conducted a seminar with about 30 community organizations to reconstruct the housing program in Fortaleza. In 1993, an international NGO seminar on financing alternatives gave them the impetus to create an alternative funding system to facilitate the access of low-income families to loan finance. This resulted in the Casa Melhor/PAAC program in 1994 which used a funding system that incorporated three elements – savings, subsidies and loans. Participants that contributed some amount of savings would receive back, along with the savings amount, a substantial subsidy and loan to improve their homes.

The initial Casa Melhor program received its subsidy and loan finance from the Fortaleza municipality which had established a housing fund with the Cearah Periferia NGO and community grassroots organizations. Its pilot project began in six neighbourhoods of Fortaleza but suffered from very slow implementation due to bureaucratic problems. Cearah Periferia, then, simultaneously started the PAAC program that provided both subsidies and loans from external donors instead of the government. This gave the same proportion of subsidy to savings but with a proportionately larger loan that had to be repaid faster.

Shortly after the Casa Melhor program received a 'best practice' award from UN-Habitat, it was suddenly stopped due to political problems between the Fortaleza municipality and the state government of Ceará. To compensate for the lack of
municipal subsidy, the PAAC program started giving larger loans with more time for loan repayment. When the municipality started participating again, the Casa Melhor and PAAC projects were integrated.¹

**Analysis of Approach**

“The use of credit often requires non-conventional credit systems since conventional credit organizations require collateral that low-income households cannot provide and commissions that they cannot afford. It may also require an element of cross-subsidy within the community” (Mitlin, 2004). The Casa Melhor/PAAC program approach to housing finance is a combination of Self-Finance (beneficiaries’ savings), Subsidy (usually from the government) and Loans (also from the government though private banks, donors are showing some interest now). The principle followed is that when a participant contributes savings to the program fund, it will be returned to them with a substantial addition in the form of a subsidy and a loan from the fund. Therefore the contribution from savings acts like a down-payment or commitment from the participant to the program. To be a participant, residents have to form neighbourhood savings groups as a pre-condition so that they apply together and work together with community organizations and government bodies to receive housing finance (Cabannes, 1997).

As part of its methodology, the basic approach of housing finance in the Casa Melhor/PAAC program has been institutionalized through social networks and public policy that has made the program sustainable in the long-term as is evident from its replication and spread through the region.

**Institutionalization through Social Networks**

The social networks created and strengthened by the program (as part of its approach) have ensured that the program remains important enough in people’s lives that they work together with the NGOs and community organizations to keep it going - even when the government withdraws support (as happened in the case of the first Casa Melhor project). By making the process participatory and inclusive, the program involves all its beneficiaries in all stages of the process. In fact, the entire system is based on joint management, and strengthening grass-roots community organizations means that communities can more effectively lobby for enhanced municipal housing subsidies.

The program has also tried to deepen community involvement by democratizing loan access. Loans are made available to low-income families with wage-earners in both formal and informal sectors since the biggest disadvantage the poor have is that their employment in the informal sector is not given recognition by formal financial institutions. In fact the latest program in Venezuela has gone a step further by opening up the process to all residents of Maracaibo regardless of their ethnicity and nationality. This means that indigenous tribal communities and migrants, who are usually marginalized and excluded, now have a chance to participate and get benefit of the program. The only requirement for inclusion is that residents form savings groups and actively participate together with community organizations.²

**Institutionalization through Public Policy**

Turning an NGO-initiated project into public policy is in itself an important step and gives credibility to the program. The Casa Melhor/PAAC program has actively tried to integrate itself with local governments and into public policy right from

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¹ Description of the program taken from Cabannes (1997) and Cavalcanti (2004)
² Information about Vivienda Digna, Venezuela taken from a discussion with Prof. Yves Cabannes
the start as part of its approach. “It is important that the local government assume its responsibility in programmes such as this one. Otherwise they remain particular efforts and do not transcend the limits of the community, not even turning into policies” (Costa, 2001). Allocating resources and setting up administrative processes for a program reduces its chances of being cancelled especially once it becomes a routine procedure and a commonly used government service.

The Casa Melhor/ PAAC program has been institutionalized by several municipalities in the state of Ceará including Fortaleza where it first started. Due to its methodology, it has been found that implementation of PAAC is more successful in municipalities committed to participatory development. In cities like Icapuí, it has become institutionalized as part of the Participatory Budget process which decides what part of the municipal budget is set aside for the program (Cavalcanti, 2004). A variation called ‘Vivienda Digna’ (Dignified Home) has crossed borders to Venezuela where it is an official program of the central government for Maracaibo. Funds are transferred from the central government to the local Mayor’s office from where it is jointly administered with community organizations.

The advantage of institutionalization through public policy is that a democratically elected government may consider public opinion before cancelling a program that is popular with the voting population. Of course, this is no guarantee that the program will not be suddenly or arbitrarily cancelled due to other reasons like political conflict or a change in government. In fact the main beneficiaries of the program maybe disenfranchised and not part of the democratic system at all. However, as the experience with Participatory Budgeting in Porto Alegre shows, even when the party that started the process was voted out – the rival party that came into power continued with the Participatory Budgeting program because it was so popular with the public.

Institutionalizing a program like this one as a Public-Private Partnership is even better because that acts as a buffer and affords it some measure of protection from the vagaries of changing governments and uncertain donors. The Venezuelan program, for example, also receives contributions from charities attached to oil companies. Since private donors as well as banks are showing interest in the program, efforts are on to set up a centralized institution called SAMI (Society for Mutual Aid and Investment) that will receive finance from multiple sources and channel it through NGOs and community groups to the beneficiaries.3

**Analysis of Achievements**

**Impact on Lives**

Since the program assists housing improvement, there have been clear benefits to health from improving sanitation in homes and to family well-being from additional space/services/better buildings. There have also been some clear social benefits. When the program was first started, the practice of saving was not common in low-income groups because of hyper-inflation and frequent changes in currency value at the time. Also in that period, subsidies were being eliminated by the federal government and loans were only available to households earning the equivalent of at least five minimum-wage salaries (Cavalcanti, 2004).

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3 Information about Vivienda Digna, Venezuela taken from a discussion with Prof. Yves Cabannes
In that context, the program has contributed not only by providing subsidies and loans where there were none but also by creating an understanding of savings and the co-responsibility for receiving credit through collective groups at the family level. The culture of saving has made a valuable contribution because having savings helps poor families plan their future, a luxury they did not have before. It also lessens their risks and offers more security. At the community level, evaluation reports state that grassroots organizations and savings groups realised their management potential (Costa, 2001). However, even though community organizations have been greatly strengthened, there is little evidence in the reports that they are exercising their political strength to full advantage to secure improvements for themselves. It seems that the program is still owned by NGOs and community still needs to be externally mobilized to deal with delays in municipal subsidies and other problems.

Poverty Reduction

It is clear that the ability to access finance and personally save and contribute towards bettering living conditions has had an extremely good impact on otherwise marginalized communities. For many of the participants, this was their first access to the rights and benefits of citizenship which are otherwise denied to the urban poor. However even though the program has helped people with much lower incomes than most state or developer housing projects do, it has not been able to help families living in the worst conditions (Mitlin, 2004). This is common in many housing projects, where the target group is not the very poor but the less poor and, occasionally, the lower middle classes living in informal settlements who are better able to pay back their loans (Mathéy, 1992). So this lack of access by the very poor is due to the fact that they may not have savings that are necessary to be a participant of a housing finance program like this one.

Also, the revolving housing fund does not currently charge interest which means that, with inflation – the fund is being constantly eroded. If the fund starts charging interest, the very poor families may find it impossible to repay their loans because even today, there are families that have extreme difficulty in repaying loans. Though repayment rates are high, the rate of late repayment is increasing and there are households that are not able to repay at all (Cavalcanti, 2004). So, it is not clear from an analysis of the results if the democratization of access to finance is proving to be a successful tool for poverty-reduction.

Securing Tenure

Many of the participants do not have legal possession of the land they occupy or of their house. It has been the hope of both participants and NGOs’ grassroots organizations that by participating with the government to improve their homes, the government recognizes their rights to their homes, thereby giving them greater security. However this is a measure of jurisprudence that falls well short of being law. The issue of legalizing property rights is not raised by participants for fear that the government will not only cancel the housing program but also realise they are illegal squatters and evict them. Therefore the threat of eviction remains and participants may end up improving their homes with state-assistance knowing full well that there is still a possibility that they may be evicted and their homes torn down.

Conclusion

The Casa Melhor/ PAAC approach has proven to be a successful, replicable methodology for providing housing finance to low-income and socially-excluded communities. It is contributing to the improvement of homes and neighbourhoods
of the urban poor by giving them the right to access finance and strengthening their sense of citizenship. It has also proved to be sustainable because it is institutionalized into people’s lives through social networks and public policy. However, the program is currently being bureaucratically administered as a finance or housing project. To realise its full potential, the program needs to strengthen its poverty reduction capacity, make a positive contribution to the issue of tenure security and become part of community development instead of merely an external force.

Bibliography


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