

CLASSIFICATION  
PROJECT EVALUATION SUMMARY (PES) - PART I

Report Symbol U-447

PROJECT TITLE Chile Low Income Cooperative Housing Program			2. PROJECT NUMBER 513-HG-006/006B	3. MISSION/AID/W OFFICE USAID/Chile
<div style="border: 1px solid black; padding: 5px; display: inline-block;">                     ENTERED                      8/10/81                 </div>			4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) <u>513-1</u>	
			<input type="checkbox"/> REGULAR EVALUATION <input checked="" type="checkbox"/> SPECIAL EVALUATION	
5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING	
A. First PRO-AG or Equivalent FY <u>75</u>	B. Final Obligation Expected FY <u>78</u>	C. Final Input Delivery FY <u>79</u>	A. Total \$ <u>55</u>	B. U.S. \$ <u>55</u>
			7. PERIOD COVERED BY EVALUATION From (month/yr.) <u>6/75</u> To (month/yr.) <u>4/81</u> Date of Evaluation Review <u>March 15, 1981</u>	

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
1. Continue monitoring changes in Chile's shelter sector.	M. Pita, RHO/PSA	10/81

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS	10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT												
<table style="width: 100%;"> <tr> <td><input type="checkbox"/> Project Paper</td> <td><input type="checkbox"/> Implementation Plan e.g., CPI Network</td> <td><input type="checkbox"/> Other (Specify) _____</td> </tr> <tr> <td><input type="checkbox"/> Financial Plan</td> <td><input type="checkbox"/> PIO/T</td> <td>_____</td> </tr> <tr> <td><input type="checkbox"/> Logical Framework</td> <td><input type="checkbox"/> PIO/C</td> <td><input type="checkbox"/> Other (Specify) _____</td> </tr> <tr> <td><input type="checkbox"/> Project Agreement</td> <td><input type="checkbox"/> PIO/P</td> <td>_____</td> </tr> </table>	<input type="checkbox"/> Project Paper	<input type="checkbox"/> Implementation Plan e.g., CPI Network	<input type="checkbox"/> Other (Specify) _____	<input type="checkbox"/> Financial Plan	<input type="checkbox"/> PIO/T	_____	<input type="checkbox"/> Logical Framework	<input type="checkbox"/> PIO/C	<input type="checkbox"/> Other (Specify) _____	<input type="checkbox"/> Project Agreement	<input type="checkbox"/> PIO/P	_____	A. <input checked="" type="checkbox"/> Continue Project Without Change B. <input type="checkbox"/> Change Project Design and/or <input type="checkbox"/> Change Implementation Plan C. <input type="checkbox"/> Discontinue Project
<input type="checkbox"/> Project Paper	<input type="checkbox"/> Implementation Plan e.g., CPI Network	<input type="checkbox"/> Other (Specify) _____											
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<input type="checkbox"/> Project Agreement	<input type="checkbox"/> PIO/P	_____											
11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles) William Gelman, RHO/PSA Peter Bromberg, MINVU, Director of Program Planning Isador Latt, Chamber of Construction, Chief of Research Julio Dittborn, ODEPLAN, Sub-Director Jose Gabriel Varela, Manager, Banco Hipotecario de Fomento Juan Felipe Herrazuriz, Banco Central de Chile, General Counsel	12. Mission/AID/W Office Director Approval Signature:  Typed Name: Richard F. Apodaca Date: July 22, 1981												

## FINAL PROJECT EVALUATION SUMMARY

### CHILE LOW INCOME COOPERATIVE HOUSING PROGRAM

513-HG-006/006B

#### I. Summary

For more than twenty years, AID has had a continuing relationship with the shelter sector in Chile culminating with the most recent Housing Guarantee (HG) Program which amounted to two loans totaling US\$55 million. Most of the previous programs have in some way attempted to create housing systems that provided middle income and more recently lower income families the opportunity of home ownership. This required the promulgation of government policies and concurrent legal and administrative frameworks that permitted the establishment and subsequent expansion of specialized systems such as the cooperatives and the savings and loans to serve the middle and less advantaged income groups.

The basic objectives of the 006 and 006B programs were formulated in the context of dramatic economic and political change. This transition period was characterized by a major shift from a government who encouraged maximum involvement by the state at all levels of the economy to one who pursued policies which called for minimum involvement. Furthermore, program objectives were shaped by a stagnant construction industry, high unemployment levels and the need to continue with existing financial and development institutions which, for better or for worse, were the only ones available to respond to the problems facing the shelter sector and the economy. The cooperatives which had a long history of participation in the sector had been ignored by the previous government and proved to be a critical link between the financing and development of housing at the time the program was designed.

The objectives of the most recent HG program then, were the following: (1) To infuse needed capital to assist the GOC in maintaining and implementing a national housing plan to serve the pressing needs of low income urban families; (2) to assist the housing cooperative movement, the preferred vehicle for serving low income families; (3) to support the savings and loan system in continuing their collaboration with cooperative projects; (4) to reduce high levels of unemployment; and (5) to support the cooperative movement by assisting in its establishment of a housing credit and technical delivery system for families in rural market towns and adjacent areas.

Project resources were allocated accordingly:

(1) US \$35 million were channeled to the Servicios de Viviendas (SERVIUS), a subdivision of the Ministry of Housing (MINVU) to satisfy a backlog of demand for target group cooperatives registered with SERVIUS;

(2) US\$15 million were to be used by the Savings and Loan System (SINAP) to revive its activities and build a strong financial relationship with cooperatives; and

(3) US\$5 million was earmarked for the Cooperative Finance Institute (IFICOOP), a private cooperative bank, to implement a pilot project with its membership thereby developing a capacity to provide housing and home improvements to low income families in rural towns and adjacent areas.

The loans were successful in building a large number of well-designed and well executed low income housing projects throughout the country, in generating a large amount of employment precisely when the housing sector was faced with very high levels of unemployment, and in channeling resources to 300 cooperatives which had been awaiting financing for more than five years. However, the long range objectives were not achieved largely because they were not consonant with the new economic order being established by the government, an order which was in a very early stage of formulation and not clear at the time the HG program was designed (1975). Moreover, because of the emergency nature of the HG, there was the need to utilize those institutions that were prepared to implement the programs as well as the fact that they were the ones authorized to do so at the time the programs were launched.

The nature and extent of all of these changes were not apparent at the time the first major HG evaluation was performed in 1976. But around 1977, as the program entered its most intense implementation phase, the need to adjust the original program design vis a vis long range objectives became apparent. The GOC was enacting a series of measures to control inflation, but at the same time, they affected the savings and loan system as well. It also began to reshape national housing policy which was characterized by the following: (a) Private commercial and development banks and private contractors were to be the primary vehicles for financing and building; (b) S and Ls were to be severely restricted in their operations; (c) SERVIUS adopted a more passive role in housing delivery confining its intervention to a limited number of units financed and a direct subsidy program for low-middle and low income families; and (d) individual ownership of homes would be favored over collective ownership, the key feature of cooperative housing. However, while these shifts unfolded, adjustments in the program design were precluded by the low level of relations between the GOC and United States.

The thrust of the measures adopted by the government was to eliminate the protective features of the housing system that the GOC with AID assistance had developed over the past twenty years. The two most essential features of that system were: (1) the savings and loans and MINVU which served as a specialized structure to address the housing finance needs of middle and lower income families; and (2) specialized developers and promoters of low and moderate income housing projects through the cooperatives, SERVIUS and the like. This past system sought to ensure that low and moderate income families would benefit from these institutions through direct and indirect GOC intervention.

The current system is still evolving. However, the key ingredients of the new system are clear. The special treatment of particular sectors such as housing has been abandoned in favor of an overall economic system which is open and unprotected. Only commercial and development banks, not specialized financial systems as S&Ls, are allowed to operate and these multi-purpose banks operate solely in response to market forces.

While these banks have not as yet responded specifically to the shelter needs of moderate and low income families, the GOC has acted to intervene in social interest housing in several important ways: (1) A subsidy system has been established and operating for over three years and while it hasn't served families too effectively in the lower ranges of the income scale because of the way it was structured, the GOC is adjusting the subsidy policy to target it to the needy; (2) MINVU is also trying to serve the backlog of moderate and low income families who have established savings accounts and followed procedures required for obtaining a modest unit; and (3) the Ministry of Interior has an emergency housing program which while not a housing program per se (i.e. it is more political) it is generating a substantial level of production for the poor. Nothing of a low income rural housing nature has been discovered so far but may exist. These activities will be discussed in depth in Section IX.

As recently as March, 1981, an AID team was sent to Chile to review the situation of the shelter sector as a follow-up to the 1979 informal evaluation. The findings of the team were essentially the same as those of the previous informal evaluation. Nevertheless, it is clear the GOC has taken actions that have dismantled a system which was a number of years in the making and one which had received substantial assistance from AID.

However, the GOC is making an effort to develop a set of actions which it refuses to call a program to replace the specialized shelter delivery system that existed before. This is discussed in Section IX.

It is too early to judge the results of those efforts. Therefore, it would be premature for AID to determine if the new system can be considered as effective, or more so, than the one in existence when the HG programs were designed. It is recommended that AID continue to monitor GOC actions so that the adjustments which are underway can be examined as they relate to shelter for middle and low income families. Another team of AID specialists should visit Chile to review the impact of the new cost ceilings placed on subsidized units and the establishment of the Caja de Administradores de Prevision which could have a major impact on creating a secondary mortgage market for shelter finance. More time is also needed to determine whether the cooperatives are successful in gaining GOC interest in building expandable core units through open cooperatives. Finally, time is needed to see if interest rates continue to drop and loan terms continue to be extended as the GOC and private officials have predicted because this too will affect housing for Chile's less endowed citizens.

The purpose of the next AID team visit will be to look into these matters as well as recommend an AID negotiating posture vis-a-vis the Implementation Agreement for HG program in the event that the GOC is not making progress in assisting low and moderate income families to satisfy their shelter needs.

## II. Evaluation Methodology

The purpose of this evaluation is to examine the results of the HG program, to begin to document the changes in Chile's shelter sector and to

compare the two approaches to housing delivery. This is particularly relevant since the GOC has adopted an innovative housing policy which bears continued examination in terms of its impacts and achievements.

The only formal program evaluation, to date, occurred in 1976. Follow-up informal evaluations were conducted in August, 1979 and March, 1981 when DS/H teams visited Chile to discuss the program with public and private officials. Formal evaluations had been scheduled, at times, since 1976 but because of recent, past relations with Chile it was difficult to have them implemented when they were supposed to have occurred.

The information upon which this evaluation is based is drawn from the following sources: (a) RHO/PSA and DS/H files; (b) previous formal and informal evaluations; (c) discussions with public and private sector housing officials ; (d) GOC reports and laws which have been issued; and (e) information from the Chamber of Construction of Chile. An important ingredient in this evaluation are the impressions of public and private officials of the housing sector as well as those of the banking community.

### III. External Factors

The program has been significantly affected by major GOC policy changes with regard to granting special privileges to specific economic sectors in general and those which favor savings and loans in specific. This constituted a reversal of the national housing policy which existed at the time the program was designed.

This policy reversal had the effect of precluding various institutional purposes and objectives in addition to dismantling a private sector shelter finance system which AID supported for nearly two decades.

### IV. Inputs

All inputs were delivered in a timely manner. The disbursement schedule for Housing Guaranty (HG) resources is as follows:

#### SCHEDULE OF DISBURSEMENTS OF HG RESOURCES

No. of Disbursement	513-HG-006		513-HG-006B	
	Amount Disbursed	Disbursement Date	Amount Disbursed	Disbursement Date
1st	\$12,000,000	1/26/76	\$10,000,000	2/26/77
2nd	\$11,000,000	8/26/76	\$10,000,000	10/21/77
3rd	\$ 7,000,000	10/26/76	\$ 5,000,000	8/23/78

One disbursement of US\$5 million was placed in escrow while problems in the rural housing program were worked out.

V. Outputs

The outputs indicated in the Project Paper (PP) included the following:

1. SERVIUS and Savings and Loan System (SINAP) finance 12,500 mortgages.
2. IFICOOP finances 2000 mortgages and 1000 home improvement loans.

The outputs actually generated by the HG resources and channeled through cooperatives were as follows:

	PROGRAM OUTPUTS Generated Mortgages (Final Certificate)	Original Mortgages/Loans Programed
SERVIUS	7612	12500
CAJA (SINAP)	3996	
Rural (IFICOOP)	<u>1238</u>	<u>3000</u>
	12846	15500

The actual outputs produced fell short of the target expressed in the PP by 2654 mortgages or 17 percent. The short-fall may be explained in several ways. The number of mortgages in the first tranche was reduced because of a devaluation of the Chilean Peso in terms of the U.S. dollar and the much higher rate of inflation in construction costs in Chile. Initially the belief was that mortgage production levels could be cut by 30 percent, but the GOC provided a contribution to keep the reduction to 17 percent. Furthermore, the cuts in outputs was much less pronounced in the SERVIUS and Caja components where the shortfall was about seven percent or 900 mortgages.

The big change was with the IFICOOP program where a total of 3000 mortgages and loans were expected to be produced and only 1238 mortgages and loans were delivered. This program when initiated immediately encountered implementation problems because IFICOOP could not, in effect, collateralize its obligation with the Central Bank thereby assuring its repayment capacity. IFICOOP could not provide first mortgages on the project sites nor any other acceptable guaranty of repayment. This delay and other delays in developing the technical base for project delivery had the effect of slowing construction thereby exposing the projects to escalating inflationary tendencies. The mortgage amounts stated in the PP were \$2500 while the unit production costs ranged from \$3000 to \$3600. The home improvement activity which provided for loans as low as \$500 was unsuccessful in being initiated. Therefore, the rapidly rising unit costs and tendency to skew loans towards the more expensive, completed unit had the effect of reducing the outputs structured for rural areas.

## VI. Purpose

The purpose of the project was to stimulate new low-cost housing programs through the facilities of urban cooperatives and rural production credit cooperatives. The EOPS were as follows:

1. GOC has achieved the objective of building 6500 units for low income rural families.
2. Chilean public and private sectors have been able to generate financing for housing coops at a level that equals or exceeds the proposed annual combined funding of HG and local resources.
3. This proposed funding level seeks to address the needs of a similar number of target group cooperative members assisted by the HG program.

In addition to the EOPS, there were expressed in the PP two other generalized objectives which were important features of the program. They were to infuse capital to help the savings and loan system to overcome a very severe cash flow problem and to revitalize a construction sector which was crippled by a stagnant economy during the middle 1970s.

To evaluate the achievement of the purposes and EOPS it is necessary to recognize that a new shelter sector system has replaced the one that was in existence when the programs were designed. The key features of the system that is evolving are described in Section IX.

The generalized objective of revitalizing the stagnant construction sector was achieved. During the middle 1970's, the entire construction sector was in severe trouble operating at about 40 percent of its capacity. As a result of the HG program, sector capacity is estimated to have increased to about 60 percent. The general viewpoint echoed by most officials familiar with the construction sector is that the HG program avoided the economic destruction of many construction firms. Of equal importance is that an estimated 8500 man/years of direct employment and 21250 man/years of indirect employment were generated at a time when the Chilean economy was in a period of readjustment and unemployment figures were very high.

With regard to the infusion of capital resources to a savings and loan system suffering from serious cash flow problems, the HG program provided substantial resources at a critical time. Moreover, had the GOC not changed its overall housing policy to stress an open system of finance whereby particular sectors such as shelter were not the subject of special treatment by the government it is possible that the system might have survived and the objective would have been achieved. But the savings and loan system was weak at a time when the GOC crystalized its national economic policies and savings and loans lost the protection they had enjoyed.

The problems of the S and Ls were caused to some extent by their own

policies in that loans were granted without enough attention to the paying capacities of those who received them. SINAP, the Central Savings and Loan System, captured finance and did not establish a reserve policy to protect the S and Ls from the risks they incurred. Savers were permitted to maintain very low levels of deposits when they required mortgage financing.

The essential problem of the system was rampant inflation which escalated as much as one percent daily. This occurred precisely when the system was weakened by other events. The inflation in Chile was so bad that soon short term interest rates began to exceed long term rates to the point that the S and L institutions were losing their savings and savers. While this was occurring, "financieras" which had recently opened were a natural vehicle for investors who were interested in maximizing their yields. Moreover, the mortgage portfolios of the savings and loans were fixed at relatively low interest rates and earnings bore little relationship to the costs of attracting new capital. Therefore, there was little that could be done as these events caught up with a languishing savings and loan system.

On top of this, the government readjustment policy established for the system exacerbated the savings and loans cash flow and financial problems. Readjustment was not continuous but periodic. Thus readjustment occurred once every six months. So savers could place their savings or investments in the "financieras" for five months and in the sixth invest their money in a savings and loan institution for a one-shot, substantial increase and windfall profit and then return to the "financieras". By the same token readjustments on mortgages were similarly constrained thus limiting reflows to the S and Ls when inflation was so great. The GOC saw itself in the position of pouring substantial resources into a system beset by major problems, and at the same time, it was vigorously trying to control inflation. To some extent, the experience may have been a factor in the government's decision to have housing finance compete with other economic sectors of the economy through the commercial banks.

The cooperatives did thrive with HG financing and therefore established a credibility and capacity to develop housing projects. Now, they are still active, as open cooperatives (i.e. one whose membership is not limited by occupational categories or purposes) and are competing with private contractors to develop projects, but for families with generally higher incomes. Even though the GOC has adopted some restrictive policies affecting cooperatives and tends to stress individual rather than collective ownership of housing, the organizations still are viable and largely because of the preference they received from the HG programs. In a sense, they fared better than the savings and loans.

Rural housing production figures were not ascertained when the evaluation was made as particular emphasis was placed on understanding the new shelter system and its initial performance. Approximately 1250 units were constructed a level far short of the figure cited in the EOPS. New open cooperatives are being formed and it is still too early to know the extent to which they will impact on rural housing. Such cooperatives enjoy a growing membership and their role in housing bears careful observation.

In summary, the purpose of the program was to stimulate low cost housing through cooperatives and credit unions which have benefitted from the HG program in terms of the credibility and capacity they have developed. However, the GOC has sought to address its housing needs through private commercial banks and developers. At the same time, it has recognized housing needs of its less advantaged citizens through a limited level of financing made available through MINVU and the subsidy program. Cooperatives may participate in these programs but haven't because they are reorganizing into open cooperatives. Rural housing per se has not been singled out as a major housing objective by the GOC, but this should be examined during the next visit to monitor the Chilean shelter sector.

#### VII. Goal

The goal of the project was to increase the availability of the housing stock for low income families. The Objectively Verifiable Indicator was to increase the number of housing for low income families. Physically the program amply fulfilled the program's goal as it increased the availability of housing for low income families throughout the country with 11,608 for members of urban housing cooperatives and 1238 members of rural credit unions. Moreover, the HG program demonstrated the extent to which there was demand for low income housing in Chile and the role cooperatives could play in shelter delivery for the poor. While the GOC is seeking new techniques to serve the shelter needs of its citizens it could not ignore the success of the most recent HG program and therefore is developing special activities that address, at least, some of the shelter needs of low income families.

#### VIII. Beneficiaries

The program was designed so that ninety percent of the houses were affordable by people below the median income, approximately US\$135 per month in Santiago. Reinforcing the intent to reach these families was the fact that projects were organized essentially by cooperatives whose constituency traditionally has been comprised of low and moderate income families. AID has monitored the program through a system of reports submitted by the GOC and audits.

A review of recent Central Bank reports on the projects throughout the country shows that the units built were designed to serve families with average monthly incomes ranging from \$50 to \$129. While we could not get income profile information to tie these figures to income decile groups, it can be said safely that the beneficiaries had incomes well below the median.

Circumstances in Chilean society have facilitated a developmental role for women in this program. Many Chilean women have attained higher educations and influence. An active role for women is supported in terms of Chilean's attitudes and their legal framework. Under the SERVIUS component 28 percent of the units financed are owned by women. One project of 67 units is entirely owned by women. Finally the cooperatives have been totally disposed to the membership and involvement of women.

Finally with regard to management of the projects, the beneficiaries have been prompt in their repayments. MINVU information indicates that late payments have been less than five percent, and foreclosures have been nil.

## IX. Chile's Shelter Sector: Past and Present

### A. Past System

#### 1. Financial Structure

##### a. Savings and Loans

The shelter sector that the housing guarantee program fostered was characterized by a financial structure comprised principally of the savings and loan system and the Ministry of Housing. While other financial institutions such as banks participated in shelter financing they were not attuned to the housing needs of the population in general and low-middle and low income families in specific. The savings and loan system over the years enjoyed a series of special features and advantages that enabled it to serve the massive needs of the middle and lower income housing market including readjustments tied to inflation on mortgage balances, government backed mortgage insurance, and access to secondary mortgage markets among others. This permitted the development of a rather extensive network of savings and loan mutuals and associations throughout Chile under the auspices of the Caja Central de Ahorros y Prestamos. This system continued to expand serving largely a middle and moderate income clientele. In over fourteen years after its founding, the system built nearly 150,000 units and attracted 690,000 savers. Over 90 percent of private sector financing was financed through the system. As of July, 1974 the system held a mortgage portfolio of US\$800 million. But still its efforts fell far short of the growing demands for housing.

But by the early 1970s it began to experience a series of severe problems owed to extreme level of inflation, liquidity problems, questionable investments and the like. The HG program was designed to assist the S and Ls during those difficult situations as well as to nudge them into something of a partnership with Chile's cooperatives to develop low income housing. Furthermore, the HG program attempted to win time for the S and Ls in overcoming their difficulties so that they could once again serve the broad needs of Chile's low and moderate income families.

##### b. MINVU/SERVIVUS

The MINVU acting through CORHABIT in the early 1970s, later called Servicios de Viviendas (SERVIUS), acted to establish a rather extensive network of offices to finance housing for low and middle income families who desired housing and opened savings accounts for their future homes. In the very early 1970s, MINVU accelerated its financing of housing with rather substantial budgetary allocations made to foment housing production. By 1975, it was managing 250,000 accounts in its portfolio. Indeed, housing for moderate and low income families was considered a responsibility of the state and from 1960 to 1975 the public sector accounted for approximately 70 percent of all housing construction. The importance of housing is reflected in the fact that from 1971 to 1975 between 5.8 and 7.5 percent of the government's annual budget was allocated for housing. Despite this commitment, by 1975, AID esti-

mated that Chile had a deficient housing stock of 600,000 units. About 32,500 units were required annually to meet the needs of its growing population, and 11,750 units yearly were needed to replace the existing stock. So despite GOC efforts they were not enough.

## 2. Shelter Production

This aspect of the shelter sector was carried out largely by the MINVU itself for low and moderate income families, but with the advent of the 006 HG program, the cooperatives gained a much larger share of the market. MINVU confined its development activities to those related to the projects it financed while the cooperatives worked strictly with its membership through a system of closed cooperatives. By 1977, more than 300 cooperatives were registered with a two-thirds of those achieving some form of home ownership. In addition to the cooperatives and MINVU, private construction companies built some projects for CORHABIT.

### B. Current System

#### 1. Financial Structure

By Decree No. 3345 of GOC dated April 24, 1980 the Caja Central's financial, control, and auditing functions were transferred to the Superintendency of Banks and from 1974 to 1979 22 savings and loan associations were consolidated into one and this, called the National Savings and Loan Association, was really a public, not private, institution because its staff was and is controlled by the public sector.

The new financial structure consists of commercial and development banks as well as MINVU. The GOC encouraged the banks' participation in the shelter sector by providing over a three year period US\$110 million in capital for their use in financing shelter. Another \$80 million went to the savings and loans to meet their liquidity problems and help them complete projects they started before their crisis. These resources were provided by the Central Bank from Social Service Institute surpluses.

This capital infusion to banks served to stimulate their interest. Among the largest banks involved in housing, at present, is the Banco Hipotecario de Fomento (BHIF) with a total of 5000 mortgages. Other banks, however, are moving rapidly into a field previously dominated by BHIF by opening special windows for housing.

These institutions make short term loans of up to eighteen months to builders and open cooperatives at fourteen percent plus the variation in the Consumer Price Index and issue mortgage bonds called Letras de Credito Hipotecario (LCH) with a twelve percent annual interest rate and CPI adjustment for terms of around twelve to fifteen years. The banking community expects these rates to soon drop and the terms to be lengthened because of the abundance of money being attracted to Chile for investments. The LCHs are sold by banks in capital markets.

A major source of future housing finance was enacted into law on April 11, 1980 and was to be put into operation May 1, 1981. Called the

Administrators of Pension Funds, it will be a private pension system with limited public oversight by the Superintendency of Pension Fund Administrators. Individuals may elect to choose this new system as an alternative to the existing public one and contribute 20 percent of their monthly income. There are authorized 48 Administrators who compete to attract savings for pensions from employees based upon the yields they provide and their general services and performance. A key feature of the system is that the administrators have six investment options and one option is tied into mortgage related investments. Up to 40 percent of the total private pension fund may be channeled to housing. Expectations for the system run high with up to US\$300 million projected to be attracted for all investments in the first year of operation and US\$10 billion over an eight year period. If these projections are correct a substantial capital flow to the shelter sector can be expected.

Until now, the banks have served an upper and middle income clientele. Moderate and low income families usually have to depend on MINVU with its considerable mortgage portfolio and capital reflows as the lender of last resort. MINVU is providing housing finance in two important ways: (1) Direct subsidies; and (2) normal mortgage lending channeled to turnkey projects.

Since 1978, the government has embarked on a direct subsidy through Servicios de Viviendas (SERVIUS) under the auspices of MINVU which is open to anyone who wishes to participate. To qualify for a subsidy the family must maintain a savings account and use the subsidy to finance no more than a \$25,000 unit. Each year for the last three, 10,000 subsidies have been provided by the GOC distributed in the following way:

ORIGINAL STRUCTURE OF THE MINVU SUBSIDY PROGRAM

<u>Maximum Subsidy</u>	<u>Maximum Unit Cost</u>	<u>No. of Subsidies</u>
\$5943	\$11,886	5500
\$5051	\$17,235	3000
\$4457	\$25,258	1500
		<u>10000</u>

Once selected for the subsidy a person or family must obtain financing for the remainder of the cost of the unit. Usually MINVU will provide financing if the commercial banks refuse to do so. If after six months a house cannot be selected and financed, the subsidy is passed to another person or family on a register maintained by MINVU. The subsidy is considered by the GOC as a one time gift of the State.

In its initial years of operation, certain weaknesses in the system were exposed. The greatest demand existed for the largest subsidy but also the lowest priced unit suggesting a rather strong demand for low income housing. The table below shows the relationship between the subsidy offered, applications approved and applications rejected in 1978.

## INITIAL PERFORMANCE OF THE SUBSIDY SYSTEM

<u>Subsidy</u>	<u>Total Applicants</u>	<u>Applicants Approved</u>	<u>Percent Approved</u>	<u>Percent Rejected</u>
\$5943	32037	5500	17.2	82.8
\$5051	9109	3000	32.9	67.1
\$4457	1937	1500	77.4	22.6

Two major changes in the subsidy system have been made which should be helpful in serving low income housing needs. The maximum price of the unit to which the subsidy is applied has been dropped to US\$10400 as of April, 1981 and the candidates selected for subsidy shall receive no less than 25 percent nor more than 75 percent of the unit cost; the smaller the subsidy requirement, the greater chance the person or family has for selection. A savings account is no longer required. The GOC expects to increase the total number of subsidies to 15,000 per year. The system initially was geared to serve moderate income families, but now it is being adjusted to serve poorer groups. The table below estimates monthly payment requirements by level of subsidy and unit costs to illustrate this point.

## COMPARATIVE STRUCTURE OF MINVU SUBSIDY SYSTEMS

	<u>Unit Cost</u>	<u>Subsidy</u>	<u>Amount Financed</u>	<u>Monthly Payment</u>	<u>Monthly Income</u>
Previous Subsidy	\$11886	\$5943	\$ 5443	\$ 78	\$312
Previous Subsidy	\$17235	\$5051	\$12184	\$160	\$640
Previous Subsidy	\$25258	\$4457	\$20801	\$273	\$1092
New Subsidy	\$10400	\$5043	\$ 4160	\$ 55	\$ 275*

\*Under the subsidy system no more than 20 percent of families monthly income may be applied to repaying the mortgage. The figures assume 60% subsidy.

Note: Table assumes loan of 12 percent for 12 years.

The subsidy program is expected to continue indefinitely. Current estimated cost to the GOC for this one program is US\$ 50 million annually. GOC plans are to offer 15,000 low income family subsidies and 10,000 middle income family subsidies in 1981 at a substantially increased level of public support, as much as US\$100 million annually.

A key feature of the housing finance system is the Development Unit which is a unit of measurement used to quantify the value of a house as well as the value of a loan. When a party decides to borrow, the loan is made in Development Units. By the same token, the cost of a house is calculated in Development Units. Also, subsidies are made in Development Units (DUs). For example, the GOC now makes up to a 200 DU subsidy for a unit costing 266.67 DUs. The value of the DU in March 1981, was 1150 Chilean Pesos=US\$39. In August, 1977, the value was 717 Chilean Pesos=US\$39. The DU system is designed to take into consideration variations in the Chilean Consumer Price Index which are factored into the formula on a daily basis because of the economy's past inflationary tendencies.

Another major source of middle and low middle income shelter finance is MINVU which provides resources for the production of 10,000 units annually from the reflows of its portfolio. The development of these units is explained below. Generally these units are financed to provide housing to families who have registered under previous types of GOC programs but had not been served.

## 2. Shelter Production

Unit production estimates from 1978 to 1981 and by 1986 are as follows:

### PAST, CURRENT AND PROJECTED RURAL PUBLIC AND PRIVATE UNIT PRODUCTION

<u>Year</u>	<u>Total Units</u>	<u>Subsidies</u>	<u>Other MINVU Activities</u>
1978	24000	10000	10000
1979	24000	10000	10000
1980	38000	10000	10000
1981	46000	25000	10000
1986	90000	25000	10000

The primary promoters and developers of the housing sector are private construction firms, open cooperatives (to a much lesser extent), the Ministry of Interior, and the municipalities under special conditions. MINVU has abandoned the direct production of housing.

For moderate and low income housing private developers play the primary role in production. They develop large projects which meet the cost limitations imposed by SERVIUS under the subsidy program and then sell units directly to individuals or families who have been awarded a grant. The government stays out of the negotiations between the parties.

Private contractors also participate in the MINVU "turnkey" projects which amount to about 10000 units annually. The turnkey approach involves MINVU issuing development guidelines for general projects which it would like to develop taking into consideration location, unit type, lot sizes, etc. Private contractors bid competitively on the projects, and the firm offering the most for the least is selected. Of the 690 firms actively engaged in housing construction, only a few are building units of less than 24 m<sup>2</sup>.

Until 1977, traditional housing cooperatives with limited membership were operating in Chile. Of the 300 organizations at the time two-thirds achieved housing to a large extent assisted by the HG program. Open housing cooperatives an idea supported by AID in the HG program were authorized in 1977 by GOC Decree 1320 and differ from the traditional cooperatives in two ways: (1) Membership may be comprised of many disparate groups; and (2) open cooperatives are organized along geographic lines to build housing (in a town or region). Each group and its project is self managed by a board of direc-

tors. That board designates representatives to a regional board. The regional boards, in turn, establish a general membership board. The general membership board designates the administration board which manages the cooperative through a series of administrative, financial and technical departments. As of March, 1981 ten open cooperatives with a membership of about 20,000 were operating in Chile. The principal ones are: HABITACOOOP, 4800 members; PROVICOOP, sponsored by INVICA, with 4500 members; and CONAVICOOP, 3500 members. They are sponsoring primarily middle income housing, but they are organizing to serve low income families. PROVICOOP had developed a model 18m<sup>2</sup> expandable core unit which is new for Chile.

The Ministry of Interior also engages in the production of "emergency housing" for the very poor living on public and private lands which have been illegally occupied. The Ministry of Interior clears these sites and offers the affected families a replacement unit on the site, if it is publicly owned, or in another location, if it is privately owned. The housing is generally an improvement to what existed, but it is considered temporary and the affected families are not required to pay if they are qualified as destitute. The GOC calculates that 80,000 families could eventually be subject to this emergency housing and probably several thousand units a year are produced. Data on this activity is closely guarded by the Ministry of the Interior.

In recent years, municipal budgets have grown rapidly due to a GOC decision and new legislation to return 100 percent, rather than 25 percent, of the real estate taxes collected to local jurisdictions. Some municipalities are interested in using this growing resource base for low income housing, but efforts are isolated to specific instances, sporadic and very limited. The Municipality of Pudahuel, in the Santiago Metropolitan Area, is working with open cooperatives and BHIF to develop some pilot projects.

#### X. Next AID Steps

The Chilean shelter sector is undergoing substantial change and the results of those changes are still not clear. The HG program sought to create a specialized financial system to service the needs of all citizens, especially those with middle and low incomes, with special features and some indirect subsidies intrinsic in its design. The GOC has chosen another path. The current system is a banking system which serves all economic sectors including shelter. It is the belief of most public and private officials that market forces will enable most Chileans to attain home ownership in time. The fact that financial conditions are improving to achieve this goal (interest rates are dropping and terms are being lengthened) and that a rather interesting pension system is being developed to generate capital to satisfy housing needs supports this contention.

However, the GOC has adopted some special activities that (the GOC refuses to call them programs) permit substantial public intervention on behalf of low income families. The subsidy system and recent modifications thereto as well as the SERVIUS turnkey program and Ministry of Interior activities constitute substantial additions to the supply of low income family housing. But these programs are paternalistic, at best, in that the subsidy is considered a gift of the government and the emergency housing program is motivated to respond to particular political problems. These activities don't

appear to be designed to have people help themselves as the past system attempted to do. Moreover, these special activities involving direct subsidy and emergency housing are extremely costly and may not be cost/effective. That is, substantial public costs are involved in the GOC's subsidized housing activities, and they are not reaching enough people. For that reason, the subsidy policy appears to have been changed.

There is a need, however, to keep the dialogue open with GOC officials as what has been launched in Chile bears careful watching. The reaction to the change in the subsidy system will provide clues as to its effectiveness. The reaction of banks to low income housing finance needs examination. The impact of the new pension system offers the possibility of generating enormous resources in Chile for housing. A.I.D. should also explore the interest of the GOC in perhaps using the SERVIUS portfolio more effectively to finance larger quantities of low income housing. Or the GOC might guarantee a portion of the banking community's shelter portfolio to increase their interest in financing low income housing.

The dialogue should offer a better understanding of the actions taken and being taken by the GOC to achieve the goal of the HG program, to increase the availability of housing for low income families, and whether or not those actions are more effective in dealing with the housing needs of the urban poor.