

SOCIAL MARKET DEVELOPMENT AND SOCIAL MOBILIZATION IN THE VALUE CHAIN OF THE CONSTRUCTION INDUSTRY

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I. Background

For the first time, there is widespread growth in the consumer market due to an increase in the income of a social segment traditionally excluded from the formal markets. An indication appears in the major newspapers of a trend amongst some private sector executives to invest in or start businesses to reach out to the niche market characterized by low income communities.

Since 2007 intense debates have been taking place on the nature of the middle-class, greatly attracting the attention of media and society as a whole. The debates focused on changes in low income socio-economic groups as the result of higher employment rates and greater sources of income during this first decade of the millennium in Brazil.

A typical example in Brazil is the retail trade and financial agencies segment. These companies provide credit for consumer goods to low income families, compatible with their ability to pay. This development raised industry interest in developing products designed to meet the specific needs of low income consumers. However, market development in Brazil is traditionally linked to statistical instruments, such as prospective research on consumer demand with the aim of assessing potential preferences for products. Such special purpose consumer research studies are usually carried out by companies and skilled professionals on individuals from the middle social strata of the conventional consumer market. The preferences of low income people are still unknown in regards to many things.

Housing Introduction

The dynamics in the value chain of the construction industry have been underway since the late 1980s when the squatter settlements (favelas, illegal allotments and cortiços) set up in the 1970s underwent a spontaneous urban development with the replacement of dwelling houses made of inadequate construction materials with brick houses, and upper floors.

This urban development was greatly enhanced by social mobilization movements for better housing conditions for slum dwellers, like the Movimento de Favelas de São Paulo and pastoral services who advocated for access to water and electricity in some of the city's neighborhoods that had no formal acknowledgment.

At present, our precariously built settlements have means of access to water and electricity far better than their counterparts in African and Asian countries. Additionally the quality of the houses has improved significantly in the last thirty years, and it is very difficult to find a favela in the country made of wood or of low quality construction materials.

This improved framework is a result of the synergy between the government and social groups and has led to an important interface with the private sector that has hardly been harnessed. Electricity and the construction materials are a typical example of how the private sector has benefited from social movement's initiatives.

For example, in the electricity sector (private sector today) there is a scheme of cross subsidies by which the middle-class finances the electricity social tariff, which is crucial to ensure the sustainability of the electricity

network, as well as its potential expansion. The expanding market for electricity and construction materials is evidence of how the private sector has already benefited from social movement's initiatives.

Access to formal and regular electricity represents a significant improvement in low income people's living conditions, as it reduces the risks of fire and domestic equipments damage, allows access to electronic consumer goods, and strengthens social inclusion. Even if it is initially subsidized, a first access is another way of gaining a new client, and if the client's income rises, the client will no longer be subsidized and will contribute more to sales revenues.

Public investment due to advocacy from social movements has driven a trend towards housing quality improvements by encouraging the tendency of low income families to invest in, improve and expand their houses. This process has obviously taken place in a disorderly fashion lacking technical evaluation and planning in the public domain, leading to risky situations, excessive densification and material misuse.

II. The present value chain of the construction industry

The consulting company Booz Allen Hamilton carried out a study for construction materials associations. It showed that 77% of the residential units produced in Brazil are based on self-management^[1] and are not built by the large construction companies. In other words, the largest consumer of construction materials in the country is the informal contractor who builds for himself or for others without resorting to financial products and subsidies.

Estimates performed by ANAMACO (Associação Nacional dos Comerciantes de Material de Construção) (National Association of the Building Materials Commercialization Agents) reveal that self-managed construction annually produces about 850 thousand units, 64% of which are produced through self-financing^[2].

Despite the difficulties in determining accurate statistical data on the dynamics of the informal construction market, it may be inferred from simple visual perceptions that the present Brazilian favelas have masonry residential units that represent a significant improvement from the time before the 1990s. Nevertheless, even without carrying out field research it can also be seen that the families plan to improve and enlarge their units, as many are clearly unfinished, lacking outer finishings indicating an upper expansion of the units. That is: it is a market with a great expansion outlook.

Some companies, in a very creative way, have been working on the development of specific products for the low-income housing market; this is the case, for instance, with the BRASKEM petrochemical company. BRASKEM, a producer of PVC, has been investing significant resources towards the development of products such as frames, bathrooms and entire houses from constructive PVC technology. One of the research branches of the company focuses on assessing consumer satisfaction based on surveys carried out with consumers from favelas and low-income housing units.

It is imperative to distinguish between what is considered to be low income housing by the private sector and the bottom of the income pyramid in Brazil. The Getúlio Vargas Foundation (Fundação Getúlio Vargas) has recently released a study that defines the "new middle-class", the middle economic strata represented by families with an income ranging from R\$ 1,064 to R\$ 4,591. 51.9% are in this income bracket. However, the Pesquisa Nacional por Amostra de Domicílios – PNAD reveals that households with an income lower than this bracket represent about 40% of the total.

That is: the middle income strata has growing purchasing power, but the bottom of the pyramid with low purchasing power is still significant and should not be ignored.

The supply of residential housing by the formal market is still in its initial stages. It is a market in need of development and maturing, since the final cost of the property and the maintenance costs of the products supplied are still very high. In the middle strata, households with an income range of 1,000 to 4,000 reais still have to deal with limited long-term borrowing capacity and low savings, which are obstacles to asset acquisition. Regardless, houses available through the formal market are closer to the lifestyle and preferences of the traditional middle-class than the needs and preferences of the low-income housing market.

Accordingly, it can be argued that the construction materials market is larger than the formal real estate market. The construction materials market can serve people in the majority of income brackets, from the slum dweller who buys material to build or enlarge his house, to those in the upper economic population strata; the formal housing market is only trying to target the middle-class.

III. The social organization potential of demand prospecting

At present, the large social movements associated with housing have focused on housing provision to meet demand, rather than specific matters pertaining to urban infrastructure improvement. Additionally, with the expansion of the democratic management processes of the cities, the main movements started to intervene intensely in government policies through mechanisms such as housing committees and participatory budgeting.

These organizations expanded across the country and are represented in several councils and bodies of participatory management and formulation of public policy. They bring together a significant number of low income families with expectations of access to housing.

Alongside these national organizations that traditionally act on matters related to housing, community mobilization initiatives have emerged, operating in specific locations. They work on gathering information and resources about the community as the key strategy in promoting social and economical development.

For instance, the main goal of SDI – Slums Dwellers International in Brazil is to improve housing conditions by organization and community mobilization, especially through savings community groups and self-enumeration.^[3] Through self-enumeration the residents of a community have a better chance of getting to know the geographical features of the place where they live, as well as the socio-economic conditions of the households.

The information gathering carried out by the community itself is an important driving force of organization and community mobilization, in addition to providing an important input for grant negotiations and housing projects. Savings groups situated in the municipalities of Osasco and Várzea Paulista, in the Greater São Paulo area have already demonstrated positive results in negotiation with their local governments. This has resulted in infrastructure projects and production of housing units, in addition to units such as crèches, health care surgeries and community centers.

The savings groups are still very recent in Brazil, but have shown in other countries a high potential to generate housing projects in partnerships with governments and in some cases with private sector companies.

The larger social movements in Brazil participate in broader negotiations with several levels of government. This is the case with the Social Housing Program of the Federal Government, a housing provision program that is jointly structured with the social movements, Ministério das Cidades (Ministry of Cities) and Caixa Econômica Federal (publicly owned bank, financial agent for the Federal Government). In an unprecedented way this program uses information provided by social movements to design a housing program to suit the dynamics of communities.

IV. Conclusion

There exists an enormous potential to develop housing projects based on inputs provided by social movements. So far, in Brazil, the information held by social movements has been strongly encouraging government actions with little resort to market forces.

Demographic projections carried out by the Ministério das Cidades and CEDEPLAR - Centro de Desenvolvimento e Planejamento Regional (Universidade Federal de Minas Gerais), point to an estimated 26 million new homes needed by 2023. Of this, 60% is represented by segments presently excluded from the formal housing market. This niche constitutes the target audience for the main social movements that fight for housing rights in Brazil, and a potential new market for innovative private sector actors.

We have seen that in Brazil, the social movement's advocacy for improved housing conditions has contributed in an indirect way to private market expansion, namely in the electricity and construction sectors. By recognizing the potential represented by the information on families, consumer dynamics, needs and preferences that are held by social movements, social organizations can actively contribute to market expansion. By providing access to this insight, social organizations enable companies to generate revenue and improve living conditions, triggering a virtuous circle for society and the economy as a whole.

There is a pressing need for the market to adapt to the characteristics of populations attempting to integrate into the formal economy; the adjustment may take long. Our fundamental claim is that the market adjustment to serve low-income consumers can be successful at significantly higher speed if it is based on the mobilization and information gathering potential of social organizations, and reaches out to the government, whose investments and incentives may propel further expansion of the market and social sectors.

Linking people's movements and the market can indeed promote superb synergies that will lead to market expansion, product development and technological innovation. The alliance of social movements and private sector will become more important over the third millennium. Although achievements have been made to influence public policies, there is still a lot to be done.

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^[1] Source: http://www.anamaco.com.br/dados_setor.php

^[2] Source: http://www.anamaco.com.br/dados_setor.php

^[3] Translation Note: *Auto-recenseamento*: Self-enumeration refers to the completion of census survey questionnaires by the respondents themselves