



Homeless International

**BRIDGING THE FINANCE GAP
IN HOUSING AND INFRASTRUCTURE**

BOLIVIA: Fundación Pro Habitat - a Case Study

By Rafael E Rojas

January 2000

1. Background context

1.1 Brief overview of Bolivia

Bolivia is located in the central region of South America. Its surface area is of 1,098,581 square kilometres which are inhabited by 6 million people. Within its wide territory, there are three large physiographic areas: the Andean area (at an elevation of over 3,000 masl), covering 28% of the national territory; the Sub-Andean area (with an average altitude of 2,500 masl), covering 13% of the Bolivian territory; and finally, the plain area (comprising the plains and extensive jungles rich in plant and wildlife), being the most important region of Bolivia, covers 59% of the whole territory.

61% of the Bolivian population lives in urban areas which are centres with populations exceeding 2,000 inhabitants. The main cities in Bolivia are: La Paz, Santa Cruz, and Cochabamba. In a more scattered fashion, the rural population lives in small communities.

A large percentage of the population in Bolivia live in a state of poverty. 70% percent of the population live in places which can be considered to be poor; that is, places that fail to meet their basic needs (access to services, education, health, etc.). The most important ethnic groups are the Aymaras and Quechuas, who traditionally come from the Andean and Sub-Andean regions, but currently, as a result of a wide migration process, are also present in the large departmental capitals, and certainly, in the region of the Bolivian plains as well.

In 1994, the Human Development Index for Bolivia was 0.589, calculated on the basis of the following variables: Life expectancy - 60 years; Literacy rate for people over 15 years of age - 83%; and finally, a per capita income (PPA) of US\$ 2,598.¹

The 1997 Gross National Product (GNP) reached the amount of 6 billion American Dollars. The most important economic sectors are the manufacturing industry (21% share of the national GNP); and the agricultural sector (18% share of the national GNP). The mining sector was gradually lost its traditional importance for national economy, with a current share of about 10%. In the last decade, the GNP's growth rate exceeded 4%, which is the basis for the current economic stability experienced in Bolivia.

1.2. Macroeconomic situation in Bolivia

In 1985, after the deep economic crisis that Bolivia experienced at the beginning of the 80's with a growing hyperinflationary process², the national macro economy was radically changed. The economic model established back in 1952 by the protectionist streams of the times, featured the strong presence of the State in the economic structure of Bolivia³ and by a protectionist political economy.

At the beginning, the neo-liberal economic model worked mainly on the national financial system, opening the interest rate system to the market forces. Additionally, a rationalization process of the public institutions⁴ was started and the opening of the national market to import products. All these measures, as a whole, were called those of "first generation."

¹ The actual per capita GNP is 750 American Dollars. That is, the ratio between the GNP at market prices and the current population.

² In 1983, inflation reached 24,000 percent yearly, reflecting the deep crisis experienced by the national economy.

³ The Government of Bolivia controlled the main economic sectors (Mining, Hydrocarbon fuels, telecommunications, and transportation) and held a set of companies in other fields of national economy (agro-industry, industry, etc.).

⁴ The most significant aspect was the "relocation" (massive lay-offs) of mine workers in the State mining system.

The main accomplishment of this new economic model was bringing the hyperinflationary process under control, and consequently, the stabilization of the national economic system. The following table shows the behaviour of the inflationary process in Bolivia since December 1985.

Table 1: Bolivia - information on the inflationary process

	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99
A	1.7	2.0	2.26	2.52	3.03	3.42	3.76	4.11	4.49	4.71	4.95	5.20	5.38	5.65	5.99
B		18	13	12	20	13	10	9	9.2	4.9	5.1	5.1	3.5	5.0	6.1

Source: Self-elaborated on the basis of information provided by the Superintendent of Banks and Financial Entities (1998 Memoir)

Notes: A. National currency value with regards to the American Dollar
B. Inflation

A few years after the implementation of the new macroeconomic model, Bolivia achieved a single digit inflation level, very similar to that of the most developed countries in Latin America. The lowest inflation rate was recorded in 1997.

At the end of this century, Bolivia has a 6% annual inflation and a GNP growth of approximately 4%. Nonetheless, during the last year, the national economy faced several adverse situations at both, the international level, as a result of the Brazilian financial crisis, and the national level, as a result of adverse climate conditions that decreased dramatically the productive capacity of the agricultural and livestock, and agro-industrial sectors.

1.3. Housing and basic sanitation in the national context

In spite of the fact that Bolivia is considered one of the poorest countries in Latin America, available housing for its population is not yet one of its main problems. There are very few families living on the streets or under the city's bridges. By the end of 1997, home ownership had the following characteristics:

- 1) 70% of the households have their own houses⁵
- 2) The remaining 30% has access housing through a diversity of modes, the most important being "house rentals" (12%) and "granted by kinship" (9%).

Nonetheless, the main problem that Bolivian households must face is related to three fundamental aspects: quality of housing, quality of construction materials, and finally, quality of the available basic services.

Generally speaking, in Bolivia most of the households can be considered as bad quality housing with regards to their architectural design, which fails to meet the family's space needs (houses with small multiple use rooms, single bedroom, no kitchen space, no rooms intended for sanitary services, etc.).

On the contrary, in a large number of the Departments, most housing has a construction quality classified as "acceptable" fundamentally due to the massive use of local materials suited to the climate conditions in the places inhabited by the families, and also to a strong process of self-construction, particularly in the rural areas.

Undoubtedly, the main limitation faced by the Bolivian families is related to the access to basic services such as water, sewerage, and electric energy. By the end of 1997, the situation was as follows:

⁵ At the end of 1997, the National Statistics Institute estimated 1.8 million households in the whole national territory.

- 1) Only 19% of the households had access to tap water inside their homes.
- 2) On the contrary, nearly 30% of the households did not have access to tap water, and had to get their water supply from wells, rivers and lakes.
- 3) The situation of the sewerage service is much more dramatic: only 28% of the households are connected to the public sewerage system; 31% has individual sewerage systems; and finally, 41% of the Bolivian households are not connected to any sanitary service drainage system.
- 4) In the last few years, access to electric energy has improved notoriously; however, 33% of mainly rural households are still lacking this service.

The housing situation in the Departments of Cochabamba, Tarija and Chuquisaca - where Fundación Pro Habitat has been carrying out its institutional actions - is very similar among each other.

Table 2: Percentage of homes according to type of home occupancy in departments of Cochabamba, Chuquisaca and Tarija (data as of November 1997)

Type of Occupancy	Cochabamba	Chuquisaca	Tarija	Bolivia
Own	74%	76%	74%	70%
Rental	12%	10%	11%	12%
Granted	7%	9%	10%	9%
Other	7%	5%	5%	9%
Percentage	100%	100%	100%	100%

Source: Self-elaborated on the basis of information from the National Statistics Institute. 1997-1999 Statistics Yearbook La Paz, Bolivia.

Likewise, the home quality of most housing in the three Departments is rated a "bad"; construction quality is "acceptable" in Cochabamba and Tarija, and "bad" in the Department of Chuquisaca.

The proportion of homes with no access to basic services such as tap water, public sewerage and electric energy displays the following characteristics:

Table 3. Percentage of homes with no access to basic services in departments of Cochabamba, Chuquisaca and Tarija (data as of November 1997)

Basic Service	Cochabamba	Chuquisaca	Tarija	Bolivia
Tap Water	36%	46%	26%	30%
Sewerage	68%	70%	66%	41%
Electric Energy	29%	53%	38%	33%

Source: Self-elaborated on the basis of information from the National Statistics Institute. 1997-1999 Statistics Yearbook La Paz, Bolivia.

The differences between the Departments reflects the existing degree of poverty. Without a doubt, Chuquisaca is the Department with the most households lacking access to basic services. On the other hand, Tarija shows a better coverage of basic services, which is very close to the national mean. The Department of Cochabamba stands out with a relatively broad coverage with the electric energy service.

Faced with this housing reality, the Government of Bolivia did not create any programs to respond to the needs of the Bolivian families in a significant way. To a large extent, the improvements

accomplished by the families are a result of their own efforts. However, in the last few years, the National Government made some efforts to carry out a social housing program. It is also possible to identify programs carried out by NGOs, which reflect a more integral nature.

1.4. Public policy

1.4.1. The National Social Housing Fund (Fondo Nacional de Vivienda Social - FONVIS)

Dependent upon the Ministry of Urbanism and Housing, the National Social Housing Fund (Fondo Nacional de Vivienda Social - FONVIS) was the last state entity, created in 1992, with the purpose of managing and handling the public sector's salary deductions destined to social housing improvement and construction programs.

During these years, FONVIS accomplished the construction and improvement of 24,544 housing units.⁶ 86% of these housing units concentrated in the Departments with better economic and social situation (Santa Cruz and La Paz). Between 1993 and 1997, the Bolivian Government's total investment in home construction and improvement through the FONVIS programs, reached the sum of 140 million American Dollars. Paradoxically, the Departments with high poverty levels, such as Potosí, Tarija, Chuquisaca, Beni and Pando benefited only marginally.

In the case of the Departments in which Fundación Pro Habitat develops its activities, the public actions oriented towards social housing construction and improvement were the following:

- 1) In Tarija, FONVIS built and improved 136 housing units, which represents very small proportion of its institutional action, and a not very significant portion of the homes in the Department of Tarija (0.2%). Between 1993 and 1997, the investment was close to 3.5 million Dollars.
- 2) Despite presenting a better situation, in Cochabamba only 2,134 housing units were built and improved. This represents 8.7% of the total amount arranged by FONVIS, and covers only 0.8% of the families/households, that, by the end of 1997 were homeowners. In the years of FONVIS operation, a little over 16 million American Dollars were invested.
- 3) Finally, as Chuquisaca was a new work area, this Department got the least attention from the State. During the 1993 - 1997 five-year period, only 83 housing units were built and improved, in spite of being one of the Departments that holds a population in a condition of extreme poverty. FONVIS investment in this Department was very small (US\$ 750,000).

In 1998, after a thorough evaluation it was decided that the entity should be shut down due to the high level of inefficiency, several cases of corruption, and without a doubt, an insufficient accomplishment of results.

This was the reason why many non-government organizations that focused their work on areas with large poverty concentrations grew in importance and made significant achievements in the field of improvement of life quality among the poorest populations in Bolivia.

⁶ If we consider that, approximately 550,000 families/households are not homeowners, with the construction and improvement of 24,000 housing units, FONVIS only met the needs of 5% of these families/households.

1.4.2. Local authorities – the municipal government

Starting with the application of the Law of Popular Participation (LLP), the local government in Bolivia was defined at the sectional municipal level.⁷ The sectional municipalities are made up by the Municipal Council, an executive level (a Major and a technical team), in addition to a supervision and control body representing the base organizations. Several responsibilities were transferred to the municipalities, for instance, the construction and maintenance of social infrastructure (health centres, schools, etc.); however, the LLP does not make any reference to the functions related to housing issues. In its most important sections, Law 1551, or the Law of Popular Participation does the following:

- 1) Define the province section as territory or jurisdiction of the municipality;
- 2) Recognize and grant legal capacity to the territorial base organizations;
- 3) Allocate funds to the population through the 20% Tax Co-participation mechanism, taking into account the number of inhabitants in each municipality in order to calculate the total amount;
- 4) Extend the municipal functions into the rural domain;
- 5) Expand the municipal functions to the promotion of human development and productive development;
- 6) Establish social control mechanisms for municipal actions by creating Monitoring Committees;
- 7) Establish participatory planning as the main coordination mechanism between those who govern and those who are governed.

Nonetheless, in 1999, on the basis of the Law of Popular Participation, the Organizational Law of Municipalities (LOM) is modified to redefine the role of local authorities. Within the scope of this study, the new role designed for local authorities, with regards to the provision of basic services, according to both the LLP and the LOM, is the following:

- 1) The Municipal Governments shall provide and build new infrastructure for education, culture, health, sports, neighbourhood roads and basic sanitation (Article 14, item J, LLP);
- 2) They shall build, equip, and maintain the infrastructure in education, health, culture, sports, micro-irrigation, basic sanitation, urban roads and neighbourhood roads (Article 8, paragraph II, number 2, LOM);
- 3) They shall grant concessions, control, regulate and plan the provision of works, public services, and economic developments within their jurisdiction, whenever it falls within their area of competence (LOM, Article 8, paragraph V, number 1);
- 4) Whenever the conditions to grant potable water and sewerage service concessions, the Municipal Government shall provide directly such services, according to a Municipal Development Plan in conformity with national and sectoral laws (LOM, Article 8, paragraph V, number 2);
- 5) When appropriate, the Municipal Government shall regulate, control and inspect, and manage directly the clean up and solid waste disposal and treatment service (LOM, Article 8, paragraph V, number 3).

The new LOM specifies the role of local authorities in the provision of social housing. Regarding the housing topic, Article 8 of the LOM, which defines the competence of the Municipal Government reads as follows: "to promote and participate in the generation of sustainable technical and financial

⁷ Bolivia is divided into 9 Departments, which are in turn divided into provinces, and the provinces in province sections. Starting with the LLP, the province sections have been defined as being under the territorial jurisdiction of the Municipality.

conditions aimed at the construction of housing within the framework of national and departmental programs, according to the Municipal Development Plan".⁸

Complementary to this, number 9 in the aforementioned article establishes that the municipality shall demolish buildings that do not comply with the following standards: soil, subsoil and above soil, urban, basic sanitation, and other special, national and municipal standards. Likewise, number 10 delegates the responsibility relocating facilities intended for housing, commercial and other purposes whenever they affect the urban and territorial lay-out.

As can be noted, starting with the new LOM, the Municipal Government must participate actively in solving one of the main national problems, the ownership of a dignified dwelling.

1.4.3. Credit lines for basic sanitation and social housing infrastructure

With the exception of the municipal roles described above, there are no express provisions regarding the role of municipalities in creating or not credit mechanisms for infrastructure or social housing. However, in its chapter II, article 20, Law 1964 determines certain municipal responsibility to facilitate the presence of financial entities within the jurisdiction of the municipality.

- 1) It authorizes the expansion of the coverage of auxiliary financial services to the municipalities, although with some restrictions related to raising money from the public (unless authorization has been obtained from the Committee of Financial Caution Standards, CONFIP).
- 2) Municipal governments shall incentive financial entities authorized by the SBEF to provide services within the jurisdiction of the municipality; however this must be done by a public tender of bids.

This legal opening strengthens previous initiatives to create links between the Municipality and NGOs specialized in credit services. An experience worth a positive appraising is the agreement between the Uriondo Municipality in the Department of Tarija and the Foundation for Development Alternatives (Fundación para Alternativas de Desarrollo - FADES) in 1996. This agreement sought to initiate credit services to meet the population's economic needs. The first year started out with a portfolio of close to US \$ 14,000, which went on quickly to US \$ 310,000 in 1998. Most of the credits (60%) were used in productive agricultural activities.⁹ It is very likely that 20% of the financial resources were used for housing improvement¹⁰, that is, a little over US \$ 60,000.

Similar experiences, very much related to credit for housing, also took place between the Fundación Pro Habitat and the San Lorenzo Municipality. This Municipality handed US \$10,000 to be managed by the Foundation. This experience did not have the expected continuity due to last year's electoral situation. Anyway the knowledge already exists on how to establish this kind of agreements with the Municipal Governments, particularly now that better and more favourable conditions and legal frameworks are being created through government policies.

Without a doubt, the current state policy favours fighting poverty through improving the life quality of low-income families. This improvement entails solving the families' totally deficient housing conditions.

⁸ The Organizational Law of Municipalities, LOM, October 28, 1999. La Paz.

⁹ Cooperation between the Municipal Government and NGOs. FADES' credit experience in the Uriondo Municipality. Cosio - Plaza. NOGUB/COSUDE. La Paz, 1998.

¹⁰ This assumption is based on several impact assessments of several credit lines in different geographic regions of Bolivia. See Rafael E. Rojas.

1.4.4. New public policies

During the current government term, important modifications have been introduced in the area of credit, particularly credit for housing. These modifications are contained in Law 1864 or the Law of Ownership and Popular Credit.

One of these important modifications is contained in Article 23, which established that Popular Shares (AP)¹¹ can be used as guarantee for housing credits, or may be used by the titleholders for this same purpose.

Also, the new aforementioned law contains a proposal to carry out actions to facilitate the access to credit lines for social housing mainly. More precisely, in Article 22, this law established that: through the express Law, the mass access to credit to finance popular housing solutions will be promoted through the following:

- 1) Strengthening to credit guarantee systems by the creation or modernization of real and chattel property records;
- 2) Granting tax incentives to long-term savings;
- 3) Modernizing the administrative and judicial procedures that govern the home purchase/sale and rental transactions, including eviction procedures, which will drive the financiers to grant long-term housing credits;
- 4) Creating transparent and equal subsidy mechanisms to facilitate the access to basic services, which will improve popular housing;
- 5) Regulate ownership rights of real estate, when needed;
- 6) Using financial leasing for housing;
- 7) Using trust funds as collateral for first class credit, to facilitate financing of popular housing;
- 8) Facilitating financial banking and non-banking entities in becoming holders of mortgage portfolios in order to mobilize such assets to finance popular housing;
- 9) Promoting and establishing the necessary juridical framework so that the municipal governments dictate adequate technical standards for the construction and suitability of popular housing and other housing solutions.

Definitively, a set of state mechanism is intended, which will open up the access to ownership, construction or improvement of housing, for instance, by facilitating the mortgage security system, establishing tax incentives to savings, subsidies for basic services, etc. These new policies will very likely expand credit services, which are already considerable.

¹¹ Popular Shares are those shares belonging to every Bolivian citizen, as a result of the process of capitalization of the state companies, which took place between 1993 and 1997.

2. The national legal framework

2.1. The Banco Central de Bolivia (Central Bank of Bolivia)

The Bolivian financial system is governed by the Central Bank of Bolivia (BCB). The BCB's nature is defined in Article 1 of Law 1670 of October 31, 1995, which reads: "..... is the only monetary and exchange authority in the country, and therefore governs the national financial mediation system..." Article 3 expands this definition when stating that "...it shall formulate general application policies in matters such as monetary, exchange and financial mediation, which comprises credit and banking matters ..." Of all the above policies, the one related to the topic of this study is the last one. In that line, the BCB has the following general application attributions:

- 1) To attract and place financial resources and services (expressly forbidding the issue of linked credits);
- 2) To open financial mediation entities, branch offices, affiliates and representations (for which it shall consider personal qualifications, experience and competence of the managers, main shareholders, directors, and executives);
- 3) To merge, transform, and liquidate financial mediation entities;
- 4) To establish characteristics of the minimum amount of capital for the creation of the financial mediation system entities;
- 5) To create and operate financial entities not foreseen by the Law;
- 6) To create and operate credit card issuing companies;
- 7) To transfer resources to organize banking mediation entities;
- 8) Set norms for second floor financial entities' activities.

Additionally, the BCB is responsible for dictating the norms regarding the financial institutions equity; being depository of the legal reserve, and requesting and receiving financial information it may require from any of the financial entities. Complementary to this, there is a public entity that is responsible for controlling and supervising the performance of each and every banking and non-banking entities operating within Bolivian territory, namely the Superintendent of Banks and Financial Entities (Superintendencia de Bancos y Entidades Financieras - SBEF).

2.2. Laws governing banks, financial institutions and the financial system

In 1993, the process of structural reforms of the Bolivian State continued with a set of laws intended to modernize and adapt its operation. One of the most important ones was the law of Banks and Financial Entities that replaced the General Bank Law of 1928.

Since then, the operation of the different financial entities in the system are regulated by the provisions of the Law of Banks and Financial Entities (Law 1488 of April 14, 1993). In Article 1, this Law defines each of the entities that make up the financial system:

- 1) Bank: an authorized financial entity, of national or foreign origin, usually engaged in performing mediation operation and providing financial services to the public, according to Law 1488.
- 2) Savings and Loan Credit Union: an authorized association intended to draw resources from the public, in the form of deposits, and to grant loans only to its members.
- 3) Housing Credit Union: a specialized association, authorized to take in deposits from its members, obtain loans from third parties, and grant loans for housing only to its members.
- 4) Housing Savings and Loan Mutual: an association specialized in savings and credit operations for housing purposes, in behalf of its members.

- 5) Non-government Organizations, Institutions Working in Development, and Foundations: non-profit civil associations that grant, with donated or their own resources, reimbursable or non-reimbursable credits to determinate social-economic sectors.

The operations which the financial entities may carry out fall into four categories: passive operations, active operations, contingent operations, and financial services (Article 35). Among the active operations, the short-term credits (not over one year), the medium-term credits (between 1 and 5 years), and the long-term credits (over 5 years) can be mentioned. In contrast, among the passive operations of a financial entity, the following can be mentioned:

- 1) Take in money deposits in savings accounts, checking accounts, at sight accounts and certificates of deposit.
- 2) Issue and make available new stock to increase the capital.
- 3) Issue and make available mortgage bonds.
- 4) Issue and make available bank bonds, which may or may not be converted into regular shares.
- 5) Incur in credits and liabilities with the BCB or other banking and financial entities in the country and abroad.

Without a doubt, one of the major achievements of this new legal instrument was that all NGOs granting credits, and which until 1993 were the only institutional ensemble looking after the credit needs of the low income population, are recognized as financial entities.

Any of these entities may organize under any of the legal frameworks that guarantee their organization. However, to mediate public resources or to draw savings, each one of them requires the authorization of the Superintendent of Banks and Financial Entities (Article 6). According to the law, the minimum requisites to get the authorization are the following (Article 11):

- 1) They must necessarily be organized as stock corporations [anonymous societies] (Article 9);
- 2) Submit an economic/financial feasibility study;
- 3) Submit a project of the stock corporation's incorporation documents and by-laws;
- 4) Submit a personal police records certificate for individuals;
- 5) Submit a fiscal solvency certificate;
- 6) Submit a affidavit of the founders' equity;
- 7) Submit a list of founders (when the founding shareholders are corporations organized abroad, they shall be subject to articles 293, 413, and 423 of the Code of Commerce, Article 11, item 5);
- 8) Submit individual contracts regarding the subscription of shares by the founders;
- 9) Submit a certificate of deposit as guarantee of seriousness (at least 10% of the minimum capital required);
- 10) They shall have a 270-day period to work out the organization and operations details;
- 11) Within a 60-day period, the Superintendent shall grant the permit;
- 12) The founders shall publish the organization permit in a nationwide newspaper.

Thus, even when the legal possibility for an NGO to organize as a financial entity did exist, the major obstacles to get the permit from the SBEF were two of the minimum requirements: the type of company they had to organize (stock corporation) and the minimum capital.¹²

¹² In the case of taking on a banking figure, the minimum capital is US \$ 1,000,000, and in the case of establishing a FFP it is US\$ 500,000.

These limitations did not make possible to establish a financial sustainability strategy for financial entities such as specialized NGOs, first, because they were not allowed to draw public resources and mediate with them, and second, because they could not take in savings from the public; on the contrary, the limitations made them dependent upon donations from International aid, and did not allow them to accept outside credits.

Two years after the Law of Banks was promulgated, the legal requisites to organize a financial entity other than a bank - which could carry out a large proportion of the financial mediation operations and specialize in serving small and micro-businesspeople, and thus, the low income population - were made somewhat more flexible. It was so that the Private Financial Funds, which will be analyzed later in this study, came into existence.

2.3. Outside credits

With regards to the possibility of obtaining credits from abroad, the legal framework has hardly been developed, and focuses on the banking entities, presenting a very general nature. All banks and financial entities, both public and private (authorized by the SBEF) have the freedom to obtain outside credits at short and medium terms, with the limitations established by the issuing entities. According to Supreme Decree No. 18394 of June 8, 1981, banks and financial entities alike, have the obligation to register such credit with the Banco Central de Bolivia.

The procedures or mechanisms that the banks or financial entities must develop to obtain donations and/or credits from abroad have not been provided for precisely within the national legal framework.

Neither is there a regulatory framework of the procedure to be followed by the financial entities to obtain outside credits. The only regulatory framework is that given by Supreme Decree No. 18394 of June 8, 1981, which gives private banking the power to incur in outside credits.

Anyway, it can be concluded from reading the legal provision related to the financial system, that the financial entities may receive credits from fund coming from outside help, to channel these funds to third parties. Article 39 of Law 1488 establishes so when mentioning that the financial entities are authorized to serve as financial agents, within the country, for loans and investments from outside resources.

In addition, the Law establishes that the financial banking entities have the power to obtain credits and assume liabilities with the Banco Central de Bolivia, banking and financial entities from inside and outside the country.

Finally, Law 1864 determines that the financial banking entities may receive credits from other established financial entities, for an amount twice as much as its net equity.

Nonetheless, these entities must necessarily be authorized by the Superintendent of Banks and Financial Entities, which limits the NGOs specialized in financial services to assuming such liabilities.

2.4. Fund protection

In the field of fund protection, there is also a scarce development of the legal framework.¹³ Within the banking system, there is no precise system to protect the financial resources that are within the system itself, with the exception of, first, the 20% legal reserve required by the BCB, which is meant

¹³ Information obtained in an interview with a supervisor of the banking system from the Superintendency of Banks, Mr. Gerardo Quelca, B. A.

to guarantee the existing deposits in each bank, and second, the credit resources that are at risk. In Article 26, Law 1488 established that "all financial banking entities must establish a fund called Legal Reserve reaching up to 50% of its paid capital, to cover for eventual losses. To establish such fund, the bank shall set aside at least ten percent (10%) of its annual liquid profits.

However, there are not any legal measures or state mechanisms which make provisions for possible financial resource losses due to the American Dollar's inflationary process.

Nonetheless, there is a proposal from the Superintendent of Banks and Financial Institutions to create a fund protection mechanism. This proposal is still in the draft phase.

3. The institutional framework for working with low-income families

In Bolivia, the economy's structural adjustment process meant a massive lay-off of employees and workers from the public companies, and in many cases, from private companies as well, since the latter companies were facing greater competition due to the opening of the economy to foreign trade. One of the most important consequences was the strong process of "informalisation of the economy." It was during this period that the so-called micro-businesses¹⁴, in the productive sector¹⁵ but fundamentally in the service sector¹⁶ increased notoriously.

The growth and economic stability achieved in Bolivia in the years that followed the structural adjustment process, established a favourable scenario for the development of this micro-business sector. These businesses gradually gained economic importance at the national level. It was mainly the urban NGOs that started credit support programs for this sector, and nowadays, even some banks are offering financial products to this sector.¹⁷

With novel proposals, these financial products, on the one hand, eliminated the permanent limitations of the guarantee system (generally, mortgage securities) that the low-income families were subject to in order to gain access to credit resources. A new joint and several security system, often combined with a chattel security system, leasing systems, etc., would become the basis for the success of these new credit lines.

Nonetheless, the experience of the specialized NGOs with credit proved that managing these new financial products entailed elevated operational costs. For this reason, the current interest rates charged not only by credit specialized NGOs, but also by FFPs are the highest in the market.¹⁸ In spite of this, until now, the interest rate level has not been a limiting factor for the low-income families to gain access to these loans.

The success achieved by the first entities that offered these new financing lines - mainly in the growth of their portfolios and number of borrowers - drove foremost to the creation of new institutions specialized in microfinance, and next in order, to the legal formalization that led to the establishment of the FFPs.

Following is a brief analysis of the main aspects of the entities that developed an expertise in financial, mainly credit services, for low-income families.¹⁹

3.1. Private Financial Funds (FFPs)

The Private Financial Funds can be considered as microfinance agencies which, in Bolivia, amount to 5 institutions.²⁰ The authorization to organize and operate for these entities is regulated by Supreme Decree 24000 of May 12, 1995, which, in its most important sections reads as follows:

¹⁴ Micro-businesses are family economic units which, with very low capital investment, carry out economic activities in all the economic sectors. Generally speaking, these are low-income families who, following complex survival strategies, are classified as micro-business people.

¹⁵ The micro-businesses engaged in the production of clothing (blue jeans, leather jackets), carpentry, metal works, and jewelry, stand out.

¹⁶ The micro-businesses engaged in food product sales in open markets, transportation (cabs), etc., stand out.

¹⁷ The NGOs support also focused on training of human resources and technical assistance services.

¹⁸ Interest rates range between 2.5% to 4% monthly, in American currency; that is, 30% to 48% annually, in comparison to the 18% annual interest rate charged by the banking system.

¹⁹ In the banking system, with the sole exception of Banco Sol, no microcredit lines have been developed for low-income families.

²⁰ Financiera Acceso, S. A., Los Andes Savings and Loan Fund, Fassil Private Financial Fund, Community Fund, Economic Activity Promotion Fund. In the beginning of this year, the PRODEM Foundation received authorization to operate as a FFP.

- 1) The FFPs main object is to channel resources to both, rural and urban small and micro-borrowers.
- 2) The FFPs shall organize as stock corporations (anonymous societies), with a minimum capital in national currency equivalent to US\$ 500,000 (Article 3).
- 3) FFPs may grant credits with joint and several security, chattel security (furniture, jewellery, and other valuables), according to the provisions in Article 60 of Supreme Decree of June 11, 1937 (Article 7).
- 4) Among the most important operations, the FFPs are authorized to carry out the following (Article 8): take in money deposits in savings accounts and certificates of deposit; incur in credits and liabilities with banking and financial entities in the country or abroad; incur in credits and liabilities with the BCB, grant short, medium and long-term credits with joint and several, personal, mortgage, chattel or combined securities; issue certificates of deposit (as security) and execute financial leasing contracts.
- 5) FFPs shall maintain a net equity not less than 8% of their total assets and contingents weighted in function of their risks (Article 13).
- 6) FFPs shall abide by the standing provisions regarding the legal reserve (Article 14).

As established by the law, this sector supports mainly the micro-business activities. In 1999, this sector supported several activities, standing out among the most important ones the support given to the manufacturing business, wholesale and retail commerce, and professional services. This institutional framework was already present by the end of 1998, with 42 urban agencies nationwide, with the exception of the Department of Pando. As it will be explained later on in this paper, this sector also supported a small percentage of housing-related demands.

All the NGOs having initiated their credit service operations more than a decade ago, are currently owning shareholders of a FFP, namely:

- 1) The "Pro Credito" NGO is majority shareholder of the "Los Andes" FFP.
- 2) The Economic Initiative Foundation (Fundación de Iniciativas Económicas - FIE) is majority shareholder of the "FIE" FFP.
- 3) The NGO Consortium (ANED, FADES, IDEPRO, and CIDRE) owns the recently authorized "Eco Futuro" FFP.
- 4) The PRODEM NGO is majority shareholder of the recently authorized "PRODEM" FFP.

Summing up, very few NGOs specialized in credit (as in the case of Sartawi and Agrocapi) have still been unable to get SBEF authorization, although it is well known that their paperwork is in process. In conclusion, in a few years, a private institutional framework was developed, the owners of which are NGOs that have the objectives and financial technology to provide and offer financial services (credit and savings) to historically marginal population groups. In addition, these NGOs are suited to mediate with public resources and, certainly, to draw credit resources from abroad. Without a doubt, this is the institutional framework that displays the highest sustainability levels, and that requires support in order to become strengthened and diversified in the different credit lines, for instance, housing.

3.2. Housing savings and loan mutuals

In Bolivia, there are 13 savings and loan mutuals. According to Law 1488, Article 74: "the housing savings and loan mutuals are non-profit private entities that mediate with financial resources intended for housing." In order to become established, these organizations must constitute a minimum capital in national currency, equivalent to US \$85,000 (Article 75, Law 1488).

The three most important mutuals in the country are: Mutual La Primera, Mutual La Paz, (both located in the Department of La Paz), and Mutual Guapay, in the Department of Santa Cruz. All three of them

serve practically 72% of the total borrowers, 66% of whom have obtained loans ranging between US \$ 500 and US \$ 5,000 at the most.

The credit conditions in this type of organizations is also defined in Article 78 of Law 1488, which reads: "The credits of savings and loan mutuals for housing are intended for land purchase and housing construction, for the purchase of individual dwellings or horizontal property, construction of housing projects, condos, multiple family buildings, financing leases (anticrético) contracts, furnishing of homes, fulfilling legal requirements of testamentary successions or other rights over property, real estate used for housing, as well as for credits to build and equip handicraft workshops attached to residences."

Since these mutuals are subject to supervision by the Superintendent of Banks, they must apply the evaluation and qualifications regulations of credit portfolios dictated by means of Supreme Resolution No. 6294 of March 16, 1994. According to the Supreme Resolution, each institution shall measure the risk involved in such credits. In terms of the requested amounts, for credits over US \$ 20,000, this evaluation comprises:

- 1) An analysis of the credit object (what will it be used for)
- 2) The source of payment
- 3) Credit history
- 4) Financial and equity situation of the applicant
- 5) Collateral (securities)
- 6) Conditions of the economic sector or activity carried out by the applicant
- 7) In case of personal guarantee, the economic and financial situation of related individuals shall be looked into.

For credits under US \$ 20,000, the minimum requisites to be complied with are the following:

- 1) Evaluation of the borrower's and guarantor's affordability
- 2) Analysis of the salary with regards to affordability (taking the expenditure analysis of the applicant)
- 3) Analysis of assets, liabilities, cash flow of the social-economic units (when it is an individual or group loan)
- 4) In Article 12, this same Resolution determines that all housing credits shall be paid in instalments that are totally guaranteed by mortgages. Finally, the same Resolution determines that each credit shall be rated individually, in terms of the following categories: normal credit; credit with potential problems; doubtful or bad credit. In the case of real estate purchase, 75% of the estimated amount is granted.
- 5) Another condition to gain access to credit is that the applicant must be member or hold an account at the mutual.

Evidently, the savings and loan mutuals for housing are a different domain in which credit lines intended for low-income families can be developed. Unfortunately, these financial entities' strategies and policies have been oriented towards middle and high-income families.

3.3. Savings and loan credit unions

Another important sector in meeting the housing needs is the savings and loan credit union system, 16 of which are under the legal protection of the Superintendent of Banks. Here, the conditions to gain access to the credit lines for housing are the following:

1. Be a member of or hold an account at the credit union.

2. The amount to be granted depends upon the size of each credit union's portfolio (some of them can grant up to US \$ 4,000, others can grant larger amounts).
3. The credit must be necessarily backed by a mortgage security (the documents that the real property must have are: notarized document, ownership card, decennial, approved blueprints, up-to-date tax payments, appraisal).
4. Interest rate: 1.8% monthly on balances (this example pertains to the San Pedro Credit Union in the city of La Paz).

Savings and loan credit unions have been an alternative to meet the low-income families' need for financial services. Unfortunately, their institutional design and financial technology are not being sufficiently updated and modernized, thus, rendering them highly inefficient.

With regards to the total number of borrowers taken care of by the different systems, there is a universe of 644,752 individuals, distributed as follows: national banking system - 50% of the customers; mutual system - 8%; and finally, Private Financial Fund system - 28%.²¹

²¹ Information provided by the Superintendency of Banks and Financial Entities. Memoir. La Paz, October 1999.

4. The national financial system and financing for construction²²

The national financial system is made up by the banks, both national and foreign; the home savings and loans mutuals; the savings and loans credit unions, and finally; the private financial funds.²³ Although they are not subject to control and supervision by the Superintendent of Banks and Financial Entities, for more than a decade, there are also NGO-type entities which have specialized in providing credit services. Each of them serves the construction sector with loans for housing, according to their own procedures.

4.1. The banking system

In Bolivia, the banking system is made up by 10 national and 4 foreign banks, although the fact is that several so-called national banks have indeed transnational banking entities as majority shareholders.²⁴

As of December 31, 1998, the banking system's portfolio was approximately 4.3 billion American Dollars, 93% of which belongs to the national banks. On the other hand, catchments reached 3.6 billion American Dollars.

Financing for construction activities reaches the sum of 204 billion Dollars; that is, 4.7% of the total portfolio. Since gaining access to the banking system is hard because of the collateral conditions it imposes, it is possible to assert that a large extent of this credit is oriented towards the construction of buildings or luxury homes.

4.2. Home savings and loan mutuals

The Mutuals are financial entities created to make savings and loans for housing purposes easier, particularly for the middle and low-income families living in the cities of Bolivia.

By the end of 1998, the Mutual system was made up by 13 institutions, with a portfolio reaching the sum of 314.3 million American Dollars, with 9% of delinquencies.

The focus of the credits granted was the construction sector, with a portfolio of 268 million American Dollars, representing 85% of its total portfolio.

In Fundación Pro Habitat's work area, there are 3 Savings and Loan Mutuals which, as a whole, have a portfolio of 33 million American Dollars; the difference between these mutuals lies in their different behaviour when it comes to the destination of the credit. The Cochabamba and Tarija Mutuals place a small percentage of their portfolios in the construction sector (0.3 % and 14% respectively), whereas 95% of the Chuquisaca Mutual's portfolio is intended for construction.

4.3. Savings and loan credit unions

The Savings and Loan Credit Unions are entities that originated in the decade of the 60's from the initiatives of some family groups related to parish centres. In Bolivia, the Savings and Loan Credit Unions have a particular legal framework that has them to proliferate nationwide.²⁵

²² The construction sector includes all financing oriented towards the construction of houses and buildings.

²³ The Private Financial Funds (Fondos Financieros Privados - FFP) are a recent invention (1997). Their purpose is to serve micro-businesses with productive credits, or individuals with credits for consumption. The most important differences with the banking system is that the FFPs do not have checking account services nor can they give credits for international trade.

²⁴ In the case of the Banco de Santa Cruz de la Sierra, for instance, the majority shareholder is the Banco Central Hispanoamericano (90%); the Bisa Bank is made up by Panamanian capitals.

Nevertheless, very few of them (17 credit unions) are controlled and supervised by the Superintendent of Banks and Financial Entities. As of December 1998, this institutional financial group had a portfolio of 208 million Dollars, 16% of which is oriented towards the construction sector (35 million).

Most of these credit unions are located in the three Departments in which Fundación Pro Habitat works. Together they have a portfolio of 54 million American Dollars, with very different delinquency levels; for instance, some credit unions have delinquency levels reaching up to 38% (Cooperativa Catedral of Tarija), and others only have 5.8% of delinquencies (Cooperativa Quillacollo in Cochabamba).

Out of these resources, nearly 13 million Dollars were granted for housing credits. A large proportion of these resources (11 million) are concentrated in the Department of Cochabamba.

4.4. Private Financial Funds (FFPs)

The Private Financial Funds (FFPs) are a new kind of financial entity created on the basis of the new 1994 Law of Banks and Financial Entities. The differences between a FFP and a bank are minimal: the former can neither have at sight deposits (checking accounts) nor provide financial services for foreign trade.

Several FFPs were started by initiative of NGOs which, as consortia, created these new commercial entities. There are currently 5 FFPs in Bolivia, holding a portfolio of 173 million American Dollars.

These new financial entities were created to provide financial services to the micro-business sector (for both, industrial and commercial activities). Very few resources were used for other purposes, for instance, housing (as of December 1998, they amounted to 5.7 million).

In Fundación Pro Habitat's work area, two of the most important FFPs operate, having developed a significant know how to serve the low economic resource families (Los Andes and FIE).

4.5. Entities specialized in credit (NGOs)

Halfway through 1985, NGOs started a process of reflecting upon the financing models in the development processes. One of the core discussion topics was the role of credit in social development programs and projects. As a result of this reflection, several NGOs, some in the urban area and others in rural areas, went on to specialize in financial services, mainly credit services.

Because of restrictions in Bolivia's legal framework, none of these NGOs is controlled or supervised by the pertaining regulatory entity (SBEF), in spite of the great importance they currently have as financial entities at the national level.

By the end of 1998, there were 6 institutions in this "new system" , operating mainly in the urban areas²⁶ and 7 institutions operating in the rural area.²⁷ Together, they cover the whole national territory with nearly 150 branch offices located mainly in the rural area (100 branches). Their portfolio amounted to 75 million dollars, with a coverage of 170,000 borrowers.

²⁵ It is difficult to establish the number of savings and loan credit unions that exist in Bolivia, due to the deficient registration systems existing in their organization matrix.

²⁶ These institutions are: FIE, IDEPRO, PROA, CIDRE, FUNBODEM, and PROMUJER.

²⁷ These institutions are: ANED, FADE, FONDENCO, CRECER, PRODEM, SARTAWI and AGROCAPITAL.

Without a doubt, this new institutional framework is very important for channelling credit services, in some aspects even more so than that of the national banking system.²⁸

However, a large portion of the financial resources channelled towards the urban (micro-businesses) and rural (salespeople, peasants) sectors, were oriented towards productive activities. The exception to the aforementioned is the line of credit, said to have "free availability" (approximately 44% of the total portfolio), where the credit's destination was very diverse (consumption, health, housing).

Some of the impact assessments by specialized NGOs working in the rural area²⁹, have reached the conclusion that 20% of the "free availability" credits are channelled into housing investments (construction or improvements). It is possible to make an estimate of the volume of financial resources which were channelled towards the construction sector amounted to an order of 7 million Dollars.

4.6. Financing for housing - a joint vision

Summing up, the resources channelled into the construction sector by the different types of financial entities are important and it is possible to assert that such resources were used in the construction of housing, particularly in the case of the Mutuuls, credit unions and NGOs specialized in credit. The next table shows, for the sake of comparison, the reality of the national financial system at the end of 1998.

Table 4: The situation of the portfolio and the destination of credit for construction in Bolivia by the end of 1998

	Total Portfolio (\$mn)	Construction Portfolio (\$mn)	Percentage (%)	Number of Institutions
Banks	4,300	200	4.7	10
Mutuuls	314	268	85	13
FFPs	173	6	3.2	5
Credit Unions	208	35	17	17
NGOs	75	7	9	11
Total	5,070	516	10	56

Source: Self-elaborated on the basis of information from SBEF and of the "Micro-finance Financial Bulletin" of CIPAME and FINRURAL La Paz, July of 1998.

The magnitude of the credit financial resources which are channelled to the construction sector, and particularly to housing, is significant, and has a very broad institutional diversity. Undoubtedly, the mutuuls are the most important entities in this field, although the credit unions and NGOs have a very important population coverage as well.

²⁸ The banking system, for instance, only has 71 branch offices in the rural area, as compared to the 106 branch offices which the credit specialized NGOs have. Although the official figures are unknown, the banking financial system's coverage is very similar to that of system of NGOs specialized in financial services, although there are big differences in the average amount of the loan (close to 20,000 American Dollars in the case of the banks, and 500 American Dollars in the case of the specialized NGOs).

²⁹ In 1998, impact assessments were carried out in credit programs such as ANED, Sartawi and SOS FAIM. Evaluation Reports Rafael E. Rojas L. La Paz, 1998.

5. Fundación Pro Habitat (The Fundación Pro Habitat)

5.1. Legal and regulatory NGO framework

Since they are non-profit organizations, the legal and regulatory framework to organize and operate the so-called non-government organizations (NGOs) is the Civil Code³⁰, which specifies the norms for foundations and civil associations. The requirements to authorize the operation of NGOs are the following:

- 1) Incorporation or Foundation Minutes.
- 2) Approval of organization's by-laws and regulations.
- 3) Formal registration before a Notary of Government, after the decision of the Government Attorney Office and Prefectural Resolution.
- 4) Approval, by final Supreme Resolution executed by the President of the Republic and the Minister of the related to the institution's activities.
- 5) Registration at the National NGO Directorate.
- 6) Single Taxpayer Registration Number
- 7) Notarized power-of-attorney of the legal representative.

This procedure will grant the NGO legal capacity. One of the advantages of these associations and foundations is that they may have multiple objects without restrictions; they may also receive donations with no restrictions and generate their own resources without the need to have any records with the Banco Central de Bolivia.

The fundamental differences between the commercial entities (for-profit) and the associations/foundations (not-for-profit) are: (a) in the first case, the profits generated are distributed among the shareholders/partners, not so in the second case; (b) in the case of the for-profit entities, in their financial statements, there is the "capital" item, on the other hand, in the non-profit organizations, this item is called "equity" (patrimony).

In this sense, the Civil code is very broad and general in ruling the operation of NGOs; thus, there is currently a draft law for foundations and institutions working in social development, which is being discussed at the national congress; however, the final consensus proposals have not been submitted for final approval.

To establish a legal framework, from the tax payment point of view, legal opinions determine that "the associations and foundations are exempt from presumed company income taxes and the presumed real estate taxes, as long as it is established, not only in their nature but also in their by-laws, that the surpluses shall not be distributed among the associate partners and that, in the case of liquidation, any liquid equity, and the resulting net equity shall not be distributed either, but shall be given to other entities similar to that subject to liquidation".³¹

5.2. Legal and regulatory framework for NGOs working with microfinance

The legal and regulatory reference for NGOs specialized in financial services is the Law of Banks and Financial Entities of 1993, which, contrary to the Law of 1928³², expands its application to include

³⁰ From the point of view of their incorporation and organization, the non-profit organizations are regulated by the Code of Commerce and related laws, for instance the Law of Banks and Financial Entities.

³¹ Aguirre Attorneys Firm, "Juridical Analysis on NGOs." La Paz, 1993.

³² The object of Law of 1928 was only the banking system. Credit Unions and Mutuels were created later on and under specific legal frameworks.

other financial entities (credit unions, mutuals, NGOs). It also allows entities providing credit services to operate without necessarily being controlled and supervised by the SBEF.

Although there are precise regulations on the operation of Non-Banking Financial Entities (such as the case of the Savings and Loan Credit Unions, Housing Mutuals, and Private Financial Funds. See Law 1488, Article 69 to 81), it is not so for NGOs, which are also classified as non-banking financial entities.

Anyway, the Law of Banks and Financial Entities presents the only specific reference for NGOs, in Article 81, when referring to them as other non-banking financial entities. Literally, the Law reads: "private institutions for social development or non-government organizations," which, when comprised in the provisions of Article 69, "...shall be governed by this Law and its regulations." Definitively, there is no precise legal framework for all the NGOs working with microcredit services as their area of expertise. On the contrary, there are many ambiguities and legal vacuums.

The Law explains that NGOs which, on the one hand, do not draw resources from the public but grant credit by using funds from donations or international organizations and, on the other hand, do not carry out mediation with State funds, are excluded from control and inspection of their activities by the Superintendent of Banks. In other words, license and authorization from the SBEF is necessary only when the financial mediation includes State funds or when resources from the public will be drawn.

5.3. History

5.3.1. Fundación Pro Habitat - background information

Due to the high incidence of Chagas disease in Bolivia, several institutions have implemented programs to fight this disease. Many of them assumed housing improvement and construction as their work axis. To put Fundación Pro Habitat's institutional experience into context, following is a brief description of the main features of some of the housing improvement experiences implemented in Bolivia.³³

The projects linked to housing improvement to fight Chagas disease are relatively recent and are financed through a diversity of international funding; the oldest one, designed as a health project, dates back to 1986, and was implemented in the Department of Potosí³⁴ with FIDA financing. In the Department of Chuquisaca, also based on a health project, the PROSCAM³⁵ Project was implemented two years later, also with FIDA financing. In 1990, the "Child and Community Health" project was implemented in the Departments of Tarija, Cochabamba and Chuquisaca with USAID PL 480 and CCH financing. Finally, in 1991, a housing improvement project financed by CARE International was implemented in the Andean area of Tarija. These projects' results and impacts were diverse, and the accumulated experience made it possible to adjust new and innovative proposals. Within this context, the Chagas disease control project was born, which would become the most important precedent of the Fundación Pro Habitat.

5.3.2. The creation of Fundación Pro Habitat

³³ This systematization of experiences was prepared according to the framework of the Housing Improvement Project in endemic areas targeted for Chagas disease control. Ministry of Housing and Basic Services. La Paz, 1999.

³⁴ Chagas control project, SEDES Tupiza. PDACSJO.

³⁵ "Cardenal Maurer" Social Project - Chuquisaca. PROSCAM.

The procedure for the creation of the Fundación Pro Habitat started at the end of 1992, based on an impulse by the United Nations' Centre for Human Settlements, project Bol/91/018 (Danida/CNUAH). On May 6, the Fundación Pro Habitat obtained its legal status, becoming an institution in July of 1993, when the Founders Meeting convened to elect the Board of Directors and appoint the Executive Director.

Prior to getting into the institutional history, it is necessary to make a brief reference to the BOL/91/018 project (Danida/CNUAH) called "Training for Community Participation in Human Settlement Projects". This project was made up by two phases. The first phase comprised the years 86 and 87 and focused its activities in the training of DINAHE technicians and the Ministry of Urban Issues (MAU) in topics related to planning and community participation processes in new urban settlements. The second phase comprised the years 88 through 91 and achieved an investment of 723 thousand American Dollars. This phase's main activities included the training of professionals in participatory planning³⁶ and community training³⁷ for the implementation of 103 self-construction projects in 8 of the 9 Departments of Bolivia (none of the projects was ever implemented in Pando). Most of these projects were carried out in the urban area, and very few in the rural area.³⁸

By the end of this project, Bolivia had a group of highly trained human resources in participatory planning with a methodology that was developed to support human settlement projects, and with a set of elaborated didactic material and equipment, for instance, the equipment to produce audiovisual materials. All these aspects compelled the National Government and the UNCHS (United Nations) to think about the continuity of the project, but from a new autonomous and independent institutional framework.³⁹

The conditions were most optimal to institutionalize this project, which had been under implementation since 1986. In fact, the first financial support of US\$ 100,000 was donated by the Bol/91/018 project to cover Fundación Pro Habitat's operational costs for the second semester of 1993.

5.3.3. Fundación Pro Habitat's first steps

There were two initial agreements that were the bases for Fundación Pro Habitat's earliest institutional work: One the one hand, the CCH agreement⁴⁰, which made it possible to carry out the "Chagas Control Program", and on the other hand, a second agreement with the Social Investment Fund (FIS)⁴¹ to develop community training in water and basic sanitation.

The "Chagas Control Program" was carried out in the Department of Tarija between June of 1992 and June of 1994. The work started with research that aimed to "document a knowledge, attitudes and perceptions base on Chagas disease".⁴² The research was conducted on the basis of a participatory planning and community management strategy, as it was the only way to successfully accomplish the

³⁶ Institutional training included 505 professionals from different state institutions and 137 individuals that made up the field team.

³⁷ 15,500 community members were trained, half of which were young people and children, and the other half were 59% male and 41% female adults.

³⁸ 87 self-construction projects were implemented in the urban areas, benefiting 5,364 families, and 16 self-construction projects in rural areas, benefiting only 845 families. "Community Participation in Bolivia" The Danida/UNCHS training program. La Paz, 1994.

³⁹ The Bol/91/018 project. 1993 January-June Report. Irene Vance and Gustavo Bracamonte. La Paz, 1993.

⁴⁰ This first agreement was actually established with the Danida/UNCHS Training Program and taken on by the Pro Habitat Foundation after its creation. The CCH was a program of the PL-480 financed by USAID. The selected communities in the Department of Tarija were: Cadillar, Coimata and Orozas.

⁴¹ The Social Investment Fund (FIS) is a decentralized entity of the National Government that finances all the social projects (construction of schools, health posts, potable water systems, etc.).

⁴² Final Report of the Pro Habitat - CCH Agreement. Pro Habitat. La Paz, 1994.

vector control in a sustainable manner. The results of these two-year work period were many, among which the following stand out⁴³:

- 1) Initiating a participatory planning process.
- 2) Building a social economic baseline.
- 3) Conducting research in four topics: implications and feasibility of incorporating the food for work model into housing improvement programs; feasibility of working with housing improvement programs through credit; and finally, a study on the construction materials market.
- 4) On the basis of the participatory studies on the knowledge that families have about Chagas disease, hygiene practices, and studies on housing quality, educational and training activities were developed for promoters, women and children. An extensive set of didactic material was produced during this process.
- 5) A 100% of housing improvement goals (both physical and qualitative) were achieved in most of the families. During this period, the Fundación Pro Habitat was able to improve 286 housing units in three of Tarija's communities, thereby benefiting 1,500 people.

It is certain that the implementation of this project enabled the Fundación Pro Habitat to build an "education and training model in which, community participation, housing improvement and use of local technologies are the main elements of a strategy for sustainable vector control programs".⁴⁴

The second agreement had the initial purpose of supporting the FIS so that all of their water and basic sanitation programs would include a training component. Unfortunately, it had a very short lifetime due to the change in institutional policies that occurred within this institution during this period (change of Government).

5.3.4. A new experience - the relationship with Plan International

By the mid-90's, several institutions in Bolivia implemented projects linked to fighting Chagas disease. Some of them did so with no success, which drove them to enter into inter-institutional agreements to make use of already established institutional capabilities and already tested methodologies.

In 1995, within this framework, the Fundación Pro Habitat entered into an agreement with Plan Internacional to carry out a one-year experimental program.⁴⁵ With very few variations, this project's implementation methodology was the same as the one used with the CCH project; that is, participatory planning, baseline, education and training, housing improvement, follow-up and monitoring.

The results obtained were better than those foreseen in the agreement⁴⁶, which certainly enabled the agreement to be extended to a greater number of communities and for a longer time period. This new agreement was called the "Chagas 2000 Project."

During this period, Fundación Pro Habitat's Video Unit went on to consolidate its work and generate resources that allowed it not only to be self-sustainable, but in some cases also to subvention the Foundation's activities.

⁴³ Ibid.

⁴⁴ Contract entered to with the CCH in 1992.

⁴⁵ The expected results were to work within this Department with 5 communities affiliated to the Plan Internacional support programs: Yesera Sud, La Victoria, Rincón, La Tablada and Santa Bárbara. Final Report of the Chagas Control Project in Tarija. Rolando Valverde. Tarija, 1996.

⁴⁶ 81 young promoters were trained; children's training was given priority, and fundamentally, the improvement of 647 housing units was achieved, in comparison to the 450 housing units that were foreseen. Housing improvement was complemented with spraying of such houses.

5.3.5. The Chagas 2000 project

This project expanded considerably the coverage of two micro-regions in the Central Valley of Tarija (96 communities). The aim is to benefit 4,000 families during a five-year period. The goals set were, without a doubt, much more ambitious and aimed to diminish the "vinchuca" infestation rates both inside and outside the house.

This project's target population, on the one hand, were the 96 communities in the areas in which Plan Internacional carries out its "Padrinos (Godparents) Program", namely the provinces of Cercado, Avilez and Mendez. On the other hand, the project was supposed to ensure the training and diffusion of didactic materials to professors and students of Tarija's Normal (Teacher) Schools, to the medical corps of health services, and to members of the private sector and NGOs. This project strengthened the perspective of getting new actors involved, such as schoolteachers, public employees working in health and other institutions within the Chagas disease control process. The project was more integrated in nature. However, the main components in the previous experiences were very similar.

This new project had incorporated new approaches to ensure better sustainability levels: more work with children who are likely to change their attitudes towards the Chagas problem more easily (hygiene, quality of life, etc.); working with a gender approach since women and children are burdened the most with housekeeping activities; a work method that ensures a process of empowering by the families and community organizations⁴⁷; finally, strengthening of the inter-institutional relations with outcomes still demanding greater institutional efforts.

The results of Fundación Pro Habitat's institutional action developed regularly until 1999. In the beginning of this year, specialized personnel of Fundación Pro Habitat was hired by the World Food Program (PMA) to carry out the "Housing Improvement Project in Endemic Areas for Vectorial Control of Chagas Disease," at the request of the Government of Bolivia through the Ministry of Housing and Basic Services. This project would give place to a new agreement with Plan Internacional: PRO-PLAN-II.

5.3.6. PRO-PLAN-II

The main precedent of this new agreement is not only the "Chagas 2000" Project, but also the project prepared for the aforementioned Ministry of Housing and Basic Services. The project managed to recover all the institutional experience and shape it into a government project with national dimensions.

In a nutshell, this project is supposed to be implemented in 5 Departments of Bolivia (Chuquisaca, Tarija, Cochabamba, Santa Cruz and Potosí). Its purpose is to "improve the quality and conditions of life of 848,246 inhabitants in the valley, tropical and Chaco areas by means of the structural and functional improvement of 93,000 housing units located in the municipalities with highly endemic Chagas disease".⁴⁸

During the negotiations and search for financing, the Government of Bolivia signed an agreement with Plan Internacional, whereby the latter assumed the responsibility for covering the operational costs (vehicles, training, etc.) required for the implementation of this project.

⁴⁷ The variation of delegating responsibility for the purchase of materials for housing improvement to the community organization itself was incorporated to the planning process. Plan Internacional was in charge of training at the administrative and management level. Interview with the Tarija Coordinator. Bonny Morales. Tarija 1999.

⁴⁸ Ministry of Housing and Basic Services. Executive Summary: "Housing Improvement Project in Endemic Areas targeted for Chagas Disease Control" La Paz 1999.

Within this new framework, Plan Internacional delegated the operational responsibility for the Project's implementation in the Departments of Tarija and Chuquisaca⁴⁹ to the Fundación Pro Habitat. This situation forced the inter-institutional agreement for the "Chagas 2000" project to be closed one year earlier.

The new agreement between Plan Internacional and the Fundación Pro Habitat will have a lifetime of five years from the year 2000 through 2004. It will entail an investment of approximately 5.5 million American Dollars. There is no doubt as to the new challenges that his new project will pose for Fundación Pro Habitat.

5.4. The challenge of implementing the line of credit as a strategic line for housing construction and improvement

Since its beginning, the Fundación Pro Habitat included the need to establish a financial credit service for housing improvement⁵⁰ as strategic line. In the study regarding revolving funds carried out within the framework of the CCH agreement, the feasibility of a credit program was determined, in which such funds would be managed within the community. Two revolving funds were implemented in two communities (Erquis and Cadillar). The results obtained from these experiences were not entirely satisfactory.⁵¹ During the first agreement with Plan Internacional, this component was missing.

Anyway, it was evident that the housing improvement programs' sustainability should consider credit programs. For this reason, the "Chagas 2000" project implemented in Tarija considered complementary funds for the development and testing of a credit service model managed institutionally by Fundación Pro Habitat. Finally, this component was financed by Homeless International, and ended in the beginning of 1999. A small financial service experience was also carried out in the city of Cochabamba.

5.4.1. The Cochabamba experience

With the purpose of initiating the institutional work of the Fundación Pro Habitat in the Department of Cochabamba, an agreement was signed together with the Municipal Government in 1995. The agreement had two purposes: to train municipal technicians on planning of human settlements issues, and to perform a diagnostic of the needs and requirements for housing improvement.

At the same time, the Fundación Pro Habitat implemented a small financial credit system with a portfolio that amounted to 30,000 American Dollars. At first, the placement and collection of credits was carried out under an agreement with the La Primera Mutual: later on, after the Tarija experience, the Cochabamba office took on both the placement and collection of credits.

From 1996 to mid-1998, the results achieved with this line of credit were the following: an urban credit service was established in one of the poorest districts in the city of Cochabamba. 191 credits were granted in this district to low-income families engaged in commerce, masonry and, in many cases, micro-business activities. Another characteristic of the population who gained access to the line of credit is the large number of women who are heads of household. The line of credit turned out to be insufficient to meet the increasing demand for this service.

⁴⁹ Actually, the project will also include some municipalities in the Department of Cochabamba, which will be taken care of from the Chuquisaca office.

⁵⁰ In the initial organizational structure, Pro Habitat had a Credit Unit, and had even initiated negotiations with the Honorable Municipality of La Paz, seeking funds to establish a revolving fund.

⁵¹ The experience showed that the complexity involved in community management of a revolving fund makes this type of proposals unfeasible.

Unfortunately, the revolving fund started to decay due to the lack of funds, and the Cochabamba team had to transfer some funds to its headquarters. Currently, this regional office is going through a negotiation phase to gain access to new funding and strengthen its credit service.⁵²

5.4.2. The Tarija experience

The Tarija experience had more financial resources available, which had been granted by Homeless International.⁵³ After three years of implementation, the credit service project reached the objective of establishing a credit service in both the rural and urban areas.

According to the statistical report of September 25, 1999, it is evident that after the three project years US \$ 320 thousand Dollars were disbursed, which means that the fund's capital has revolved three times, serving 810 borrowers in 11 rural communities and 9 peripheral urban neighbourhoods. The percentage distribution of the disbursed portfolio, according to geographic area, credit type, and term, was the following: during the first months of the project, the credit service focused on the rural area, and by the end of the three-year period, a large proportion (76%) focused on the urban area. In this scenario, the tendency towards concentrating the credits under individual credit mode and reducing the portfolio's proportion under the group credit mode stands out. Finally, another clear trend is to increase the credit portfolio with medium-term credits (one to two years) and reduce the short-term portfolio (less than one year).

5.4.3. The credit service clients

The situation that the portfolio reflects varies entirely when performing an analysis of the client distribution according to geographic area, credit type and term; there are slightly more urban than rural clients; most of the clients are part of solidarity groups; and finally, most of the clients have short-term credits.

The credit service implemented by Fundación Pro Habitat features a very particular coverage by gender in the urban and rural areas. With regards to the number of female and male borrowers, the following patterns were established:

- 1) Generally speaking, the proportion of female borrowers reaches up to one third of the total number of borrowers in the four monitoring periods.
- 2) However, in the urban area, the proportion of women and men who were granted credits is very similar. This phenomenon is explained, on the one hand, by the existence of a larger proportion of heads of households, and on the other hand, by a larger proportion of women receiving permanent money income.
- 3) In contrast, in the rural area, only one fourth of the credits went to women borrowers. This is explained by the reasons stated in the paragraph above; that is, the existence of women heads of household and/or economic income.

The characteristics of clients of the credit service implemented by Fundación Pro Habitat are the following: most of them are families with more than two children, in which the average age of the head of household ranges between 30 and 40 years. The family core (those who live in the same house) has a very diversified economic matrix. In the urban area, both the father and the mother are

⁵² According to the "Institutional Profile" document, the active portfolio is of US \$ 28,781, in addition to a loan of US \$ 12,840 to the Pro Habitat Foundation.

⁵³ Homeless International financed a three-year project that attempted to establish a line of credit or revolving fund as one of its main components. The other components were related to educational processes at the school system level, on Chagas disease and preventive measures.

engaged in some kind of economic, mostly informal activity.⁵⁴ Due to their "micro-businessmen" status, they have been eligible for credits from several institutions, among which the credit unions (Catedral and Churquis), Private Financial Funds (Los Andes), and many NGOs specialized in credit services (ANED, FADES, IDEPRO, Pro Mujer) stand out.

This broad economic diversity is also present among the rural families which, do not only perform farming and cattle raising activities in their land, but also engage in recovering and selling the products in the urban centres. many of them produce "chicha", bread and/or work as temporary masons in the city of Tarija. The work distribution in the rural families starts at very young ages.

The goals set out by the Project (150 credits each, in the urban and rural areas) were exceeded by far with 810 granted credits. This indicator alone reflects the great requirements for financing of the low-income families in order to meet their housing improvement needs.

5.4.4. Destination of the credit

The credit was initially intended for housing improvements which would have a direct impact on the vinchuca's habitat: plastering the walls, changing roofs, etc. However, in many cases, the families gave priority to other needs: building toilets (bathrooms), purchasing windows and/or doors, finishing in kitchens (building counters, laying tiles, etc.), initial payments to connect to the electric energy grid, and even the construction of sidewalk edges on the streets.

In the urban and rural areas alike, the credits have been used to purchase both, manufactured materials (bricks, cement, roof tiles, etc.) and non-manufactured materials (sand and rubble). In the case of the construction work itself, outside labour was hired only when the father of the family did not work as one for a living. The records show that a significant portion of the credits have been used to pay the masons and their aids. The impact on job generation must be significant.

In very few cases have the credits been diverted for other uses. It seems that this situation is frequent among the poorest rural families who set aside a part of the credit resources to buy groceries. There are no records of credit resources being used for economic activities.⁵⁵ In the course of the credit service implementation, the "diversion" of credits towards investments not directly related to fighting off the vinchuca beetles, forced Fundación Pro Habitat to make its credit policies more flexible.

5.4.5. Credit service impacts and results

In the three-year period, the average credit amount is approximately of US \$ 400 per borrower. In very few cases has this figure been enough to cover all the costs involved in housing improvement; therefore, the families have made additional investments. It is hard to know the magnitude of the additional investment by the families. Anyway, the impact on the improvement of life conditions is highly significant.

Families, particularly those on the urban area, are willing to make permanent investments to improve their houses; thus, historically, they have applied for loans at credit unions and other credit entities.

⁵⁴ Among the cases observed, there are masons, bakers, drivers, maids, carpenters, and several of them have managed to open a neighborhood store or are regular workers at some institution (for instance, doormen at the University).

⁵⁵ Actually, the results of several impact studies regarding free available lines of credit showed that 20 to 30% of these free access credits are used for housing improvement purposes (See Rafael E. Rojas "Impact Study on the Free Availability Credit" implemented by Sartawi with resources from Plan Internacional, La Paz - 1998).

Very few families have had problems with the payment of their financial liabilities and, in the urban case, income received from different businesses has been the source for payments. In the rural case, such liabilities have been covered by farming and livestock.

At the end of the project, it was evident that the credit service requires a specialized management, and that training activities should be separated and implemented with other strategies and methodologies. As analyzed before, one of the problems is the small degree of sustainability achieved by the credit service, a situation that is worsened by the current delinquency rates.

Just as established in previous monitoring reports, the project's impact areas are the following:

- 1) Health for families who have previously benefited from subventions for housing improvement, and have later made further improvements through the credit service. The almost total elimination of vinchuca beetles, without a doubt, will end the population's exposure to Chagas disease.
- 2) On the other hand, habit changes among the families that have improved their homes was noted, not only because of the higher cleanliness levels, but also since the cooking activities have been separated from the others; cattle raising areas have also been separated from the dwellings.
- 3) Another impact area is that of public policies. One of the achievements was getting the Ministry of Health to adopt an integral approach to fighting Chagas disease, and to establish coordination levels with the Ministry of Housing. Another achievement was expanding the view of vinchuca fighting methods which place priority in the use of insecticides towards a more integral view considering fight against poverty itself.

Unfortunately, after the completion of the project financed by Homeless International, the line of credit does not count with additional funding to go on; the point of equilibrium to allow the credit to be sustainable has not been achieved, and there is an imminent risk that the credit fund will become decapitalised.

Even when there was a policy to diversify its financing lines - for instance, in the year 1998, Fundación Pro Habitat was able to sign an agreement with the San Lorenzo Municipality to manage a small fund of US \$ 10,000 - it was unable to achieve stability in its portfolio. Undoubtedly, the funds of the different municipalities are a great opportunity, however, due to legal restrictions, these resources cannot be managed by NGOs.

To sum up, the project's main axis, financed by Homeless International (the credit service) has little possibilities to further develop; on the contrary, the factors leading to a fast decapitalisation are increasing in strength.

6. Analysis on the risks assumed by each of the stakeholders and its management in housing construction and improvement projects

The risk analysis and its management described as follows will consider to types of housing construction and improvement projects carried out by the Fundación Pro Habitat: those which have a subvention line, and the credit lines generated for this purpose.

A major part of the work carried out by the Fundación Pro Habitat consisted of implementing housing construction and improvement projects with a strong subvention component (non-local materials and training). The financing sources have generally been outside donations (mainly from Plan Internacional), and in very isolated cases, from the National Government: In the next five years, the Foundation will not only have access to resources from international aid, but also from the National Government.

For this reason, the risk analysis and the ways of managing it are based, first on projects without government participation, and, in perspective, the potential risks that will arise during the project's implementation process.

6.1. Housing improvement and construction projects with high subvention levels

In projects without Government participation, the most important stakeholders are the donor agency (Plan Internacional), the executing entity (Fundación Pro Habitat), the community organization and, finally, the households: The latent risks throughout the project's implementation and management are found at different levels. Analyzed separately, they are the following:

At the relationship between donor agency (Plan Internacional) and executing entity (Fundación Pro Habitat) level, the following risks were identified:

- 1) Institutional strategy and policy incompatibility. This risk exists in the relationship with Fundación Pro Habitat in the sense that the condition was set to place the responsibility of purchasing materials in hands of the community organization. This policy's goal is to generate and increase the degree of empowerment in these organizations. Although the Foundation accepted such condition, it feels that this policy puts the programming of actions, and even worse, the quality of the works at risk.
- 2) To a large extent, this risk is managed by Plan Internacional which, aside from the project, also develops a training process in management and use of resources to prevent its policies from interfering with the project's development.
- 3) Out-phase in the financial flow. The delays in disbursing the capital are a risk frequently present in projects with outside financing - and even more so with projects with government funding. However, the Fundación Pro Habitat has created a strategy to solve possible financial out-phasing.
- 4) Final product's bad quality. Since the Foundation does not control the whole work performance process, the risk of bad construction and/o improvement quality is latent. Nonetheless, the Fundación Pro Habitat established some control mechanisms for non-local materials purchased by the organization, thereby reducing significantly the risks of bad quality in the final product.

Within the Fundación Pro Habitat, a set of risks was also identified. Such risks have been managed internally. The major risks are related to human resources:

- 1) Human resource quality. Although development projects have a long history in Bolivia, it is not so for projects related to human settlements and housing improvement. The most significant consequence is the lack of highly qualified human resources to carry out the integral functions involved.
- 2) Another recurring risk is the outdated knowledge among the human resources. The work pace and numerous functions leave little room for professionals to become updated in their knowledge.
- 3) In both cases, efforts have been made to establish training and updating processes, and thus, to ensure the accomplishment of the projects' core objectives.
- 4) Nevertheless, there is a high probability risk, namely the instability of human resources. In many cases, in spite of the institutional efforts to obtain funding, contracts with experienced staff must often be terminated.

In Fundación Pro Habitat's housing construction and improvement projects, there are risks of diverse natures in the area of technical team and community organization relationships.

- 1) Non-compliance if work schedule;
- 2) Arbitrariness in the decision-making process by the technicians;
- 3) Relationship difficulties between promoters and families;
- 4) Little degree of development of the base organizations;
- 5) Organizational weakening due to the frequent changes in community authorities⁵⁶;
- 6) Bad quality of non-local materials purchased by the community organizations;
- 7) Corruption among community leaders.

These are risks that have existed at some point of the project's implementation process. Confronted with such risks, Plan International, Fundación Pro Habitat and the community organizations themselves found solutions in some of the cases jointly, and in others individually. Anyway, the results show that the responses and risk management were adequate.

It is also possible to identify a set of risks within the family units, related to the process and ending of the housing construction and improvement project:

- 1) Lack of family participation, even among those who were trained;
- 2) Technical construction errors due to lack of training to families in masonry and inadequate technical assistance;
- 3) Lack of satisfaction of the families with the final product, whether for construction quality or design reasons;
- 4) Little impact of the training process in attitude changes and ways of living among the adult population, and likely, related to Chagas disease.

At some point, some of these risks represented real problems both for the Fundación Pro Habitat and for the organizations. Technical amendments by the Fundación Pro Habitat, clarifications in community meetings, and finally, conformity were all part of risk management. In the case of training, priority was given to training of children, and in some cases, it was possible to incorporate this training to the teaching modules at schools.

In the next five years, the Government will be incorporated as an additional stakeholder within the housing construction and improvement project. It will be responsible for redefining the set of risks

⁵⁶ Generally speaking, community authorities change annually following a rotation system. This does not ensure the continuity of good leadership, or the opposite; it incorporates a good leader in the project's implementation process.

presented above, particularly at the institutional relationship level, including the definition of policies, strategies and fund flows for the project's implementation.

At the operational level, the incorporation of public health and education entities will result in risks related to human resource quality, instability of resources due to political factors, and methods of relating to target populations. Generally, these risks become problems and the solution margins exceed the scope of the executing entity's capabilities.

6.2. Credit lines for housing construction and improvement

Generally speaking, a large portion of the total risks in credit services is assumed by the final borrower. Anyway, an analysis of each of the stakeholders is required to understand the whole process. The funding sources of Fundación Pro Habitat's two credit lines (one of them in Cochabamba and the other one in Tarija) were resource donations from Homeless International. This will be the analysis framework.

The agency donating the financial resources

With the funding of the revolving fund granted to the Fundación Pro Habitat, Homeless International is at risks of damaging its institutional image with other funding sources, whether they are their own or government sources, if the project were to fail in achieving the expected results. However, it is clear that the coverage of families who gained access to the credit service created positive impacts at the different family levels.

The entity specialized in credit

The main risk faced by the Fundación Pro Habitat, with regards to its credit line, is the decapitalisation of the fund resulting from the delinquent borrowers. In Cochabamba, this risk did not represent a problem; however, as explained before, in Tarija there is a high level of delinquency.⁵⁷ The management of this risk is particularly difficult when the credit granting entity also has projects with subventions, as occurs in the analyzed case. However, this risk does not lead to serious economic or financial consequences, as is the case with other financial entities supervised by the SBEF.

The borrower of the credit

The economic risk falls completely on the borrower, although such risk is relative due to the loan's flexible contractual conditions.

Low-income families have generated a complex strategy to generate income, in which they include all family members who can somehow bring in some money income. This type of strategies allowed a greater debt capacity among the families.

Without a doubt, the support obtained through projects with strong subvention components notoriously decreases the economic risk the family would take upon itself in order to achieve the same life quality levels.

In the case of credit lines featuring a Guarantee Fund component, the risks are similar in all analyzed cases, with the exception of two new stakeholders: the financial entity providing resources to establish the Guarantee Fund (for example, DFID) and the financial entity granting the credit to Fundación Pro Habitat (a bank, credit union and/or mutual).

⁵⁷ An installment based on the total unpaid amount is considered to be delinquent the day after its due date.

The entity donating the resources

Also in the case of Homeless International, committing resources to credit lines based on Guarantee Funds will mean adjusting the follow-up and evaluation mechanisms to prevent the fund from becoming decapitalised.

The bank/credit union/mutual granting the credit

In the strict sense, the financial entity mediating with the credit resources is the only entity not facing any risk because all its resources are covered by the Guarantee Fund.

The entity specialized in housing credits

Due to the commitment that Fundación Pro Habitat would assume with the financial entity, risk management would entail establishing more sophisticated delinquency control mechanisms. This would likely involve a charge to the operational costs, which would in turn, be reflected in the interest rate.

The final borrower

The economic risk assumed by the low-income families and its management would probably be increased by the rising of interest rates.⁵⁸ Nonetheless, these families would widen their possibilities of gaining access to larger economic resources.

⁵⁸ Just like any kind of mediation, as new stakeholders are incorporated, financial mediation increases the price of the end-product. In the case of the Guaranty Fund, the financial spreads must cover the following costs: (a) Homeless International (through the payment of passive interests to the guaranty fund; (b) the financial entity; and last, (c) Pro Habitat.

7. Analysis of opportunities and limitations

The analysis of opportunities and limitations of project financing with outside credit resources calls for a global analysis of all the information presented above.

7.1. Opportunities

Within the world context, Bolivia is classified as a country with medium human development, although it is certainly one of the countries with the lowest degree of development in Latin America. During the last decade, the growth level exceeded the population growth, and the inflation level had a single digit, reaching up to 6.4% of annual inflation. Undoubtedly, this is the largest opportunity framework to carry on with financial projects.

30% of the population in Bolivia does not own a house, and most of the families face problems related to housing quality (design), construction material quality, and deficient access to basic services (drinking water, sewerage, and to a lower extent, electric energy). In this sense, there is no doubt as to the need for lines of financing.

Generally speaking, not only the government policies aimed at improving the housing conditions of the Bolivian household have failed, but also the public entities created for that specific purpose. Consequently, it was decided to shut down the National Social Housing Fund. Within its poverty-fighting strategy, the current Government has been able to formulate projects aimed at the housing improvement and construction.

As for the new roles the State is taking upon itself, it will be very hard to carry out housing improvement, much less to establish credit lines; therefore, the private sector, and specifically the NGOs and new private financial entities will be responsible for the generation of financial services for low income families.

Anyway, in its new role as facilitator, the Government passed a set of laws aimed at generating favourable conditions to strengthen the financial services at the municipal level, by modernizing the real estate records, and making the national guarantee system more flexible, among others.

The municipalization process initiated in 1994 was also an opportunity, enabling the generation of responses at the local level, with support of the democratically elected Municipal Government, which now has more responsibilities regarding housing issues, among others.

This favourable institutional framework also holds a relation to the legal framework which governs the national financial system, which became more flexible (for instance, by incorporating new types of financial entities) and incorporated alternatives for low-income families (for instance, the flexibilization of the guarantee system).

A further opportunity is that Fundación Pro Habitat, as well as other NGOs specialized in financial services, have acquired experience, but above all, a new suitable financial technology to work with low income families and with a variety of credit lines, such as credit lines for housing.

To a large extent, this new institutional framework became "formal", and is now subject to control by public entities: it may mediate with fiscal resources, and draw public resources. It is not only possible, but also necessary to expand and diversify the current credit lines for housing construction and improvement that cater to a larger sector of the low-income population.

7.2. Limitations

Unfortunately, during the last couple of years, the economy went into a recession phase resulting from internal and external factors. However, this phase did not make the economy unstable.

In spite of an evident development of the legal framework regulating the financial system, there are still important vacuums, particularly with regards to the national financial system (private banks, credit unions, FFPs) and the international banking system. The norms are far too general to, for instance, establish Guarantee Funds.

The most traditional sectors in the banking system are slowly starting to open their markets to the low-income population sectors. In the meantime, at the top levels, there is still some rejection to the presence of NGOs in the financial domain.

Another major limitation is that the legal and regulatory framework for NGOs as non-profit civil associations and as financial entity, is very general. The State and the NGO body have been unable to reach an agreement regarding the draft law under discussion.

7.3. New ways to get financial resources - the Guarantee Fund

In spite of there being a broad institutional framework that offers lines of credit for housing, large sectors of Bolivian population are not "eligible for credit" due to access limitations. These limitations are related more to the existing guarantee (collateral) system⁵⁹ than to the indebtedness capacity or to interest rate levels. Nonetheless, some banks, and mainly FFPs started new lines of credit for housing aimed at the low-income population.⁶⁰

As explained before, there is, nonetheless, a new specialized institutional framework which is still cautiously developing credit lines aimed at housing. Also, institutions like Fundación Pro Habitat, combining training and subvention activities, have generated credit lines for housing improvement and construction.

In both cases, the little development of credit lines was and still is due to the lack of financial resources. Some studies have shown that among the low-income population, there is an enormous unsatisfied demand related to both, the productive level and the "domestic needs", for instance, for housing improvement and construction.

To face these difficulties, there are proposals to enable financial resources from the banking system to be channelled to entities that have experience in credit lines for housing. One of the most important ones is the so-called "Guarantee Funds." In order to go deeper into these experiences which involve the national financial system in social programs, it is necessary to know its legal and regulatory framework as described in the previous chapters.

⁵⁹ A large number of the financial entities prefer the urban mortgage securities. Thus, low-income families are unable to gain access to these lines.

⁶⁰ The records show two recent experiences: one by the "FIE" FFP and the second by the "Eco Futuro" FFP, both of which already have credit lines for housing.