



New models for aid agencies seeking to improve housing for low-income groups: Sida's initiatives in Costa Rica, Chile and Nicaragua

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SUMMARY: *This paper describes three initiatives funded by the Swedish International Development Cooperation Agency (Sida) to improve housing and living conditions for low-income urban households in Latin America. All three centred on supporting the development of new homes or on improving or extending existing homes although each also had other components – for instance the provision of infrastructure and community services in existing settlements and support for income generation. All three included the setting-up or strengthening of institutions that would allow the initiatives to continue after Sida funding ceased; also the pooling of resources from national agencies, municipal authorities and low-income households. They all sought to involve the private sector; and strengthen and support democratic processes. After outlining the goals and characteristics that these three initiatives had in common, the paper gives short descriptions of each programme. It then considers their performance in reaching the intended beneficiaries, in keeping down costs and in ensuring that they were sustainable, and examines the relevance of these programmes for donor assisted interventions in other countries.*

This paper is a condensed version of a paper entitled "Seeking more effective support to improving housing and living conditions for low-income households in urban areas; Sida's initiatives in Costa Rica, Chile and Nicaragua" presented by the Urban Development Division of the Department for Infrastructure and Economic Cooperation (INEC),

I. INTRODUCTION

THIS PAPER DESCRIBES initiatives in Costa Rica, Chile and Nicaragua to improve housing for low-income urban households. Although these initiatives were dissimilar in many aspects, as each sought to work within but also to change the government framework for reaching low-income groups with improved housing, they had similar goals and some characteristics in common.

First, they all sought not only to reach low-income urban households with improved housing and living conditions, work-

Swedish International Development Cooperation Agency (Sida) at the World Bank conference on Decentralization and Urban Development in Latin America in Washington DC in December 1996. It draws primarily on recent evaluations of the three programmes described in the paper – with the original evaluation reports listed in references 3, 7 and 9. This paper was drafted by Göran Tannerfeldt and Per Fröberg with help from Alfredo Stein and Ricardo Schusterman.

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ing in participatory ways, but also to set up or strengthen programmes and institutional frameworks within the recipient country that could continue to operate after the support from the Swedish International Development Cooperation Agency (Sida) ended. Each initiative was evaluated positively based on what Sida funds had supported in terms of the number of housing units built or improved, and the infrastructure and services provided for low-income households. But what may be more significant is the continuing influence of the institutional framework built or strengthened within each of these countries.

Second, each programme sought to combine support for individual households to construct or improve their homes with improvements in infrastructure and service provision and support for job or income generation – although the relative priority given to these varied between the programmes. For households who received support for upgrading their existing home, there was also support for those who were living on illegally occupied or sub-divided land to seek legal tenure, especially in Costa Rica.

Third, each programme sought to draw resources and support from national agencies, local authorities and contributions from low-income groups and their community organizations – which made external funding go further and encouraged national and local authorities and community organizations to develop a commitment to the programmes.

Fourth, all three programmes sought to strengthen and support municipal authorities – and, as such, to support decentralization. They also sought to strengthen the democratization process both within government institutions and with their support for community organizations.

Finally, each programme sought to ensure that women could take part as easily as men – and that single-parent, low-income households (most of which are headed by women) would also be able to benefit. Each programme also had relatively small funding levels – at least in comparison to the large housing or housing finance projects supported by some official donors. Each also included components outside the major city within each nation – and in Nicaragua, the programme was entirely outside the national capital and largest city, Managua.

II. CONTEXT

BY THE END of the 1980s, there was a great need for new initiatives to address the needs of low-income households and their community organizations in the urban areas of Latin America. One reason was the limited success of most government housing programmes – and because of the withdrawal of public support for such programmes. Another reason was the rapid growth in urban poverty in most countries in the region during the 1980s. This decade came to be known as “the lost decade” in Latin America because of the debt crises and the poor economic performances – with per capita incomes declining in virtually all countries. Conditions were hardly propitious in at least two

of the countries when the initiatives began. Nicaragua was facing major economic problems at the beginning of the 1990s, with high levels of unemployment, and there was the legacy of its long civil war. Costa Rica, in 1988, was facing a serious economic crisis. Economic conditions were better in Chile, but it was only just coming out of a long period of military dictatorship with the need to rebuild democratic and accountable government structures at national and local level.

There was also a need to support municipal authorities to better meet their responsibilities for ensuring that households in their jurisdiction had adequate provision for piped water, sanitation, drainage and other basic services. There was also the urgent need to support and reinforce the process of democratization – at municipal as well as at higher levels of government – and to ensure that new areas for community participation could be found. Finally, there was the need to ensure that the municipal authorities who were being given a greater role as a result of decentralization had the institutional and technical capacity to respond appropriately.

The three new initiatives we are discussing here had some important precedents on which they could draw. One of the most important areas of innovation during the 1980s with regard to reaching lower-income groups with improved housing and living conditions had been the development of finance systems to support low-income groups in the construction, improvement and extension of their homes through self-help. Many housing finance initiatives set up and supported by NGOs in Asia and Latin America were successful at reaching low-income households and at generating cost-recovery. There were also a few examples of governments setting up new financial institutions to support low-income groups and their community organizations.⁽¹⁾ These explicitly or implicitly recognized that existing formal financial institutions were incapable of taking on this role although some of the new initiatives did act as brokers in arranging housing finance between low-income groups and formal financial institutions.⁽²⁾ Although some of these government and NGO programmes were on a very large scale, they remained the exception rather than the rule; in addition, very few international aid agencies supported such programmes. Also, most low-income households in the urban areas of Africa, Asia and Latin America have no access to housing finance, except through informal moneylenders. They also have no technical support to help them improve or extend their home – or to purchase the land and organize the construction of their home on it.

It is also not easy for any international agency to support the incremental process by which households with very limited incomes find land sites and develop housing on them. For most such households, this process is, by necessity, incremental as they cannot afford to build complete houses immediately. The fact that a high proportion of such households also construct houses on land that is illegally occupied (or on sites for which, for other reasons, they lack legal tenure) not only discourages their investment in the structures but also means that they cannot offer their house sites as collateral for any loans. Their ille-

1. See, for instance, the examples of FONHAPO in Mexico and the Urban Community Development Office in Thailand. Both are summarized in UNCHS (Habitat) (1996), *An Urbanizing World: Global Report on Human Settlements, 1996*, Oxford University Press, Oxford and New York. A more detailed description and evaluation of FONHAPO can be found in Ortiz, Enrique (1997), *FONHAPO: The Experience of The National Fund for Low-income Housing in Mexico*, IIED Paper Series on Poverty Reduction in Urban Areas, IIED, London.

2. Mitlin, Diana, "Building with credit: housing finance for low-income households", *Third World Planning Review* Vol.19, No.1, February 1997.

3. The information in this section is drawn primarily from the evaluation report by Brolin, Lillemor Andersson and Mauricio Silva (1996), *Programa de Vivienda Social de FUPROVI – Costa Rica; Una Evaluación*, Sida, Stockholm, 25 pages plus annexes. The authors made a three-week visit to Costa Rica in February-March, 1996. It also draws on Sevilla, Manuel (1993), "New approaches for aid agencies; FUPROVI's community based shelter programme", *Environment and Urbanization* Vol. 5, No.1, pages 111-121.

4. In spite of being bilateral funds between SIDA and the Costa Rican government, both parts agreed that the funds should be channelled through an NGO.

gal status also makes it difficult if not impossible for government agencies to work with them and public or private utilities to service them. However, if they can secure legal tenure (or at least reliable government assurances that they will not be evicted from their land) and loan finance, they can often greatly improve the quality of their homes. They may also be able to negotiate with the public or private utilities for connection to water supply and electricity – and perhaps also to sewage and drainage networks – with housing loans also allowing them to spread the costs of connection to such wider systems over a number of years. Where connection to wider systems is impossible or too expensive, housing finance can also allow them to cover the cost, for their household, of community-wide or neighbourhood-wide systems for water, sanitation and drainage.

III. FUPROVI (COSTA RICA)⁽³⁾

FUPROVI (THE FOUNDATION for the Promotion of Low-cost Housing) was the first of the three Latin American initiatives to receive support from Sida. In June 1988, an agreement was reached between the governments of Sweden and Costa Rica for a programme to support aided self-help and community upgrading in low-income settlements. This was to be implemented by a new non-government, non-profit institution, FUPROVI, which was to change the way in which the government sought to intervene in reaching low-income households with improved housing and living conditions. Sida provided technical assistance for the formulation and implementation of the programme. It also provided financial resources equivalent to US\$ 6 million for a first stage – which was later expanded to cover a second and third stage with support totalling the equivalent of some US\$ 18.7 million.⁽⁴⁾ By the end of 1995, this programme had produced 3,375 new houses, infrastructure and services for 4,068 sites, and improvements for 1,602 existing houses – benefitting more than 30,000 people in all from low-income families in 40 different settlements of San José metropolitan area and Puerto Limón. Most of the Sida funding supported the housing programmes although special allocations were also made for institutional development, studies and special lines such as training and support for income generation and environmental improvement projects.

When FUPROVI was set up, Costa Rica, the most stable democracy in Central America was facing a serious economic crisis. The Costa Rican government was also seeking more effective ways of intervening in housing and of reaching low-income groups by moving from direct provision of housing to financial and technical support and enablement. Prior to this, the government had concentrated on providing completed housing units, mostly to high standards, that were generally only affordable by middle-class households. Relatively few units had been built that were affordable to low-income groups – and government support for self-help had not been effective. To imple-

ment this change in approach, the government developed a National Financial System for Housing (SNFV) which provided subsidies to families whose incomes were below a certain level – with the size of the available subsidy decreasing the closer the income to this level. At present, this policy gives a total subsidy of US\$ 5,000 to families whose incomes are lower than one minimum wage (US\$175 in 1996). At the institutional level, this new financial system came under the National Housing Mortgage Bank (BANHVI) and the Ministry of Housing.

The support provided by FUPROVI includes building techniques, legal issues (for instance negotiating legal land tenure for those living in illegal squatter settlements), financial assistance and the organization of mutual-help building processes. In a typical housing project, the central government provides the main services: water, electricity, main roads and other services. The community builds the inner networks and the housing units, with FUPROVI's technical assistance, both in newly developed areas and on existing plots. In some cases, local governments contribute by constructing secondary roads and water supplies. FUPROVI's financial assistance is in the form of bridging finance for low-income households who cannot receive any subsidy from the National Housing Financial System until they have obtained title to the land and completed the construction of their houses. Thus, FUPROVI ensures a combination of resources from different groups in new housing construction or improvement. These include subsidies and long-term finance from the National Housing Finance System, contributions from low-income households and communities, and funding from Sida which allows institutional development and the establishment of the revolving fund that provides the bridging loans.

Funding for households is as follows. Households receive loans from FUPROVI to build or improve their homes and, over time, they repay FUPROVI. When households, with support from FUPROVI, obtain legal titles to their plots and meet other requirements set by the National Housing Finance System, they receive the subsidy and sign an agreement whereby part of the subsidy goes to FUPROVI to repay the outstanding debt on the bridging loan. In this way, households are integrated into the National Financial System for Housing and FUPROVI's revolving fund is replenished, allowing it to fund other households.

The housing solutions provided by FUPROVI, and complemented by the subsidy provided by the National Housing Financial System, are accessible to low-income households – and virtually all beneficiaries are low-income families, including half which have incomes below the minimum wage. Most of the families come from spontaneous settlements which surround urban areas. An impact assessment on finished housing projects⁽⁵⁾ found that 53 per cent of families had previously lived in rented accommodation, 20 per cent had lived in accommodation that was borrowed and 19 per cent had lived in precarious dwellings.

FUPROVI's administrative costs represent around 20 per cent of the house's building materials costs. This is lower than in the private sector – which charges the equivalent of around 33 per

5. Alvarez, J.L. (1996), *FUPROVI: Impacto Socioeconómico del Programa de Autoconstrucción de Vivienda*, January.

6. This was stated by the President of Construction Chamber.

7. This is based on the evaluation report of the Social Housing Project in Chile prepared by a team of researchers who took individual responsibility for specific aspects and shared the conclusions: E. Bjorklund (housing aspects); B. Krantz (gender aspects); A. Aldunate and E. Morales (social and institutional aspects); and C. Trucco (economic/financial aspects). The report was based on fieldwork which took place from 6-26th of June, 1996. Sixteen settlements were visited in different regions and municipalities and, in each of them, two to three houses were examined and one to three interviews were held with beneficiaries. Key informants in each region (members of local and national government, NGOs and building companies) were interviewed. Other sources included existing documents from the project and direct observation in settlements where the Progressive Housing Programme was implemented. This section also draws on Rojas, Eduardo and Margarita Greene (1995), "Reaching the poor: lessons from the Chilean housing experience", *Environment and Urbanization* Vol.7, No.2, October, pages 31-49.

cent for administration and profit – even though FUPROVI's costs also cover many items that are not included by a private company. The process of self-help construction used within FUPROVI projects incurs higher costs because of longer construction processes and community organization and education, all of which allow social objectives to be achieved and ensure access to housing to the poor.

Perhaps more important than the number of units built or supported was the institutional innovation – a new non-profit and autonomous NGO whose work continued, supported by the revolving fund, despite changes in government. FUPROVI's status as an NGO with autonomy from partisan politics helped stimulate a greater interest from the state and the private sector in the housing needs of low-income groups and in working more effectively at community level. It also developed and standardized clear internal procedures and improved managerial and information systems. By developing this new model to support housing provision with national and local authorities, FUPROVI also introduced important changes in law, regulations and processes of housing production for low-income households.

FUPROVI also produced housing to very high standards when compared to those generally achieved by low-income housing projects in much of Latin America. The direct cost per family of houses produced by FUPROVI is between 33 and 50 per cent lower than for those produced by the private sector. This combination of lower unit cost, subsidies and community labour contribution allows the poor to obtain good quality housing. The total cost of a typical FUPROVI supported unit (for a house with an area of 42 square metres in a plot of 120 square metres), including building materials, land (and its development for housing), financial and administrative costs (but not including self-help labour) is some US\$ 6,000. This includes all services but without finishing and internal divisions. When these units are complete, their sales value can be two to three times their cost. Nine out of ten families feel better-off in the houses provided by FUPROVI. Their quality is comparable or even better than those produced by the private sector.⁽⁶⁾

IV. THE SOCIAL HOUSING PROJECT IN CHILE⁽⁷⁾

SIDA PROVIDED FUNDS to the Social Housing Project in Chile to support improvements in housing conditions and community services for poor households in Santiago (the capital and largest city), Curicó, Viña del Mar, San Antonio, Valparaíso and Talca. This was effected through support for the Chilean government's Progressive Housing Programme. The project sought to promote self-help construction, a supportive financial system for low-income households, NGOs and small contractors involved in the project, and technical assistance. This support was also meant to strengthen the democratization process among the institutions and community organizations involved. Sida's support came as part of the framework of support provided by

the Swedish government for the return to democracy in Chile in 1990.

The Progressive Housing Programme had been conceived in 1990 at the Chilean Ministry of Housing and Urbanism (MINVU) as a way of greatly increasing the number of low-income households reached with better quality housing. It was influenced both by the social movements of the 1980s and previous experience on progressive and self-help housing construction. It was also influenced by the difficulties the government was facing with its basic housing programme – in which the government contracted private developers to build finished houses and then helped lower-income households purchase them through subsidies.

The Progressive Housing Programme brought two important innovations. First, it supported low-income households' capacity for self help – rather than providing them with a completed unit. It supported both the upgrading of existing units (for instance in precarious settlements, including the transfer of land ownership to the households) and the construction of core housing on a serviced land plot on which the recipient household could develop their own housing. Secondly, it required fewer savings and a smaller loan than the basic housing programme, thus making it more affordable by low-income households. This allowed the programme to reach low-income households, including the *allegados*, the many thousands of households who were sharing existing dwellings with other households or living in shacks built in their backyards because they could not afford their own accommodation. The programme also allowed organized groups to apply collectively for support so that community organizations could take on the central role in organizing new housing developments.

Municipal governments were responsible for selecting the beneficiaries from among the households who applied to the programme and also for the regulatory aspects and for supervising construction. Unlike the programmes developed under the military government, NGOs were involved and acted as social consultants and, in several instances, also as technical advisors. Building companies were responsible for the construction of the core housing units on serviced lots; communities organized in committees to facilitate community work and negotiation with the different agencies.

Sweden provided the equivalent of US\$13.7 million as the initial capital for the core houses, upgrading, community services, technical support and institutional development, with some US\$ 240,000 for project consultancy, evaluations and special studies. The Chilean contribution was to be equivalent to US\$ 23 million over seven years in the form of housing subsidies, savings, credit recovery and returns from the administration of the fund. It would also cover the administrative costs. The project originally planned to create a revolving fund with Swedish funds to ensure the continuity of the scheme – but this proved impossible due to administrative limitations in the ministries concerned. Over three years, the project achieved just under 80 per cent of its target – with 6,400 units (4,300 through direct

subsidies and 2,100 facilitated through the guarantee fund). This is 800 units fewer than the 7,200 units planned but, given the depreciation of the Swedish currency, the increases in the unit cost of housing and the adjustments in funding – with more being allocated to community services, institutional development and training programmes – the results were judged satisfactory. Sida support included funding for the construction of 30 community services including parks, sport facilities, community centres and multi-purpose buildings.

The Progressive Housing Programme, including that part funded directly by Sida, clearly reached lower-income households. A recent evaluation identified no middle-class beneficiaries. Most beneficiaries were either *allegados* or households whose incomes were too low to allow them to access the other types of housing subsidy available within government programmes because they could not afford to meet these programmes' requirements for loan repayments or savings. However, the programme may not have reached many households within the poorest 10 per cent of the population because they are disadvantaged not only by very low incomes but also, very often, by not knowing about the programme nor how to apply, by having no capacity for savings nor any land plots, and by little or no possibility of finding the time and resources necessary for self-help construction.

The Progressive Housing Programme also had many advantages over traditional programmes of social housing. It reached poorer households than the Basic Housing Programme and gave them more options for choosing new housing sites and for extending and improving precarious housing on existing sites. It offered more possibilities for households to gradually improve and extend their homes in response to the growth of families and their resources. It also involved greater participation, smaller-scale projects (which proved more popular than larger ones) and less displacement and disruption of social ties for low-income households (although some of the new housing developments on the city periphery could not avoid this). Perhaps more important than the 6,400 built or improved units was the growing interest in the Progressive Housing Programme by both government and low-income households. The number of households applying for support from this programme grew from 37,000 in 1993 to 58,000 in 1994. The number of units supported grew from approximately 6,000 in 1991 to approximately 13,000 in 1994. The units funded by the Swedish contribution were thus only a relatively small part of the total built or improved by the Programme but its real importance lay in its support for the Programme in its first testing years.

The Progressive Housing Programme is also important for the changes it brought about in the government's housing policy for low-income households. It initiated an acknowledgement from the state of the needs and priorities of low-income groups. During the authoritarian régime, at best "the poor" were viewed merely as recipients at whom benefits were targeted. The new programme included ideas such as progressive development, the promotion of collective and individual self-help, and flexibil-

ity in relation to the needs and possibilities of low-income households. The more participatory nature of the programme and the extent to which it legitimized demands made by low-income groups on the state strengthened democratic processes. It also reinforced the organizational capacity of low-income sectors both in their traditional residents' organizations and in housing committees, especially where group applications to the programme were supported. It also helped legitimize more flexible bureaucratic procedures.

The programme did face some difficulties. For instance, it underestimated the support that was needed to encourage participation and to integrate self-help and community actions with the actions of external agencies. In many projects, participation of beneficiaries in construction was limited to digging trenches for foundations. When a building company was contracted, it was often difficult to integrate their work with that of the inhabitants as they have different paces and because most residents are unable to work within the settlement during conventional working hours. The more successful cases required some support and technical supervision from NGOs and a large and sustained commitment from community leaders and settlers – but the programme was not set up to provide the necessary level of support. A subsidy/loan package that was meant to follow on from the first and which would allow beneficiaries to further improve their dwellings was too expensive or too difficult to obtain for those who needed it.

There were also some problems with the new settlements formed with the support of the programme on the periphery of cities and towns. Although land was cheaper there, development of the settlement was often more expensive because of its distance from urban services and transport, and because many sites presented problems for building construction – for instance, a site might be prone to flooding or was on a steep slope. These were also locations where the participating households felt most cut-off from their families, friends and other social ties. Those who took part in programmes where it was the beneficiaries who chose the location were more satisfied because they chose locations closer to where they had previously lived. In general, the smaller projects (10-50 units) and the less dense projects were those where the inhabitants expressed most satisfaction. The design of settlements, especially the larger ones, often lacked provision for community meetings such as central squares and community centres.⁽⁸⁾

8. There were also institutional limitations and some difficulties for the NGOs taking part - see the original paper on which this is based for more details.

The Progressive Housing Programme will be sustained, as the Ministry of Housing and Urbanism includes it in its annual budget as one of its regular housing programmes. The community services component will also be sustained although the institutional development and training component that Sida funding had supported will not as the technical teams at central and regional level were dismantled at the end of the Swedish cooperation. However, the Ministry of Housing and Urbanism has requested support from the Ministry of Finance to fund a technical assistance programme. There is also growing support from municipalities for the programme despite their financial and

9. This section draws heavily on Vance, Irene and Jorge Vargas (1996), *Local Development Programme (PRODEL) in Nicaragua: Final Report of External Evaluation*, SIDA, Stockholm, 71 pages plus annexes; also Stein, Alfredo (1996), *Decentralization and Urban Poverty Reduction in Nicaragua: The Experience of the Local Development Programme (PRODEL)*, IIED Paper Series on Poverty Reduction in Urban Areas, IIED, London.

staff limitations for housing – and the programme's future success will depend to a large extent on the interest of municipal authorities and their capacity to work both with low-income groups and with national agencies.

V. THE LOCAL DEVELOPMENT PROGRAMME (PRODEL) IN NICARAGUA⁽⁹⁾

THE LOCAL DEVELOPMENT Programme (PRODEL) in Nicaragua was set up in June 1993 by the governments of Nicaragua and Sweden to improve living conditions, access to basic services and incomes among low-income families living in marginal neighbourhoods in five departmental capitals: Estelí, Somoto and Ocotal in the Segovias region, and León and Chinandega in the Eastern region. In so-doing, PRODEL seeks to mitigate the negative effects of structural adjustment policies on the poor – and especially on women headed households. It also seeks to support a broader political reconciliation, decentralization and democratization programme which strengthens local authorities and local democracy. Sida provided the equivalent of US\$ 5.4 million over four years with counterpart contributions equivalent to US\$ 1.3 million from national and local authorities, and the communities where the programme is implemented.

Unlike most other government programmes, PRODEL does not implement the work itself but provides technical assistance and financial support to households, community organizations, municipal authorities and national institutions. PRODEL's loans to households and micro-enterprises are implemented by the government owned Popular Credit Bank (*Banco Popular*) which approves loans, supervises their correct use and collects repayments.

INIFOM (The Nicaraguan Institute for Municipal Promotion) is the government entity legally responsible for the execution of the programme and it is charged with strengthening and training local governments and providing them with financial resources and technical assistance. INIFOM is unusual in that its president and executive director are elected by its Directive Committee, made up of the mayors of Nicaragua's main cities, and they have ministerial rank. The low-income communities participate in defining the projects and in designing and executing the infrastructure works. Community commissions are formed to deal with organizational aspects, including the use of community labour, and for overseeing funds. INATEC (the National Technological Institute) provides technical advice to women headed households who are setting up new micro-enterprises.

PRODEL has four main components. The first is the community infrastructure and services component which aims to improve, repair and expand basic infrastructure and services in squatter areas and other poor settlements in the five municipalities where PRODEL operates. Grants up to the equivalent of US\$ 25,000 are available to local authorities and beneficiary communities on condition that they contribute more than 35

per cent of the project's value through labour, machinery, funds and other contributions in kind. The mayor and municipal council are responsible for the administration of the funds and PRODEL encourages the setting up of municipal commissions with representation from each of the main actors – the bank, community representatives, the mayor, the municipality's technical unit, representatives of other key governmental institutions and PRODEL's local coordinator. These councils identify the neighbourhoods where infrastructure investments are to be made based on selection criteria prepared by PRODEL. The technical work is generally done by a technical unit set up for this purpose by the municipal authority.

Over three years, 162 projects in more than 80 neighbourhoods received support; the average project cost was US\$ 16,000 and PRODEL's contribution averaged 56 per cent. The contribution from municipalities (averaging around 35 per cent of project cost) was more than had been anticipated, as was the number of projects. An evaluation in 1996 confirmed that PRODEL's criteria for selecting neighbourhoods had ensured that the most impoverished urban areas were being reached, especially those neighbourhoods which developed only during the 1990s and which lacked virtually all basic infrastructure and services.

Of these 162 projects, 35 per cent were for improving streets and pavements, 23 per cent for the introduction of potable water, sewage and storm drainage systems, 16 per cent for the introduction of electricity, 13 per cent for sports areas and playgrounds and 12 per cent for schools and crèches. The evaluation found that the infrastructure component had "...demonstrated that with relatively small amounts of investment from external sources, together with community and municipal counterparts, the poor and vulnerable groups living in marginal *barrios* can be reached;" also that the programme had "...successfully mobilized municipal and community counterpart funding both in kind, labour and cash seldom achieved in other programmes."⁽¹⁰⁾ The infrastructure component had also strengthened municipal management and technical capacities.

PRODEL's second component is loans for housing improvement, with low-income families offered small loans (generally between US\$ 200-1,200) to help carry out small-scale upgrading and repairs to their dwellings – for instance changing roofs, improving floors or building new rooms and kitchens. The loans are available from the Popular Credit Bank at an annual interest rate of 12 per cent plus adjustments to maintain their value;⁽¹¹⁾ this is lower than the rates available from the conventional financial system. The loan term is four years and the guarantees required are flexible – for instance, PRODEL does not insist on the household having formal title to the land and it will accept a document authorized by a public institution testifying to the occupier's land use rights. Between October 1994 and September 1996, 1,687 loans were provided. However, in many settlements, relatively few loans have been provided although there are large numbers of houses in need of improvement. There were difficulties arising from some bank branches' reluctance

10. See reference 9, Vance and Vargas (1997), page 7.

11. Loans are indexed to the US dollar for monetary devaluation – as in all loans in Nicaragua.

to lend to those without formal employment and the bank's lack of experience in managing housing credit; also, at the beginning of the programme, the quality of technical assistance provided by the municipalities was poor – although these are problems that the programme has addressed.

PRODEL's third component is micro-enterprise loans up to the equivalent of US\$ 5,000. In little more than two years, 5,189 loans had been made to some 1,300 micro-enterprises. Three-quarters of the beneficiaries are women – and the programme's approach of working directly in the neighbourhoods has been particularly supportive of women who work in home based enterprises. Most loans are for small shops or stalls. The Popular Credit Bank has ample experience with micro-enterprise loans and is managing the PRODEL loans well although there is a need to shorten the time taken for loan approval.

The fourth component of PRODEL's work is institutional development and technical assistance. The current rate of arrears for both housing and micro-enterprise loans is low and does not threaten the capitalization of the revolving funds; it is also low in comparison to other non-conventional programmes in Nicaragua. It has not proved easy for PRODEL to achieve this – for instance, establishing the administrative norms and accounting procedures, analysis of credit and mechanisms for cost recovery. However, the Popular Credit Bank's executive director admitted that the levels of supervision and requirements of the PRODEL programme were stricter than for any other international cooperation programme and that this had helped the bank's own institutional development. Another of PRODEL's important achievements is the fact that mayors from different political parties have accepted a common methodology of working with the poor under clear and transparent participative methods. Setting up a long-term mechanism of financial support without a subsidy scheme has also been an important part of addressing the problems of lower-income groups.

VI. SOME PRELIMINARY CONCLUSIONS

a. About the Three Cases Themselves

Each of these programmes has been evaluated positively in quantitative terms for how well they spend funds from Swedish development cooperation – based on the number of housing units built or improved, on the provision of infrastructure and services, on the jobs directly or indirectly created and on the fact that beneficiaries were overwhelmingly drawn from lower-income groups.¹² Each also had some difficulties or areas where improvements were needed; some have been noted already and others are discussed below. But what may prove more important for any comprehensive evaluation of these initiatives is a recognition of what they helped set in motion or strengthen within these three countries, namely, new models for addressing the needs and priorities of low-income households, and new insti-

12. See the evaluation reports noted in 3, 7 and 9 above.

tutional frameworks for implementing them that involve municipalities and many national agencies and that help change their relationship with low-income households. Perhaps the most notable aspect of these three Sida funded interventions is that they are designed to continue, and even to increase in scale, when Sida funding stops. These are not donor funded projects so much as donor supported innovations within existing national and municipal government structures that are designed to continue. This is unlike the conventional low-cost housing projects funded by international aid that support the construction of low-cost housing or serviced sites, or the upgrading programmes whose goal is simply to reach low-income groups and where the improvements are sustained within the project area when the funding stops.

Changing the model of intervention. Each of the three programmes helped to change the model and institutional framework through which national agencies and local governments seek to reach low-income households with improved housing and living conditions. In the case of Costa Rica, the programme sought to move government away from conventional, contractor built, low-cost housing programmes through having institutional arrangements undertaken by an NGO, FUPROVI. The same was sought in Chile, although the institutional conditions were more difficult in spite of the government's intention of moving in this direction. Sida funding in Chile supported the government's Progressive Housing Programme during its first testing years, strengthening its prestige and supporting changes that allowed more households, and lower-income households, to benefit from the government's housing programmes. PRODEL in Nicaragua set up a new institutional model where the resources of national agencies, municipalities and low-income communities were pooled and where the first housing improvement loan system accessible to low-income households was created.

This approach – of seeking to build programmes and institutional frameworks that, after a few years, can continue to expand the number of low-income households reached with improved housing and living conditions and secure tenure – is not without its difficulties. It certainly takes more staff time and more patience, as it depends for its success on government agencies and municipal authorities in recipient countries accepting it, and on low-income households and their community organizations supporting it and working within it. Rooting it in existing government institutions can mean that the programme is affected by the weaknesses and bureaucratic structures of these institutions. It also poses greater risks of failure – for instance if government agencies withdraw their support in times of political change – and often it is not easy to change attitudes within government agencies and the ways in which they work. This is especially the case in countries where authoritarian, centralized and non-democratic governments have created attitudes and structures that are poorly suited to these kinds of initiatives. It is perhaps notable that in Chile, it tended to be the smaller and poorer municipalities that were most enthusiastic about the support of the Sida programme – while in Nicaragua,

the entire programme took place in municipalities other than the capital city.

Involving many stakeholders. Although the institutional focus of each initiative was different – for FUPROVI a non-profit private foundation, for Chile a national government programme with a considerable role for the private sector, and for PRODEL a concentration on municipalities and a government commercial bank – each involved many different groups including different national or state government agencies, local authorities and community organizations. Each also demonstrated the importance of developing clear, explicit, written agreements, specifying the conditions and the obligations of each partner.

Sustaining the initiative. These three interventions have to face two objectives that are in one sense contradictory: setting up a financial system to support housing construction and improvement in the long term; and reaching low-income groups with good quality housing despite their very limited capacity to pay for housing. This contradiction can only be resolved if what is provided for low-income households meets their needs and priorities, but with unit costs kept down to a level that the government can afford to support, and still reaches large numbers of low-income households. In the cases of Chile and Costa Rica, this contradiction was partly resolved by the subsidy that the government was already providing for low-income households to allow them to acquire or develop their own homes. Here, Sida funded support helped to ensure that, with this subsidy, low-income groups could actually obtain or build a good quality house with basic services; prior to the support, this had not been possible.

Subsidies are often considered as something that should be eliminated from all programmes linked to housing and basic services. One obvious reason is that middle and upper-income groups have often been the main beneficiaries of such subsidies – both through government housing finance systems and government provision of infrastructure and services. However, in the programmes run by FUPROVI in Costa Rica and the Social Housing Project in Chile (and the larger Progressive Housing Programme of which it was part), the subsidies provided by the government (and not Sida funding) were important. They did reach low-income households and the evaluations found no evidence of middle-income households benefitting. In addition, the emphasis in both programmes on keeping down costs and on seeking to fund work with loans, wherever possible, kept down the level of subsidy. It is also contradictory to suggest that low-income groups who, by definition, have very little to spend on housing (as virtually all their income goes on basic necessities) can always be reached with good quality housing with basic infrastructure and services within urban areas where legal land sites are usually expensive without a subsidy. What is unacceptable is having subsidies captured by those with relatively high incomes or having subsidies that are poorly used. In addition, subsidies should be avoided when funding through loans is possible as in, for instance, PRODEL's loan programme for housing improvement and micro-enterprise development.

In Chile and Costa Rica, there is the danger that the programmes depend on subsidies allocated by their governments to low-income households. The allocation of funds for subsidies and the selection of families who are to receive them is a political process and, as such, both programmes depend on the political process allocating these funds and ensuring that low-income households can access them. However, in the case of Costa Rica, FUPROVI is committed to long-term direct cost recovery from beneficiary families.

Targeting. The evaluations of all three initiatives found that they were reaching low-income households and not benefitting middle-income households. For FUPROVI in Costa Rica and the Social Housing Project in Chile, most of these households would not have been able to benefit from their governments' conventional housing programmes. But in Costa Rica and Chile, relatively few of the beneficiary households were among the very poorest. This is not surprising in that households with the lowest and least stable incomes will have priorities that are linked to daily survival with little or no income available to spend on housing – and often little possibility of building or extending their own home. Although supporting self-help construction lowers costs, there is still the need for constant expenditure on building materials, and households have to find the time to undertake the work. In many of the lowest-income households, all adults work such long hours that they are unable to commit themselves to projects which involve a lot of self-help. Here too, the contradiction between reaching the poorest groups while keeping subsidies to a minimum and encouraging cost recovery reappears. The lowest-income groups may be unable to make any repayments on housing loans as all income is needed for daily necessities. They are often least able to contribute labour – consider, for instance, the special problems that single parent households face in combining income-earning with child-rearing and the required contribution to a self-help programme. The fact that most beneficiaries of these programmes were not among the very poorest groups does not invalidate the programmes – but it does emphasize the need for special programmes for the lowest-income groups. In the case of PRODEL, the poorest households did receive benefits from the provision of infrastructure and services in existing settlements but a lower proportion entered the housing improvement loan scheme.

Seeking gender equality. Each programme recognized the need to ensure that women could take part as easily as men. This meant programmes that understand and allow for women's and men's different needs, priorities and capacities for contributing to self-help and mutual aid. This also meant ensuring that single parent households could take part – most of which are headed by women – and that allowances be made for the fact that households with only one adult have the greatest difficulties in combining income-earning, child-rearing and household management with meeting self-help and mutual aid requirements. In Chile, more than two-thirds of the people receiving the subsidies allocated to the Progressive Housing Programme were women, including 30 per cent who were single

mothers, and an evaluation in 1995 found a strong women's participation in the programme. In FUPROVI's programmes, around 30 per cent of the households were women headed and FUPROVI has recognized the need to adjust programmes to make it easier for such households (and for women in general) to take part. In the case of PRODEL, more than two-thirds of the housing loans and three-quarters of the micro-enterprise loans went to women. However, each programme needs to continue seeking ways of ensuring that women's practical and strategic needs are addressed – for instance, the absence of nurseries and provision for children's play in some of the projects in Chile and the need within FUPROVI to make it easier for women headed households to meet their obligations for mutual aid and self-help construction.

New bases for addressing low-income groups' needs. The programmes have two principles that are important for all external interventions. The first is that loan finance can be of value to low-income households – if all efforts are made to keep down costs. The lower the costs, the greater the possibility that low-income households will be able to afford to repay loans. Loan finance may be of little value to the poorest households but if there are also programmes for improving infrastructure and services in the worst served settlements, as in the PRODEL programme and in community service provision in Chile, this still benefits those living in these settlements who have too low an income to afford a housing loan. The second principle is that programmes such as these should also assist low-income groups in getting access to the infrastructure, services and other political support to which they are entitled.

Technical and organizational support. All three programmes faced some difficulties in funding the level of technical support that was judged to be necessary. This included technical support to low-income households in building and improving their housing, organizational support to community organizations (and community leaders) and support to the NGOs, municipal governments and state or national level government agencies involved. This reveals another contradiction that is particularly difficult for international funding agencies to resolve. All such agencies face constraints on the proportion of funding that can be spent on technical assistance and organizational support. One of the most widely used criteria for judging an aid agency's "efficiency" is how low it keeps staff costs in relation to total expenditure. Yet, this is difficult to do if unit costs for housing construction or improvement and service provision are kept as low as possible so that funds can go further and costs can be recovered from beneficiaries. Keeping down staff costs is difficult to achieve if low-income households are taking on more tasks through self-help and mutual aid, so they need technical help. The need for technical help also increases if loan finance is being provided as many low-income households need technical advice in assessing their credit needs and applying for credit. It is even more difficult if the intervention – as in these three programmes – is seeking to introduce new models of intervention in housing within countries where municipal authorities

are weak and where there is little prior experience with mutual self-help and community directed solutions. This means that a lot of staff time is needed in negotiations between the aid agency and the institutions within the recipient countries - and also in training and information dissemination. If the validity of the models used in the three programmes outlined here becomes more widely accepted, with their large components of technical and organizational support, their emphasis on building institutional frameworks with existing national and local institutions and their emphasis on using Sida funding to encourage other resources to be allocated to the programme, new criteria on which to evaluate them will be necessary. Although, as stated earlier, the Sida funding devoted to these programmes can be justified by what they achieved during the programme period, perhaps as important is what the programmes they initiated or strengthened will achieve in the future.

b. The Relevance of the Three Programmes for Other Cities and Countries

These three initiatives also have an importance that goes beyond what they achieved in Costa Rica, Chile and Nicaragua. They are part of a new generation of initiatives that seek to reach low-income households in urban areas with improved housing and living conditions in ways that can be sustained and that can reach far more people than through conventional low-cost housing projects. The need for such new initiatives is hardly in doubt, given the hundreds of millions of urban dwellers in Latin America, Africa and Asia who live in housing of such poor quality and with such inadequate provision for basic infrastructure and services that their health - and often their lives - are constantly at risk.⁽¹³⁾ The need for such initiatives to draw in resources from many different sources is also hardly in doubt, given the weakness of most local authorities. The need to keep down costs is paramount, not least because governments are unwilling or unable to allocate much to housing programmes for low-income groups. The need to understand the needs and priorities of low-income households and work with them to develop programmes that match their diverse needs and priorities is also important, not least because so many "low-cost" housing, serviced site and upgrading programmes during the 1980s failed to do this and in so doing, had their potential impact much reduced. This includes understanding the needs and priorities of women and of single parent households and of ensuring that new initiatives address these.

The three Sida funded initiatives have characteristics in common with several other recent programmes - for instance the Urban Community Development Office set up by the government of Thailand, the work of the Orangi Pilot Project in Pakistan, the *Casa Melhor* programme in Fortaleza and the savings and credit schemes of the South African Homeless People's Federation.⁽¹⁴⁾ When taken together, they could be said to represent a new way of thinking about how external agencies should intervene to improve housing and living conditions for those with

13. WHO (1992), *Our Planet, Our Health*, Report of the World Commission on Health and the Environment, WHO, Geneva.

14. See reference 2; also Cabannes, Yves (1997), "From community development to housing finance; from *mutiroês* to housing finance in Fortaleza, Brazil", *Environment and Urbanization*, Vol.9, No.1, pages 31 to 58; Bolnick, Joel (1996), "*uTshani Buyakhuluma* (the grass speaks); People's Dialogue and the South African Homeless People's Federation 1993-1996", *Environment and Urbanization* Vol.8, No.2, pages 153 to 170; Orangi Pilot Project (1995), "NGO profile - Orangi Pilot Project", *Environment and Urbanization* Vol.7, No.2, pages 227 to 236; and see reference 1, UNCHS (1996).

low incomes. One characteristic, as noted above, is to keep down costs. This not only means that funds go further and that there are greater possibilities for cost recovery but also that low-income groups have more chance of fully participating in the design and management of initiatives. Keeping down the level of subsidy also means less possibility of the subsidy's capture by higher-income groups or the politicization of the programme.

Secondly, external interventions of this kind must seek to strengthen the position of low-income households within their own society. This includes not only their right to influence the form and implementation of any low-income housing or housing finance programme but also their capacity to negotiate with governments for the goods and services to which they have a right. This is hardly the purpose for which development assistance was originally envisaged. Yet one of the central elements in any programme to reduce urban poverty (including improving housing conditions for those with inadequate incomes) is changing the relationship between "the poor" and government authorities at all levels. Each of the Sida funded initiatives described in this paper helped achieve this – and reinforce the idea that low-income households and their organizations are not "beneficiaries" to which government defined "projects" should be targeted but groups with knowledge, resources, and the capacity to plan, organize and manage – and, very often, the capacity to save and to repay loans. This is a change not easily achieved in most countries, especially those with non-democratic governments or with governments that remain much influenced by recent periods of non-democratic rule, and such attitudes have so often become enshrined in policies, programmes and regulations.

Thirdly, there is a need for aid agencies to find ways of strengthening and improving the performance of in-country institutions that are important for low-income households – for instance, municipal authorities and formal sector housing finance institutions. The initiatives in Nicaragua and Chile also point to the need to work with municipalities in the smaller cities and towns; although they may be weaker, they may also be more ready to take part in such initiatives. Fourthly, there is the need to introduce or strengthen the use of more democratic procedures and more participatory methodologies when working with low-income households and their community organizations.

However, often, it is not easy for international agencies to fund these kinds of programmes. Most take time to develop before funding can be allocated and may involve long negotiations with all the institutions within the recipient country before the programme can get going. This is not easy for any international agency that is under pressure to keep down its staff costs and to rapidly spend funds allocated to a project. These programmes often require very modest levels of funding, at least initially, and this poses difficulties for all international agencies that need to spend their funds or provide large loans. These programmes are difficult to evaluate – not least because a large part of their "success" will be judged on how much is done by the institutions that the programme has helped to set up or strengthen, after the external support ends. International agencies usually

base an evaluation of their programmes on what has been achieved with the funding they provided, not on what their programmes have achieved in terms of changing approaches by recipient government agencies that have brought about major benefits to low-income households. Thus, if more international agencies wish to support initiatives such as these – and the evaluations of these initiatives certainly suggest that they are more successful than most donor funding programmes in this area – the agencies will also have to address their own institutional difficulties in funding programmes of this kind.

