

HOUSING IN ECUADOR



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Ecuador's housing problems and policies, even more than most countries', cannot be viewed in a vacuum. The country has seen high levels of political and economic instability in the recent past, which have had significant impacts on current housing conditions, past policies and markets, and which will continue to influence the direction of the future. To this end, a brief summary is presented prior to a formal analysis of the housing market.

HISTORY

Ecuador, originally an Inca territory, was conquered by the Spanish in 1534, and gained formal independence in 1822. The country's recent history can be separated into two distinct periods (BBC):

War, Economic Boom, and Instability – 1940 to 1981.

This period began with Peru's invasion of Ecuador's mineral rich Amazon rain forest, and in 1942 Ecuador ceded some 200,000 acres to Peru to ultimately settle the conflict. During the late 1940s, Ecuador's banana crop became the country's leading economic producer, and has remained either first or second in terms of exports ever since. From 1948 to 1960, the success of the Banana crop led to much prosperity in the country.

From 1963 to 1972, however, Ecuador once again suffered, with military rule, various presidents, and general political upheaval. This unrest only ended with the discovery of oil and the wealth that it brought beginning in 1972. Together with the Banana crop, oil is the other top export of Ecuador to this day. Unfortunately, oil prices dropped in the early 1980s, leading to a general period of economic deterioration.

Economic Deterioration – 1982 to Present.

As oil prices fell, Ecuador's economy suffered as well. Strikes and demonstrations followed, ultimately leading the government to declare a state of emergency in 1982. From 1982 until 2002, numerous governments were installed, and numerous conflicts surfaced between presidents, the military, and citizens. The country's political system is subject to such high levels of unrest, that Ecuador swore in six presidents over only four

years, one of whom lasted three days. In fact, no president over the last decade has served the full term.

During this time, and leading to many of the political and economic problems in Ecuador, export oil prices continued to fall. In addition, in 1997 and 1998 Ecuador suffered severe damage and losses from an unusually strong El Nino weather system, and then 1998 saw an international money constriction with the Russian financial crisis. As a result of these shocks, by the end of 1999 annual inflation in Ecuador reached 30%, the public deficit was almost twice the percentage of GDP as it was three years earlier, and the local currency exchange rate had fallen by 30% compared to the US Dollar. These factors led to declaration of a state of emergency by the government and a freezing of all private deposits in the banking system (Beckerman). In 2000, the government announced a 'dollarization' of the Ecuadorian currency, and as a result Ecuador's official currency became the US Dollar.

A Brighter Political and Economic Future?

The dollarization switch stabilized the Ecuadorian economy that, together with recently rising oil prices, has led to the economy generally showing positive movements since. However, Ecuador still must ameliorate the problems caused during the recent past, and must try to ensure that the economy remains stable in the future.

CURRENT CONDITIONS

The recent past has led to a struggling Ecuador of the present. The present economy is extremely vulnerable to oil export prices, dollarization is still in its early stages with the ultimate result still unpredictable, and political scandal has once again appeared with questions over the current president's finance contributions and links with foreigners and/or drug money. Although most remain optimistic (Beckerman, EIU), the situation is still quite fragile.

These macro-level issues are highly important to the future of housing markets and housing policy in Ecuador. In the past Ecuador was able to only marginally address the country's large housing needs, discussed later, due to the political and economic stability. Although the country has made many strides over the past few years, it is important to realize that further improvements are dependent on Ecuador's continued stability.

HISTORICAL HOUSING POLICY AND PRODUCTION IN ECUADOR

An Agrarian Model Prior to 1982.

Ecuador, as with many developing countries, only recently became more urban than agrarian. Prior to 1982, the majority of the population lived in agricultural areas, and the majority of housing was provided informally through construction by the residents (EIU). As a result, very few records exist of quantities of housing constructed, and the same housing rarely was built to any type of building code, zoning, or other regulation. Few units, especially in agricultural areas, had any types of services (water, electricity, or sewage).



Source: BBC

Ecuador's historically agrarian population.

Rural housing units, both historically and in the present, typically consist of non-permanent materials such as bamboo or clay, often with dirt floors (World Bank). Very few services are provided, especially for the poor, and a disproportionate share of the poor in Ecuador live in rural areas. Additionally, while most urban residents have access to services, legally or otherwise, many non-poor rural residents do not. This leaves many

non-poor rural inhabitants subject to worse hygiene, refuse, and other conditions than the urban poor.

Surprisingly, while almost all rural residents work in a farm-related occupation, as many as one in two residents have a second, “off-farm” occupation, such as day laborers in the construction industry, that provides supplemental income (World Bank). Also surprisingly, the vast majority of rural residents own their homes.

This period saw the beginnings of urbanization, which would quickly change the face of housing needs in Ecuador. As oil began to play a larger role in the economy than agriculture, large numbers of people migrated to the cities.

Urbanization from 1982 to 2000.

The switch from Banana to oil production also triggered a switch from a primarily rural population to a primarily urban population. As in many developing countries, the switch was relatively abrupt, with larger numbers of people coming to the cities in waves, and without an adequate housing stock available. As a result, Ecuador has had to deal with informal housing construction, land invasions, and squatter settlements.

An illustrative example is of Cisne Dos, a squatter settlement located outside the city of Guayaquil. In 1950, Cisne Dos contained 12 percent of the population of the city as a whole; by 1975 it contained 60 percent of the population (World Bank). Cisne Dos was created through land invasion by urban immigrants who could either not find or not afford formal housing in the city. Immigrants initially filled swampland to create solid ground, and built on top of it using non-permanent materials of bamboo and timber. These houses were then slowly replaced with brick and cement structures, and services where provided.



Source: www.ecuador-pictures.org

A typical Quito squatter settlement.

Cisne Dos is a typical example of squatter settlements throughout Ecuador, and is characterized by high levels of de facto home ownership by the residents. As services and roads were provided to the settlement, the government also legalized the ownership of the land. However, the legalization and regularization of ownership and services often led to problems for the residents. For example, in 1992 100 percent of houses had access to electricity, but 34 percent of the connections were illegally obtained after the electricity company shut off the power for non-payment of bills. Previously, all connections were illegally obtained (and served about 74 percent of the houses in 1978) and were therefore cheaper to the residents. Legalizing the land holding and regularizing the services has provided both a benefit to the residents but also an added cost.

The influx of residents to the Cisne Dos squatter settlement is typical of the urban migration in Ecuador as a whole. In 1980, 47 percent of the population lived in urbanized areas, by 1999 64 percent of the population did (EIU). Between 1990 and 2000, 441,000 informal housing units were constructed (IDB), primarily in urban areas. Such a fundamental shift has serious implications for housing policy, which are discussed later.

This period, as noted earlier, saw serious political and economic instability. With this instability came high interest and inflation rates, which severely limited private banks' ability to lend long term mortgages. As a result, few were issued, and private banks were only able to play a limited role in the housing industry.

CURRENT HOUSING POLICY AND PRODUCTION

Ecuador, at 285,000 square kilometers and 12.4 million persons, is roughly twice the size of Pennsylvania with the same population. Ecuador's two major cities, Guayaquil (population 2,117,553) and Quito (population 1,615,809) comprise approximately 30 percent of the total country's population. Ecuador's urban population is estimated to be growing at close to 4 percent annually, which is 1 to 1 ½ percent greater than the population as a whole (IDB).



Ecuador has daunting social and housing issues to overcome. 35 percent of the population lives below the poverty line, and 17 percent are at risk and vulnerable to poverty (World Bank). Ecuador's "housing gap" was estimated at 1.3 million housing units in 1991, defined as units needed to cover both homelessness (317,000 households) and units which are insufficient (900,000 households) (World Bank). While these are 1991 estimates, due to the political and economic instability discussed earlier very little has changed in the ten-plus years since (IDB). In 1990, an almost unbelievably high 54 percent of Ecuador's housing stock was "unauthorized" (World Bank). While this matched Venezuela as well, the next closest countries in Latin America were less than half this percentage. Over 70 percent of housing units in Ecuador lacked some basic level of service (IDB).

In addition to the existing housing gap, Ecuador's annual demand for new housing units is estimated at 54,000 units (IDB). Formal housing construction accounts for 23,000 units annually, of which 10,000 are built through some form of government subsidy. Even with the subsidies, the formal units constructed almost never reach the lowest income quintile.

As a result, 31,000 units annually are built informally, primarily to meet the needs of the lowest two income quintiles.

As noted previously, many in the urban population live in informal housing within squatter settlements. Informal housing in urban areas often has more significant impacts than in rural areas. For instance, while in rural areas lack of a formal service for disposal of trash, as well as access to sanitary facilities, is a relatively minor risk, in urban areas the results can be serious health impacts for large numbers of persons (World Bank). This is exacerbated by the fact that urban households tend to be larger than rural households, presumably due to the lack of available land. So, although rural residents have less access to these services, the risks may be disproportionate and of varying importance based on setting.

Ecuadorian Housing Policy Institutions

The government of Ecuador has established two main public institutions to deal with housing, the Ecuadorian Housing Bank (Banco Ecuatoriana de Vivienda – BEV) and the National Housing Board (Junta Nacional de la Vivienda – JNV). In addition to these organizations, Ecuador also provides a housing voucher subsidy directly, called the Housing Incentive System (Sistema de Incentivos para la Vivienda – SIV). These groups and programs ultimately fall under the purview of the government level Ministry of Urban Development and Housing (Ministerio de Desarrollo Urbano y Vivienda – MIDUVI).

Ecuadorian Housing Bank – BEV

The Ecuadorian Housing Bank was established by the government of Ecuador as an autonomous public housing organization in 1961 (Kitay). The BEV was created as the central housing bank responsible for all aspects of providing housing for low income families. These responsibilities included selling bonds to fund land acquisition and housing construction, qualifying families for subsidized housing, the development of a savings and loan system, subsidizing mortgage rates, as well as the physical construction of the units themselves. As an autonomous organization, the BEV has been able to attract

a talented workforce by offering salaries higher than would be possible under the government umbrella.

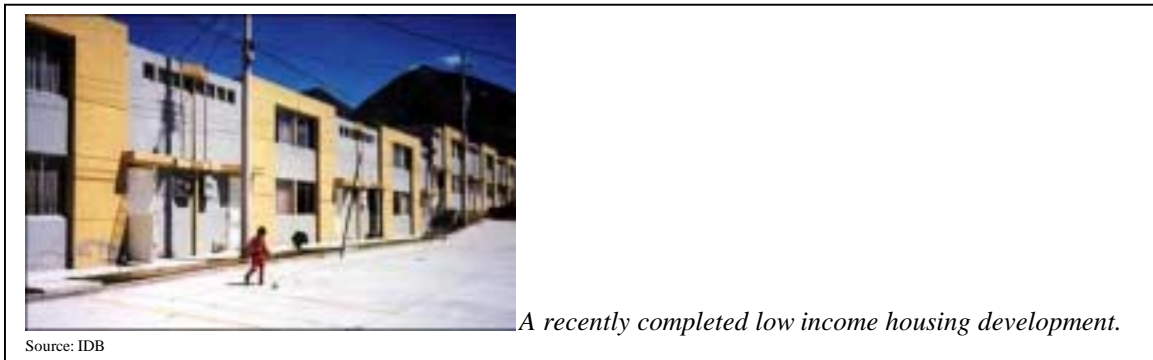
The BEV underwent substantial expansion during the early 1970s. From 1970 to 1972, the BEV's loan portfolio increased almost tenfold. However, the BEV's policies for loan approval generally result in the loans being made to middle income families, as the lower income families are unable to qualify (World Bank). In fact, the loans are typically out of reach for the lowest two quintiles of the population due to income requirements.

In the 1990's, the BEV was on the verge of a collapse precipitated by the general economic climate. The government thus undertook a fundamental shift in the mission and organization of the BEV, with the support of the World Bank and the Inter-American Development Bank, to morph the bank into a second tier financial institution (IDB). This shift was meant to allow the BEV to partner with first tier organizations such as investors, lenders, and builders, and to serve a role more as a facilitator or enabler rather than a primary participant. The new policy focus, together with the stabilizing effects of dollarization and currently high oil prices, has led to the reestablishment of a relatively healthy mortgage market (also due to more reasonable inflation indicators), as well as the creation of a secondary mortgage market where none existed previously (Drosdoff). The underlying goal is to use the BEV's, and the country's, limited resources to leverage greater participation by private entities. Additionally, the BEV has shifted its focus to the lower income segments of the market, which are in need of the greatest amount of assistance.

Most subsidies are to purchasers of homes. An example subsidy would be where a resident family must first qualify for the subsidy by providing adequate information to establish income in an amount necessary to pay off the loan. Then, the family must further come up with a down payment, which is often borrowed from friends or other family members. If the family can meet these two tests, they will qualify for the subsidy. For a typical, basic \$4,000 house, the financial breakdown would be as follows (IDB):

<i>Down Payment</i>	<i>\$400</i>
<i>Loan</i>	<i>\$1800</i>
<i>Subsidy</i>	<i>\$1800</i>
<i>Total</i>	<i>\$4,000</i>

*\$4,000 was approximately the cost of some minimally acceptable housing unit in 1999. Due to the high inflation since, prices, as well as subsidies, are higher now.



The subsidy indicated above is not required to be prepaid. Interestingly, the units provided under the program are often ‘bare’, including only exterior walls, service connections (but no fixtures), and concrete floors (IDB). Residents are thus required to put in ‘sweat equity’ to construct walls, add fixtures, and generally improve the unit as money and time allows. While this does require considerable effort and investment on the part of the homeowner, it also provides a means of wealth creation through the added value of the improvements.

National Housing Board – JNV

The National Housing Board was established in 1973 to work with the BEV in creating housing (Kitay). The JNV was initially dependent upon the BEV for funding, however now has an independent budget authorized by the government. While the JNV was initially just as focused on the first tier of housing supply, i.e. physically constructing housing and being active in all aspects thereof, it too has reorganized to act as more of a second tier institution.

The JNV is made up of regional offices in each of Ecuador's twenty provinces, which all report to a central office responsible for consolidating information and providing policy direction. From 1980 to 1984, the JNV produced the first ever comprehensive housing study by the Ecuadorian government, a huge and necessary step in creating a reasonable and appropriate national housing policy. While the JNV staff was initially comprised of primarily architects and engineers, as the JNV's focus has shifted from a first tier housing builder and provider to a second tier facilitator and enabler it has added staff trained in social issues and policy.

The Housing Incentive System – SIV

The Housing Incentive System is the newest housing program undertaken by the Ecuadorian Government. Begun in 1998, the SIV Voucher is a one time, demand-side subsidy that, again, is targeted towards homeownership. However, in this case, the subsidy is specifically targeted towards the large portion of the population already owning and living in substandard housing (although the subsidy can also be used for new housing, provided it meets the requirements discussed later).

The voucher works on a savings, subsidy, and credit program (Ahorro, Bono, and Crédito – ABC) (Note: This and the following sections are based largely on the article by Frank). As with previous subsidies, the owner must first show a minimum credit worthiness by investing at least \$100 in a participating financial institution. The applicant can then apply for a subsidy of up to \$750 for home improvements, and upon receipt of the subsidy must undertake between \$850 and \$2500 worth of improvements. So, while some minimum level of credit is required, the program most heavily emphasizes savings and subsidies. As with other government housing subsidies, the SIV never needs to be repaid.

This new program implements many of the goals of the recent policy shift by the Ecuadorian government. To begin with, the government acts in a secondary role, leveraging itself to both provide the necessary subsidy while also strengthening the role of private institutions. While the government formally provides the subsidy, the application, construction, and financial documentation is all handled by participating private parties.

These parties do earn fees, averaging just over \$180 on an average construction budget of \$1050.

The program is also aimed solely at the lowest income groups in Ecuador. There are maximum property values for families applying (\$4000), maximum incomes (\$240 monthly), maximum home sizes (300 square meters), and families may only own one home. Additionally, the program is aimed at the urban poor, as recipients must reside within identified city limits. Given these constraints, any family that meets the criteria is eligible for the subsidy, and through its four years in existence 25,000 families have participated.



Source: Careforce

A typical squatter settlement, which might qualify for SIV.

This program has generally been considered a success. It was initially funded through a partnership between Ecuador, the German Technical Cooperation, and the Inter-American Development Bank, although Ecuador will take over complete funding responsibility once the initial loan package agreements are exhausted. The program has resulted in substantial improvement to many of the informally constructed residences that were, and would have continued to be, substandard otherwise.

ANALYSIS OF HOUSING CHALLENGES

Although Ecuador's housing policies and production programs have recently shown signs of success, their long term viability is far from guaranteed. Ecuador will face many challenges in housing, generally sooner rather than later.

Political and Economic Stability

Just as political and economic instability affected Ecuador throughout its history, the risks remain and could have potentially large impacts on housing policy and production. Any serious political or economic shock could easily derail and even reverse the gains seen through the recent period of stability from 2000 to present. This has in fact happened in the past, as evidenced by the deterioration of housing indicators from the early 1990s to the late 1990s. Specifically, Ecuador is exposed to the following risks:

- *Oil price fluctuations.* Oil prices are currently near historic highs, and as oil is Ecuador's top export, Ecuador is very sensitive to fluctuation in oil price and production. This is exacerbated by the fact that Ecuador is not a member of the Organization of the Petroleum Exporting Countries (OPEC), yet oil prices are determined almost solely by OPEC. As a result, Ecuador has almost no control over the prices for the most important export the country produces.

Furthermore, Ecuador's oil reserves are estimated at only 3.4 billion barrels, which places it well behind most oil producing countries (it does not even rate within the top twenty) (thirdworldtraveler.com). While efforts are underway to improve current oil production, Ecuador will never be a major player in the world oil market. And, either as a result of diminishing reserves or due to changes in technology, at some point Ecuador will need to focus on alternative exports.

Any significant drop in oil export prices would prove a serious threat to Ecuador's economy. Oil now accounts for 41 percent of exports, with the next closest export, bananas and plantains, at less than 20 percent (EIU). Should oil prices drop, Ecuador's economy will falter, and financial ripple effects would likely preclude

any significant investment in housing, as well as cause existing housing to deteriorate due to resulting financial troubles of residents.

- *Political instability.* Ecuador's political history has been just as troubled as its economic history. Indeed, as noted earlier, no president over the last decade has served the full term. With changes in governments come changes in policies, including housing policies, which can disrupt and even eliminate current programs. These changes are often dramatic rather than incremental in Ecuador, which makes it harder to predict whether or not they will be successful. Exacerbating the problem of political instability is that it is often triggered by, and thus highly correlated with, economic instability. Should both issues arise concurrently, the effect on housing policy and production, and the society as a whole, will be that much greater.

As previously discussed, the current president has been touched by scandal, and his future is somewhat uncertain. Without stability, creating and realizing a successful housing policy will be quite difficult indeed.

- *Long term affects of dollarization.* Dollarization was implemented only four years ago, in 2000. While it has brought initial stability to the economy, this could just as easily be attributed to the health of the oil export market. Most agree that the dollarization process was undertaken rather hastily (Beckerman, EIU), and it remains to be seen whether or not it will truly be successful and if there will be unintended consequences. Any such consequences would directly impact the economy, which would in turn impact housing policy and production.
- *International funding sources.* Much of Ecuador's recent strides in addressing poverty as a whole and housing in particular have been at least partially financed through various international aid organizations, ranging from the German Technical Cooperation to the World Bank to the Inter-American Development Bank.

As Ecuador must eventually switch to domestically funded policies and programs, it remains to be seen whether they will be willing or able to foot the bill.

- *Land value increases.* Because Ecuador has seen relative stability and success since 2000, land and housing prices have stabilized and increased. While this generally benefits landowners, it makes it more difficult and more expensive for public programs, and raises the barrier to entry for the lowest income segments of the population. While stability and growth are goals that Ecuador must seek, it must also be tempered by increased aid to those who would be left behind otherwise.

Urbanization

Ecuador's population became more urban than rural in the early 1980s, and will almost certainly stay that way well into the foreseeable future. This fundamental shift has serious impacts for Ecuadorian housing policy:

- *Lowest income groups still in need of aid.* Historically, Ecuadorian housing policy focused on the middle and lower-middle class. Meanwhile, due to urbanization, the influx of the poor into urbanized areas has caused serious problems including land invasions, overcrowding, and lack of services, which when combined with close quarters and dense populations can have serious health repercussions in addition to the housing problems. While, beginning in 1998 with the SIV program, Ecuador has attempted to address these groups, much remains to be done, and programs should be increased and expanded.
- *High levels of poverty.* Ecuador's high levels of poverty and at-risk population, totaling over 50 percent of the total population, together with its not insubstantial housing gap of 1.3 million units presents a daunting problem for the government to address. With half of the population either below, or at risk of falling below the poverty line, the government cannot solve the problem simply by redistributing wealth from the wealthy to the poor; there are too many poor. The government

must instead determine some method of wealth creation, both nationally and individually. The SIV program to increase the value and level of homeownership has been somewhat successful in this regard.

- *Informal housing construction.* While informal housing construction does provide housing for the poor, indeed, the majority of the housing for the poor, it also creates serious problems. These problems range from the health affects discussed above to service provision to ownership issues.

The ownership issue is one of the largest problems. When the government legalizes existing squatter settlements and provides title to the residents, it is indirectly encouraging future land invasions and squatting by rewarding ‘bad behavior’. Yet the squatter problem is too large to simply evict the residents. To this day, the government has chosen to legalize the settlements, and will almost certainly be required to do so for the future until adequate formal programs are instituted to provide the needed housing.

OUTLOOK

Ecuador has come out of a long, turbulent political and economic environment, and has made strides in reorganizing its housing policies to play a second tier role to leverage its resources and reach more people, at the same time focusing on the low income groups that need the assistance the most. However, Ecuador’s political and economic infrastructure remains at risk, and it is unclear whether the current administration and policies will be in place in the future. While Ecuador’s achievements have been commendable, the prospect of future success remains unclear.

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