Homeless International

BRIDGING THE FINANCE GAP IN HOUSING AND INFRASTRUCTURE

BOLIVIA: Fundación Pro-Habitat - A Case Study

By Rafael E. Rojas

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Contents

1. Introduction

This case study describes the work and achievements of the "Fundación Pro Habitat" (the Pro Habitat Foundation) in Bolivia since 1992, and concludes by proposing a way forward on the basis on that foundation. To allow a better understanding of what has been, and can be, achieved as a result of that work, the study also offers a description of the national context, as well as the legal, financial, institutional and regulatory frameworks within which Pro Habitat has operated.

2. The National Context

2.1 Brief Overview of Bolivia

Bolivia is located in the central region of South America. Its surface area is 1,098,581 sq. metres, inhabited by six million people. Within its wide territory, there are three large physiographic areas: the Andean area (at an elevation of over 3,000 metres), covering 28% of the national territory; the Sub–Andean area (with an average altitude of 2,500 metres), 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 live in urban areas, that is centres with populations exceeding 2,000 inhabitants. The main cities in Bolivia are La Paz, Santa Cruz and Cochabamba. The rural populations live in small communities, in a more scattered fashion.

A large percentage of the population in Bolivia lives in a state of poverty. 70% of the population live in places which can be considered to be poor; that is, in 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 also in the Bolivian plains region.

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 US$ 6 billion. The most important economic sectors are the manufacturing industry (21% of GNP) and the agricultural sector (18% of GNP). The mining sector has gradually lost its traditional importance for the national economy, with a current share of about 10%.

[1] The actual per capita GNP is US$ 750.

In the last decade, the GNP growth rate has exceeded 4%, which is the basis for the current economic stability experienced in Bolivia.

2.2 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 process([2]), 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 Bolivia([3]) and was characterised 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 market forces. Additionally, a rationalisation process of the public institutions([4]) was started and the national market was opened to import products. All these measures, as a whole, were called those of "first generation."

The main accomplishment of this new economic model was bringing the hyper-inflationary process under control, and consequently, the stabilisation 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

Yr.	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: Compiled on the basis of information provided by the Superintendence of Banks and Financial Institutions.
Notes: A: National currency exchange rate against US$
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.

[2] In 1983, inflation reached 24,000% 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.

At the end of the century, Bolivia had 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.

2.3 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 houses([5]); and
2) the remaining 30% has access to housing through a diversity of systems, 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 throughout Bolivia, most households can be considered to have poor quality housing in relation to its architectural design, which fails to meet the family's space needs (e.g.: houses with small multiple use rooms, single bedroom, no kitchen space, no rooms intended for sanitary services, etc). In many Departments, however, most housing has a construction quality classified as "acceptable", primarily because of the massive use of local materials suited to the local climate, and also a strong tradition of self–build, particularly in the rural areas.

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

1) Only 19% of households had access to tap water inside their homes;
2) Almost 30% of households had no access to tap water at all, and had to get their water supply from wells, rivers and lakes;
3) Sewerage service statistics show that only 28% of households are connected to the public sewerage system, 31% have individual sewerage systems, and 41% are not connected to any sanitary service drainage system at all;
4) In the last few years, although access to electricity has improved, 33% of mainly rural households are still lacking this service.

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

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

Table 2. Percentage of Homes According to Type of Occupancy Departments of Cochabamba, Chuquisaca and Tarija, November 1997

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

Source: Compiled 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 as "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 Departments of Cochabamba, Chuquisaca and Tarija, November 1997

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

Source: Complied on the basis of information from the National Statistics Institute. 1997–1999 Statistics Yearbook, La Paz, Bolivia.

The differences between the Departments reflect the existing degree of poverty. Chuquisaca is undoubtedly the Department with most households lacking access to basic services, Tarija shows a better coverage of basic services, very close to the national mean, and Cochabamba stands out with a relatively broad coverage by the electricity service.

Faced with this reality, the Bolivian Government did not create any programmes to respond significantly to the needs of Bolivian families. To a large extent, the improvements accomplished by the families are as a result of their own efforts. However, in the last few years, the National Government has made some efforts to carry out a social housing programme. It is also possible to identify programmes carried out by NGOs, which reflect a more integral nature.

2.4 Public Policy

2.4.1 The National Social Housing Fund (Fondo Nacional de Vivienda Social – FONVIS)

Dependent upon the Ministry of Urbanisation and Housing, FONVIS was the last state institution, created in 1992, for the purpose of managing and handling the public sector's salary deductions destined for social housing improvement and construction programmes.

Since then, FONVIS has accomplished the construction and improvement of 24,544 housing units([6]). 86% of these housing units are 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 programmes, reached the sum of US$ 140 million. 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 Pro Habitat works, the public actions directed towards social housing construction and improvement were the following:

1) In Tarija, FONVIS built and improved 136 housing units, which represents a very small proportion of its output, and an insignificant proportion of the homes in Tarija (0.2%). Between 1993 and 1997, the investment was close to US$ 3.5 million.

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 households that were homeowners by the end of 1997. In the years of FONVIS operation, a little over US$ 16 million was invested.

3) Finally, as Chuquisaca was a new work area, this Department got the least attention from the State. During the five-year period 1993–1997, only 83 housing units were built and improved there, in spite of this being one of the Departments with a population in extreme poverty. FONVIS investment in this Department was very low (US$ 750,000).

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

[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.

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

2.4.2 Local Authorities – Municipal Government

Starting with the enactment of Law of Popular Participation (LLP), local government in Bolivia was defined at sectional municipal level([7]). The sectional municipalities comprise the Municipal Council, an executive level (a Major and a technical team) and a supervision and control body representing the base organisations. Several responsibilities were transferred to the municipalities, for example, the construction and maintenance of social infrastructure (health centres, schools etc). However, the LLP does not make any reference to housing issues. In its most important sections, Law 1551, or the Law of Popular Participation (LPP), does the following:

1) defines the provincial section as territory or jurisdiction of the municipality;
2) recognises and grants legal capacity to the territorial base organisations;
3) allocates 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) extends the municipal functions into the rural domain;
5) expands the municipal functions to the promotion of human development and productive development;
6) establishes social control mechanisms for municipal actions by creating Monitoring Committees; and
7) establishes participatory planning as the main co-ordination mechanism between those who govern and those who are governed.

Nonetheless, in 1999, on the basis of the LPP, the Organisational Law of Municipalities (LOM) was modified to re-define the role of local authorities. Within the scope of this study, the new role designed for local authorities, with regard to the provision of basic services, according to both the LLP and the LOM, is as follows:

1) The Municipal Governments will provide and build new infrastructure for education, culture, health, sports, neighbourhood roads and basic sanitation (Article 14, item J, LLP);
2) They will build, equip and maintain the infrastructure for education, health, culture, sports, micro–irrigation, basic sanitation, urban roads and neighbourhood roads (Article 8, paragraph II, number 2, LOM);

[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.

3) They will 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 exist to grant potable water and sewerage service concessions, the Municipal Government will provide such services directly, 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 will regulate, control and inspect, and manage directly the collection, disposal and treatment of solid waste (LOM, Article 8, paragraph V, number 3).

The new LOM specifies the role of local authorities in the provision of social housing. Regarding housing, Article 8 of the LOM, which defines the competence of Municipal Government, reads: "to promote and participate in the generation of sustainable technical and financial conditions aimed at the construction of housing within the framework of national and departmental programmes, according to the Municipal Development Plan"([8]).

Complementary to this, paragraph 9 of that Article establishes that the municipality must demolish buildings that do not comply with the following standards: soil, subsoil and topsoil, urban, basic sanitation, and other special, national and municipal standards. Likewise, paragraph 10 delegates the responsibility relocating facilities intended for housing, commercial and other purposes whenever they affect the urban and territorial lay–out.

It can be seen, therefore, that starting with the new LOM, Municipal Government must participate actively in solving one of the main national problems, lack of ownership of one's own, dignified dwelling.

2.4.3 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 credit mechanisms for infrastructure or social housing. However, in its chapter II, article 20, Law 1964 establishes certain municipal responsibility for facilitating the presence of financial institutions within the municipality's jurisdiction:

1) It authorises the expansion of the coverage of auxiliary financial services to the municipalities, although with some restrictions related to raising money from the public (unless authorisation has been obtained from the Committee of Financial Caution Standards, CONFIP).

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

2) Municipal governments will incentivise financial institutions authorised by the SBEF([9]) to provide services within the municipality's jurisdiction. However, this must be done by a public tender process.

This legal opening strengthens previous initiatives to create links between the Municipality and NGOs specialised in credit services. An experience worthy of positive appraisal 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 grew to US$ 310,000 in 1998. Most of the credits (60%) were used in productive agricultural activities ([10]). It is very likely that 20% of the financial resources were used for housing improvement([11]), that is, a little over US$ 60,000.

Similar experiences, very much related to credit for housing, also took place between the Pro Habitat Foundation and the San Lorenzo Municipality. This Municipality provided US$10,000 to be managed by the Foundation. Although this experience suffered from lack of continuity, owing to last year's electoral situation, at least the knowledge is now in place to establish this kind of agreement with 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.

2.4.4 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)([12]) can be used as **guarantee for housing credits**, or may be used by the titleholders for this same purpose.

Also, that law contains a proposal to carry out actions to facilitate the access to credit lines, mainly for social housing. More precisely, in Article 22, this law

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[9] Superintendence of Banks and Financial Institutions (Superintendencia de Bancos y Entidades Financieras)

[10] Co-operation between the Municipal Government and NGOs. FADES' credit experience in the Uriondo Municipality. Cosio – Plaza. NOGUB/COSUDE. La Paz, 1998.

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

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

established that the mass access to credit to finance popular housing solutions will be promoted through the following:

1) strengthening credit guarantee systems by the creation or modernisation of real and chattel property records;
2) granting tax incentives for long–term savings;
3) modernising the administrative and judicial procedures that govern home purchase, sale and rental transactions, including eviction procedures, which will encourage the financiers to grant long–term housing credits;
4) creating transparent and equal subsidy mechanisms to facilitate access to basic services, which will improve popular housing;
5) regulating 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 institutions in becoming holders of mortgage portfolios in order to mobilise such assets to finance popular housing;
9) promoting and establishing the necessary judicial 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 access to ownership, construction and 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.

3. The Pro Habitat Foundation

3.1 Background Information

In Bolivia, there is a high incidence of the potentially fatal Chagas disease, which is directly associated with poor housing conditions. The vector Vinchuca beetle commonly lives in the cracks of poorly constructed mud brick houses. Because of this, several institutions have implemented anti-Chagas programmes assuming housing improvement and construction as their work axis. To put Pro Habitat's institutional experience into context, the following is a brief description of the main features of some of the housing improvement experiences implemented in Bolivia([13]).

[13] This systematisation 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.

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 Potosí([14]) with FIDA financing. In the Department of Chuquisaca, also based on a health project, the PROSCAM([15]) project was implemented two years later, also with FIDA financing. In 1990, the "Child and Community Health" (CCH) 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 Pro Habitat Foundation.

3.2 The Creation of Pro Habitat

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

Before setting out the institutional history, it is necessary to make brief reference to the Bol/91/018 project (Danida/CNUAH), "Training for Community Participation in Human Settlement Projects". This project was in two phases. The first phase comprised the years 1986 and 1987 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 1988 to 1991 and achieved an investment of US$ 723,000. This phase's main activities included the training of professionals in participatory planning([16]) and community training([17]) for the implementation of 103 self–construction projects in eight of the nine 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([18]).

By the end of this project, Bolivia had a group of staff highly trained in participatory planning with a methodology developed to support human settlement projects, and with a set of detailed instructional material and equipment, e.g. equipment to

[14] Chagas control project, SEDES Tupiza. PDACSJO.
[15] "Cardenal Maurer" Social Project – Chuquisaca. PROSCAM.
[16] Institutional training included 505 professionals from different state institutions and 137 individuals that made up the field team.
[17] 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.
[18] 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 programme. La Paz, 1994.

produce audio-visual material. All these aspects compelled the National Government and the United Nations Centre for Human Settlements (UNCHS) to think about the continuity of the project, but from a new autonomous and independent institutional framework([19]).

The conditions were now optimal to institutionalise 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 Pro Habitat's operational costs for the second semester of 1993.

3.3 First Steps

There were two initial agreements that were the bases for Pro Habitat's earliest institutional work: first, the CCH agreement([20]), which made it possible to carry out the "Chagas Control Programme", and second, an agreement with the Social Investment Fund (FIS)([21]) to develop community training in water and basic sanitation.

The "Chagas Control Programme" was carried out in the Department of Tarija between June 1992 and June 1994. The work started with research aimed to "document knowledge, attitudes and perceptions base on Chagas disease"([22]). The research was conducted on the basis of a participatory planning and community management strategy, as it was the only way to successfully accomplish control of the vector in a sustainable manner. The results of this two-year work period were many, among which the following are prominent([23]):

1) initiating a participatory planning process;
2) building a social economic baseline;
3) conducting research in these topics: implications and feasibility of incorporating the food-for-work model into housing improvement programmes; feasibility of working with housing improvement programmes through credit; and finally, a study on the construction materials market;
4) on the basis of the participatory studies in 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 instructional material was produced during this process;

[19] The Bol/91/018 project. 1993 January–June Report. Irene Vance and Gustavo Bracamonte. La Paz, 1993.
[20] This first agreement was actually established with the Danida/UNCHS Training Programme and taken on by Pro Habitat after its creation. The CCH was a programme of the PL–480 financed by USAID. The selected communities in the Department of Tarija were Cadillar, Coimata and Orozas.
[21] The Social Investment Fund (FIS) is a decentralised institution of the National Government that finances all the social projects (construction of schools, health posts, potable water systems, etc.).
[22] Final Report of the Pro Habitat – CCH Agreement. Pro Habitat. La Paz, 1994.
[23] Ibid.

5) 100% housing improvement goals (both physical and qualitative) were achieved in most families. During this period, Pro Habitat was able to improve 286 housing units in three of Tarija's communities, benefiting 1,500 people.

It is certain that implementing this project enabled 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 programmes"([24]).

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

3.4 A New Experience: the Relationship with Plan International

By the mid 1990s, several institutions in Bolivia had 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 tested methodologies.

In 1995, within this framework, Pro Habitat entered into an agreement with Plan International to carry out a one–year experimental programme([25]). 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 agreement([26]), 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, 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 subsidise the Foundation's other activities.

3.5 The Chagas 2000 Project

[24] Contract entered to with the CCH in 1992.
[25] The expected results were to work within this Department with five communities affiliated to the Plan International support programmes: Yesera Sud, La Victoria, Rincón, La Tablada and Santa Bárbara. Final Report of the Chagas Control Project in Tarija. Rolando Valverde. Tarija, 1996.
[26] 81 young promoters were trained; children 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.

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 undoubtedly much more ambitious and aimed to diminish the "vinchuca" infestation rates both inside and outside the houses.

This project's target population were the 96 communities in the areas in which Plan International carries out its "Padrinos (Godparents) Programme", namely the provinces of Cercado, Avilez and Mendez. However, the project was also supposed to ensure the training and dissemination of instructional materials to lecturers 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 school teachers, public employees working in health and other institutions within the Chagas disease control process. Although the project was more integrated in nature, 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 families and community organisations([27]); and finally, strengthening the inter-institutional relations with outcomes still demanding greater institutional efforts.

The results of Pro Habitat's institutional action developed regularly until 1999. At the beginning of that year, specialised Pro Habitat personnel were hired by the World Food Programme (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 International: PRO–PLAN–II.

3.6 PRO-PLAN-II

The main precedent for this new agreement is not only the "Chagas 2000" project, but also the project prepared for the 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.

[27] The variation of delegating responsibility for the purchase of materials for housing improvement to the community organisation itself was incorporated into the planning process. Plan International was in charge of training at the administrative and management level. Interview with the Tarija Coordinator. Bony Morales. Tarija 1999.

In a nutshell, this project is supposed to be implemented in five 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"([28]).

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

Within this new framework, Plan International delegated the operational responsibility for implementing Project in the Departments of Tarija and Chuquisaca([29]) to 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 International and Pro Habitat will have a five-year life, from 2000 to 2004. It will entail an investment of approximately US$ 5.5 million. There is little doubt about the new challenges this new project will pose for Pro Habitat.

3.7 The Challenge of Implementing the Line of Credit as a Strategic Line for Housing Construction and Improvement

Since its beginning, Pro Habitat included the need to establish a financial credit service for housing improvement([30]) as a strategic line. In the study regarding revolving funds carried out within the framework of the CCH agreement, the feasibility of a credit programme 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([31]). During the first agreement with Plan International, this component was missing.

In any event, it was evident that the housing improvement programmes' sustainability should consider credit programmes. 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 Pro Habitat. This component was financed by Homeless International, and ended at

[28] Ministry of Housing and Basic Services. Executive Summary: "Housing Improvement Project in Endemic Areas targeted for Chagas Disease Control", La Paz 1999.
[29] Actually, the project will also include some municipalities in the Department of Cochabamba, which will be taken care of from the Chuquisaca office.
[30] In the initial organisational 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.
[31] The experience showed that the complexity involved in community management of a revolving fund makes this type of proposals non-feasible.

the beginning of 1999. A small financial service initiative was also carried out in the city of Cochabamba.

3.8 The Cochabamba Initiative

With the purpose of initiating the institutional work of Pro Habitat in the Department of Cochabamba, an agreement was signed 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, Pro Habitat implemented a small financial credit system with a portfolio that amounted to US$ 30,000. 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 as follows. 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.

Unfortunately, the revolving fund started to decay owing 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([32]).

3.9 The Tarija Initiative

The Tarija initiative had more financial resources available, which had been granted by Homeless International([33]). 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 $ 320,000 were disbursed, which means that the fund's capital has revolved three times, serving 810 borrowers in eleven rural communities and nine peripheral urban neighbourhoods. The percentage

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

[33] 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.

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).

3.10 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 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 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 core family (those who live in the same house) has a very diversified ***economic matrix***. In the urban area, both the father and the mother are engaged in some kind of economic, mostly informal activity([34]). Owing 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 specialised in credit services (ANED, FADES, IDEPRO, Pro Mujer) stand out.

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

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.

3.11 Destination of the Credit

The credit was initially intended for housing improvements that 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 electricity 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 a mason 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([35]). In the course of the credit service implementation, the "diversion" of credits towards investments not directly related to fighting off the vinchuca beetles, forced Pro Habitat to make its credit policies more flexible.

3.12 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.

[35] 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 International, La Paz – 1998).

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 institutions.

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, farming and livestock have covered such liabilities.

At the end of the project, it was evident that the credit service requires a specialised management, and that training activities should be separated and implemented with other strategies and methodologies. As analysed before, one of the problems is the small degree of sustainability achieved by the credit service, a situation that is worsened by the current default 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 subsidies 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 co-ordination levels with the Ministry of Housing. Another achievement was expanding the view of vinchuca fighting methods that 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 have sufficient additional funding to continue; 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 1998, 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, owing to legal restrictions, NGOs can not manage these resources.

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

4. Analysis of the Risks Assumed by Each of the Stakeholders and its Management of Housing Construction and Improvement Projects

The following description of risk analysis and its management will compare different strategies of housing construction and improvement projects carried out by Pro Habitat: those that are subsidised and those with credit lines generated for this purpose.

A major part of the work carried out by Pro Habitat consisted of implementing housing construction and improvement projects with a strong subsidy component (non-local materials and training). The financing sources have generally been external donations (mainly from Plan International) 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.

4.1 Housing Improvement and Construction Projects with High Subsidy Levels

In projects without Government participation, the most important stakeholders are the donor agency (Plan International), the executing institution (Pro Habitat), the community organisation and, finally, the households. The latent risks throughout the project's implementation and management are found at different levels. Analysed separately, they are as follows:

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

1) Institutional strategy and policy incompatibility. This risk exists in the relationship with Pro Habitat in the sense that the condition was set to place responsibility for purchasing materials in the hands of the community organisation. This policy's goal is to generate and increase the degree of empowerment in these organisations . Although the Foundation accepted the 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 International, 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) Outphase 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, Pro Habitat has created a strategy to solve possible financial outphasing.

4) Final product's bad quality. Since Pro Habitat does not control the whole work performance process, the risk of bad construction and/or improvement quality is latent. Nonetheless, Pro Habitat established some control mechanisms for non-local materials purchased by the organisation, thereby reducing significantly the risks of bad quality in the final product.

Within 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, this is not so for projects related to human settlements and housing improvement. The most significant consequence is the lack of highly qualified personnel to carry out the integral functions involved.

2) Another recurring risk is *the outdated knowledge among human resources staff.* 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 Pro Habitat's housing construction and improvement projects, there are risks of diverse natures in the area of *technical team and community organisation relationships.*

1) non–compliance with work schedule;
2) an arbitrary decision–making process by the technicians;
3) relationship difficulties between promoters and families;
4) little degree of development of the base organisations;

5) organisational weakening owing to frequent changes in community authorities([36]);
6) poor quality of non–local materials purchased by the community organisations;
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, Pro Habitat and the community organisations 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, owing to lack of masonry training and inadequate technical assistance for families;
3) families' dissatisfaction with the final product, whether for construction quality or design reasons;
4) little impact of the training process on attitude changes and ways of living among the adult population in relation to Chagas disease.

At some point, some of these risks represented real problems, both for Pro Habitat and for the organisations. Technical amendments by 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 into the school teaching modules.

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 re-defining the set of risks 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 institutions 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 institution's capabilities.

4.2 Credit Lines for Housing Construction and Improvement

[36] Generally speaking, community authorities change annually following a rotation system. This does not ensure the continuity of good leadership, or to the contrary, it incorporates a good leader in the project's implementation process.

Generally speaking, the final borrower assumes a large portion of the total risks in credit services. Anyway, an analysis of each of the stakeholders is required to understand the whole process. The funding sources of 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.

4.2.1 The Agency Donating the Financial Resources

With the funding of the revolving fund granted to Pro Habitat, Homeless International would be at risk 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.

4.2.2 The Institution Specialising in Credit

The main risk faced by Pro Habitat, with regards to its credit line, is the decapitalisation of the fund resulting from defaulting borrowers. In Cochabamba, this risk did not represent a problem; however, as explained before, in Tarija there is a high level of default([37]). The management of this risk is particularly difficult when the credit granting institution also has projects based on subsidy, as occurs in the analysed case. However, this risk does not lead to serious economic or financial consequences, as is the case with other financial institutions supervised by the SBEF.

4.2.3 The Borrower of the Credit

The economic risk falls completely on the borrower, although such risk is relative owing 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 income. This type of strategy allowed a greater debt capacity among the families.

Without a doubt, the support obtained through projects with strong subsidy components greatly 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 analysed cases, with the exception of two new stakeholders: the financial institution providing resources to establish the guarantee fund (for

[37] An instalment based on the total unpaid amount is considered to be in default the day after its due date.

example, Homeless International) and the financial institution granting the credit to Pro Habitat (a bank, credit union and/or mutual).

4.2.4 The Institution 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. Appropriate software will be needed to monitor the loan portfolio.

4.2.5 The Bank/Credit Union/Mutual Granting the Credit

In the strict sense, the financial institution mediating with the credit resources is the only institution not facing any risk because all its resources are covered by the guarantee fund.

4.2.6 The Institution Specialising in Housing Credits

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

4.2.7 The Final Borrower

The economic risk assumed by low-income families and its management would probably be increased by the rising of interest rates([38]). Nonetheless, these families would widen their possibilities of gaining access to larger economic resources.

5. The National Legal Framework

5.1 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, 31 October 1995, as "the only monetary and exchange authority in the country, and therefore governs the national financial mediation system". Article 3 expands this definition by stating that "it shall formulate general application policies in matters such as monetary, exchange and financial mediation, which comprises credit and banking matters". It

[38] 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 Guarantee Fund, the financial spreads must cover the following costs: (a) Homeless International, through the payment of passive interests to the guarantee fund; (b) the financial institution; and last (c) Pro Habitat.

is the second of those quotes that relates most closely to the topic of this study. Under that function, the BCB has the following responsibilities:

1) to attract and place financial resources and services (expressly forbidding the issue of linked credits);
2) to open financial mediation institutions, 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 institutions;
4) to establish characteristics of the minimum amount of capital for the creation of the financial mediation system institutions;
5) to create and operate financial institutions not foreseen by the Law;
6) to create and operate credit card issuing companies;
7) to transfer resources to organise banking mediation institutions;
8) to set norms for second floor financial institutions' 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 institutions. Complementary to this, there is a public institution that is responsible for controlling and supervising the performance of all banking and other financial institutions operating within Bolivian territory, namely the Superintendence of Banks and Financial Institutions (Superintendencia de Bancos y Entidades Financieras – SBEF).

5.2 The Law of Banks and 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 modernise and adapt its operation. One of the most important of these was the Law of Banks and Financial Institutions that replaced the General Bank Law, 1928.

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

1) *Bank:* an authorised financial institution, 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 authorised 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 specialised association, authorised 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 specialised in savings and credit operations for housing purposes, in behalf of its members.
5) *Non–government Organisations, Institutions Working in Development, and Foundations:* non–profit civil associations that grant, with donated or their own resources, reimbursable or non–reimbursable credits to specific social–economic sectors.

The operations that the financial institutions may carry out fall into four categories: passive operations, active operations, contingent operations, and financial services (Article 35). Among the active operations, there are short–term credits (not over one year), medium–term credits (between one and five years) and long–term credits (over five years). In contrast, among the passive operations of a financial institution, the following can be mentioned:

1) taking in money deposits in savings accounts, checking accounts, at sight accounts and certificates of deposit;
2) issuing and making available new stock to increase the capital;
3) issuing and making available mortgage bonds;
4) issuing and making available bank bonds, which may or may not be converted into regular shares; and
5) incurring credits and liabilities with the BCB or other banking and financial institutions 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 ensembles looking after the credit needs of the low income population, are recognised as financial institutions.

Any of these institutions may organise under any of the legal frameworks that guarantee their organisation. However, to mediate public resources or to draw savings, each one of them requires the authorisation of the Superintendence of Banks and Financial Institutions (Article 6). According to Article 11, the minimum requisites to get the authorisation are that they must:

1) be organised 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 an affidavit of the founders' equity;
7) submit a list of founders (when the founding shareholders are corporations organised abroad, they will 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) have a 270 day period to work out the organisation and operations details;
11) have a permit granted by the Superintendence within a 60–day period;
12) have the organisation published by the founders in a national newspaper.

So even when there is the legal possibility for an NGO to be organised as a financial institution, the major obstacles to get the permit from the SBEF were two of the minimum requirements: the type of company they had to organise (stock corporation) and the minimum capital([39]).

These limitations did not make possible to establish a financial sustainability strategy for financial institutions such as specialised 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 enacted, the legal requisites to organise a financial institution other than a bank – which could carry out a large proportion of the financial mediation operations and specialise in serving small and micro–business people, and therefore the low income population – were made somewhat more flexible. It was in this way that the Private Financial Funds, which will be analysed later in this study, came into existence.

5.3 Outside Credits

There has been little development of any legal framework for obtaining credits from abroad; what there is focuses on banking institutions generally. All banks and other financial institutions, both public and private (authorised by the SBEF) have the freedom to obtain outside credits at short and medium terms, within the limitations established by the issuing institutions. According to Supreme Decree No. 18394, 8 June 1981, banks and financial institutions alike have an obligation to register any such credits with the Banco Central de Bolivia.

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

Neither is there any regulatory framework for the procedure to be followed by financial institutions to obtain outside credits. The only regulatory framework is that

[39] In the case of taking on a banking figure, the minimum capital is US$ 1 million and in the case of establishing an FFP it is US$ 500,000.–

given by Supreme Decree No. 18394 mentioned above, which gives private banking the power to incur in outside credits.

However, the general financial system rules provide that financial institutions may receive credits from external funders, to be channelled to third parties. This is provided by Article 39 of Law 1488, which states that financial institutions are authorised to serve as financial agents, within the country, for loans and investments from outside resources.

In addition, it is provided that financial banking institutions are empowered to obtain credits from, and assume liabilities with, the Banco Central de Bolivia, banking and financial institutions from inside and outside the country.

Finally, Law 1864 provides that a financial institution may receive credits from other established financial institutions, for an amount twice as much as its net equity.

Nonetheless, these institutions must still be authorised by the Superintendence of Banks and Financial Institutions, which restricts the assumption of such liabilities to NGOs specialising in financial services.

5.4 Fund Protection

In the field of fund protection, there has also been little development of the legal framework([40]). Within the banking system, there is no precise system to protect the financial resources within the system itself, with the exception of, first, the 20% legal reserve required by the BCB, which is meant to guarantee the existing deposits in each bank, and second, the credit resources that are at risk. Article 26, Law 1488 established that "all financial banking institutions 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 must set aside at least 10% of its annual liquid profits".

However, there are no legal measures or state mechanisms which make provisions for possible financial losses as a result of the US dollar's inflationary process.

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

6. The Institutional Framework 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 sector and, in many cases, from private companies as well, since the latter were facing greater competition as a result of

[40] Information obtained in an interview with a supervisor of the banking system from the Superintendence of Banks and Financial Institutions, Mr. Gerardo Quelca, BA.

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 number of so–called micro-businesses([41]) grew enormously, in the productive sector([42]) but principally in the service sector([43]).

The growth and economic stability achieved in Bolivia in the years that followed the structural adjustment process, established a favourable scenario for developing this micro-business sector. These businesses gradually gained economic importance at national level. It was mainly the urban NGOs that started credit support programmes for this sector but nowadays even some banks are offering financial products to this sector([44]).

With novel proposals, these financial products eliminated the permanent limitations of the guarantee system (generally, mortgage securities) to which low income families were subject 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., was to become the basis for the success of these new credit lines.

Nonetheless, the experience of NGOs specialising in credit has been that managing these new financial products involves increased operational costs. For this reason, the current interest rates charged not only by those NGOs, but also by FFPs, are the highest in the market([45]). In spite of this, until now, the interest rate level has not been a factor limiting low-income families from gaining access to these loans.

The success achieved by the first institutions to offer these new financing lines – mainly in the growth of their portfolios and number of borrowers – led mainly to the creation of new institutions specialised in micro-finance, and then to the legal formalisation that led to the establishment of the Private Financial Funds (FFPs).

There follows a brief analysis of the main aspects of the institutions that developed an expertise in financial, mainly credit, services for low-income families([46]).

6.1 Private Financial Funds (FFPs)

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[41] 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-businesspeople.

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

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

[44] The NGOs support also focused on training of human resources and technical assistance services.

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

[46] In the banking system, with the sole exception of Banco Sol, no micro-credit lines have been developed for low-income families.

The FFPs can be considered as micro-finance agencies which, in Bolivia, comprise five institutions([47]).The authority to organise and operate these institutions is regulated by Supreme Decree 24000, May 12 1995, whose most important sections provide as follows:

1) The FFPs' main object is to channel resources to both rural and urban small and micro–borrowers.
2) The FFPs must organise 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, June 11 1937 (Article 7).
4) Among the most important operations, FFPs are authorised to carry out the following (Article 8): take in money deposits in savings accounts and certificates of deposit; incur credits and liabilities with banking and financial institutions in the country or abroad; incur 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 must maintain a net equity not less than 8% of their total assets, together with risk-related contingencies (Article 13).
6) FFPs must abide by the standing provisions regarding the legal reserve (Article 14).

As established by the law, this sector mainly supports micro-business activities. In 1999, the sector supported several activities, the most important including the support given to manufacturing business, wholesale and retail commerce and professional services. This institutional framework was already present by the end of 1998, with 42 urban agencies nationally, 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 which have initiated their credit service operations more than a decade ago, are currently owning shareholders of an 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 authorised "Eco Futuro" FFP.
4) The PRODEM NGO is majority shareholder of the recently authorised "PRODEM" FFP.

[47] 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 authorisation to operate as an FFP.

Summing up, very few NGOs specialising in credit (as in the case of Sartawi and Agrocapital) are still unable to get SBEF authorisation, 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 marginalised population groups. In addition, these NGOs are suited to mediate with public resources and, certainly, to draw credit resources from abroad. Undoubtedly, 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.

6.2 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 institutions that mediate with financial resources intended for housing". In order to become established, these organisations must have a minimum amount of 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 organisation 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, leasing 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 Superintendence of Banks and Financial Institutions, they must apply the evaluation and qualification regulations of credit portfolios dictated by Supreme Resolution No. 6294, 16 March 1994. According to this, each institution must assess 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) the credit history;

4) the applicant's financial and equity situation;
5) collateral (securities);
6) conditions of the economic sector or activity carried out by the applicant; and
7) in case of personal guarantees, the economic and financial situation of related individuals.

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 applicant's salary and expenditure;
3) analysis of assets, liabilities, cash flow of the social–economic units (when it is an individual or group loan);
4) Article 12 provides that all housing credits must be paid in instalments that are totally guaranteed by mortgages. The same resolution also provides that each credit must 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; and
5) 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 institutions' strategies and policies have been oriented towards middle and high-income families.

6.3 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 Superintendence of Banks and Financial Institutions. Here, the conditions to gain access to the credit lines for housing are the following:

1. Applicants must 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 backed by a mortgage security (the documents that the real property must have are: notarised document, ownership card, decennial, approved blueprints, up–to–date tax payments and 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 modernised, rendering them highly inefficient.

With regards to the total number of borrowers taken care of by the different systems, there is a total of 644,752 individuals, the principal distribution being as follows: national banking system 50%; mutual system 8%; and FFPs 28%([48]).

7. The National Financial System and Financing for Construction([49])

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 FFPs([50]). Although they are not subject to control and supervision by the Superintendence of Banks and Financial Institutions, for more than a decade, there are also NGO–type institutions which have specialised in providing credit services. Each of them serves the construction sector with loans for housing, according to their own procedures.

7.1 The Banking System

In Bolivia, the banking system is made up by ten national and four foreign banks, although the fact is that several so–called national banks have indeed international banking institutions as majority shareholders([51]).

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

Financing for construction activities amounts to US$ 204 million; 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 proportion of this credit is aimed at the construction of buildings or luxury homes.

7.2 Home Savings and Loan Mutuals

(see also paragraph 6.2)

[48] Information provided by the Superintendence of Banks and Financial Institutions. Memoir. La Paz, October 1999.
[49] The construction sector includes all financing oriented towards the construction of houses and buildings.
[50] 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 are that the FFPs do not have cheque account services nor can they give credits for international trade.
[51] 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 of Panamanian capital.

The Mutuals are financial institutions 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 of 13 institutions, with a portfolio of US$ 314.3 million, with a default rate of 9%.

The main focus of credits granted was the construction sector, with a portfolio of US$ 268 million, representing 85% of the total portfolio.

In Pro Habitat's work area, there are three Savings and Loan Mutuals, which as a whole have a portfolio of US$ 33 million. The difference between these mutuals lies in their different credit destinations. 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.

7.3 Savings and Loan Credit Unions

(see also paragraph 6.3)

The Savings and Loan Credit Unions are institutions that originated in the 1960s 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 enabled them to proliferate nation-wide([52]).

Nevertheless, very few of them (17 credit unions) are controlled and supervised by the Superintendence of Banks and Financial Institutions. As of December 1998, this institutional financial group had a portfolio of US$ 208, 16% of which is aimed at the construction sector (35 million).

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

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

7.4 Private Financial Funds (FFPs)

(see also paragraph 6.1)

[52] It is difficult to establish the number of savings and loan credit unions that exist in Bolivia, owing to the deficient registration systems existing in their organisation matrix.

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

Several FFPs were started as an initiative of NGOs that, as consortia, created these new commercial institutions. There are currently five FFPs in Bolivia, holding a portfolio of US$ 173 million.

These new financial institutions 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 US$ 5.7 million).

Two of the most important (Los Andes and FIE).operate In Pro Habitat's work area, having developed a significant know how on serving families with low economic resources

7.5 Institutions Specialising 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 programmes and projects. As a result of this reflection, several NGOs, some in the urban area and others in rural areas, went on to specialise in financial services, mainly credit services.

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

By the end of 1998, there were six institutions in this "new system" , operating mainly in the urban area([53]) and seven institutions operating in the rural area([54]). Together, they cover the whole national territory with nearly 150 branch offices located mainly in the rural area (100 branches). Their portfolio amounted to US$ 75, with coverage of 170,000 borrowers.

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([55]).

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[53] These institutions are: FIE, IDEPRO, PROA, CIDRE, FUNBODEM, and PROMUJER.
[54] These institutions are: ANED, FADE, FONDENCO, CRECER, PRODEM, SARTAWI and AGROCAPITAL.
[55] The banking system, for instance, only has 71 branch offices in the rural area, as compared to the 106 branch offices which the credit specialised NGOs have. Although the official figures are unknown, the banking financial system's coverage is very similar to that of the system of NGOs specialising in financial services, although there are big difference in the average amount of the

However, a large proportion of the financial resources channelled towards the urban (micro-businesses) and rural (salespeople, peasants) sectors, were aimed at productive activities. The exception to this 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 specialised NGOs working in the rural area([56]), have reached the conclusion that 20% of the "free availability" credits are channelled into housing investments (construction or improvements). The estimated volume of financial resources that were channelled towards the construction sector is in the order of US$ 7 million.

7.6 Financing for Housing - A Joint Vision

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

Table 3. The Portfolio Situation and Destination of Credit for Construction in Bolivia by the end of 1998 (in US$ million)

	Total Portfolio	Construction Portfolio	Percentage	Number of Institutions
Banks	4,300	200	4.7	10
Mutuals	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: Compiled on the basis of information from SBEF and the "Micro–finance Financial Bulletin" of CIPAME and FINRURAL La Paz, July 1998.

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

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loan (close to US$ 20,000 in the case of the banks, and US$ 500 in the case of the specialist NGOs).

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

8. Legal and Regulatory Framework

8.1 NGOs Generally

Since they are non-profit organisations, the legal and regulatory framework to organise and operate non-governmental organisations (NGOs) is in Civil Code([57]), which specifies the norms for foundations and civil associations. The requirements to authorise the operation of NGOs are the following:

1) incorporation or foundation minutes;
2) approval of the organisation'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; and
7) notarised 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 institutions (for profit) and the associations/foundations (not for profit) are: (a) in the former, the profits generated are distributed among the shareholders/partners, not so in the second case; (b) in the latter, in their financial statements, there is the "capital" item in the non–profit organisations. This 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 advise 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 bylaws, that the surpluses shall not be distributed among the associate partners and that, in the case of liquidation, any

[57] From the point of view of their incorporation and organisation, the non-profit organisations are regulated by the Code of Commerce and related laws, for instance the Law of Banks and Financial Institutions.

liquid equity, and the resulting net equity, shall not be distributed either, but shall be given to other institutions similar to that subject to liquidation"([58]).

8.2 NGOs Working with Micro-finance

The legal and regulatory reference for NGOs specialising in financial services is the Law of Banks and Financial Institutions of 1993, which, contrary to the Law of 1928 ([59]), expands its application to include other financial institutions (credit unions, mutuals, NGOs). It also allows institutions 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 Institutions (such as the case of the Savings and Loan Credit Unions, Housing Mutuals, and Private Financial Funds. See Law 1488, Articles 69 to 81). It is not so for NGOs, which are also classified as non-banking financial institutions.

In fact, the Law of Banks and Financial Institutions presents the only specific reference for NGOs, in Article 81, when referring to them as other non-banking financial institutions. Literally, the Law reads: "private institutions for social development or non–governmental organisations," which, when read within 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 micro-credit 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 organisations and, on the other hand, do not carry out mediation with State funds, are excluded from control and inspection of their activities by the Superintendence of Banks and Financial Institutions. In other words, licence and authority from the SBEF is necessary only when the financial mediation includes State funds or when resources from the public will be drawn.

9. 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.

9.1 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

[58] Aguirre Attorneys Firm, "Juridical Analysis on NGOs." La Paz, 1993.
[59] The object of Law of 1928 was only the banking system. Credit Unions and Mutuals were created later on and under specific legal frameworks.

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 do 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, electricity). In this sense, there is no doubt as to the need for lines of financing.

Generally speaking, not only have the government policies aimed at improving the housing conditions of the Bolivian household failed, but also the public institutions created for that specific purpose. Consequently, it was decided to shut down the National Social Housing Fund (FONVIS). 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 institutions, will be responsible for the generation of financial services for low income families.

In any event, 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 modernising the real estate records, and making the national guarantee system more flexible, among others.

The municipalisation 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 is also related to the legal framework governing the national financial system, which became more flexible (for instance, by incorporating new types of financial institutions) and incorporated alternatives for low-income families (for instance, the flexibilisation of the guarantee system).

A further opportunity is that Pro Habitat, as well as other NGOs specialising 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 institutions: 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 for a larger sector of the low-income population.

9.2 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 regard to the national financial system (private banks, credit unions, FFPs) and the international banking system. The norms are far too general to establish, for instance, 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 resistance 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 institutions, is very general. The State and the NGO body have been unable to reach an agreement regarding the draft law under discussion.

9.3 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 the Bolivian population are not "eligible for credit" because of access limitations. These limitations are related more to the existing guarantee (collateral) system([60]) 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([61]).

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

In both cases, the scarce 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 "domestic needs", for instance, for housing improvement and construction.

[60] A large number of the financial institutions prefer the urban mortgage securities. Thus, low-income families are unable to gain access to these lines.
[61] 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.

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