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Report on the FCH Panama Operational
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TABLE OF CONTENTS

	Page
1. BACKGROUND.....	1
2. ACCOMPLISHMENTS.....	3
A. Establish a Cooperative Department in MIVI.....	3
B. Establish a Home Improvement Loan Capacity in FEDPA.....	4
C. Revitalization of FUNDAVICO.....	7
3. ISSUES.....	9

11

1. BACKGROUND

The purpose of the Panama OPG is to improve the shelter delivery system for lower income families by officially and actively incorporating housing cooperatives and their service organizations in the process.

The original OPG set out three subprojects: (1) organize a department in the Ministry of Housing (MIVI) to deal with and develop housing cooperatives, (2) establish a home improvement loan program within the Panamanian Credit Union Federation (FEDPA) and (3) revitalize the Panamanian Foundation for Cooperative Housing (FUNDAVICO) project development and cooperative service activities. The three subprojects should not be viewed as independent, isolated efforts but rather as parts to be integrated into a workable system. The system, to operate, requires institutional cooperation and coordination.

In addition to the three institutions mentioned in the OPG Proposal and Agreement, other Panamanian organizations received some assistance under the OPG. These included the National Directorate for Cooperatives (DINACCOOP) of the ministry of Agricultural Development and the Nuevo Chorrillo Housing Cooperative. The OPG also provided some assistance to members of housing cooperatives who were attempting to organized the Panamanian Federation of Housing Cooperatives.

The OPG Proposal and the OPG Agreement called for two FCH Resident Advisors to provide assistance to the Panamanian institutions. FCH, with AID's concurrence, assigned Kraig Baier to fill one of the two positions under the Panama OPG in November 1978. FCH proposed and AID concurred with the nomination of Jaime Rodriguez, who was in Panama under a FCH contract, for the second position. Rodriguez, however, was never assigned to the OPG because

of continued demands for his services by RHO/PSA and USAID Panama. In April 1979, Rodriguez was reassigned to FCH's Washington offices and FCH began to look for another candidate for the second resident advisor under the Panama OPG.

While FCH was in the process of interviewing candidates for position, MIVI in May 1979 requested that the assignment of the second advisor be postponed because of actual program needs. This request was concurred with by FEDPA, FUNDAVICO and RHO/PSA.

In accordance with the terms of the OPG Agreement, a work plan was prepared for the OPG by Kraig Baier, the FCH Resident Technical Advisor, with the cooperation of representatives of MIVI, FEDPA, and FUNDAVICO. The plan was based on the implementation plan in the OPG Proposal and the scope of work of the OPG Agreement that called for two FCH Resident Advisors. The work plan was adopted by the Panamanian institutions and submitted to RHO/PSA and FCH Washington in December 1978.

The OPG Agreement was amended in February 1980. The Amendment revised the scope of work to be undertaken and reduced the number of FCH Resident Advisors from two to one. This modification reduced the amount of funds for the Panama OPG.

One important observation needs to be made concerning the Panama OPG. FCH had envisioned the OPG as an activity that would be developed apart from but be complementary to AID's housing program in Panama. RHO/PSA, however, perceived the OPG as being an integral part of AID's Panama shelter strategy and program and as an additional resource to achieve its overall purposes. As such, the OPG was directed and became part of AID's sector assistance package for Panama.

2. ACCOMPLISHMENTS

Progress has been made on the subprojects of the OPG from November 1978 to May 1980. In addition, and perhaps more important, is the fact that steps have been taken toward the integration of a more systematic approach to the development of cooperative housing in Panama. A description of the progress for the subprojects follows.

A. Establish a Cooperative Department in MIVI

In the subproject for the establishment of an office for housing cooperatives in MIVI, it was decided that the objective could best be accomplished by assigning responsibility for cooperative project development to the Physical Programming Section of the Programming and Budget Direction of MIVI rather than by organizing a separate office. This section is now responsible for cooperative housing projects and has one person assigned to coordinate all the aspects of project development related to them. The full staff of the office is also available as needed for work on specific projects.

Ten members of MIVI's staff have undergone training in cooperatives, cooperative housing and the legal and social structure of the cooperative sector in Panama.

An initial survey of housing cooperatives in Panama was completed to identify the scale of possible programs for future action by MIVI.

MIVI sponsored a two day seminar on the establishment of a system for development of cooperative housing in which all the institutions working in this field participated. Interinstitutional coordination between MIVI and DINACCOOP has been formally established. MIVI and DINACCOOP, for example, are now jointly undertaking an intensive analysis of all existing cooperatives and pre-cooperatives that have not solved their housing objectives to determine the strengths and weakness of these groups and their potential and resources

for further action by MIVI-DINACOOB. A follow up seminar is planned when the results of the investigation is complete. The objective of the second seminar will be to further define how best to structure the system for cooperative housing development in Panama.

Throughout the project period, elements of an explicit policy for cooperative housing have been evolving. Even though it can not be said at this time that it has a cooperative housing policy, MIVI has stated its interest in the use of cooperatives as a means to accomplish its goals.

MIVI stands ready to assist cooperative groups if and when they can demonstrate that they will provide substantial additional resources to assist themselves and that they are not simply a group formed to pressure MIVI to give them a loan, build them a project, etc. Within this overall guideline, MIVI is now assisting or has assistance programmed for several specific housing cooperative groups. For example, MIVI is financing a second stage of the Nuevo Chorrillo Cooperative Housing project through the National Mortgage Bank.(BHN). MIVI is also assisting the Riviera Housing Cooperative in David, Chiriqui, by constructing the urbanization and houses on a site owned by the cooperative. Financial and technical assistance is planned for the Guadalupe Housing Cooperative in La Chorrera and for a pre-cooperative group in Parrita near Chitre. Future programming includes assistance and financing for El Crisol Housing Cooperative in Panama City. As a result of the intensive analysis now underway additional projects should be identified. As funds become available through the AID HG Program, specific project activities both in technical assistance and financing can increase.

B. Establish a Home Improvement Loan Capacity in FEDPA

In the subproject to set up of a home improvement loan operation through FEDPA, progress has been made although not as fast as was originally expected. FEDPA and FCH signed an agreement under which a revolving fund of

\$100,000 (\$50,000 from both organizations) is to be created for home improvement loans. To date both FEDPA and FCH have disbursed \$30,000 to the fund. The FCH contribution is from the OPG funds.

The first concept for the loan program was to grant specific purpose loans to the credit unions for relending to the lower income members for the improvement of existing houses. The amounts of the loan to the credit unions was to be determined by survey estimates of demand from the lower income family members. The credit unions would have to follow separate and specific relending policies established by FEDPA. (The policy for the OPG funds was related to AID's HG policy for income eligibility.)

This approach had to be revised when it became clear that the individual credit unions were unwilling to borrow money from FEDPA for specific purposes other than agriculture production credit. Evidently, they were fearful of the economic consequences of poor demand, the small differential and to a substantial degree the perceived threat to their independence in deciding how to use their money.

The fact that the credit unions do not have any data on the income distribution of their members hampered the task of estimating the demand for loans by the low income members. Only when an application for a loan is made is income data requested. From this data and general observations of other sources, it was concluded that much of the overall membership of the credit unions had incomes well above the median income limits established for the program. A rough analysis indicated that only 20 to 25 percent of the credit union members could be considered as eligible beneficiaries under the program.

Another factor affecting the credit union's interest in the program was that they have for many years been lending to their members for housing and home improvement from their own funds. What portion of these loans for housing

go to the low income members is unknown because data is not compiled by the credit unions according to member income. In fact loans for the housing category constitute the largest amount of money lent by the credit unions from their own funds and usually make up to 25 to 30% of their portfolios. In a way, the program was not new to the credit unions, only more restrictive (income constraints) and costly (administrative requirements).

The term of the loans is another issue. In order to reach the poorer families the extension of terms over 48 months was in order. Many credit unions, however, were unwilling to extend terms over 24 or 36 months for this type of credit. The interest for the loans is fixed at 1% per month universally throughout the system.

Notwithstanding the problems with the original concept, a formula for a workable program was developed. The credit unions almost universally borrow money from FEDPA for working capital, that is non-specified funds to be relent by the credit union according to loan demand. The loans for home improvement can also be included as eligible loans under this type of loan but does not oblige the credit union to tie up its credit limits if demand is not there. In this way all home improvement loans to eligible families would be financed by FEDPA and included under the general working capital loan that the credit union had with FEDPA at the time. This proved to be the most direct and least administratively cumbersome approach. The credit union reports to FEDPA the eligible loans. FEDPA checks to see that these loans qualify and charges the home improvement loan revolving fund for these amounts.

Even though a simple system has evolved, the demand for the loans by the lower income families has been less than expected. In part this may be due to poor promotional efforts by the credit unions. In reality, the credit

unions have never had to promote lending. There has always been more demand for loans than funds available and promotion was not necessary from their point of view.

Home improvement loan promotion at the credit union level, where it would be most effective, has been minimal if at all. In one instance of a rural credit union where it was expected that the program would be successful and the group showed interest, it was found that no one applying for the home improvement loans had incomes below the established median. The credit union approved most of these loans and funded them with their own funds; however, these were not eligible for funding from the FCH-FEDPA revolving fund.

Likewise some groups felt that the program had been designed for only the lower income groups and did not correspond to the credit union principals of equal opportunity for all the members and, consequently, was discriminatory.

FEDPA is a well organized and managed institution fully capable of accounting for the project funds and administering the home improvement loan program. However, if the program is to expand there are some important policy issues that must be resolved. The interest rate and loan term policies both of FEDPA and the individual credit unions are not the most adequate for housing or home improvement loans. Finding additional funds at interest rates low enough to be used by the system as now established (i.e. 1% per month) will be difficult. Reaching below the median income with the short terms also is difficult. Both these questions must be considered seriously by FEDPA if expansion into the housing sector lending is to be accomplished.

C. Revitalization of FUNDAVICO

The third subproject, directed at revitalizing FUNDAVICO's development activities in low cost housing, has had the least progress of all. With the exception of assisting in defining FUNDAVICO's role, developing closer con-

tact with MIVI, identifying some potential projects and making efforts to secure financing, little progress toward the goal of actual construction of new projects for the target group has been made.

FUNDAVICO has maintained its original concepts and approach to development of cooperative housing projects which is the single mortgage management type cooperative ownership projects where post development administration, education, maintenance and community project activities become the principal objectives of the cooperative association, not the project development. The formality with which FUNDAVICO has applied this approach to a certain degree has limited its ability to expand its project development objectives. There are several reasons for this phenomena.

First, although various mortgage finance institutions such as the Savings and Loan Associations, the Caja de Ahorros, the Social Security Funds and some commercial bank mortgage departments have expressed interest in financing FUNDAVICO sponsored projects, none of them is willing to accept a single mortgage cooperative ownership arrangement. They insist on individual mortgages which FUNDAVICO has not favored accepting.

Another factor is that the FUNDAVICO approach actually forms the cooperative after or parallel to the physical development of the project. This is a sound approach to management type cooperatives. However, when FUNDAVICO attempts to work with previously formed cooperatives conflicts arise that are very difficult to resolve. First most cooperative groups form with the idea of building a project or houses. Their emphasis is on the physical project construction with little interest on what happens after the houses are built. When FUNDAVICO becomes involved, the task of re-education is formidable and at times futile. The problems involved in reconciling what the groups want as a house, what they think it costs and their repayment capacity are often tremendous, let alone the task of getting the group to see beyond physical development of their

housing project. Convincing groups of project feasibility or unfeasibility has led to a breakdown of relations between FUNDAVICO and the group on several occasions resulting in a limbo situation for progress. FUNDAVICO, fully aware of the long term financial and collections problems, has been unwilling to go ahead with projects in which they know that the members or a good portion of the members cannot afford to pay for the level of house they aspire to. The cooperatives for their part have been unwilling to accept less, or even, in some cases, a progressive development approach to resolve their housing problem.

FUNDAVICO is now in a process of reconsidering its role in the housing sector and its exclusive dedication to cooperative housing. Obviously the stalemate on the financing of single mortgage projects demands a rethinking of FUNDAVICO's approach. An idea to work as a non-profit developer of low and low middle income, individually owned and mortgaged projects is evolving. The principal question to be considered in this change of approach is how to maintain the post development administrative and maintenance aspects with the cooperative structure. If there has been anything positive in FUNDAVICO's approach, the emphasis on the long term aspects of the projects it develops must certainly be considered important. To forget this in favor of emphasizing only the physical project development would eventually be a loss to FUNDAVICO and the projects that it develops.

3. ISSUES

Several general issues other than those already mentioned have become apparent to the FCH Resident Technician.

First, cooperatives in Panama whether they be housing, credit unions or other types are not made up of exclusively poor members (i.e. below median income). This is not to say that poor people are not members or that the cooperatives are made up of only middle income people. On the contrary,

cooperatives have and continue to be one of the only private sector institutions that deal with poorer families. The issue that arises is how to assist cooperatives made up of a heterogeneous group of members who have different income levels possibly with a good percentage of the members having above the median income. with programs that have certain restrictions and criteria such as the AID HG program that is directed to exclusively below median income families. To finance cooperatives with AID HG funds, therefore, requires a segregation of the members along these lines and a search for a source of financing for the above median income families. Such conditions are difficult for the cooperative members to understand, and they make the development and financing of cooperative projects by MIVI-BHN under the AID HG program difficult.

Second, from the initial analysis of the existing cooperatives in Panama it is quite evident that they have developed with only minimal attention from the institutions of the cooperative sector. DINACOOP has not been able to provide the initial training, education, monitoring, feasibility services, etc., to housing cooperatives because budget limitation severely restrict the attention it can provide. FUNDAVICO to some degree has fulfilled the cooperative development role; however, this is limited to those cooperatives that have chosen to use FUNDAVICO's services. The lack of priority and funds for cooperative development services by either the public sector (DINACOOP) or private sector (FUNDAVICO) severely limits the capacity to organize, educate and train cooperative members to perform to even minimal norms of administrative functions. This is true in all areas, but especially in the rural areas where the administrative skills of the members are severely limited. Therefore, if cooperatives are to become a tool for housing development more attention, priority, funds and personnel, will have to be provided for cooperative education and training in basic administrative management skills.

Third, and perhaps more important, is the question of just what are the real advantages of developing cooperative housing or housing through cooperatives both to the members and to the institutions promoting housing development. In a theoretical analysis many advantages can and have been cited. However, in the real and practical sense considering the state of the cooperatives in Panama many of the theoretical advantages are not apparent. There are many factors that contribute to this. The principal one is the lack of education and orientation available to individuals and groups who are interested in resolving their shelter need by a cooperative effort. Consequently, in a majority of cases housing cooperatives are organized by and of people without adequate orientation, cooperative education or direction who have the expectation that the cooperative will make it easier for them to acquire financing for their house as soon as possible. They are not aware of their responsibilities to the cooperative or to the anticipated cooperative housing project nor are they aware of the advantages to cooperative ownership. As a result, often the cooperative association turns into a pressure group that goes around looking for financing to resolve an immediate need for its members with little or no consideration of its responsibilities and opportunities after housing has been provided. Needless, to say, housing cooperatives that are organized without proper education, orientation and direction can achieve little if any progress toward their objective with the resulting disenchantment of the membership. Obviously this type of approach is not to be encouraged and individuals and groups should not be allowed to organize cooperative associations under these circumstances, a position that is now shared by DINACCOOP.

To a certain degree housing cooperatives work best, have more reason to exist and can be better assisted in high density large scale urban pro-

jects where the long range cooperative activities, e.g., project administration and maintenance plus the development of social, cultural and economic must be considered and properly supervised. A cooperative is a much better approach than a condominium for apartment type projects. That is where the real advantage of housing cooperatives in Panama have proved effective and where the present emphasis should be placed.