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BETWEEN

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

and

JAVIER L. GARZA

November 1981

PROJECT No. 511-0510

511-HG-005

PROJECT TITLE: SHELTER SOLUTIONS FOR LOW INCOME FAMILIES IN RURAL AREAS

Objective

To increase the capability of Bolivia's housing institutions to provide affordable, safe and sanitary shelter solutions for the nation's low-income families.

Scope of Work

To assist the Caja Central de Ahorro y Préstamo para la Vivienda (CACEN) and the individual Savings and Loan Associations (Mutuales) in the implementation of the AID Housing Guaranty Program (511-HG-005) financed by the Mission.

Activities to be carried out during the consulting period are as follows:

1. Assist CACEN in the preparation of information/documentation required for disbursements.

2. Advise CACEN and the Mutuales on project implementation in areas such as monitoring, construction progress, beneficiaries' participation, local activities inputs, loan review procedure, distribution of materials, construction, inspection, etc.

3. Advise CACEN, USAID/Bolivia and the Regional Housing Office/Panama and South America (RHO/PSA) with respect to the overall program's progress and problems and actions needed, if any, to improve implementation, including the identification of additional technical needs.

4. To undertake other activities USAID/Bolivia and RHO/PSA feel are required to complete the tasks outlined above.

Overview

The current consulting contract was entered into in order to continue the technical assistance effort in carrying out Project AID-511-HG-005, a housing investment guaranty program for low income families in Bolivia's rural areas. It is a follow-on consultancy to the two years this consultant spent in Bolivia as resident advisor for housing programs. Because every project disbursement requires that a set of documentation be presented to AID and to the investor at least thirty days prior to each "closing", this short-term assistance was required for that purpose. The next disbursement of US$ 1,000,000 is scheduled to occur on December 31, 1981. The consultant period has also served to continue guidance in the project's implementation and to deal with other issues involving the sector per the above scope of work.

Major Problems and Delays

1. The first evaluation of Project 511-HG-005 conducted in June, 1981, by the Mission with the assistance of the RHO/PSA, determined that a number of the loans given to borrowers by the Mutuales under this program did not meet all project guidelines for eligibility. Particular

problems were noted in the percent of monthly income being charged borrowers. It was also discovered that for previous disbursements, CACEN had misreported the actual number of loans made. Schedule I to Annex B of the Implementation Agreement, which is used for requests for disbursements, had contained loan projections in addition to loans actually made. Therefore, the number of actual loans made could not be determined. The evaluation recommended that CACEN prepare a complete list of loans to September 1981, on a new reporting format that was being implemented for use throughout the savings and loan system. By the time of my arrival in Bolivia in November 1981, this requirement had not yet been met; however, CACEN officials were hard at work to complete this requirement and had made several trips to the participating mutuales in order to gather these data.

During these field visits by CACEN's technical staff and its internal auditor, all individual loan folders were reviewed for compliance with project guidelines. Those loans that did not meet project requirements were eliminated from the list of the project's eligible loans. CACEN had committed itself from the very start of the program to replace those loans deemed to be ineligible with eligible ones. The System and the mutuales would have to absorb those loans not eligible under the program by using their own monetary reserves instead of HG-005 funds.

CACEN discovered that participating mutuales in the S&L System had a total of $b 51,577,019 in the HG-005 loan portfolio. After the purge only $b 34,887,191.72 worth of loans were eligible. The balance of the loans were disregarded primarily for the following reasons:

(i) Mutuales had included loans that were granted prior to the start of the program. (Implementation Letter # 3 dated October 16, 1979 accepts as eligible those loans and mortgages made after June 21, 1979, the signing date of the Implementation Agreement. This same point was reiterated in Implementation Letter # 15 dated December 22, 1980).

(ii) Mutuales had made loans to families whose incomes were outside the guidelines stipulated in the Implementation Agreement and adjusted via Implementation Letter # 15 dated December 22, 1980.

(iii) Percent of monthly income (PMI) being paid by loan beneficiaries exceeded the 25% guideline. Terms could not be renegotiated due to the beneficiaries' income and age limitation. (The CACEN would not extend payments past a loan beneficiary's 60th birthday).

(iv) Loan amounts were made for more than the limits permitted by program guidelines (given PMI); and there were problems with guarantors for the loans. This reduction in the value of loans made to date indicates that the system is seriously lagging behind in loan placement. This will adversely affect the disbursement schedule and force part or most of all of the funds made at the next disbursement to be placed into an escrow account until that time that CACEN can fully justify the disbursement with completed loans and mortgages.

2. There has been a general slow-down in the rhythm of loan placement since August, 1981. Several factor have contributed to this. The general economic situation in the country has continued to deteriorate. The change in Presidents in August has contributed to the uncertainty. Fear of a devaluation of the Bolivian peso has caused a twofold effect. Demand for loans is much lower since speculation about a possible devaluation keeps people from borrowing. Also, mutuales, such as La Promotora in Cochabamba, have asked CACEN to stop disbursing HG-005 funds to them since they do not want to get caught with a large amount of pesos which would have to be adjusted in case of a devaluation. While there is hope that the general economic situation will change after the normalization of relations occurs with the United States, there is little hope that this be true without a general devaluation. IMF teams have recommended devaluation and the government has been reluctant to follow these recommendations thus far.

While the slow-down has been in effect, CACEN reports that building materials have been nonetheless available for construction. Usually, during periods such as this, building materials are hoarded until price rises occur. CACEN, however, has been instrumental in seeing that the mutuales (especially those in the North) are not dearth the necessary building materials to continue construction. Despite the availability of materials, the lack of demand has been evident.

Prior to my departure in August, CACEN sent letters to each of the participating mutuales which contained timed goals for them to meet in order that the Savings and Loan System be able to amass enough loans for the fourth closing. In a review of the mutuales' performance, the slow-down is definitely evident.

Coupled with the loss in eleven million pesos worth of ineligible loans it is clear that there will not be a sufficient amount of loans, and mortgages to justify the full disbursement of US$ 1,000,000. When one considers the plan to liquidate part of the advance (approximately $175,000.) the net disbursement to CACEN will be relatively small. The balance of the funds disbursed by the Investor will have to be placed in an escrow account until CACEN can present loans and mortgages that justify their receiving these funds.

3. With the approaching rainy season CACEN will be hard pressed to meet projected goals for placement of loans during a period when construction is at a virtual standstill. The program's most active mutuales are in the Northern cities of Trinidad, Riberalta, Cobija and Guayaramerín. These are cities where the rains are generally very severe. While some building activity can and does occur during this period, it is for the most part abated. There are areas where the rains

may not be as severe and where borrowers are likely to continue construction. Parts of the La Paz and Cochabamba departments may continue construction if the rainy season is moderate in these project areas.

Because the rainy season may continue from the present to sometime in March, this added factor in the slow-down of loan placement may have an adverse impact on the program's planning. Approximately 9/ 10 of this December disbursement will go into escrow. CACEN will have to present another request for disbursement in late March. The period during which these loans are having to be made is during the rainy season, a traditional non-construction season. Construction of a high number of core units in those areas not affected by the rains can perhaps defray some of the burden. The final programming of the project's loan apportionments to the individual mutuales will occur in January. This exercise must take all these factors into consideration in order for the CACEN to keep up with the timetable for disbursements.

Summary of Project Status

The project experienced a severe setback when nearly 25% of the project portfolio had to be eliminated because loans were ineligible under the program for the reasons stated earlier. Project programming was dealt a damaging but necessary blow. Because of this, the projected numbers of loans given the disbursement timetable will have to be adjusted radically in order that CACEN keep abreast of the loan demand needed to meet this as well as the next and final disbursement in April. While CACEN and the participating savings and loan associations made every effort to replace those loans lost in the purge and add new ones in order to justify the December disbursement, the goal was not met. It appears as if CACEN will receive only $b 115,545.58 of the one million dollar disbursement; the balance will go to an escrow account until enough loans or mortgages are presented to AID to justify CACEN's receipt of these funds.

The positive and encouraging side of this problem is that CACEN is making a noteworthy effort to follow to the letter all programmatic guidelines and requirements. CACEN's staff and the participating mutuales' staffs are better aware of the strict requirements which must be followed. The elimination of loans not meeting all the project criteria is a clear indication of CACEN's firm commitment to the goals and spirit of this pilot rural housing effort. It is also an indication that CACEN remains the most serious, capable and professional institution of its kind in the country that is dedicated to the provision of a suitable living environment for the nation's rural low-income families.

Since the departure of the contracted project director of CACEN, the function has been passed to a very able architect on CACEN's Technical Division's staff. It appears, however, that the burden of administering this project is shared between several people. As is generally the problem in organizations when a staff member leaves and the function is transferred, the added workload is felt because this work is given to personnel who already have other responsibilities which take up a majority of their work day.

It would be judicious to discuss with CACEN the maintenance of staff effort discussed in the Implementation Agreement especially if this program and any possible follow-on program were to be initiated. Despite the shared work arrangement, it appears as if the staff of CACEN has been ready, willing and able to travel to the field where assistance and guidance are still constantly needed in order to effect good monitoring of project implementation.

In the two field visits made during this stay in Bolivia, to Tarija and Cochabamba, the loans made and the outreach methods are impressive. In Tarija the loans made continue to be good examples of what should be done under this program. The main problem in Tarija is that loans are not being made with the necessary rhythm to keep up with the programmed levels. This problem is administrative in nature since the Mutuales' administration has failed to define and outline the entire process for making loans. Consequently, several bottlenecks have occurred and these have delayed loan placement despite the impetus given the project by the Mutuales' President. Our visit noted these deficiencies and it is now hoped that the General Manager and at least two other staff members of the Mutual will assist the project technician in the processing of loans.

In Cochabamba the program is doing quite well. The General Manager has on several occasions halted the program due to other problems (i.e. lack of understanding of the project, too much project funds on hand in case a devaluation occurs). However, during this visit he informed us that the Mutual was genuinely interested in following through with its total commitment to the project and to completing the levels of loans apportioned to this Mutual. He also reported that they had just hired two "promotores" to go out into the rural areas to attract more people interested in home improvement and core unit loans. They expected this outreach effort to bring in a substantial number of interested families. The Mutual's technical staff would, in turn, follow these up with field visits to sign up eligible families.

A majority of the S&L consider the new loan reporting format to be burdensome. Tarija, for example, had not even begun to use the form despite our instructions and urgings during an earlier visit. Nonetheless the new format makes it much easier for CACEN and AID to review loan portfolio data and to determine eligibility. This will be an extremely useful tool as the program continues. Of course, there are also some inherent problems with the forms. For example, a national identity card number is not required on the form so it is conceivable that the same person or family could get more than one loan since this datum is not keyed. While this is probable, it is not likely to be widespread.

In other issues reviewed, it appears as if it is totally impossible for S&Ls to follow the guideline that loans be constructed based on variables such as the familial income, percent of monthly income, etc. In a review of loan folders and loan lists one can see that loan amounts vary only slightly and a good majority of loans are for maximum loan amounts in each category. Despite instruction in this area this continues. I do not see this trend or practice changing as the program continues. Still another issue or phenomenon is the fact that borrowers are making accellerated payments, especially in periods when there is talk of devaluation.

Future Technical Assistance Needs

The Mission held discussions with CACEN regarding possible future technical assistance which complements the project. Three possible areas were identified. The first consists of an examination of developing a secondary mortgage market in Bolivia. The second involves CACEN's expanded role to include production credit in rural areas. The third consists of an analysis of the implications and steps involved in the savings and loan system converting from a dollar-denominated portfolio in order to provide protection against the possible effects of future devaluations. (See LA PAZ 6733 dated November 3, 1981).

Discussions were first initiated during Eliecer Fernandez's TDY from FM/Washington. It should be noted that the study of the development of a secondary mortgage market in Bolivia was originally included as a component under Grant Project 511-0510 to CACEN. The study, however, was not initiated because of timming problems in Bolivia. The entire technical assistance effort defined above would enable CACEN to be better involved in the production of housing in rural areas and better prepared financially given the volatile economic problems that exist in Bolivia. As noted in the cable cited above, these technical assistance consultancies are geared at establishing a symbiotic relationship with the Central Bank of Bolivia (BCB) which has wanted CACEN for some time to participate closer in its operations by requiring CACEN to have a legal reserve. CACEN, unlike banking institutions, is a non-profit organization. It has been able to avoid the Bank's overtures towards the same kind of legal reserve requirements as commercial banks. CACEN feels that such a reserve would virtually cripple the system since the reserve requirements are generally high and are deposited in non-interest bearing accounts. This would greatly reduce CACEN's liquidity.

In previous discussions with CACEN, AID has proposed that CACEN be ready to offer the BCB some alternatives so that a good working and financial relationship can be established. The benefits of the relationship could result in CACEN having access to the banks' refinancing lines. This would be crucial in CACEN's plans to expand their role into rural areas. The technical assistance outlined hopes to provide the basis for developing a beneficial relationship between CACEN and the BCB. It would also serve to examine periferal issues such as the development of a secondary mortgage market which would help solidify the savings and loan system's future operations in the housing sector.

Fifth Closing

The Loan Agreement between CACEN and the investor specifies that the fifth and final closing shall take place on or prior to May 1, 1982. However, the agreement states in Section 1.03 that each closing date shall be a business day other than Friday in the State of New York and in Washington, D.C. Since May 1, will fall on a Saturday the closing will have to occur on or prior to Thursday, April 29. Documentation for this closing will have to be prepared and submitted thirty days prior to the April 29th date, that is, around March 30, 1982.

Consultation with RHO in Panama

The stopover at the Regional Housing Office (RHO) in Panama has these aims: to review the documentation submitted by CACEN for the fourth closing, to review project status and formulate methods to implement recommendations, and to assess the project's technical assistance needs.

A review of CACEN's documentation was conducted in two phases: first with RHO housing officer Sonny Low, second with RHO Chief Mario Pita and Office of Housing (PRE/H) Deputy Director Jack Hawley. The RHO and PRE/H officials considered the details of CACEN's request for disbursement, the accompanying documentation and the Mission's recommendation that disbursement occur as requested. All officials concurred. It was agreed that disbursement occur on December 31, 1981 with CACEN receiving the $115,545.58 justified by the documentation. The balance would be placed in an escrow account at the Riggs National Bank of Washington.

Based on the information provided by the Mission regarding the economic condition of Bolivia, the project's status was of particular concern to RHO officials. Much of the reason involved in CACEN's lack of loan placement (that would have had CACEN receive the full one million dollar disbursement) was attributed to the severe economic conditions in Bolivia. An impending devaluation has caused possible loan beneficiary families to wait until the situation is resolved before applying and receiving loans under the program. A strategy was discussed by the consultant and RHO staff that would help CACEN combat the current problem of a slow down in loan placement. This strategy would hopefully assist CACEN in light of the fact that the majority of the disbursement will go into an escrow account. Also, the next disbursement, scheduled for late April, occurs at a time when preparation (which consists of amassing loans to present for disbursment justification) is most difficult due to the curtailment of construction during Bolivia's rainy season. A solution that would help alleviate the situation would be to advise CACEN to change its strategy regarding the placement of Type A loans for small home improvement loans. Because CACEN had already presented enough Type A loans to meet programmatic requirements (10% of the total approximate shelter solutions), they could concentrate their efforts on Type B and Type C loans. Since these loan lines generate placement of more loan funds and Mutuales were complaining that placing Type A loans is most difficult, this adjustment could help CACEN overcome the problem of the slowdown in loan placement. RHO agreed to present this change to the Mission for consideration. A cable was prepared that contained this recommended program adjustment.

Other mechanics of the forthcoming disbursement involve the execution of an escrow agreement between CACEN and the Riggs National Bank of Washington. While the Mission had requested a standard copy of such an agreement very early in November the Mission had not received it in Bolivia upon my departure on Dec. 1. At the RHO, a copy of one such agreement was found in its files to forward to the Mission. In a phone conversation with Ehecer Fernández (FM/W) while this consultat was at the RHO, Mr. Fernandez indicated that PRE/H had reportedly sent a copy of a standard agreement to the RHO for pouching to the Mission. However, the RHO had not yet received such an agreement. It is hoped that the Mission receives a copy so that it can facilitate the execution of the agreement as soon as possible.

RHO also advised that CACEN should inform the investor of the plans to disburse a major part of the funds into an escrow account. This consultant drafted a cable to the Mission in Bolivia with suggested language for CACEN to use in notifying the investor (via telex and letter) of the changes in the earlier request for disbursement.

A cornerstone of the entire project is the short-term technical assistance that the grant project could contract in order to improve all facets of HG-005's implementation. B fore my departure from Bolivia, the Mission had sent the RHO a proposal for three short-term consultancies discussed and agreed upon by CACEN. These would involve studies of the relationship between CACEN and the Bolivian Central Bank, the development of a secondary mortgage market in Bolivia, and CACEN's expanded role in in productive credit in rural areas. After much discussion with RHO officials it was decided that the primary study that should be accomplished is that of developing a relationship between CACEN and the Bolivian Central Bank. The RHO felt that this relationship should be developed first before any other activities can be dealt with. It was also felt that CACEN had already received volumes of studies and data and prior consultancies on the development of a secondary mortgage market. Further, RHO, thought that such a market could not adequately evolve if CACEN's role with the Central Bank were left undefined. The study involving productive credit would be left for consideration at a more appropriate time. A cable was drafted with these RHO recommendations for the Mission.

Mario Pita mentioned that a new program of loan and technical assistance for savings and loan associations on a regional bases is being formulated but is in a very preliminary form at this point. Insofar as further project coverage is concerned, the RHO thought that a housing officer, probably Mr. Low, should visit the Mission and CACEN sometime in January. 1982. The TDY would be for the purpose of assisting CACEN with the final allocation of funds to the participating Mutual Savings and Loan Associations and to assist in project implementation, especially to review requirements and loans for Type C core unit loans.

Recommendations

1. Because the majority of the December 1981 disbursement will go into an escrow account, the Mission and RHO/PSA should urge CACEN to continue an all-out effort to place loans at a faster rate. Interim goals set by CACEN to each of the participating mutuales should be closely monitored.

2. CACEN should be encouraged to present lists of actual loans and mortgages made, on the designated forms, to AID as soon as possible so that these can be checked by the Mission and the RHO/PSA. Once these loans are corroborated, CACEN can receive the funds from the escrow account in accordance with the terms of the agreement.

3. The final reprogramming of allocations to each of the participating mutuales will occur in December or January. These should consider various factors: the plan for use of funds while in the escrow account, the manner in which certain mutuales can perform during the rainy season, a possible withdrawal of the mutual in Santa Cruz, the amouunt of loans necessary to justify the fifth and last closing. The Mission and/or RHO/PSA should examine this reprogramming plan vis-a-vis these factors.

4. In light of the amount of funds that will be deposited in escrow and CACEN's original request for an advance of $1,000,000 for use as a revolving fund (they got $500,000 in accordance with the Implementation Agreement), CACEN's cash flow should be reviewed. It is possible that given the economic crunch, CACEN will find itself lacking the internal resources necessary to continue placing loans at a rate congruous with that needed for the project's timetable. Since the program involves a system of reimbursement to CACEN, the cash-flow becomes an important factor given the circumstances.

5. There is a general feeling in the country that a devaluation is inevitable. Because of this, both the Mission and the RHO/PSA should be ready to monitor any possible adjustments in the program which CACEN may feel it would have to make in order to respond to a devaluation. Adjustments have occurred before prior to AID's approval of such. CACEN should be advised that it cannot make programmatic adjustments prior to consultation and approval of AID.

6. The Technical Assistance requirements outlined in the cable cited above should be well coordinated so that these visits will not place an undue burden on the limited CACEN staff involved in the program at a time when preparations must be made for the next disbursement. CACEN should be consulted on the timing of these so that the work can be performed at different intervals. This should be considered as AID identifies the persons to be involved in the consultancies and their availability.