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**GUATEMALA:
EVALUATION OF THE
HOUSING SECTOR**

**PART II:
MAJOR FINDINGS AND
ANALYSIS FOR THE
HOUSING SECTOR AND
URBAN DEVELOPMENT**

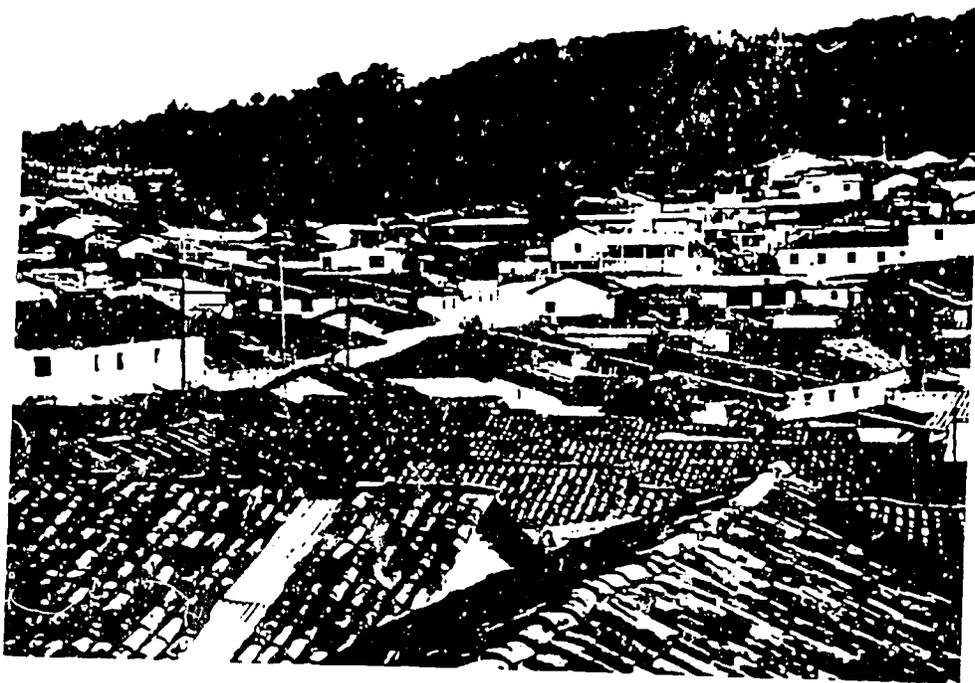
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PART II
HOUSING AND URBAN DEVELOPMENT ANALYSIS



PREFACE

This report compiles and presents the results of the evaluation performed by a group of professionals from Abt Associates Inc., as requested by the Agency for International Development. The original report was prepared and presented in Spanish: this is a translation of that report.

It is hoped that the results of this report, as well as the policy recommendations which it offers, will provide the planners and the decision-makers a basis for in-depth consideration of the problems identified, and a basis for solutions to these problems.

This report is divided into three parts:

- 1) Executive Summary
- 2) Major Findings and Analysis
- 3) Strategies and Action Plan

The Executive Summary presents a summary of the analysis as well as the strategies.

The Analysis is divided into four chapters: urban process, housing, urban services, and housing finance.

The third part, devoted to the Strategies, suggests three courses of action for the spatial and economic integration of Guatemala. These three principal strategies are as follows:

1. The consolidation of the existing process of decentralization and the distribution of administrative functions as a basis for municipal development.
2. The consolidation and expansion of 16 urban centers because the movement of resources towards these centers makes it possible to transform them into centers of economic activities and means for urban-rural interaction.
3. The improvement of the informal sector's participation in the production of homes.

Abt Associates is grateful for the cooperation and kindness provided by the Guatemalan professionals who collaborated on the project with enthusiasm and dedication. Edgar Romeo Cristiani and Jorge Antonio Villeda made important contributions to the analysis of housing finance and the informal sector. It is especially worth mentioning that in Washington, Julio Cross Veras helped with research, editing and translation; Alejandra Kerr helped with the editing and translation; and Teresa Bradley worked on the research. In Guatemala, Abt Associates acknowledges a debt of gratitude to the Agency for International Development, for the trust confided in our team. We especially thank Felipe Manteiga and his staff at the private sector office of AID, and Mario Pita and his staff at the regional office of AID in Honduras.

The suggestions received from many of the participants and persons interviewed during the production of this analysis were carefully considered, and the majority were integrated into the report. Nevertheless, the entire responsibility for the contents of the analysis and for the strategies offered are the responsibility of the authors.

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GUATEMALA: EVALUATION OF THE HOUSING SECTOR

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1. CHARACTERISTICS OF THE URBAN AND SPATIAL PROCESS IN GUATEMALA

Guatemala City is experiencing a marked growth process and city-hierarchy which makes it one of the most well defined urban centers in Latin America in terms of city primacy. The capital city predominates over other Guatemalan cities, not only in population, but in economic, social, administrative, cultural and political aspects.

The premise of this evaluation is that the present growth pattern of Guatemala is unsustainable due to the continuous growth of Guatemala City as opposed to the stagnation of other urban centers in the country. With the affluence of the capital city, a city disparity has emerged, reducing the potential development of most of the urban centers in the country. This situation is particularly critical in Guatemala since it is a country which bases its economy on agricultural development; to be able to efficiently use the agricultural sector, it is necessary to develop population centers that function as marketing and commercial centers.

This section of the report serves as an introduction to subsequent sections which relate to the housing and basic services sectors. This first section describes the historical evolution of the urban centers and the impact that the economy and the modes of production have had on human settlements, on the population, and spatial disparities in Guatemala. This first section also suggests that the increase in the poverty level is related to the present development pattern of the country.

1.1 BACKGROUND: GROWTH OF URBAN CENTERS

The growth of a city is generally the result of a historical process. In Latin America, colonial cities were founded as administrative centers of the conquered territories, with the purpose of exploiting resources and establishing a commercial network with the surrounding geographical areas. Due to the lack of major mining resources in Guatemala, a network of agricultural production was established, based on the farming of sugarcane, cacao, kermes berry, coffee and cattle.

The urban process of Guatemala has been explained by many experts through the center-periphery model. This model, developed by Friedman in 1966, was based on other previously developed theories (Myrdal, Hirschmann, Rostow, Prebisch). The model analyzes the evolution of the regions starting at the colonization period when the settlements were exploited by mining and agriculture. Along with these activities, urban services developed for the management and marketing of the production; regions prospered and developed as marketing centers. During this process, disparities among population centers arose when resources were attracted to the more dynamic areas; the center grew rapidly, while the periphery declined or decayed due to an economy inappropriately tied to the center. As a consequence, the phenomenon of city-hierarchy arose. The theoretical model explains the advent of the Industrial Age, and a period of maturity, during which a spatially integrated economy develops, thus diminishing the existing disparities.

Although for many (Gilbert and Gugler, 1984) this model of the urban spatial system does not accurately reflect the evolutionary urban process of developing countries, it functions as a tool for the understanding of the geo-economic spatial organization of Guatemala. The development of agricultural and primary roads, sustaining the economic process, caused polarization of the economic activity in the capital city (center) leaving most of the population centers of the interior (periphery) lagging behind.

1.1.1 HISTORIC EVOLUTION

When the Spaniards arrived in 1525, the Guatemalan territory was divided into a series of small kingdoms, ruled and inhabited by the descendants of the Mayan Empire. The sixteenth and seventeenth centuries were periods of territorial expansion, conquest and the establishment of the principal human settlements. The colonization process influenced certain social and economic structures which prevail and which have an interdependent relationship with the existing urban process of Guatemala. In fact, the present urban configuration of Guatemala goes back to the years between 1500 and 1600, when most of today's cities, towns and villages were founded. Their importance, location and physical-spatial growth converged with agriculture and cattle production, and with the industrial evolution of recent years.

The Spanish Empire established a production, export, and marketing system in close relationship with Santiago (former capital city, today Antigua Guatemala) and by subjection of a much larger population than their own. To be able to organize the production systems and control the Indian population, it was necessary to develop towns close to mines or to agricultural land. These centers were administered by the colonial authorities from the capital city.

Thus, for the exports of basic products, an urban corridor was created, from the capital city to the new towns. Control passed through the authorities of major towns of the provinces, main jurisdiction governments, and administrators and magistrates. This management was the beginning of an urban development system which has been maintained for three hundred years, changing only by the importance of the urban centers at different times. At the time of independence, Guatemala had nine provinces whose capitals today are as important as they were at the time. Among these towns are Escuintla, Mazatenango, Quezaltenango y Chiquimula.

In 1776, the Municipal Council of the Nueva Guatemala de la Asunción was established on approximately 17,000 hectares. The urban development of the capital city started from the existing towns in the valley -- La Parroquia, Jocotenango, San Gaspar, Ciudad Vieja and Villa Guadalupe. Until 1821 the capital city grew slowly, with property ownership changing progressively from the municipality to private owners.

During the period of political independence, the urban configuration of Guatemala changed although the major centers from the colonial period remained the same. The new territorial distribution established seven major departments with the following towns: Cobán, in the Department of Verapaz; Chiquimula, in the same Department; Guatemala City in the Department

of Guatemala and Escuintla; Antigua Guatemala in the Department of Sacatepequez and Chimaltenango; Sololá in the Department of Suchitepequez and Sololá; Quezaltenango in the Department of Soconusco and Quezaltenango; and San Miguel Totonicapán in the Department of Huehuetenango and Totonicapán. Each district was divided into municipalities as long as the town had a population of 200 inhabitants.

Geographically, Guatemala is divided into four zones: the Pacific Plain or Southern Coast; the Western Plateau; the Eastern Plateau; and the Lowlands of the Atlantic or Northern Coast. The Pacific Plain or Southern Coast is the most recent economically active region in the country with a production boom which started with cotton, sugar cane and cattle.

After the colonial power was overthrown, the monopoly held by the Spanish crown came to an end and a mercantile era was initiated. Until that time, production existed on plantations (corn, grains, legumes and kermes berry), with the urban functions limited to ports and to preserving the institutional order. In 1834, large scale coffee cultivation was initiated. Coffee production resulted in a well structured economic activity, becoming the principal export of the country, principally from the Pacific Coast. The major portion of Guatemalan coffee is still grown in this area, resulting in the population concentration that exists today.

As for the rest of the territory, by 1880 most of the population was concentrated in the Plateau, followed by the Southern Coast; the population in the Lowlands of the Atlantic remained low. At the beginning of the century, with the construction of the railway system connecting the ports with the capital city and the Pacific Plain, the population on the southern coast increased.

Population dispersion increased in the early 1940s, with less intensity in the areas north of Quiché, Alta Verapaz, and Izabal. By then, the primacy of Guatemala City was evident in comparison with the rest of the urban centers in the country. During that period, the most important municipalities continued to be Guatemala City, Quezaltenango, Izabal, Suchitepequez, Retalhuleú, Escuintla, and Chiquimula.

1.1.2 RECENT EVOLUTION OF THE ECONOMY IN URBAN DEVELOPMENT

An important issue of the urban development process is the means of production. During the pre-colombian era, the conquest, the centuries of the established colony, and the years of independence, the growth of Guatemala has been based on agricultural and cattle production. During this period, population growth remained stable.

Rapid industrial and service industry growth began in the early 1960s, assisted by the creation of the Central American Common Market. Between 1950 and 1980 the degree of industrialization (industrial production/total production) increased from 10.2 percent to 16.6 percent, and manufactured exports increased from US\$500,000 to US\$500 million. The model of economic development operating in Guatemala during the last 30 years is characterized by

the strengthening of the industrial sector, based on an import substitution model, as well as by an expansion of agricultural exports.

One of the major characteristics of the import substitution model is the need to increase the labor force in cities since as the model is implemented, strong rural-urban migration is created. In this regard, Guatemala City has become a center for industrial and export activities, due to the concentration of social services and the nation's administrative apparatus.

This concentration excludes for the most part the rest of the urban centers, the great majority inhabited by the poor and indigenous population, and as well reflects the phenomenon of hyperurbanization in Guatemala. At the beginning of the industrial era, Guatemala City included 33.75 percent of the urban and periurban population in the country. By 1970 this percentage increased to 44.09 percent. Minor cities, with less than 50,000 inhabitants at the beginning of the industrial era included only 4.97 percent of the urban and periurban population. In 1970 this percentage increased only to 11.76 percent.

At present, Guatemala is experiencing an adverse, inflationary economy. The principal causes of the existing economic crisis can be related first, to the collapse of prices in the international market for the major exports, especially agricultural products such as coffee, sugar and cotton. Coffee, for example, which comprises a large portion of Guatemala's exports, declined from US\$464 million in 1980 to US\$387 million in 1988.

At the same time, the industrial sector has experienced serious problems. In the past, major financing was provided for the manufacturing of national products, and for the development of technologies which required major investments and imported raw materials. In spite of rather large earnings, nationwide investments were limited. This fact along with the large amount of raw materials required by the sector, made it necessary to revert to international loans to be able to sustain its dynamism. This fact precipitated the deterioration of the industrial sector; as a result, the Gross Domestic Product (GDP) for the sector between 1980-1985 declined by an annual rate of 1.8 percent.

Likewise, the lack of dynamics in exports, the decrease in the flow of private capital, and the export of capital to foreign banks -- in 1980 it was estimated at US\$110 million and in 1986 reached US\$1,345 million -- forced the country not only to increase its external debt but to turn to sources of external credit offered at unfavorable terms, especially for short term loans. As a consequence, the foreign debt -- which had been maintained at moderate levels -- rose rapidly after 1981; in 1980 the external debt was US\$800 million, but already in 1987 it had reached US\$2,600 million. The debt service was calculated at 44.2 percent of the goods and services exported. Neither the agricultural nor the industrial sector have been able to respond to the demands for repayment of the foreign debt.

It is worth mentioning that historically, Guatemala has based its agricultural development strategies on a pattern of social and economic development inherited from a model established during colonial times. Guatemala still maintains an economy based on traditional patterns,

Lacking modernization, and reluctant to acknowledge the changes that have occurred in the international market. These facts, in addition to weak industrial development, result in a permanent urban and rural poverty. The relationship between economic and social phenomena is easily visualized: the productive sector is not capable of satisfying the demand for jobs because, while the former is in decay, the latter grows at high rates and moves to the capital city where more resources are concentrated; the results are dramatic levels of poverty. According to United Nations' standards, approximately 52 percent of the rural population is very poor, and 32 percent is poor, meaning that 84 percent of the rural population is below the poverty level. Likewise, SEGEPLAN has estimated that in 1989, 80 percent of the population in the Department of Guatemala lived in extreme poverty and that 91 percent were considered poor (insufficient resources to feed the family).

In addition it is important to indicate that in Guatemala there exists a dual model for agriculture production. In the Plateau, where the major crops are basic grains, two thirds of the agriculture producers are not able to produce enough food to feed one family. This is critical since the Plateau is the most populated zone in the country, and is the area where most of the indigenous population lives. In addition, the Lowlands of the Atlantic Coast are generally empty despite their large forest resources and potentially rich land for farming and for livestock. In contrast, the Pacific Coast has a modern agricultural sector, capable of competing internationally. The importance of this sub-sector can be understood with the following facts: in 1980 it generated 52 percent of its earnings through exports, and 10 percent of the GDP with exports of coffee, sugar, cotton, bananas and meat. This dual model corresponds to the economic and urban-spatial disparities of Guatemala, creating a tendency to perpetuate the poverty patterns of the nation.

Agro-exports as Key to Spatial Consolidation. In 1986, to foster recuperation of the economy, a series of economic measures were introduced to maintain stable internal demand by controlling monetary policies, controlling the supply of foreign currency, and promoting the export of non-traditional products. Although the Guatemalan economy has continued experiencing difficulties related to an increase in exports and deficits in the balance of payments (in 1988, despite economic growth, it was about 3.5 percent; and inflation was kept at satisfactory levels as exports increased about 13 percent), it is anticipated that Guatemala will be able to respond to its present crisis, because of its major natural resources and its proximity to the United States. There are, for example, good prospects for the export of non-traditional products, such as fruits and ornamental plants.

This study considers agro-exports as a good opportunity to help overcome the spatial disparities existing in Guatemala. Subsistence agriculture can be transformed into commercial ventures, incorporating into the country's economy those groups which traditionally have been left out, such as small farmers who make up one-third of the population. More important, the development of agro-exports does not require the movement of population from rural areas to the city; on the contrary, it has a tendency to improve the living conditions and the economy of

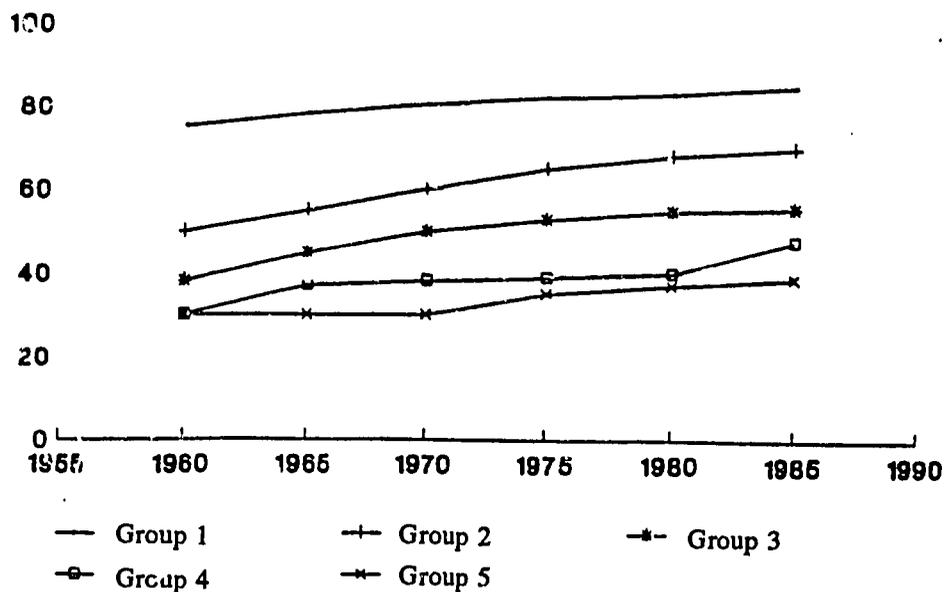
small towns and of those groups of people who, up to now, have not been part of the production activities in Guatemala.

1.2 POPULATION GROWTH

One of the characteristics of Guatemala is the high population growth rates. The total annual growth rate of the population is one of the highest in Latin America, surpassed only by Venezuela, Costa Rica, and Dominican Republic. At the end of the last century, the population of Guatemala was 1.5 million inhabitants; today, Guatemala City has a population of over 1.6 million inhabitants. However, the annual rate of overall urban population growth is one of the lowest in Latin America, and Guatemala is one of the few countries in the region with most of its population in the rural areas.

The following graph shows the trends of rural and urban population in 16 countries of Latin America, between 1960-1990.

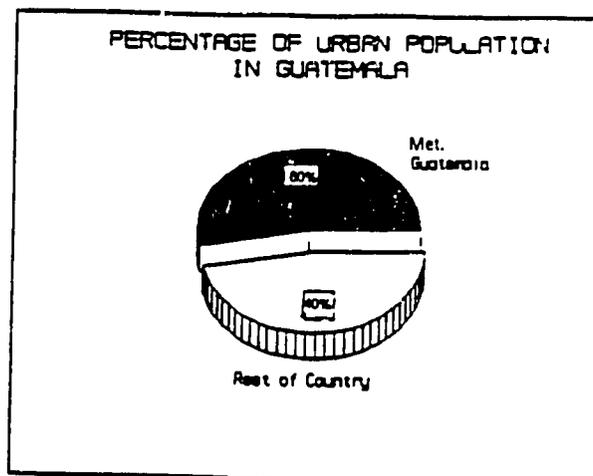
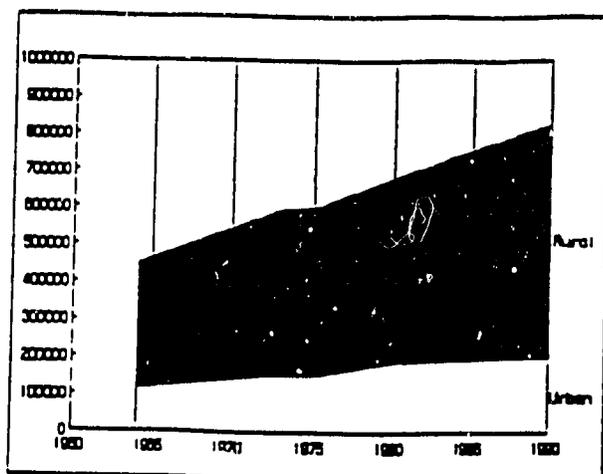
PERCENT OF URBAN POPULATION



From this graph the following is evident:

Group I	Argentina, Chile, Uruguay and Venezuela (80 percent of the population is urban and more than 50 percent lived in cities before 1950)
Group II	Brazil, Colombia, Mexico and Peru (70 percent of the population is urban and more than 50 percent lived in cities before 1960)
Group III	Dominican Republic, Nicaragua and Panamá (Urban population is slightly higher than 50 percent, a process which started at the end of 1960)
Group IV	Bolivia, Costa Rica y Ecuador (Urban population is slightly lower than 50 percent; the transfer of rural population to cities has occurred in recent years)
Group V	Haiti, Honduras, El Salvador, Guatemala and Paraguay (Urban population is about 40 percent; the transfer of the population from the rural areas to the cities is not likely to occur in the next ten years)

Although urbanization trends are not absolute factors in the economic development of these countries, the fact that most of the population is living in cities is usually related to the countries' development level. Thus, the highly urbanized countries in the region have reached a higher level of economic development.



Although a majority of Guatemala's population does not reside in urban areas (the change is expected to occur after the year 2000) and although many consider this a disadvantage to national development, the major problem that Guatemala faces lies in the concentration of this population in a single metropolitan area, the situation of city primacy of Guatemala City. The overall population of Guatemala is estimated at 9.2 million inhabitants of which, 4.0 million are considered urban, 60 percent of which are located in the Metropolitan Area. If this type of growth continues, by the year 2000 the Metropolitan Area will have a population of over 3.0 million.

**Table No. 1
POPULATION TRENDS AND PROJECTIONS**

Metropolitan Area (in thousands)					
Year	Urban	%	Rural	%	Total
1950	347	73	131	27	478
1955	436	75	149	25	585
1960	549	77	168	23	717
1965	684	79	187	21	871
1970	819	80	206	20	1,025
1975	1,023	81	236	19	1,259
1980	1,345	83	282	17	1,627
1985	1,644	84	315	16	1,958
1990	2,009	85	348	15	2,357
1995	2,456	87	381	13	2,837
2000	3,002	88	412	12	3,414
2005	4,039	88	549	12	4,589
2010	4,762	88	649	12	5,411

Total Population (in thousands)					
Year	Urban	%	Rural	%	Total
1950	697	33	2,094	67	2,791
1964	1,441	34	2,847	66	4,288
1973	1,878	36	3,282	64	5,160
1981	2,210	37	3,845	63	6,054
1990	3,993	43	5,204	57	9,197
1995	4,884	46	5,738	54	10,621
2000	5,932	49	6,289	51	12,222
2005	7,134	51	6,812	49	13,946
2010	8,491	54	7,336	46	15,827

Sources: Population Census 1949, 1964, 1973, 1981. Projections 1985-2010
CEGEPLAN/SIECA/CELADE

A vision of how much a city should grow does not exist. The ideal size of a city is often defined as the point where for a given population, the marginal cost of another person entering

the city is such that it equals the marginal benefit; as a consequence, a city's growing process should be planned and monitored. On the other hand, some experts believe that cities can grow indefinitely since, although they consume a high percentage of the national resources, they can generate benefits which surpass the maintenance and development costs of investments to their large infrastructure. For example, Guatemala City generates almost half of the country's gross value of production (47.2 percent) and has the major concentration of goods and services for national production and consumption.

The benefits offered by a large city are obvious because of the comparative advantages of the location of activities, the concentration of government administration, the external economies, the economies of scale, the large investments of public resources in basic services and the location of the means of communications, all of which can be used to advantage by large urban conglomerates.

There are, however, specific cases in the region in which the populated urban centers are affected by a serious crisis related to the phenomenon of primacy. For example, in the Dominican Republic, the city of Santo Domingo cannot satisfy the demand for basic services of its population. The city of Santo Domingo has experienced an enormous growth in the past 20 years. In 1960 it had a population of 500,000; today, the city has more than 2.5 million inhabitants, while the water supply, sewerage and public service systems are designed for the 1960 population. As a result, most of the population lacks these services. As an example of the present deficit of these services, electric service is only provided every three days and then only for several hours. This deficiency is affecting not only the population, but the productive sector. It has been estimated that the economic growth of the Dominican Republic is one of the lowest in the region (less than one percent per year).

1.3 SPATIAL DISPARITIES

While Guatemala City shows a city primacy phenomenon and benefits from an economy of scale and agglomeration, the rest of the country's urban structure is characterized by a major dispersion of the population centers and by great differences in population components; by the existence of large areas of undeveloped land which have not been integrated into the national production; by a regional disparity of opportunities and economic development; by an inadequate national and regional road infrastructure; by a low coverage of basic urban services; by scarce health and education services; and by a high unemployment rate.

In Guatemala intermediate-size cities do not have enough potential to promote an integral development in urban and rural terms. The development of cities occurs within rich undeveloped agricultural land. Less than a third of the population lives in settlements smaller than 1,000 inhabitants, and 22 percent lives in cities with 1,000 to 5,000 inhabitants. According to a recent United Nations study (*Apoyo al Desarrollo Urbano de Guatemala*), these small towns show a marked tendency to disappear and/or have limited opportunities to become part of the

national economy. This in turn suggests that the existing disparities and spatial, population, and economic gaps may increase even more in years to come.

Graphs and tables on the following pages show the limited growth of the urban centers in the country. Table No. 2 shows clearly that most of the small towns, or the "largest" of the small towns, with populations ranging between 7,800 and 10,800 inhabitants, are growing at rates less than the average natural growth rate. This fact is due mainly to emigration as well as to a slow evolution in the natural population increase. For example, small towns like Sanarate, Cuilapa, Chiquimulilla, Totonicapán and Sololá are growing at a range between 0.7 percent and 2.9 percent. These rates, compared to the 9.9 percent annual growth rate of Escuintla or with the 6.2 percent growth of Guatemala City, suggest that opportunity for development of these small towns is extremely limited.

1.3.1 LEVELS OF SPATIAL DISPARITIES

The area of the Guatemala City Metropolitan Area is just 1.95 percent of the national territory, placing it as the smallest region; however it has over one fourth (25.6 percent) of the nation's population and over half (60 percent) of the nation's urban population. The capital city area has the country's highest population density (798 inhabitants/square kilometer).

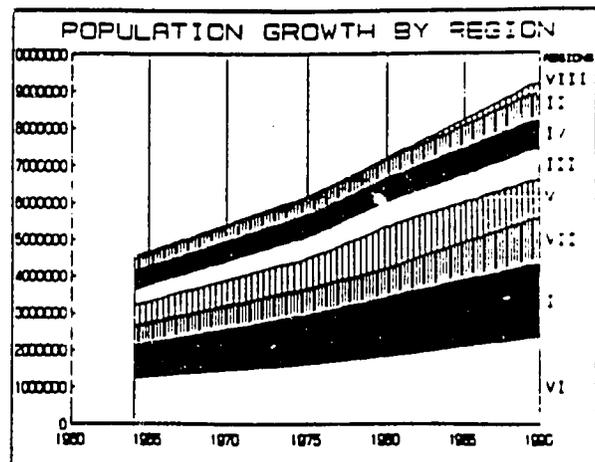
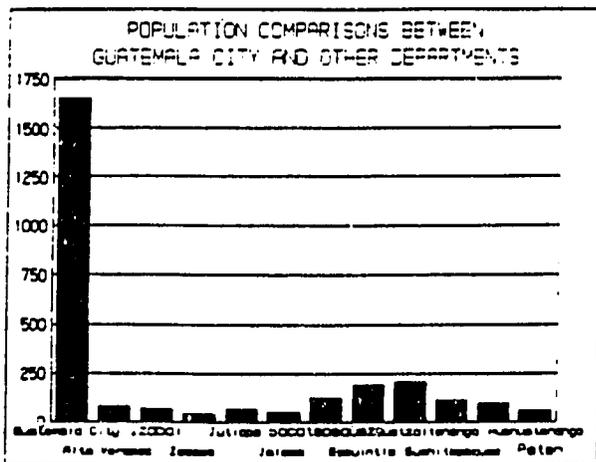


Table No. 2
INDICATORS OF POPULATION GROWTH IN MAJOR URBAN CENTERS 1980-2000
(In thousands)

REGION-DEPT.	URBAN CENTERS	1980	1990	2000	Annual Growth (1980-2000)
METROPOLITAN I					
Department of Guatemala	Metropolitan Area	1,345.00	2,009.00	3,002.00	6.2
NORTH II					
Alta Verapaz	Cobán	17.53	19.17	22.84	1.5
Baja Verapaz	Salamá	8.77	11.07	15.89	4.1
NORTHEAST III					
Zacapa	Zacapa	15.63	17.35	21.37	1.8
Chiquimula	Chiquimula	23.74	26.58	35.88	2.6
Progreso	Sanarate	8.08	9.80	12.78	2.9
Izabal	Puerto Barrios	30.21	35.33	40.43	1.7
SOUTHEAST IV					
Jutiapá	Jutiapa	13.50	15.26	18.98	2.0
Jalapa	Jalapa	21.97	25.73	37.70	3.6
Santa Rosa	Cuilapa	7.16	8.06	9.85	1.9
	Chiquimulilla	9.18	10.78	14.50	2.9
	Arberena	7.76	9.45	13.82	3.9
CENTRAL V					
Sacatepequez	Antigua Guatemala	20.07	23.66	30.02	2.5
Esquintla	Esquintla	54.86	80.61	163.31	9.9
	Tiquisate	16.20	19.92	29.21	4.0
	Sta. Lucía Cotz.	21.02	31.22	61.57	9.6
	Pto. San José	14.46	21.03	41.86	9.5
	Chimaltenango	Chimaltenango	19.98	24.43	35.90
Panzún	Panzún	12.44	14.29	18.07	2.3
SOUTHWEST VI					
Quezaltenango	Quezaltenango	82.25	97.36	135.85	3.3
	Coatepeque	26.86	35.17	58.27	5.8
San Marcos	San Marcos	23.23	26.15	33.18	2.1
	Malacatán	7.31	8.66	11.93	3.2
Tonicapán	Tonicapán	9.11	9.74	11.17	1.1
Suchitepequez	Mazatenango	27.97	34.32	50.34	4.0
Retahuleú	Retahuleú	34.73	35.42	50.98	2.3
Solcá	Solcá	7.49	7.78	8.52	0.7
NORTHWEST VII					
El Quiché	Santa Cruz	11.61	13.55	18.22	2.8
Chichicastenango	Chichicastenango	4.04	4.55	5.78	2.2
Huehuetenango	Huehuetenango	16.47	19.93	28.70	3.7
PETEN VIII					
Petén	Flores	1.71	1.90	2.10	1.1
	Poptún	8.02	8.91	10.59	1.6

INDICATORS	I	II	III	IV	V	VI	VII	VIII
% of National Territory	1.95	10.85	14.72	7.55	6.28	11.20	14.52	32.48
Population Growth (1980-2000)	4.10	3.51	2.71	2.20	3.33	3.40	3.35	7.83
Density (hab/km ²)	798.00	55.00	45.00	80.00	131.00	116.00	109.00	5.00

Source: Proyecto de Apoyo al Desarrollo Urbano/VII Congreso de Ingeniería

Aside from Guatemala City there is no other city of similar size. The second city in the urban hierarchy -- Quezaltenango -- is 17 times smaller than Guatemala City in terms of population. There are six intermediate cities in the country, of which two -- Mixco and Villa Nueva -- are part of the Metropolitan Area. The four remaining cities -- Quezaltenango, Escuintla, Mazatenango and Retalhuleú -- are identified as the main secondary cities in the country although their urban population is limited and does not exceed 100,000 inhabitants. It is estimated that Quezaltenango has today 97,000 inhabitants, followed by Escuintla with a total of 80,610 inhabitants. This disparity exists despite the accelerated growth of these two cities, 4.01 percent and 10.85 percent respectively, as opposed to Guatemala City which grows at a 4.1 percent pace.

The population and spatial disparities are not only limited to Guatemala City and the cities which follow in size, but also between Quezaltenango and Escuintla and the rest of the urban centers. The cities following by size of population are Mazatenango, 34,320 inhabitants; Retalhuleú, 35,420; and Puerto Barrio, 35,330. These disparities reach an extreme in the case of the Department of Petén, where the town of Flores has a population of only 1,900 and a population density of only 5.0 inhabitants per square kilometer.

Table No. 3
POPULATION DISTRIBUTION (in thousands)

Category	1973		1981		1990	
	Towns	Inhabitants	Towns	Inhabitants	Towns	Inhabitants
Total	327	1,878.20	327	2,209.70	330	3,993.00
More than 100,000	1	921.11	1	1,010.84	1	2,009.00
25,000-99,999	2	86.62	4	145.45	10	424.94
10,000-24,999	13	185.85	21	286.68	30	478.59
5,000-9,999	30	218.49	46	307.78	64	500.41
2,000-4,999	89	270.23	113	312.67	139	449.45
1,500-1,999	43	71.75	41	63.45	39	70.52
1,000-1,499	56	66.25	47	52.25	37	48.06
Less than 1,000	93	57.9	54	55.60	10	12.06

Source: Colegio de Ingenieros de Guatemala

1.4 NEGATIVE EFFECTS OF URBAN CONCENTRATION

Presently, the Metropolitan Area receives 77.45 percent of the country's private investments. With the exception of the Central Region (Escuintla, Sacatepequez, and Chimaltenango), which receives around 10 percent of the private investments, the six remaining regions share only 12 percent of the private investments. In addition, Guatemala City has 67.7 percent of the industrial facilities, 35 percent of the artisan shops, and 44.5 percent of the warehouse facilities.

However, recent studies indicate that the levels of poverty have increased in Guatemala City and in the rest of the country as well, especially during the years 1987 and 1989, suggesting that the present model of development has not been able to satisfy the basic needs of a growing population, and has not been able to produce the expected effect of promoting the different sectors of economic development in a manner which can have an impact on the rest of the cities. In Guatemala City, 88.1 percent of the working population was in a state of poverty in 1987, and only two years later this figure increased to 90.9 percent. In the northern region and in the northwest region the poverty level is above 98.5 percent, leaving only 1.5 percent of the population above the poverty level.

The serious social problems which affect Guatemala include malnutrition, poor health, unemployment and lack of education. Approximately 75 percent of the children under 5 years of age suffer from some level of malnutrition, a major factor for the high rates of child mortality, especially in the rural and urban marginal areas. Gastro-intestinal and respiratory diseases are the major causes of death, and 50 percent of these deaths occur among children of less than five years of age.

Table No. 4
ESTIMATE OF LABOR FORCE PERCENTAGE IN RELATION TO
POVERTY IN GUATEMALA

Condition	Year	Total	I	II	III	IV	V	VI	VII	VIII
Extreme Poverty	1987	80.9	66.1	89.6	77.7	82.1	84.1	88.6	92.1	76.8
	1989	80.1	65.3	91.3	75.1	82.5	84.3	88.1	92.1	74.1
Poverty	1987	13.3	22.0	7.7	15.7	12.7	12.4	8.4	5.9	16.1
	1989	15.6	25.6	7.2	21.4	14.5	12.8	9.8	6.6	21.5
Total	1987	94.2	88.1	97.3	93.4	94.8	96.5	97.0	98.0	92.9
	1989	95.7	90.9	98.5	96.5	97.0	97.1	97.9	98.6	95.6
Not Poor	1987	5.8	11.9	2.7	6.6	5.2	3.5	3.0	2.0	7.1
	1989	4.3	9.1	1.5	3.5	3.0	2.9	2.1	1.4	4.4

Source: SEGEPLAN

Likewise, some indicators in the educational system show that it has major deficiencies. Present attendance is just 27 percent at the pre-primary level; 59 percent at the primary level; 15 percent at the intermediate level; and 6 percent at the secondary level.

In addition, in 1985 unemployment was 12 percent and underemployment, in terms of equivalent unemployment, increased from 29 percent in 1980 to 31.6 percent in 1985. During the period between 1980-1985, the total unemployment rate increased from 31 percent to 44 percent, an increase of almost 42 percent. Similarly, it was estimated that the employment rate for the Metropolitan Area was 44.5 percent; 4.43 percent for the Southwest; 9.14 percent for the Central Region; and 0.69 for the Department of Petén.

Table No. 5
PERCENTAGE OF THE LABOR FORCE BY INCOME AND REGION: 1989

Income (Quetz.)	Total	I	II	III	IV	V	VI	VII	VIII
0-49	15.1	5.8	29.0	17.5	14.8	13.4	15.2	31.7	14.2
50-119	23.4	12.4	34.6	17.6	27.3	23.1	27.7	38.2	21.6
120-199	25.4	21.6	18.7	23.9	28.1	32.4	32.1	14.4	19.3
200-299	13.5	21.2	7.9	11.6	9.9	12.7	11.4	6.5	14.8
300-399	8.3	12.7	3.0	13.4	7.4	8.3	4.9	3.6	12.6
400-599	8.2	13.6	4.1	10.5	8.1	6.0	5.4	3.4	11.0
600-999	3.7	7.0	2.0	3.9	2.9	2.5	2.2	1.5	4.1
1000-1999	1.7	4.0	0.5	1.3	1.2	1.2	0.8	0.3	1.7
2000 and more	0.7	1.7	-	0.3	0.4	0.4	0.3	0.4	0.8

Source: SEGEPLAN

If appropriate measures are not taken, significant changes in Guatemala's model of development cannot be anticipated. This model has its origins in the natural and social growth of the population due to migration from different parts of the country to Guatemala City. Rural-urban migration will continue to occur since these migrants are attracted by the quantity of services concentrated in the capital city and by the social and economic alternatives that the city represents. Likewise, companies, enterprises, factories and industries are attracted by an economy of agglomeration. If the present growth patterns continue, it will be increasingly difficult to solve the problems of basic needs for Guatemala City. In addition, it will become more difficult to generate resources that can lead to a more balanced economic and spatial development for small populated centers.

1.5 COMMENTS

The most dramatic problem presented by the urban and spatial process in Guatemala is the hyperurbanization of the capital city, which exists in the midst of large areas of limited economic growth. This situation is considered unsustainable since, while Guatemala City grows, most of the other urban centers remain behind, with very little opportunity to be integrated into the national economy. The stagnation of most of the urban centers is particularly serious since a substantial part of Guatemala's economy is based on agricultural development; and, modern agriculture requires support from urban centers to be able to establish marketing centers and to facilitate access to technologies, input, credit, and information.

Guatemala's spatial and population characteristics can be summarized as follows:

- Hyperurbanization of the capital city. The country's population is estimated to be 9,198,447 inhabitants, of which 3,933,000 are considered urban; and it is

estimated that more than a one and a half million inhabitants live in Guatemala City.

- The capital city and its Metropolitan Area have one fourth of the country's overall population, and 60 percent of the urban population.
- The area included in the Metropolitan Area is just 1.95 percent of the national territory but it has the highest population density, 798 inhabitants per square kilometer.
- Half of the country's goods and services are concentrated in the capital city; for example, the capital receives 77.5 percent of private investments; includes 66.7 percent of industrial facilities; 35 percent of artisan shops; and 44.5 percent of warehouse facilities.
- There is marked absence of larger cities (with 100,000 and 1,000,000 inhabitants) which would create a regional balance.
- There are only two intermediate cities in the Southwest and Central regions, Quezaltenango and Escuintla, respectively. Both cities have populations between 50,000 and 100,000.
- Cities with populations between 30,000 and 50,000 include only the towns of Retalhuleú and Mazatenango in the Southwest Region, and Puerto Barrios in the Northeast Region.
- Most of the small cities, or rather, the "largest" of the small cities with populations that range between 7,800 and 10,000 inhabitants, are growing at lower rates than the average natural growth rate. There is a tendency for smaller towns, with populations between 1,000 and 5,000, to disappear or to fail to integrate themselves into the national economy.
- In the Metropolitan Area the employment rate between 1980-1985 was estimated at 44.5 percent, while registering much lower rates in the rest of the country: 4.43 percent in the Southwest Region, 9.14 percent in the Central Region, and less than 1.0 percent in the Department of Petén.
- 90.9 of the labor force in Guatemala City is below the poverty level. In the rest of the country this figure is 98.5 percent.
- 75 percent of children less than five years of age suffer a certain degree of malnutrition; and, 50 percent of deaths occur in children under five years of age.

- Education reaches only 27 percent of preschool children, 59 percent of elementary, 15 percent of intermediate and 6 percent of secondary education.
- The national population will continue experiencing high growth rates in the coming years; estimates show that the population will reach 12.2 million in the year 2000.
- It is anticipated that the population will continue to concentrate mainly in the Metropolitan Area, reaching three million inhabitants in the year 2000 and four million inhabitants in the year 2005. The population of the other urban areas will also experience accelerated growth, although this growth will not play a significant role in the national urban context.
- The urban population will reach its highest proportion between the years 2000 and 2005, when it is estimated that it will reach some 7.1 million.
- If the economy continues to contract, there will be a worsening of the country's unemployment and poverty problems.

This evaluation suggests that the need to consolidate the model of spatial development in Guatemala is key to the country's future prospects. It is necessary to expand those urban centers which have a potential for development. Through a better balanced urbanization process, it will be possible to integrate the major population groups which have traditionally remained outside the country's economic, productive and social process.

The general framework of this evaluation is oriented towards the strengthening of a great many of the urban centers outside Guatemala City. With the development of secondary, intermediate and tertiary cities, the continued hyperurbanization of Guatemala City can be prevented; the other urban areas will serve as economic centers that promote agricultural, livestock and marketing services throughout the country.

In order to achieve this, a better distribution of national resources is required, as well as clear national policies that support changes and/or the strengthening of urban development. These include administrative mechanisms of decentralization and deconcentration (see Strategy No. 2 in this evaluation); taking advantage of the export of non-traditional products, currently taking place, to be able to create market towns that will support the country's agricultural structure; and, the identification of social and economic activities, including those of the private and informal sectors, which can increase the country's rural and urban development.

2. GENERAL CHARACTERISTICS OF THE HOUSING SECTOR

The characteristics of Latin America's population have changed rapidly in the last 20 years. The dominant demographic tendency in the region is the accelerated growth of the urban population. Indeed, the population in Latin America is growing twice as fast as that in industrialized countries; it is estimated that in the following years the region's urban population will grow more than 2.5 percent per year.

The present population trends present a serious problem to Latin American governments and to the institutions which provide housing and basic services to the urban population. Cities' resources are inadequate to provide essential services -- jobs, education and health -- for a growing population. In terms of housing, the population, especially the poorest, faces serious limitations in finding housing that has even minimal conditions of safety and comfort.

In Guatemala, shortages in housing and basic services exist in urban as well as rural areas. This section reviews historic trends of the housing sector, assesses the housing conditions, and presents housing demand and projections to the year 2000. This section also discusses the institutional capacity and available financial mechanisms. The magnitude of the resources and needs in Guatemala's housing sector is presented.

2.1 HISTORIC TRENDS

The urban population in Guatemala is growing at an accelerated rate (3.75 percent per year). This growth has a direct impact on the housing needs in urban areas since the formal housing construction industry is not producing housing as fast as the needs of the population.

Table No. 6
POPULATION GROWTH AND HOUSING: (1964-1990)

Year	Thousand of Families		Thousand of Houses	
	Total	Urban	Total	Urban
1964	839	282	801	279
1973	1,009	368	935	365
1981	1,184	432	1,102	415
1990*	1,799	781	1,665	695

Source: Population and Housing Census 1964, 1973, 1981. *1990: Estimates
Abt Associates Inc.

Urban housing represented about one third (34 percent) of total housing at the beginning of the period analyzed (1964-1990). This percentage has increased in recent years. Today, urban housing represents about 42 percent of all housing in the country.

Shortages remain in spite of the fact that urban housing construction has increased in recent years. The construction of formal urban housing during the period analyzed has been approximately 10,000 units annually, except during the years 1976-1982 when in 1979 a peak of 21,780 formal, urban houses were built under reconstruction programs following the 1976 earthquake. After that year, construction of new homes stabilized at less than 10,000 units per year.

2.2 CURRENT SITUATION

It is estimated that today there are 1,665,000 housing units in the entire country (Table No. 7), of which 695,000 are located in urban areas. Since the total number of families nationwide and the number of urban families is estimated at 1,799,000 and 781,000 respectively, it is clear that there is a total shortage of 134,000 units throughout the entire country, of which 86,000 are needed in urban areas. At least 52,000 units are needed in the Department of Guatemala alone.

In addition to the present housing shortages, the units which lack basic services must be added since they are part of the qualitative housing shortage (the lack of one or more basic services and/or the quality of construction materials).

Characteristics	Thousand of Units
Houses required by the present population	781
Existing houses	695
Quantitative Shortage	86
Improvised houses and "ranchos" (8%)	56
Houses without potable water connection (31%)	216
Houses without sewage connection (58.6%)	407
Houses with earth floors (39%)	268
Houses with poor quality materials (31%)	218
Average Qualitative Shortage	230
Total Shortage	316

2.3 PROJECTIONS TO THE YEAR 2010

Population growth will continue to generate major housing demand for years to come, especially due to Guatemala's high growth rate. Since 1964, the population of the country has grown by an average of 2.8 percent annually and 3.75 percent annually in urban areas. In the Department of Guatemala, population is growing at a rate exceeding four percent annually.

Table No. 8
ESTIMATES OF POPULATION GROWTH: (1990-2010)
(In thousands)

Year	Total	Urban	Rural	Dept. of Guatemala
1990	9,197	3,993	5,204	2,357
1995	10,621	4,884	5,738	2,837
2000	12,222	5,932	6,289	3,414
2005	13,946	7,134	6,812	4,039
2010	15,827	8,491	7,336	4,762

Sources: SEGEPLAN/SIECA/CELADE for 1990, 1995, 2000. Estimated by Abt Associates for 2005, 2010

The figures shown in Table No. 9 reflect the average size of families. The average Guatemalan family consists of 5.11 members, while the average family in the Department of Guatemala consists of 4.96 members.

Table No. 9
PROJECTIONS OF NUMBER OF FAMILIES: (1990-2010)
(In thousands)

Year	Total	Urban	Rural	Dept. of Guatemala
1990	1,798	781	1,017	475
1995	2,078	956	1,122	572
2000	2,392	1,161	1,231	688
2005	2,729	1,396	1,333	814
2010	3,097	1,662	1,435	960

Overall and annual housing needs in urban and rural housing can be derived from the previous table. It is estimated that for the period 1990-1995 the number of families will increase in urban areas from 781,000 to 956,000. The difference of 175,000 families indicates that housing demand will average approximately 35,000 units per year during this period.

Table No. 10
PROJECTION OF HOUSING DEMAND: (1990-2010)
(In thousands)

Period	Total	Urban	Rural	Dept. of Guatemala
1990-1995	56	35	21	19
1995-2000	63	41	22	23
2000-2005	67	47	20	25
2005-2010	74	53	21	29

2.4 FUTURE DEMAND IN URBAN AREAS

The total housing demand for the next few years can be established from the aggregate of demand generated as follows:

- a) **The quantitative shortage accumulated up to 1990.** This shortage equals 86,000 urban units from a nationwide shortage of 134,000 units.
- b) **The qualitative shortage accumulated until 1990.** The lack of access to basic services and the quality of materials increased the housing shortage in urban areas by 230,000.
- c) **Population growth.** From 1990, 35,000 units annually are required in the urban areas to supply the demand generated by new families.
- d) **Housing replacement.** Another important factor which must be considered is the increase of housing demand resulting from the replacement of houses which have come to the end of their economic life. The economic use of an urban house in Guatemala is about 67 years. From 1990, about 2,000 urban houses will exceed their economic use each year.

Table No. 11 summarizes the overall housing demand in 1990, in the urban areas.

Table No. 11
HOUSING DEMAND IN URBAN AREAS: 1990

Quantitative Deficit up to 1990	86,000 units
Qualitative Deficit up to 1990	230,000 units
Population Growth	35,000 units/year
Replacement of Obsolete Homes	2,000 units/year
Total Demand	353,000 units

Furthermore, it is also necessary to consider the rural housing shortage to be able to establish the country's total housing shortage. SEGEPLAN indicated in the Plan Nacional de Desarrollo Económico y Social [National Social and Economic Development Plan] for 1987-1991 that there are 815,536 families without adequate housing.

2.5 HOUSING PRODUCTION

In Guatemala, the formal institutions have not been able to satisfy the present levels of housing demand required by a growing population. (In 2.7.2 of this section there is detailed information about the role played by formal institutions in the housing sector.) Up until now, the institutional capacity has not been able to satisfy the present demands: at the national level, there is no housing sector policy and there does not exist a proper level of inter-institutional coordination required to develop coherent and well coordinated housing production. In fact, major activities of the formal institutions are performed almost exclusively by taking advantage of fortuitous, international, financial resources which have been targeted for specific housing projects.

The result of poor institutional production is reflected in the following table:

Table No. 12
HOUSING PRODUCTION IN URBAN AREAS: (1964-1990)

Year	Number of New Families	Total Production
1964	6,952	6,876
1973	14,092	8,038
1981	22,936	12,504
1990	32,185	10,250

Source: Política Social de Vivienda Popular.
 Abt Associates Estimate for 1990

As shown, total production of formal housing in the urban areas is less than the annual growth of families. Thus, while the number of families increases, the formal production of housing only succeeds in providing for a smaller number of families. Consequently, it is the informal sector which today succeeds in providing for the needs for the new families which emerge in the Guatemalan society. Today, the informal sector produces about 80 percent of the houses being provided. (Today, formally and informally, approximately 30,000 houses are built annually.)

As stated above, in addition to the large, present and projected qualitative deficit, there is a strong demand for new housing (56,000 new houses in the entire country and 35,000 new houses in the urban areas). To provide for the construction of new housing, and thus decrease the deficit in national housing inventories, a major financial effort is required. Nevertheless, the Guatemalan experience is that investments in housing have been scarce. The following table shows the pattern of housing investments, compared to the investments in construction, both as part of GNP. Guatemala invests in housing less than other countries in the same region (Costa Rica, 2.6 percent of GNP; Ecuador, 2.6 percent of GNP; Panamá, 3.4 percent; and Honduras, 1.9 percent of GNP).

Table No. 13
PARTICIPATION OF THE CONSTRUCTION SECTOR IN THE GNP AT
MARKET PRICES (1986-1989). (Millions of 1988 quetzales)

Years	GNP	%	Amount of Construction	%	Amount of Housing	%
1986	2,940	100	51.3	1.7	35.9	1.2
1987	3,044	100	58.7	1.9	41.0	1.3
1988	3,158	100	66.3	2.1	46.4	1.5
1989	3,285	100	77.6	2.4	54.3	1.7

Source: Perfil Estadístico de Guatemala, INE, 1989.

The main providers of housing investments are the 17 private and state banks which serve Guatemala. After the 1976 earthquake, these institutions began managing amounts greater than 50 million quetzales annually. Most of these funds were made available by private banking (82 percent). The involvement of the state banks is more modest, but is targeted primarily for the low income population.

Table No. 14
LOANS GRANTED FOR HOUSING CONSTRUCTION: (1980-1989).
 (Thousand of quetzales/year)

Year	Total Banking	Private Banking	State Institutions	Financ.	Collat.
1980	50,911	30,563	14,680	30	5,430
1981	52,707	35,986	11,883	30	4,808
1982	49,870	36,475	7,967	0	5,429
1983	53,603	41,923	9,454	0	2,226
1984	57,805	53,795	13,161	71	778
1985	51,497	40,447	10,710	0	340
1986	65,209	45,246	19,747	54	24
1987	74,189	50,553	22,349	1,102	185
1988	104,304	70,495	31,214	113	2,482
1989	144,528	106,917	32,909	979	3,723

Source: Boletín de Estadísticas Bancarias, 1989.

The following table shows the basis of housing financing in Guatemala.

Table No. 15
LOANS GRANTED BY INTERNATIONAL AGENCIES FOR HOUSING AND URBAN DEVELOPMENT: (1962-1987)

Institution	Loan (U.S.\$ millions)	Year	Recipient Institution
BCIE	2.70	1973	Banco Trabajadores
	5.06	1978	BANVI/FENACOVI
	30.00	1979	BANVI
BIRF	36.60		FUNDAZUCAR (pend.)
	20.00	1976	BANVI
	29.00		CRN/M.in. of Guat. (pend.)
IDB	5.30	1962	INVI
	5.00	1969	INVI
	20.00	1976	BANDESA
AID	43.80		BANVI (pend.)
	10.00	1987	BANGUAT/FHA

Source: Abt Associates

Table 15 shows that international financing institutions have granted loans for housing, between 1962 and 1987, in the amount of US\$98.06 million. This fact suggests that in the past 25 years these institutions have granted about US\$4 million annually for housing projects, while presently there is US\$109.4 million in pending loans to be executed in a short-term period. These

pending funds are the result of several years of negotiations, and their utilization depends on Guatemala solving the problems of payments which are due these institutions.

In addition, it is worth mentioning that loans granted for housing investment in 1989 were mostly targeted for Guatemala City's Metropolitan Area (106.9 million quetzales), and only 26 percent was distributed in the rest of the country. Based on the average cost of housing at the present time, the aggregate loans granted for housing construction in 1989 would allow the construction of 10,250 formal houses. This figure is considerably less than the housing demand created by natural population growth and does not consider the cumulative shortage and the houses to be replaced due to deterioration.

2.6 SETTLEMENTS OF THE URBAN POOR IN GUATEMALA CITY

Among the many shapes that urban poverty can take, probably the lack of adequate housing is the most definite and descriptive. Most of the population of Guatemala, especially that of Guatemala City, live in shacks in highly congested areas. The poorest population lives in inter- and peri-urban slums; in substandard-tenant houses called "palomares"; in old and deteriorated housing units; and in lots with minimum basic services.

The slums are mostly built with discarded materials, in locations topographically unsuitable for urbanization, on state- or municipal-owned land, without basic services. The population in these slums usually has a low literacy level, lacks steady employment or are underemployed. The following table shows the population living in slums and the general urban land use characteristics.

Table No. 16
METROPOLITAN REGION: TYPES OF HUMAN SETTLEMENTS, 1989

Type of Settlement	No. of Units	%	Lot Area (m ²)	Unit Area (m ²)	Unit Area (m ² per Hect.)
Inter-urban slum	17.251	6.38	30	22	3.56
Peri-urban slum	40.613	15.02	30	22	3.56
Tenant units (palomares)	28.392	10.50	-	11.50	2.15
Deteriorated peri-urban	36.774	13.60	150-180	30-45	5.50-8.00
Deteriorated inter-urban	47.076	17.41	160-200	54-70	10-13
Old housing units	9.437	3.49	200-300	15-100	14-18
Lots with services	36.634	9.85	70-81	10-45	5-8
Minimum housing	9.383	3.47	100-160	48-75	9-14
In condominium	8.355	3.09	-	54-90	10-16
Average housing	42.533	15.73	160-200	75-150	14-27
High income housing	2.298	0.85	180-300	150-200	27-36
Very high income housing	1.650	0.61	300	200	
TOTAL	270,396	100.00			

Source: PLANDEMET basic data "Asentamientos Humanos y Vivienda" of the AMG, 1984; updated by Abt Associates

"Palomares" are used by very low income families. They usually consist of a room 9 square meters with a 2.50 square meter kitchen, and a shared bathroom unit. The average family group is 4.2 individuals who live in highly overcrowded conditions. "Palomares" are mainly occupied by city-migrants and by young families who aim to live a close distance from the source of work.

Highly deteriorated housing units are found in the central urban area and the peri-urban areas; they are occupied by low income families. Usually these houses have adequate infrastructure or are within easy reach of basic services. The tenancy rates are usually high for peri-urban housing (5.50 square meters per person), but are reasonably acceptable for the central urban area (10.0 square meters per person).

Old and deteriorated housing is located in the old quarters of the city. These houses have all the basic services but are subject to a process of deterioration by the conversion of the original residential use to multiple rental units or "palomares".

The National Sociodemographic Poll performed by INE in 1989 showed that there were 355,200 houses in the Metropolitan Area in that year. Of these, 270,396 were urban houses and 84,804 rural houses. This means that 22 percent of all the houses in Guatemala and 45 percent of the urban houses are located within the Metropolitan Area. These percentages are consistent with the figures of total population and urban population.

The lots with basic services with a minimum progressive unit have been built by the government and non-governmental organizations (NGOs). This type of solution is targeted to supply the urban housing demand of the poorest, and have been built to shelter the families affected by the 1976 earthquake.

2.7 INSTITUTIONAL FRAMEWORK

The existing and anticipated conditions of housing and urban development in Guatemala in the coming years depends in large measure on the institutional capacities of this sector. The possibility of solving the problems of this sector will depend on the development of plans, policies, strategies, and the private and public institutions involved in this sector.

This section reviews the performance of the main programs and policies that have been carried out within the shelter sector during the past five years. The performance of national and international institutions in the production of housing and urban services is also analyzed. This section concludes with a set of comments which identify the major institutional restrictions in the sector.

2.7.1 PLANS AND POLICIES FOR HOUSING AND URBAN SERVICES

Article 104 of the Constitution of the Republic of Guatemala mandates support for the planning and construction of housing complexes, to create financing systems, and to create the necessary institutional framework for those housing programs which meet sanitary standards. Furthermore, the mandate of article 119, clause g), requires that the State promote the construction of low income housing through adequate financing systems, so that large number of families might benefit from ownership.

Based on these constitutional requirements, the following policies, plans, and programs have been developed:

A) THE HOUSING SECTOR WITHIN THE NATIONAL DEVELOPMENT PLAN 1987-1991

The main objectives of the housing sector during this period were oriented to improve the population's living conditions; fulfill the minimum housing needs through solutions that meet adequate standards; and develop housing production at affordable prices.

To reach these objectives the government launched a strategy to provide assistance to all organized social groups interested in participating in shelter sector related activities, especially in terms of improving the population's income through housing production programs; promoting the efficiency and return of housing project investments; supporting scientific and technological research; and, providing housing projects in areas where jobs and other types of productive activities were available.

The development of this strategy suggests the execution of the following policies and actions:

- A policy action to support the financial activity for the development of housing programs. This can be achieved by establishing a national financing system for housing; supporting negotiations for obtaining external financing; establishing a credit policy based on the needs of organized groups and the strengthening of internal financing mechanisms; promoting the creation a national savings and loan system; and, reorganizing EANVI's structure and limiting its functions to the banking-financing area.
- A policy to support the development of a full body of laws that might include the Ley Nacional de Vivienda [National Housing Law], the Ley de Inquilinato [Tenancy Law], the Ley del Fondo Social para la Vivienda [Social Fund for Housing Law], the Ley de Asentamientos Humanos [Human Settlement Law], and the Reglamento para Construcción de Viviendas a Bajo Costo [Regulations for the Construction of Low Cost Housing].

- A policy to support the research and generation of technology for housing development which permits the use of local resources, reduces construction costs, and establishes adequate standards and procedures for low cost housing.
- A policy to support and strengthen the administrative coordination of the Comisión Nacional de Vivienda [National Housing Commission] to add flexibility to the existing credit qualification mechanisms.
- A policy to support private sector participation in housing projects, including the promotion of self-construction schemes and social organization.

The General Secretariat of the Consejo Nacional de Planificación Económica [National Council for Economic Planning] (SEGEPLAN) is the technical unit of the Guatemalan Government in charge of preparing, every five years, a Plan Nacional de Desarrollo [National Development Plan]. Thus, the 1987-1991 Economic Development Plan was prepared by SEGEPLAN, but was not approved by the Central Government. On the contrary, it was replaced by several presidential memoranda prepared with the direct participation of the Finance Ministry. The consequence of this situation is that the 1987-1991 National Plan for Economic Development did not have any significant impact in terms of the shelter sector. However, policies and actions of that plan are still valid and constitute an appropriate solution to the needs of the housing sector.

B) PLAN OF THE BANCO NACIONAL DE LA VIVIENDA [NATIONAL BANK FOR HOUSING].

The Banco Nacional de la Vivienda [National Bank for Housing] (BANVI), published in January 1987 its Action Plan -- outlined according to recommendations made by SEGEPLAN in the National Plan for Economic Development 1987-1991 -- for the shelter sector.

The "investment, financing and technical assistance" programs identified by the Plan are as follows:

- The "Programa de Mejoramiento de Areas Urbanas Progresivas" [Program for the Improvement of Progressive Urban Areas] (MAP) addresses the urban renovation of settlements in precarious condition, by means of the improvement and provision of physical and social infrastructure. Included is the participation of private sector and non-governmental organizations through self-help initiatives. This program targets the population with the lowest income.
- The "Programas de Lotes con Servicios" [Sites and Services] address the production of minimum lots equipped with basic services such as water supply, sewerage, and electricity. Generally included is a basic unit from which housing units increase progressively.

- The "Programas de Vivienda Básica o Mínima" [Programs for Minimum or Basic Housing] address the production of small, and finished housing units.
- The "Programas de Vivienda Media" [Programs for Average Housing] address the production of medium size housing units, including multifamily buildings of several stories.
- The "Programa de Desarrollo Urbano y Regional" [Urban and Regional Development Program] supports housing as an integrated unit with other additional basic services.

The "financing and technical assistance" programs identified by BANVI are as follows:

- The "Programa de Financiamiento Individual para Adquisición de Soluciones Habitacionales en Proyectos Precalificados" [Program of Individual Financing to Acquire of Housing in Pre-qualified Projects] (FIPP) consists of the granting of credits to individuals who wish to acquire a house in the housing market system.
- The "Programa de Créditos Materiales" [Credit Program for Construction Materials], addresses individuals who wish to build a progressive housing unit.
- The "Programas de Organización y Asesoría Técnica para la Autoconstrucción" [Programs of Organization and Technical Consultancy for Self-construction] are designed for people involved in the construction of progressive housing using self-help schemes.
- The "Programa de Compra de Soluciones Habitacionales para Terceros" [Program for Purchasing Housing for a Third Party], also known as "Program with a key in hand", in which BANVI acts as a sponsor and financial agent to obtain a reliable offer.
- The "Programas de Financiamiento Individual para la Construcción, Ampliación y Mejora de la Vivienda Rural" [Programs of Individual Financing for the Construction, Addition and Improvement of Rural Housing] and the "Programas de Financiamiento Individual para la Construcción, Ampliación y Mejora de la Vivienda Urbana" [Programs of Individual Financing for the Construction, Addition and Improvement of Urban Housing], address the qualitative shortage in the country's rural and urban areas.
- The "Programa de Financiamiento para Urbanización y Construcción de Conjuntos Habitacionales" [Program for the Financing and Construction of Housing Complexes] addresses private entrepreneurs using working capital for the development of housing complexes.

BANVI established the following goals for the 1987-1991 period:

- To provide 15,000 housing units in 1987, which corresponds to 28 percent of the shortage for that year, and which represents approximately 50 percent of the estimated demand.
- To provide 25,000 housing units in 1991, which constitutes 43 percent of the shortage for that year, and which represents approximately 61 percent of the estimated demand.
- To provide an increasing number of housing units between 1987 and 1991, departing from the goal established for the first year.

At this pace, according to BANVI, it is possible to meet the increasing housing demand by 1994. BANVI has also established the administrative actions needed to accomplish these programs and goals. These actions include:

- To act as Executive Secretariat for the Comisión Nacional de Vivienda [National Housing Commission], in support of SEGEPLAN, to carry out the established policies and measures for this sector.
- To design adequate studies of housing shortages and demand.
- To collaborate with the Municipalities and Regional Development Councils.
- To promote an effective plan of recuperation for the Secretariat itself.
- To support the national financing system for housing.
- To improve the Secretariat's own administrative structure.

BANVI's plan includes some of the policies and actions of the National Plan for Economic Development 1987-1991, but could not reach the goals set for the five years period. Also, a major concern is that BANVI has not been able to establish, in a stable and consistent manner, the financing mechanisms. It functions sporadically, when external resources are available. Various initiatives by BANVI have not been successful in obtaining sufficient local financial resources to be able to comply with the present levels of housing demand. Added to these factors are BANVI's own administrative limitations, although at the moment it is in the midst of an administrative improvement plan, financed by IDB, within the Program for Sites and Services.

C) A NATIONAL HOUSING POLICY AS SPECIFIED IN THE GENERAL LAW FOR HOUSING

None of the documents reviewed in the subsections above defines a national housing policy. Legislation for a housing policy was discussed in Congress until December 1990, when it was

withdrawn by the President of the Republic in office at the time. Such legislation (General Law for Housing) established the foundation for a national housing policy and was defined to govern a range of institutions proposed by the law itself. This legislation emphasizes the fact that a national housing policy should reflect the condition of the economy as a whole and the housing needs of the country's socio-economic sectors. In addition, the housing plans should be defined based on the performance of the shelter sector. Access to housing should be facilitated by creating adequate financial conditions, encouraging the participation of private capital, both national and foreign. Also, it states that limitations due to a narrow sectorial approach should be overcome by considering housing in relation to education, health, jobs, provision of infrastructure, and basic urban services and related services.

Likewise, the legislation proposed that housing should help to promote the administrative decentralization and deconcentration processes, at the same time that it helps in the improvement of the environment. Therefore, the national housing policy must establish standards and procedures for controlling the use and fragmentation of urban and suburban land. It should also establish standards and procedures for financing, planning, construction and adjudication which would define and promote low income housing.

In addition to the fundamentals of the national housing policy, participation should be encouraged by the municipalities to solve the urban and housing development problems, by involving the social sectors with the lowest incomes. Research for new technologies and construction materials, and the strengthening of medium and small industries, must also be promoted.

The General Law for Housing states that incentives should be given for the creation of markets for construction materials and land; the increase of labor-intensive technologies; the support for informal settlements and their involvement in home improvement programs; and, the promotion of housing tenancy programs which reach out for the lowest income families.

Finally, it is necessary to encourage individual savings, using economic stimulus provided by the government, that will eventually allow qualification for long term financing.

The proposed legislation for the shelter sector aims to create a national system that will include the Comisión Nacional de Vivienda [National Housing Commission] (CONAVI), an agency whose main function would be decision-making at the highest level. The Commission would team with the Fondo Guatemalteco de Vivienda [Guatemalan Housing Fund] (FOGUAVI) to attract and redirect financial resources, and formulate housing policies. In addition to these agencies, the General Law proposes the creation of a Guarantee for Housing Fund that will promote the granting of mortgage financing as a credit guarantee.

As mentioned, the legislation for General Law for Housing was not approved by Guatemala's Congress. The President serving at that time withdrew the legislation, claiming that the government did not want to confront the private sector. According to the legislation, this sector should contribute -- through the Aporte Patronal para la Vivienda [Employers Contribution for

Housing] -- 1.5 percent of employees' salaries. Nevertheless, the importance and the benefits of this legislation have been recognized by several members of the congress which started its session in January 1991. It seems that the new congress might consider this legislation again, although modifying some of the proposals.

D) LAW OF ECONOMIC COMPENSATION FOR SERVICE RENDERED

In November 1990, the Congress of the Republic of Guatemala issued the Law of Compensación Económica por Tiempo de Servicio [Economic Compensation for Service Rendered] (Decree No. 57-90 of the same year). The bylaws and regulations of this decree were published in January 1991. According to this law, every company, both public and private, must deposit monthly the equivalent of 1/12 of the aggregate monthly payroll. These payments would be deposited in the Banco de los Trabajadores [Worker's Bank] to produce an Economic Compensation Fund for Service Rendered, earning interest at the prime rate.

The regulations in this law specify that the resources in this Fund will be used for banking reserves (20 percent), to broaden the services of the Banco de los Trabajadores [Worker's Bank] (20 percent), and for low income housing (60 percent). The funds earmarked for low income housing would be transferred to the Banco de Guatemala [Guatemala's Central Bank]; this bank will make them available to the nation's banking system for the financing of low cost housing projects. The conditions under which these reserves will be available to the borrower are presently under discussion at the Banco de Guatemala [Guatemala's Central Bank]. However, it is estimated that the effective interest rate will range between 14 and 21 percent annually and that the period of the loan could be as long as 25 years.

An estimate from the Banco de los Trabajadores [Worker's Bank] indicates that the fund will be able to attract about 500 million quetzales per year. From this figure, approximately 300 millions quetzales per year will be funneled towards low income housing projects.

The characteristics of this law and its set of bylaws constitute an appropriate answer to the previously explained problems of housing finance. Nevertheless, it is not possible to arrive at a more detailed analysis about the impact and benefits of this new form of financing since its characteristics and mechanisms are presently under consideration. Despite these ongoing discussions, the new legislation considered the financial factor traditionally lacking from the housing sector in its failure to keep up with housing demand.

2.7.2 INSTITUTIONAL ARRANGEMENTS

In Guatemala, both official and private institutions are involved in the housing sector. However, it is the responsibility of the public institutions to satisfy housing needs for middle and low income populations. Among these institutions are the Banco Nacional de la Vivienda [National

Bank for Housing] (BANVI), the Insututo de Fomento de Hipotecas Aseguradas [Institute for the Promotion of Insured Mortgages] (FHA), and the Comité de Reconstrucción Nacional [National Reconstruction Committee] (CRN).

Private sector institutions also participate in the production of low cost housing, usually as non-governmental institutions, among them Hogar y Desarrollo [Home and Development] (HODE), and the Fundación del Azúcar [Sugar Foundation] (FUNDAZUCAR). In the same group exists the Federación Nacional de Cooperativas de Vivienda [National Federation for Housing Cooperatives] (FENACOVI). In addition, the private sector participates in housing construction through the Asociación Nacional de Constructores de Vivienda [National Association of Housing Builders] (ANACOVI) and private banks.

Likewise, there are international agencies which collaborate technically and financially with the national institutions. Among them are the Banco Centro Americano de Integración Económica [Central American Bank for Economic Integration] (BCIE), the World Bank (BIRF), the Interamerican Development Bank (IDB) and the United States Agency for International Development (USAID).

A) THE BANCO NACIONAL DE LA VIVIENDA [NATIONAL BANK FOR HOUSING] (BANVI)

BANVI has recently initiated the redefinition of its role which is based on the "Christian Democratic Government Program, Housing Sector". The purpose was to recover its hegemony as the main promoter and financing institution of the shelter sector. Within this framework, BANVI has promoted the creation of the Comisión Nacional de Vivienda [National Housing Commission] (CONAVI) to function as the main inter-institutional liaison and to coordinate shelter sector activities. In search of new financing sources, BANVI promoted different programs; for example, within CONAVI's institutional framework, BANVI has promoted the creation of the Lotería Instantánea de Guatemala [Guatemala's Instant Lottery].

During the last five years, BANVI has accomplished the results shown in the following table:

Table 17
BANVI: HOUSING PRODUCTION: (1986-1990)

	1986		1987		1988		1989-90 ¹	
	Units (1)*	Cost (2)**	Units (1)	Cost (2)	Units (1)	Cost (2)	Units (1)	Cost (2)
Total	3.59	14.97	4.02	17.85	2.33	14.88	13.29	82.56
Regular projects			3.65	15.46	1.53	12.3		
FEER trust			0.37	1.69	0.80	2.85	4.91	9.05
BANVI-IDB trust							3.78	16.51
Basic unit							1.53	12.59
Minimum housing							2.58	24.51
Average housing							0.58	9.90

Source: BANVI, Memoria 1986-1989, abril 1990

¹1990. BANVI Estimates

*Thousand of Units ** Millions of quetzales

Within its new initiative, BANVI has launched different housing programs. For example, the program "Sites and Services" has been used to target the lowest income population. This program amounts to US\$56 million, of which US\$43.8 million is from a loan from IDB. It consists of 12,500 lots with basic services; approximately half of this amount are to be located in the Metropolitan Area of Guatemala City. The rest are to be located in other main cities of Guatemala such as Quezaltenango, Escuintla, Puerto Barrios, Retalhuleu, Nazatenango, Chiquimula, Antigua Guatemala, Cobán, San Marcos, Huehuetenango, Jalapa and Quiché. This program started in 1989; since 1989-1990, BANVI has been able to purchase urban land and start several other projects, completing 3,788 units, at a cost of 26.5 million quetzales.

Similarly important is the work performed by BANVI through the "Programa de Mejoramiento de Areas Progresivas" [Program for the Improvement of Progressive Areas] (MAP), targeted at substandard settlements. Between 1986-1990, BANVI provided assistance to 22,320 projects which included improvement of housing, access roads, relocation of families from high risk areas, and provision of basic infrastructure and sport areas.

During the same period BANVI has attracted the resources shown in the following table:

Table No. 18
BANVI: AVAILABILITY OF RESOURCES: (1966-1990)
 (Millions of quetzales)

Program	1986-89	1990	After 1990
Total	60.2	127.6	153.7
AID-HG-004 Program	3.0	3.0	
Bank of Guatemala	5.5		
Government contribution	11.5	20.0	
BANVI-IDB trust			
- IDB contribution	12.0	26.5	135.0
- Government counterpart	12.3	7.8	13.0
Banco de Vivienda Popular		25.0	
Banco Centroamericano		6.5	
Italia-Guatemala Program			
- Italy donation	15.0	20.0	
- Guatemala contribution	0.9	5.3	5.7

Source: BANVI, Memoria 1986-89

BANVI is the Guatemalan Government's main promoter and executor of housing projects targeted at low income population. Nevertheless its functions are modest in relation to the growing housing demand. For the last five years BANVI built an average of 4,646 houses per year. This figure is approximately 50 percent of the formal housing production. BANVI was only able to supply 13 percent of the minimum housing demand for that period.

B) INSTITUTO DE FOMENTO DE HIPOTECAS ASEGURADAS [INSTITUTE FOR THE PROMOTION OF INSURED MORTGAGES] (FHA)

The system for insured mortgages was created by Congress through decree No. 1448 in June 1961 to promote housing construction and capital investment in housing finance. The main activity of FHA is to promote housing construction through insured mortgages. This insurance serves to guarantee to the investor-lender the return of his investment in case the debtor-purchaser defaults on mortgage payments. Therefore, by eliminating the risk of potential capital loss, capital investment for housing construction is stimulated.

The FHA functions by means of two main instruments:

- The "Resguardo de Asegurabilidad" [Insurability Protection], which is a promise that guarantees the timely issuance of the insured mortgage once the FHA requirements are fulfilled.
- The "Seguro de Hipoteca" [Mortgage Insurance], which is the main document issued by FHA. Through this document insurance payments are guaranteed to the investor in case the debtor fails to meet payments.

The efforts made by the FHA supporting housing construction during the period 1962-1988 are shown in the following table:

Table No. 19
FHA - ISSUANCE OF GUARANTEES OF INSURABILITY AND INSURED MORTGAGES : (1962-1988)
(In units and thousands of quetzales)

Years	Guarantees		Insurance	
	Units	Cost	Units	Cost
1962-1966	3,448	30,237.0	2,052	17,765.8
1967-1971	4,437	32,562.9	3,297	26,882.0
1972-1976	3,376	37,569.0	3,287	25,687.9
1977-1981	6,060	144,723.8	4,159	86,827.6
1982-1986	7,956	180,041.8	6,415	144,810.0
1987-1988	1,490	35,201.5	890	22,651.6

Source: FHA. Memoria de Labores, 1988

In 1988 the investment in mortgage financing of 17 agencies that work within the insured mortgage system, amounted to 160.27 million quetzales. The Banco Granai & Townson S.A. is the financial institution that has granted most loans, followed by Banco del Ejército, Banco Inmobiliario, Banco del Agro, and Crédito Hipotecario Nacional de Guatemala.

Most of the housing projects financed by the insured mortgage system operated within the boundaries of the Metropolitan Area of Guatemala City. The insurances issued were, on average, for the construction of 80 square meter houses, financed for 23 thousand quetzales.

Planning and Construction Standards for Projected Units. The FHA published construction standards in 1985 for houses with construction areas greater than 70 square meters. Later, in 1986, the FHA issued Preliminary Standards for the Design of Urbanization Development and Minimal Houses, targeted at low cost houses with a construction area equal to or less than 50 square meters, and located on an urbanized lot.

The last standards issued are of particular interest in the development of low cost housing projects. A density of up to 110 lots per hectare of useful area is allowed; and minimum lots of 64 square meters, with a maximum occupancy rate of 0.65 percent, are allowed. For water supply, the minimal allowance is 150 liters/person/day; and the use of shared toilet facilities when sanitary and/or municipal authorities allow it. Concerning minimal housing, the FHA accepts a minimal living space of 11.17 square meters per person, and

traditional construction materials used under concepts and techniques that would guarantee the buyers' safety.

The FHA standards are adequate for the construction of houses for middle and high income families, but they are not applicable for low income housing. Although the FHA has made an effort to reduce its minimal standards, in reality this single fact does not facilitate the development of low cost projects. According to FHA rules, all urbanization development works should be completely finished before the respective insured mortgage is issued; this fact inhibits the development of progressive projects that involve the debtors themselves resulting in major savings to the buyer. Moreover, under present conditions, the initial price of projects is more expensive; this fact limits the availability of resources designated for housing construction. The present situation leads to the development of projects that offer good infrastructure but a limited solution to housing needs. The final product after the FHA standards are implemented is a good quality project, but costly, and thus inadequate for most Guatemalan families whose incomes only allow them the acquisition of low-cost income houses. This information is easily verified by the limited use of the line of credit 520-HG-004 granted by USAID to the Guatemalan Government. After three years of implementation, only one third of the available funds have been used.

**C) FEDERACION NACIONAL DE COOPERATIVAS DE VIVIENDA
[NATIONAL FEDERATION FOR HOUSING COOPERATIVES]
(FENACOVI)**

This institution was created by the President of Guatemala on January 4, 1977. It is a private, non-profit organization, created to promote the construction of housing which combines the highest conditions of safety, hygiene and comfort, and which meets the social and economic needs of the member families. Among its goals are also the construction of housing projects that would help to improve the community's quality of life in terms of education and economic and social improvement.

Between 1977-1978, along with 17 affiliated cooperatives, the Federación designed four major programs:

- Canadian Agency for International Development (ACDI). The purpose was to build 1500 houses in the rural areas, with Canada supplying construction materials and the beneficiary cooperatives providing the additional needs.
- BCIE/BANVI/FENACOVI/Cooperatives. The goal was to build 931 low cost urban houses. BCIE, through BANVI, provided 5.06 million quetzales. BANVI and the Cooperatives provided 1.44 million quetzales.

- Program Comité de Reconstrucción Nacional [National Reconstruction Committee] (CRN)/FENACOVI included the construction of 41 houses in Chimaltenango for the Cooperative Santa Ana R.L., at a total cost of 205 thousand quetzales.
- Program Ciudad Cooperativa El Zarzal [El Zarzal Cooperative City]. Provided by a trust between CRN/BANVI/FENACOVI for the construction of 5,000 houses for the families in the cooperative. The cost of the program was estimated at 19 million quetzales.

Between 1979 and 1982 these four programs were implemented. In the ACDI/FENACOVI Program, 635 houses were built in the Mofang Project, in Gualán, Zapaca, and on private land around Gualán, Salam, Baja Verapaz. In the BCIE/BANVI/FENACOVI/Cooperatives Program, 790 houses were built in Escuintla, Tiquisate, Quezaltenango and Villa Nueva. In the CRN/FENACOVI Program, the initially planned construction of 41 houses was completed. The Ciudad Cooperativa El Zarzal Program completed all planning for urbanization and housing, and succeeded in the identification and selection of the families that would participate in the first phase of the project; however, BANVI did not obtain the necessary financing.

Between 1983 and 1985, FENACOVI faced various financing problems resulting from payment arrears and/or lack of payments from the cooperatives who received the previously indicated projects. During that period, FENACOVI renegotiated the payments with the financing agencies until a financial solution was reached.

In 1985, FENACOVI signed an agreement with the Cooperative Housing Foundation (CHF), allowing it to begin its Integrated Rural Development Program and to accept new financial resources. From 1986, FENACOVI was able to obtain resources which allowed seven cooperatives under the Programa de Desarrollo Rural Integrado to build 291 low cost houses in Escuintla and Quezaltenango.

D) COMITE DE RECONSTRUCCION NACIONAL [NATIONAL RECONSTRUCTION COMMITTEE] (CRN)

The CRN was created after the 1976 earthquake and was designated as the institution to carry out Guatemala's reconstruction program. To oversee the housing sector, the "Fondo Extraordinario Específico de Reconstrucción" [Specific Extraordinary Reconstruction Fund] (FEER) was created, with the purpose of helping the lowest income families by granting subsidized loans. At the same time, BANVI was designated as managing unit for FEER's resources, in accordance with the policies established by CRN.

The CRN, together with the Municipality of Guatemala and through the authorities of the Guatemalan Government, negotiated to obtain resources from the World Bank to address specific problems of Guatemala City. This originated the CRN/BIRF Urban Improvement Program

sought to raise the quality of living for 37 marginal settlements in Guatemala City. This program aimed to provide minimum housing standards and living conditions (sites and services and progressive units), community services, and urban infrastructure, as well as to community strengthening and job generation programs.

The program also included a sub-program called "Acondicionamiento de Conjuntos Habitacionales" [Renovation of Multifamily-Housing Projects], that would provide community services needed for the 32 reconstruction groups and would repair and/or complete substandard infrastructure. The program also includes a sub-program on "Adaptación Urbana de Asentamientos de Población en Estado de Pobreza" [Urban Adaptation of Populations Living under Poverty Conditions], targeted toward the integrated improvement of the living conditions of five settlements whose dwellers were living below the poverty line.

Both sub-programs include civil works projects to repair the physical infrastructure and provide community services for the 37 housing projects. Both also include an institutional strengthening component, technical assistance, and credit services. The total amount of the Program was 110.64 million quetzales provided by the combination of a 78.39 million quetzales (US\$29.0 million) loan from World Bank and a 32.34 million quetzales local contribution. The World Bank's funds have been granted at a variable interest rate for a period of 16 years including a 5 year grace period. Execution of the Program was planned for the period 1989 to 1994. The goal is to benefit 26,038 families.

E) BANCO NACIONAL DE DESARROLLO AGRICOLA [NATIONAL BANK FOR AGRICULTURAL DEVELOPMENT] (BANDESA)

BANDESA has been the official sector's entity mainly related to the construction of rural housing until 1981. After the earthquake in 1976, BANDESA was in charge of the execution of the 120/TF-GU loan, granted by IDB to the Guatemalan Government with contributions from Argentina, Brazil, Venezuela, Peru, Colombia, and Mexico. Through this program, 14,848 families received loans for the reconstruction, repair or acquisition of rural housing around the country.

BANDESA achieved a total disbursement of US\$21.4 million, of individual loans, each loan varying between 1,000 and 1,500 dollars.

F) BANKS

According to the statistical information shown in section 3.5 regarding housing production, the banks began managing more than 100 million quetzales after 1988. Nevertheless, the currency devaluation has affected housing production. Today, a quetzal has a value equivalent to 20 cents

of the quetzal which circulated in 1958; as a consequence, production of formal housing is scarce (an average of 10,000 houses per year). Thus, it would be necessary to quintuple the bank's annual investments to cover the minimum annual demands.

According to statistics from FHA, approximately half of the investments in housing have FHA mortgage insurance. The rest of these investments are usually guaranteed by a first mortgage on the constructed house. The banks in the system usually authorize investments in houses for 50 percent of their value, except for the Crédito Hipotecario Nacional de Guatemala [Guatemala National Mortgage Credit] and BANVI, whose legal norms allow them to invest up to 70 percent of the value of the house.

The conditions for bank financing were stable in Guatemala until 1988. Since then, the interest rates have changed from 9 percent for deposits and 12 percent for loans to 17 percent and 21 percent in liabilities and assets activities respectively, reaching higher interests rates at private financial entities and in government securities. The concept of long-term, fixed rates, very attractive for housing financing, has disappeared from the banks in the system. With the exception of the funds contributed by AID (520-HG-004) and by BCIE, which are provided for fixed-rate, long-term loans at 14 percent, other bank financing is provided at variable and uncertain rates which are not attractive for the individuals who require home financing.

2.7.3 INTERNATIONAL AGENCIES

The following international agencies have played an important role in the production of housing and basic services in Guatemala. Furthermore, most of the formal sector's activities related to the provision of housing and basic services depend on external financing. The amount of financing granted by international agencies between 1962-1987 was US\$98.06 million. Today, there is US\$109.4 million pending execution for short term loans, depending on the solvency of Guatemala for payments due these agencies.

A) BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA [CENTRO-AMERICAN BANK FOR ECONOMIC INTEGRATION] (BCIE)

The BCIE has financed three housing projects in Guatemala. In 1973, through the Banco de los Trabajadores [Worker's Bank], 2.7 million quetzales was granted for the construction projects of Ciudad Quetzal and Ulises Rojas, located within the limits of the Metropolitan Area of Guatemala City. In 1978, a loan was approved for US\$5.06 million to BANVI, for the construction of housing targeted for families affiliated with cooperatives; the responsible entity for this project was FENACOV. In 1979 a loan was granted to BANVI for US\$30.0 million for the construction of houses in the Nimajuya Project, located in Guatemala City.

Today, the BCIE has under consideration a loan for 36.6 million quetzales for FUNDAZUCAR, through the Banco de Exportación [Export Bank] (BANEX), for the construction of houses targeted for the workers of the sugar mills on the Pacific coast.

B) INTERAMERICAN DEVELOPMENT BANK (IDB)

The IDB has granted several loans to the Guatemalan Government for the housing sector. In 1962 US\$5.3 million was granted to the Instituto Nacional de la Vivienda [National Housing Institute] (INVI), the predecessor of BANVI. In 1969, IDB approved another loan for US\$5.0 million, again to INVI, for the construction of 5,555 houses for low income families. In 1976, US\$20.0 million was granted as a contribution to solve the housing problems created by the earthquake. The unit executing that loan was BANDESA. In 1987, IDB concluded negotiations for an additional loan of US\$43.8 million through BANVI, for the Sites and Services Program. The program includes 12,500 lots. The construction of three projects in this program have already been started. In March 1991, the completion of the first 2,397 lots is expected, in Quezaltenango, Retalhuleu and the outskirts of Guatemala City. The rest of the projects should start before December 1991.

IDB contributes 78.1 percent of the funds in this Program and the Guatemalan government will contribute US\$12.3 million, for a total of US\$56.1 million. IDB has granted these funds for a period of 40 years, with a 10 year grace period. The consumer will pay an annual interest rate of 8 percent.

C) AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

This agency has worked for a number of years with private and public entities related to housing and urban services, supporting their efforts to improve the social and economic conditions of the overall population, particularly the low income population. In November 1986, negotiations were concluded with the Guatemalan government to develop Project 520-HG-004, for an amount of US\$10.0 million, targeted for the population below the median income level. This project addresses the construction of low cost housing, whose purchase price would not be above 29,263 quetzales for Guatemala City and 25,579 for secondary cities. The Project began operation in 1988 using a mechanism which includes the financial management of the Banco de Guatemala [Guatemala's Central Bank] and the technical supervision and guarantee of FHA. The Project is estimated to be 35 percent complete.

USAID also has in preparation the creation of a private sector guarantee fund, that would be used initially to support FUNDAZUCAR's rural housing projects.

Also important are the special efforts by USAID to collaborate with international agencies and national entities to support the construction of urban and rural services. These include activities

with the Fondo Especial de Desarrollo y las Comunidades Rurales [Special Fund for Development and Rural Communities]; the Peace Corps; and CARE, which contributes to the construction of municipal services through the "Food for Work" program.

2.8 COMMENTS

Guatemala's population is growing rapidly, a fact which has had a direct impact nationwide upon housing needs. Today, housing demand is estimated at 280,000 units for the years between 1990-1995, of which 175,000 are in urban areas and 95,000 in the rural areas of the Department of Guatemala.

This anticipated shortage exists despite the fact that housing production has been increasing considerably in the past years, especially in the urban area. Thus, urban housing, which represented a third of all housing in the country at the beginning of the period analyzed in this evaluation (1964-1990), progressively increased, and today represents 42 percent of the total housing in Guatemala.

It is estimated that today, around 30,000 formal and informal houses are produced annually. Nevertheless, the production of formal housing is slow in relation to the population needs. Approximately 10,000 formal houses have been produced annually, except during the period from 1976 to 1982 when formal production accelerated due to activity generated by reconstruction of the damage caused by the 1976 earthquake.

In 1979, the peak number of 21,780 urban houses were constructed. After that year, instability in production resulted in less than 10,000 new houses annually, despite the strong and growing demand for new housing units. Nationwide demand is estimated as 56,000 in 1990, of which 35,000 are required in the urban zones.

The analysis indicates that the housing sector does not have the necessary resources to resolve this situation, mainly because of the following:

- The lack of a National Housing Policy. The entities that work in this sector operate in accordance with their particular objectives and means. The result can be seen in dispersed activities, which conform neither to the national economy nor to the housing requirements. Since 1987, the Plan Nacional de Desarrollo [National Development Plan] has provided the elements required for a successful housing policy, but this plan has never been approved.
- In 1990, by means of the legislation entitled Ley General de la Vivienda, an attempt was made to enact this same policy; however this attempt also failed. Later, in 1991, the Housing Commission of the Congress of the Republic of Guatemala insisted that it is absolutely essential to approve the legal instruments needed to guide development of the

housing sector. Therefore, the lack of a national housing policy is clearly felt by the entities that work in the sector; but, a policy has not yet been created and approved.

- Coordination is lacking between the entities working in the housing sector. Theoretically, the entities working in the sector are adequate to provide for all segments of the housing demand; but, the lack of a national housing policy and adequate legislation to support this policy, results in a lack of coordination between these entities.
- Since 1986, BANVI has promoted the establishment of a Comisión Nacional de Vivienda [National Housing Commission]. This concern became a substantial part of the legislation for the Ley General de Vivienda [General Law for Housing] in 1990. But, on both occasions, it has been impossible to establish the necessary coordination to make this commission operational. This need for coordination is also felt within the entities in the housing sector, because they recognize the need for inter-sector and intra-sector strengthening, provided by the National Housing Commission, to promote administrative deconcentration, and to increase flexibility in financing, especially, to provide legal support to assure complete backing of the sector's activities through the implementation of a body of laws which are easily identifiable, such as the Ley General de la Vivienda [General Law for Housing], Ley de Inquilinato [Tenancy Law], and the Ley de Asentamientos Humanos [Human Settlements Law], and to assure proper utilization of the resources of the Ley de Compensación Económica por Tiempo de Servicio [Law for Economic Compensation for Length of Service] for low cost housing.
- Financing is lacking to provide for housing needs. The major problem in the housing sector is, undoubtedly, the lack of financial resources to provide for the growing housing demand. Therefore, another need identified in the housing sector is the establishment of a financing system for housing, capable of providing public and private resources nationwide, in combination with external financing.
- It is clearly urgent and necessary to establish financial support and strengthening mechanisms for housing. This would be achieved if the Ley General de la Vivienda [General Law for Housing] is approved; this includes contribution by the employers toward the formation of the Fondo Guatemalteco de Vivienda [Guatemala Housing Fund] (FOGUAVI), and the use of 60 percent of the funds available under the Ley de Compensación Económica por Tiempo de Servicio [Law for Economic Compensation for Length of Service] for low cost housing. Also required is the creation of a national savings loans and system for housing, to help low income families. Of equal importance in the financing of housing, is to allow the banks within the system to increase the guarantee for homes up to 80 percent, and to make the interest rate more flexible by providing preferential treatment to low cost housing.
- The informal sector lacks support and recognition. The informal sector produces 70 percent of the houses in the country. Even though this means an enormous mobilization of diverse resources, there is neither a policy nor available national financing that would:

1) improve the level of construction of informal housing, and 2) broaden the participation of the informal sector in housing production. It is anticipated that to decrease the quantitative and qualitative shortages in the national housing inventory, it is necessary to improve participation of the people through self-construction, the promotion of the social organization, and the financing of low income housing.

3. GENERAL CHARACTERISTICS OF BASIC SERVICES AND URBAN DEVELOPMENT

In most developing countries the lack of basic services is one of the major obstacles in the development process. Developing countries, differing from industrialized countries, are characterized by a high demand for basic services in the face of an extremely limited supply of such services. This fact limits the process of urban development and has a direct impact on the quality of life in these countries.

A high level of urbanization in developing countries has taken place in less than 40 years. A similar process of urbanization -- the expansion of urban centers tied to the industrialization process -- has taken the United States and most European countries a period of more than 200 years. During these 200 years, cityward migration and the provision of physical infrastructure to support this urbanization have occurred gradually. In the western industrialized world, industrial expansion provides the demand for a labor force which migrates in response to this demand. In developing countries, urban growth precedes industrial development. As a result, this growth exceeds the capacity of industry to generate jobs, and also exceeds the ability to provide infrastructure, basic services, and housing.

In Guatemala there is a serious shortage of basic services. Basic services are excellent indicators of the disparity and inequality existing in Guatemala. While most of the basic services are supplied to Guatemala City, the rest of the country shows major shortages, adversely affecting the quality of life, health, and social development for most of the Guatemalan population.

This section reviews the existing shortages and inequalities of basic service provision in Guatemala in terms of potable water, sewerage, and solid waste collection. Also, information is included regarding the availability of land that can be used for urban development. Finally, a description is included of laws, regulations and institutions which support the provision of basic services.

3.1 PROVISION OF BASIC SERVICES

Potable Water. In Guatemala, potable water, sewerage, and solid waste collection are noticeably better in Guatemala City than in the rest of the country, and also better than the national average. However, despite the level of service which is provided in Guatemala City, it is still inadequate. If Guatemala City continues to absorb most of the immigration, in comparison to the other cities in the country, the demand for service will increase at a pace such that every day it will be more and more difficult to provide this service.

According to data from the 1981 census, most (80 percent) of the houses in the Department of Guatemala are connected to the water system, while in the same year,

only 37 percent of the houses outside the Department of Guatemala were connected to water service.

Although the supply of potable water has improved noticeably in the Department of Guatemala, major problems are anticipated in the future provision of this service. For the year 2010, the Metropolitan Region will have 3.9 million inhabitants; assuming an average demand of 286 liters/capita/day in that year, a production of 13.06 cubic meters/second would be required. This situation is actually worse, since today there is an estimated shortage of 1.83 cubic meters/second. Added to this problem are the administrative and financial limitations of EMPAGUA, thus exacerbating the rapid deterioration of this service.

Regarding the potable water supply outside the Department of Guatemala, the data of the last INE survey indicate that, in spite of 42 percent of the houses in the country being connected to this service in 1989 -- with individual use connections -- and an additional 22 percent being supplied from public taps -- connections used by several homes, 36 percent of the population must use a more primitive source, such as a well, a river, a lake or a spring.

Table No. 20
PERCENTAGE OF BASIC SERVICES CONNECTED TO THE SYSTEM:
(1964-1981)

Service	Guatemala			Urban Areas			Dept. Guatemala		
	1964	1973	1981	1964	1973	1981	1964	1973	1981
Water	31	22	37	78	57	70	94	NA	80
Not connect.	69	78	63	22	43	30	6	NA	20
Sewerage	9	16	18	26	45	44	NA	NA	63
Not connect.	91	84	82	74	55	56	NA	NA	37

Source: INE, National Housing Census of 1964, 1973, 1981.
NA: not available

Potable water service is also experiencing serious limitations nationwide, although service has in fact improved progressively over the last 25 years. In 1949, only 32.5 percent of the houses in urban areas were connected to a municipal water supply system. Today, potable water supply directly reaches 70 percent of the houses in urban areas. This improvement has been the result of steady efforts of the country's municipalities along with the Instituto de Fomento Municipal [Institute for Municipal Promotion](INFOM), whose annual investment programs have placed potable water supply as a priority.

Sewerage. The sewage system is greatly deficient, even more than the potable water system. As a consequence of the high cost of sewerage services, it is difficult to

provide for installation throughout the country. Today, only 18 percent of the housing is connected to a sewage system. However, these services, as with potable water, have experienced a slight improvement. For example, in 1964, the national census indicated that only 9.4 percent of the houses in the country were connected to a sewage system.

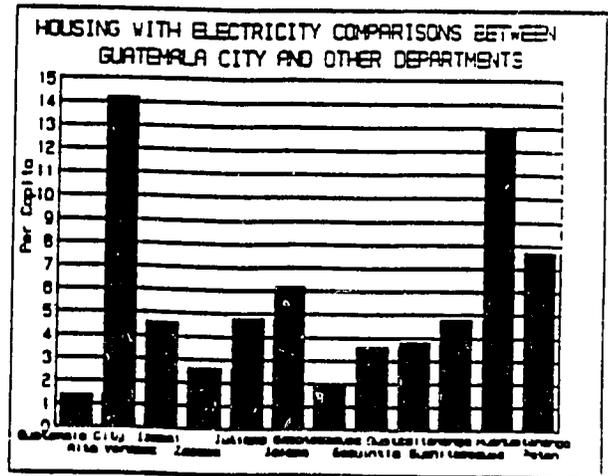
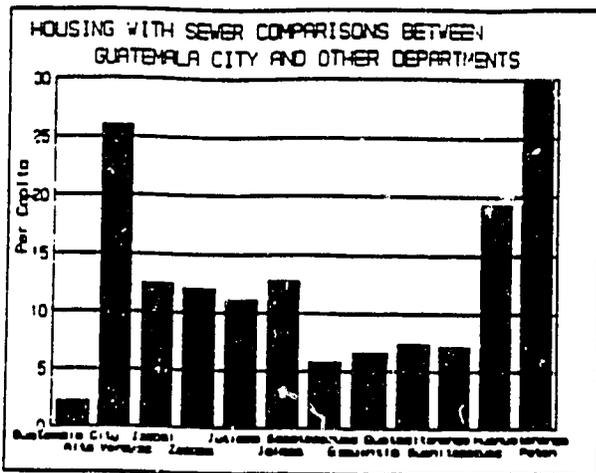
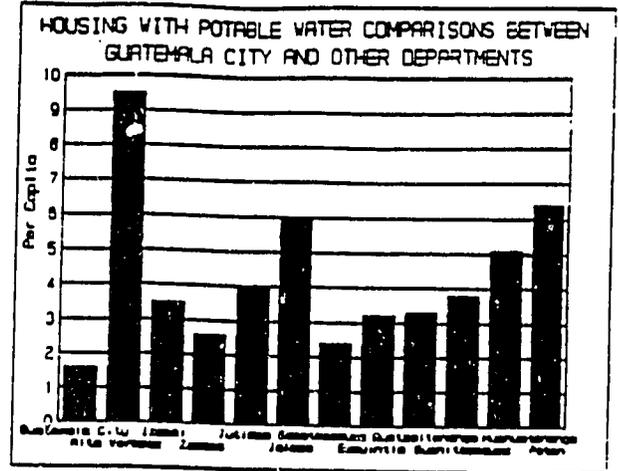
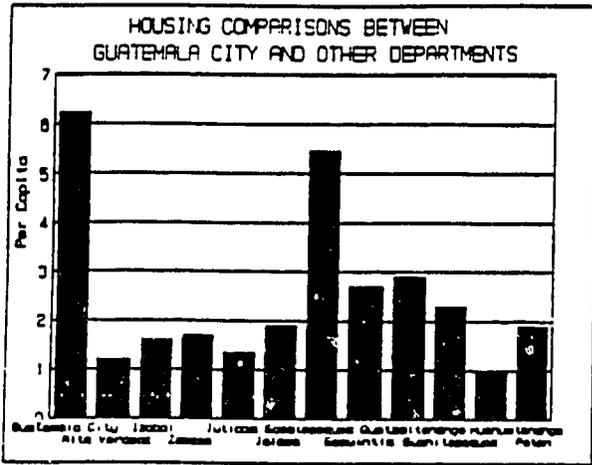
In Guatemala City, 63 percent of the housing is connected to the sewage system, a situation which contrasts sharply to that of the rest of the country. However, in the Department of Guatemala this service is also affected by population growth and by the physical expansion of urbanized areas. Construction of the network of large municipal collectors was halted in 1978, and was not continued along with the Plan Integral de Alcantarillado [Integrated Plan for Sewerage]. The result is that many residential areas use individual sewage systems, increasing the contamination of the subsoil, with the consequent risk of jeopardizing the ground water that is frequently used to compensate for the municipal shortage of potable water. There have been cases of contamination of ground water in Quezaltenango, Esquintla and Santa Lucía, among others.

Solid Waste Collection and Disposal. In Guatemala City, the service of collection, transportation, and final disposal of solid waste is provided both by municipal governments and the private sector. The private service covers the entire city, while the municipal service serves only certain key areas. The final disposal is done in a sanitary landfill located in zones 3 and 7 of Guatemala City. There are also numerous unauthorized dumping places, a fact that makes it difficult to accurately estimate the amount of solid waste produced in Guatemala City. Today it is estimated at around 1,714 tons per day.

In recent years, attempts have been made to substitute and/or complement the sanitary landfill using an industrialized disposal process, but a satisfactory alternative process has still not been found.

Solid waste collection functions reasonably in Guatemala City but is practically non-existent in the adjoining municipalities. This is particularly obvious in the areas immediately surrounding the metropolitan expansion areas, where accumulation of uncovered landfills proliferate, with little attention paid by municipal authorities.

Solid waste collection in other municipalities in Guatemala is managed, most of the time, by municipal governments (sometimes the private sector participates), although service is very inadequate. For example in Esquintla, because the city is growing rapidly (4.7 percent annually), and because the municipality does not have transportation, nor manpower, nor dumping areas, the city has serious health and environmental degradation problems.



DISPARITIES IN HOUSING AND BASIC SERVICES BETWEEN GUATEMALA CITY AND OTHER DEPARTMENTS

In general, solid waste collection is extremely limited in the majority of Guatemala's municipalities. Municipal governments do not have the economic resources to improve the present situation. Moreover, since the customer billing mechanisms are inefficient and local governments have limited economic resources, especially after the suspension of the 8 percent contribution (see Chapter III, section 1 of this Assessment), the situation presently appears permanent in nature, with consequent continued deterioration of the service.

Table No. 21
DISTRIBUTION OF RESPONSIBILITIES FOR URBAN SERVICES

Service	Guatemala City	Other Cities
Land use control and private construction	Municipality	Municipalities
Potable water	Municipality EMPAGUA	Municipalities INFOM
Sewerage	Municipality	Municipalities INFOM
Electricity	EEGSA	INDE
Solid Waste	Private service Municipality	Private service Municipalities
Transportation	Private companies	Private companies

3.2 AVAILABILITY OF LAND FOR URBAN DEVELOPMENT

In Guatemala, there are large quantities of land that can be used for urban expansion and development. For example, the Department of Guatemala, whose limits coincide with those of the Metropolitan Area, has an area of 221,713 hectares. If the areas unsuitable for urban use are subtracted, there still remains an area of 53,480 hectares, of which 14,197 corresponds to the area currently developed. The area available (39,283 hectares) guarantees enough land for the expansion of Guatemala City for more than a hundred years. A similar situation exists in other principal cities of the country -- such as Quezaltenango, Esquintla, Antigua Guatemala, Retalhuleú, Cobán and Chiquimula.

In Guatemala, the main obstacle for urban expansion is the provision of services such as potable water, sewerage, electricity, and accessibility to potential settlement areas. At the same time, there is a serious limitation because of the price of land which increases considerably when such services become available.

The price of land in Guatemala City has increased progressively as urban growth increases. During the period between 1964 and 1984, the prices increased by a factor of 5 in the old established zones of the city and by a factor of 15 in the rapid growth zones. To these increases should be added the increase due to currency devaluation, since the price of the land changes progressively to maintain its 1984 equivalent value.

The land which can be urbanized around Guatemala City and also around the secondary cities, is subject to the process of supply and demand in a free market. Government entities and private companies acquire the land which best meets their needs, always looking for the most favorable conditions in terms of price, access, potable water, sewerage, electricity, and topography.

The purchase of land for low-income families is becoming more and more difficult. Municipalities usually do have land available for low income projects, but it is poor, and as a consequence, this population settles on land which is unfavorable for urbanization, creating large zones of poverty, and substandard housing.

3.3 REGULATIONS FOR GROWTH AND LAND USE IN MAIN CITIES OF GUATEMALA

All cities, especially secondary cities -- Mixco, Villa Nueva, Quezaltenango, Esquintla, Mazatenango and Retalhuleú -- rely on the same regulations from the Ley Preliminar de Urbanismo [Preliminary Law of Urbanism] and from the Ley de Parcelamientos Urbanos [Law of Urban Development]. Only the city of Quezaltenango has an approved Plan Regulador [Master Plan]. The remaining cities are guided by decisions made by the Municipal Councils, responding to specific problems.

The Constitutional Eight Percent. Since 1987, municipalities have received directly the contribution of the constitutional eight percent, which has allowed them to accelerate the construction of specific projects for urban services. This is the national policy with the highest impact in urban development. (More information about this Program is included in Part III, Section 1 of this assessment.)

Presidential Memorandum. The Plan de Desarrollo Nacional [National Development Plan] was not approved. The Plan was replaced by two memos from the President. The first memo was published in March 1987 and identifies the following key issues: the development of potable and irrigation water systems, land, highways and secondary roads, housing, nutrition, exports, urban safety, health services, and education.

Concerning potable water, the Plan defines as a task for the period 1987 and 1988 the introduction of potable water in 100 communities, in coordination with complementary projects for sewerage and drainage.

The Presidential Memo is a political strategy of Central Government to "pay a social debt" to the very poor. The potable water task was to be carried out by the municipalities with resources from the Fondo de Inversiones Sociales [Fund for Social Investments](FIS) in the amount ten million quetzales. FIS would have been created for this purpose; however, Congress never approved the law creating this institution.

Therefore, the proposals for potable water did not become more than a document of good intentions.

Urban Development in the Plan Nacional de Desarrollo [National Development Plan], 1987-1991. The policies and actions set forth in the Plan para el Desarrollo Urbano y Regional [Urban and Regional Development Plan] are oriented toward the creation, strengthening and/or diversification of the urban economic activities, in terms of the role played by cities within a national urban system. An urban system was identified by SEGEPLAN as a strategy to support the country's development. Such a system was based on the proposals of the Plan de Apoyo al Desarrollo Urbano y Regional [Plan for Supporting Urban and Regional Development]. This plan was developed with the assistance of PNUD and Habitat.

These policies and actions promote the following:

- To strengthen the capacity of the public sector to support the development of settlement areas. In order to implement this policy, the creation of eleven complementary programs is proposed, which include the planning of settlements; identification and inventory of natural resources; delivery of social training programs; the provision of public services, housing and land use, and social infrastructure; deconcentration of economic activities; generation of jobs; improvement of public administration; design of master plans; and increase of public investments.
- To increase the productivity of urban related activities in terms of nationwide resources.
- To increase employment and income of the urban population, and to use employment as a strategic factor to relocate national population.
- To satisfy the basic needs of the urban population in terms of nutrition, health, education, and housing.
- To strengthen the relationship among urban centers.
- To promote master plans in terms of the growth of Guatemala's City's Metropolitan Area.
- To consolidate the development of the most dynamic urban centers in the rest of the country.
- To promulgate an urban and regional development law which should identify organizational patterns and strategic urban centers in order to promote and provide coherent urban and rural development throughout the nation.

Three phases were designed for the execution of the Plan. The two initial phases were undertaken. As a result, the preparation of the Plan de Acción Urbana y Regional [Urban and Regional Action Plan] and the mechanisms for its execution were completed. The third phase, which consists of the preparation of development plans in each one of the new regions approved by the Guatemalan Government in 1986, was not carried out. The recently established Urban and Rural Development Councils were considered capable of preparing and executing their own plans.

The Regional Area within the "Estrategia Para La Paz y El Desarrollo: Guatemala 2000" ["Strategy for Peace and Development: Guatemala 2000"]. The document Guatemala 2000 is a follow-up to the Plan Nacional de Desarrollo [National Development Plan] 1987-1991 and the Presidential Memoranda. Guatemala 2000 was published in December 1988 and envisions Guatemala's development for the next eleven years. This document highlights the concerns of the public sector regarding the role of urban and regional development in achieving coherent development among the different regions nationwide. Development is viewed in terms of the abilities and resources of each urban center and region, and the achievement and participation of social groups in their efforts towards regional economic growth.

To achieve these goals the following actions are identified:

- To take advantage in a rational manner of the natural resources of each region and to promote their orderly development.
- To train the human resources technically, in accordance with the production abilities of each region.
- To orient the production of each region towards the export of commodities with high elasticity of demand in order to assure a growing income.
- To promote regional investment through the generation of savings, effective demand, and adequate infrastructure.
- To guard the cultural values and local identities of the different regional communities during the implementation of innovative measures.
- To consolidate the system by encouraging widespread participation, including the decision-making process through local, municipal, and regional councils.

The Guatemala 2000 document was also not approved nor officially recognized as a government strategy. As with the Presidential Memorandum, it was just another document with very good ideas.

Present Situation. Due to the lack of adequate regulations and coherent policies regarding the provision of basic services and urban development, the following measures are being taken in actual practice at this time:

- Municipalities, with the funding obtained from the constitutional eight percent have greater resources to provide basic services to their respective communities. The decisions regarding policies and investments are made exclusively by the Municipal Councils. The limited technical capabilities of these officials, in general, result in investments for public works that not always coincide with the best strategy for local urban development.
- INFOM offers technical and financial assistance and financing to the municipalities (more information is included in Chapter III, section 1), as long as municipalities follow INFOM's strategy which places potable water at the top of the list of priorities, followed by other services such as sewerage, public markets, municipal buildings, and the paving of streets. Also, INFOM has played a major role in the overall improvement of public services. Its action has been limited by the economic capacity of the municipalities and of INFOM itself.
- Other institutions, such as the Ministerio de Desarrollo Urbano y Rural [Ministry for Urban and Rural Development], the Ministerio de Comunicaciones [Ministry of Communications], Transporte y Obras Públicas [Public Works and Transportation], the Instituto Nacional de Electrificación [National Institute for Electrification], also contribute to urban development by launching specific projects when financial resources are available. Thus, their actions are not sustained nor continuous.

3.4 REGULATIONS FOR GROWTH AND LAND USE IN THE METROPOLITAN AREA

In the government and administration of the Metropolitan Area there is a super-positioning of several levels. The highest level is that of the Gobernación Departamental [Governor's Office], which represents the Central Government within the jurisdiction of the Department of Guatemala. On the same level, but limited today to the functions of institutional coordination, is the Concejo de Desarrollo Urbano y Rural Metropolitano [Metropolitan Urban and Rural Development Council]. At a lower level, there are seventeen municipalities which act independently, under the Municipal Code, Ley Preliminar de Urbanismo [Preliminary Law of Urbanism], and Ley de Parcelamientos Urbanos [Law for Urban Development].

Nevertheless, at none of these levels does there exist technical or legal instruments to regulate in an integrated manner the growth and land use in the Metropolitan Area.

Preliminary Law of Urbanism. The Ley Preliminar de Urbanismo [Preliminary Law of Urbanism] was issued by the Central Government in 1956 with the purpose of

standardizing the preparation of municipal master plans. Through this law the boundaries of Guatemala City are fixed, and studies are defined that should be performed for the development of master plans for towns with more than 10,000 inhabitants.

Law for Urban Development. This law was issued in 1961 to regulate the rights and duties between sellers and buyers of urban and suburban lots. It indicates the prerequisites required by municipalities to authorize the process of subdivision. It also defines the basic contents of a contract and rules for termination.

Regulations of the Municipalities of Guatemala. Between 1959 and 1963, the Municipal Council issued the Reglamento de Urbanizaciones y Fraccionamientos en el Municipio y Area de Influencia de la Ciudad de Guatemala [Regulations for Urban Development and Subdivisions in the Municipality and Within the Urban Area Surrounding Guatemala City]. These regulations define the requirements for subdivisions, identifying a minimum area of 600 square meters for residential lots, type A; and 160 square meters for type B lots. It also indicates the procedures for issuing municipal licenses, and the standards for the future Master Plan regarding guarantees and sanctions.

In 1979, the Reglamento de Construcción [Construction Regulations] was issued. It is the municipal instrument of greatest importance and scope. Its regulations include the proposals for the Esquema Director del Ordenamiento Metropolitano 1973-2000 [Master Plan for Metropolitan Organization 1973-2000] (EDOM), and proposals for the Plan Regulador de la Ciudad de Guatemala [Guatemala City Master Plan] which nevertheless did not obtain official approval. These regulations also include standards for approving construction licenses and urban requirements concerning building height, parking areas, residential and commercial areas, and minimal measurements for lots and housing.

In addition, the Municipality of Guatemala has issued the Reglamento para Diseño y Construcción de Drenajes [Regulations for Drainage Design and Construction], and the Normas para la Construcción de Redes de Agua Potable en la Ciudad de Guatemala [Standards for the Construction of Potable Water Systems in Guatemala City].

The rest of the municipalities of the Metropolitan Area, especially those of Mixco, Villa Nueva, and Villa Canales which feel the impact of Guatemala City's expansion, normally use the same regulations as Guatemala City, but there is not an explicit coordination agreement between them.

Actions of the División de Saneamiento Ambiental [Environment Sanitation Division] and the Comisión Nacional del Medio Ambiente [National Commission for the Environment]. Both agencies have taken part in the last few years in the approval of urban development projects with the purpose of protecting environmental conditions. Their actions are technical; they do not make distinctions between different types of urban development projects.

Municipal Licenses. The Municipality of Guatemala, in accordance with the Reglamento de Urbanizaciones y Fraccionamientos en el Municipio y Area de Influencia Urbana de la Ciudad de Guatemala [Regulations for Urban Development and Subdivisions in the Municipality and Within the Urban Areas Surrounding Guatemala City], requires the appropriate municipal license for subdividing the land. If this requirement is not met, there is a penalty consisting of suspension in the selling of lots and the issuance of fines. In addition, these licenses require a cadastral certificate to be submitted with the proposed land subdivision, or if not available, a certificate from the Registro de Propiedad Inmueble [Real Estate Registrar]. An absolute requirement for authorizing a subdivision is for the developer to agree to include in the project streets and green-recreational areas, as well as right-of-way for potable water, sewer lines, and other utilities. The municipality reserves the right to reject the proposed projects, after verifying their suitability and after the developer submits a mortgage guarantee in cash or in escrow for 100 percent of the project's total budget.

Present Situation. Since 1954 there have been several versions of a Plan de Desarrollo Metropolitano [Metropolitan Development Plan], and since 1987 there has been ongoing work on the creation of a Plan de Desarrollo Urbano y Rural de la Región Metropolitana [Urban and Rural Development Plan for the Metropolitan Region]; however, neither Plan has ever been approved. Therefore, today there is still no standardized instrument regarding urban development. As a consequence, for urbanization and housing in specific projects, the municipal regulations presently used are based on the Municipal Code and on specific actions taken by the respective Municipal Councils, and on FHA Planning and Construction Standards.

The municipal laws and regulations available for regulating the growth, land use, and services in urban areas are applied in a very limited manner due to a variety of circumstances, among which are the weakness of municipal legislation in comparison to national legislation and the lack of technical capabilities of the municipal staff in charge of their implementation. As an example, there is the failure in applying the Ley Preliminar de Urbanismo [Preliminary Law of Urbanism] which requires the preparation of municipal regulation plans. Only the Municipalities of Guatemala City and Quezaltenango have made efforts in this area, although neither has an approved and functioning instrument capable of guiding the growth of their urban areas.

Furthermore, the implementation of the Ley de Parcelamientos Urbanos [Law for Urban Development] allows the municipalities to require a license from the new subdivisions

within its jurisdiction. From this it can be implied that the present laws and regulations are effective, but that lack of opportune and adequate implementation has made them insufficient to control urban growth.

At present, there has been a progressive accumulation of diverse conditions resulting in cost overruns of urban development projects due to protectionist regulations. An example is the requirement that urban development projects make half of their land available for public use, such as schools, sports facilities, green areas, and forest areas. Also, services must be offered in accordance with the highest international design criteria, but without taking into consideration the need for low-cost projects for the majority of population, which is the low-income population.

All this results in extremely cumbersome procedures to begin installation of basic services and housing construction. Added to this is the "normal" time needed to obtain a municipal license for the development, the subdividing, and the selling of lots. Usually, six to eight months are required to get these licenses, if they are obtained according to the procedure requiring each institution to provide for their respective approval. This long delay is again translated into additional costs for the developer and for the construction of the projects, due particularly to the inflation existing in Guatemala. If one considers that during 1990 the accumulated annual inflation was estimated at 80 percent, a six month delay in the procedure to obtain a municipal license translates into a 40 percent increase in construction and administrative costs. To avoid these situations, it is common practice to try to find an easier route through payment of other "contributions" to appropriate municipal officials.

3.5 OVERVIEW TO THE MUNICIPALITY OF GUATEMALA CITY.

The physical growth of urban areas is a result of both the combined actions of the population, and the actions of the institutions in charge of providing services needed for the welfare of the population. This subsection describes urban growth characteristics of Guatemala City and its area of influence, and describes its financial situation and other national and international institutions which provide support to assist the City in achieving its social and economic development. References to the other municipalities are provided in Part III, Section 1, of this assessment.

3.5.1 THE METROPOLITAN AREA

Frequently, urban centers form a socio-economic system with an area of influence larger than its established political boundaries. Thus, the term metropolitan area refers to the total radius of influence of a particular city, integrating other areas with similar social and economic characteristics.

Natural population growth plus accelerated rural-urban migration often results in a process of uncontrolled city growth. When this occurs, economic and physical capabilities of the cities can be insufficient to respond to the needs of the increasing population. In the specific case of Guatemala City, as a result of its limited capacity to support a growing population, 11 neighboring municipalities have now been incorporated to conform the Metropolitan Area of Guatemala City.

Table No. 22
POPULATION IN THE METROPOLITAN AREA OF GUATEMALA CITY

Municipality	1970	1980	1990	Percent Growth Annual 1970-1990
Guatemala	817,333	1,477,586	1,806,740	6.1
Santa Catarina Pinula	11,792	17,231	25,411	5.8
San Miguel Petapa	4,106	5,680	23,974	24.2
Amatitlán	24,163	34,748	44,400	4.2
Villa Nueva	25,656	47,710	132,203	20.8
Mixco	67,022	160,125	329,502	19.6
Villa Canales	9,128	11,236	52,726	23.9
Chinautla	28,129	77,889	57,535	5.2
TOTAL	987,329	1,832,205	2,472,491	7.5

Source: Colegio de Ingenieros de Guatemala; INFOM

It is anticipated that the population in the Metropolitan Area of Guatemala will continue to grow for the next few years due to the economic attraction that it exerts in relation to other urban centers in the country.

Migration from the countryside toward the Metropolitan Area is not uniform; it varies in relation to distance from Guatemala City. Likewise, it has been determined that 48 percent of the migrants come from municipalities which are the leading towns of the departments. Sixteen percent of the migrants come from the Department of Guatemala, 35 percent from forty kilometers radius and 60 percent from eighty kilometers radius. It is certain that Guatemala City will continue to keep its power and hegemony in relation to other municipalities which comprise the Metropolitan Area.

Therefore, it is considered essential to identify the necessary mechanisms to face the growth, not only of the city itself, but to maintain a balance in relationship to the municipalities that make up the metropolitan area. Operation and maintenance of basic services is still performed separately, with each municipality in the metropolitan region providing its own services.

The creation of a service district to provide certain services throughout the Metropolitan Area is a solution that should be studied. The creation of single service district, coinciding with the boundaries of the metropolitan region, should be considered, especially to facilitate urban development and the provision of basic services.

3.5.2 REGARDING FINANCES

The financial situation of the Municipality of Guatemala shows a reasonable evolution in the past ten years. For example, during the period between 1979 and 1988, total income increased from 17.89 million quetzals to 68.81 million quetzals. This means an average annual growth during this period of almost 14 percent, surpassing by a considerable amount the average annual growth of the population. The following table shows the growth of municipal income during the past six years.

Table No. 23
MUNICIPALITY OF GUATEMALA CITY: REVENUE BY TYPE OF URBAN PROGRAM: (1983-1988)
 (Millions of quetzales/year)

Program	1983	1984	1985	1986	1987	1988
Total revenues	34.4	30.67	24.23	38.83	52.53	63.81
Current revenues	19.99	20.97	21.12	28.01	37.42	44.19
Tax revenues	14.82	15.33	15.24	16.59	21.55	24.39
Income from tax revenues	--	--	--	0.02	0.05	0.05
Non-tax revenues	4.79	4.79	4.35	5.84	7.82	8.30
Current transfers	0.38	0.84	1.53	5.55	7.99	11.44
Capital Revenues	14.44	9.70	3.10	10.81	15.11	19.61
Resources from pub. credit	10.41	8.50	1.00	0.20	0.31	3.27
capital transfers	4.02	1.19	2.10	10.60	14.79	4.50

Source: Unidad de Planificación Urbana, Municipality of Guatemala City

Among the municipal revenues, the main contribution corresponds to current revenues. During the period analyzed, current revenues have doubled, representing 69 percent of total revenues. Tax revenues provide most of the current revenues, contributed by seven taxes, from a total of eighteen taxes. Principal taxes, in order of importance, are: Impuesto Unico sobre Inmueble [Sole Tax on Real Property], la Tasa sobre Alumbrado Público [Public Energy Tax] Impuesto sobre la Circulación de Vehículos [Tax on Vehicles], Contribución por Mejoras [Tax on Property Improvements], Boleto de Ornato [Ornate Ballot], Arbitrio sobre Microbuses [Tax on Mini-vans]; and Arbitrio sobre Autobuses Urbanos [Tax on Urban Buses]. These taxes contribute 84 percent of total income from taxation.

However, municipal expenditures have increased progressively. The following table shows the structure of real expenditures during the same period.

Table No. 24
EXPENDITURES OF THE MUNICIPALITY OF GUATEMALA CITY: (1983-1988)
 (Millions of quetzales/per year)

Type	1983	1984	1985	1986	1987	1988
Total expenditures	21.25	28.59	23.24	31.49	44.96	63.81
Management	14.58	14.70	15.57	22.62	26.09	35.58
Investments	3.24	10.01	3.96	5.78	16.13	23.56
Public debt	3.42	3.87	3.71	3.08	2.72	4.66

Source: Unidad de Planificación Urbana, Municipality of Guatemala City

The management expenditures have increased considerably during the period due to salary adjustments made to compensate for the rise in the cost of living. But, it is important to point out that the expenditure in investments increased six times over 1983. From these investments can be identified important projects for metropolitan development, including the improvement of main urban thoroughfare projects; low income neighborhoods with community participation; sanitary landfill; and the preparation of the Plan de Desarrollo Metropolitano [Plan for Metropolitan Development]. However, since 1984 investments have not been made to extend the network of sewer lines to improve the collection and treatment of waste water.

3.6 PROJECT OF THE WORLD BANK AND THE MUNICIPALITY OF GUATEMALA CITY

Although the IBRD Program has temporarily suspended activities due to reasons unrelated to the design or execution of the Program, it is worthwhile to highlight the objectives. The IBRD granted to the Government of Guatemala a loan for US\$29.0 million, for the Programa de Mejoramiento Urbano [Urban Improvement Program], that was to be executed between 1989 and 1994 by the Municipality of Guatemala City and the National Reconstruction Committee (CRN). The Program was targeted to raise the living standard in 37 marginal settlements of Guatemala City, by providing adequate assistance for housing needs in those settlements with minimal living conditions (sites and services and progressive housing units). The Program also targeted provision of economic and social infrastructure, as well as community strengthening and the jobs generation programs.

The Urban Improvement Program includes the subprogram Acondicionamiento de Conjuntos Habitacionales [Low Income Housing Improvement; Row Housing Improvement] to provide social infrastructure for the 32 reconstruction projects, and to repair and/or complete existing deficient infrastructure. The Program also includes the subprogram: Adaptación Urbana de Asentamientos de Población en Estado de Pobreza [Urban Adaptation of Poverty Level Settlements], targeted at the improvement of living conditions for five poverty-level settlements.

Both subprograms include civil works projects to repair economic and social infrastructure for the 37 low income housing areas. Also, they included institutional strengthening and technical assistance, and credit assistance.

Furthermore, the Municipality of Guatemala City would execute part of the program which totals US\$15.0 million for the extension and modernization of the cadastral system of Guatemala City; street paving; preparation of the Plan for Metropolitan Urban Development; and administrative improvements.

The total amount of the Program would be 110.64 million quetzals provided by a loan of 78.39 million quetzals from the IBRD, and from a local contribution of 32.34 million quetzals. The IBRD funds have been granted at a variable interest rate, for a term of 16 years, including a 5 year grace period. The implementation period was scheduled from 1989 to 1994.

3.7 COMMENTS

The provision of basic services in Guatemala is seriously limited and it is anticipated that the problems will become more acute in future years. The shortages further exacerbate the critical situation experienced by the housing sector, since a portion of the qualitative housing shortage exists because of the lack of basic services.

The difficulties of the sector exist in part due to the following:

- **Lack of basic services could increase the housing shortage.** The qualitative shortage in the housing sector is produced by deficiencies especially of the lack of direct potable water and/or sewer connections. According to figures shown in section 2.4 regarding future demands in the urban areas, the cumulative, qualitative shortage in housing in 1990 was 230,000 units; this is almost three times the quantitative shortage, estimated at 86,000 units. This reflects the importance of basic services for the population, since it is the people themselves who, in one way or another, formally or informally, tend to resolve the need for shelter. Nevertheless, the provision of basic services requires action from the public sector, or a considerable effort by the community. Hence the importance of the public sector's actions, since this sector can reduce the increasing qualitative shortage by acting as provider of basic services. The public sector can achieve this by implementing deconcentration of services; by coordinating the activities among its institutions; and by efficiently planning the allocation of resources. The public sector is capable as well of decreasing the quantitative deficit by making more flexible the standards required of private investors for the development of low income housing projects. These standards are presently very high, and therefore costly for housing, especially in terms of the low income population.
- **The need to deconcentrate basic services.** In terms of the distribution of basic services nationwide, it can be shown, more than in any other component of physical and socio-economic development, that the disparities affecting the country are imbalanced. Essential services of potable water, sewerage, electricity and garbage collection are heavily concentrated in the Metropolitan Area of Guatemala City, due to the high degree of development of this city in contrast to the weakness of other cities in the country. This population concentration creates strong pressures regarding where to invest in basic services, leaving limited resources for the other cities to provide for their needs. Since 1985, attempts have been made to resolve this with the creation of the regional system and its respective Urban and Regional Development Councils. Nevertheless, it is still necessary to strengthen this process, to be able to achieve an effective deconcentration of investments in basic services, targeted specifically at a reduced number of cities, strategically located in each region in the country, to be able to provide basic services to a larger population in the rest of the country. The basis for defining the strengthening of the strategic process in the rest of the country is already available in the Project for Urban and Regional Support (SEGEPPLAN), and has the corresponding legal support in the country's constitution.
- **The lack of coordination in the provision of basic services.** INFOM assisted the municipalities until 1985 with the provision of basic services, in accordance with their respective economic resources. Since 1986, the Ministry of Urban and Rural Development and the Councils for Urban and Rural Development have also contributed to the provision of basic services. Nevertheless, they have not achieved identifiably better results, while they have complicated the coordination in allocating resources. This situation primarily occurs because of the lack of local urban development plans which integrate the needs of urban growth -- land, services, and housing among others -- with

the resources available to the institutions. In superimposing the different levels of authority and the various institutions working within the same city, a lack of administrative coordination is created. Technical and legal instruments are lacking for regulating the growth and land use of a city in an integrated manner. The laws and regulations available to the municipalities to regulate growth, land use and services within the urban areas see limited use due to diverse circumstances, including the weakness of municipal legislation in comparison to national legislation, and the limited technical abilities of the municipal staff in charge of implementation.

- **The lack of better utilization of available financial resources.** The country's constitution created the eight percent resources for the municipalities in 1985. These resources have been of unquestionable benefit. Nevertheless, their utilization has not been adequately planned, and the lack of technical training in most of the municipalities has contributed to the use of these resources for works which, though of minor importance, are politically impressive. The lack of inter-institutional coordination, added to the lack of local urban development plans, has limited the beneficial effects of these resources. Therefore, there is an obvious need for strengthening municipal governments, to allow them to play a more effective role in the urban and spatial development of Guatemala. Likewise, the lack of planning in the municipalities which permits the regional development plans to compete with the Ministry of Urban and Rural Development should be corrected and coordinated to achieve better utilization of the constitutional eight percent resources.

4. GENERAL CHARACTERISTICS OF THE FINANCIAL SECTOR IN HOUSING

The housing problem was identified as a vital concern by the Government of Guatemala which assumed power in 1986. Nevertheless, this governmental concern did not result in a procedures that could be used by public agencies to facilitate the flow of financial resources for the construction of housing. The fact is, the financial system of Guatemala has no incentives to develop and become secure enough to actively offer housing finance. The financial sector does not have the background in housing, nor is it structured to generate mortgages in the quantities required to respond to the need.

This problem does not result from the recent inflationary pressures that affect the country. In the 1970's, when the rates of inflation were under control, mortgage loans were made with residual funds from the banks, that is, when the demand for non-mortgage financing was relatively weak.

4.1 ANTECEDENTS

The shortage of loans for housing can be explained by the following factors:

- **Limited generation of internal savings.** In Guatemala, as in the other developing countries, one of the fundamental obstacles in the provision of housing is the low level of savings generated domestically. This obstacle is most serious in Guatemala since internal savings are equivalent to eight percent of the gross national product in recent years and less than the long-term savings potential of the country. The deficiency in internal savings results from the lack of incentives to saving in Guatemala, and is aggravated by innumerable governmental policies contrary to this objective.
- **Dependency on external credit.** In Guatemala the tendency exists to perceive external credit as one of the principal sources of funds for housing. Nevertheless, the availability of external credit directed specifically to the construction of housing and/or related infrastructure, does not constitute a lasting substitute for internal savings since the amount of assistance available from donors is limited.
- **Institutional problems.** The National Bank for Housing [El Banco Nacional de la Vivienda (BANVI)], is presently in arrears in its obligations. In recent years, the use of credit carries with it significant exchange rate risk because of the constant devaluation of the quetzal. In the majority of cases the central bank, acting as the agent of the government of Guatemala, assumes the responsibility for the repayment of dollars, in lieu of the mortgage lender or the intermediate financier which originates the mortgage. The currency exchange losses assumed by the central bank, the other currency exchange benefits provided to exporters and importers, and the petroleum subsidy, have together caused budget deficits which in turn cause the dissipation of the domestic savings.

- **Lack of long-term financing.** The policies that govern the financial sector permit the mortgage loan handling to be performed primarily by intermediaries who are not in a position to offer long-term home financing. Consequently, these entities do not act as sources of specialized financing for home loans.

Table No. 25
GROSS DOMESTIC PRODUCT AND TOTAL SAVINGS: 1985-1990
 (Millions of quetzals)

Year	GDP	Total Savings	Savings/GDP (%)
1985	11,179.95	1,281.4	11.49
1986	15,838.07	1,636.5	10.33
1987	17,711.05	2,463.7	13.91
1988	20,543.27	2,814.4	13.69
1989	23,876.08	3,198.5	13.39
1990	28,512.67	5,015.0	17.54

Efforts to increase the availability of housing will only be successful through an increase in the domestic savings accompanied by an efficient mobilization of mortgage loans. These actions mean extensive changes in the financial procedures for mortgages, in the reorganization of the housing sector, and in the assignment of clearly defined functions for each of the institutions in this sector. Changes that do not cover all these aspects will only have a limited effect on the cost and/or the availability of mortgage loans. The presumption underlying this report is that it is necessary to undertake extensive changes in the financial system and in the policies regulating this sector, in order to reduce the housing shortages of the country.

4.2 RECENT ECONOMIC DEVELOPMENT: ACCELERATED INFLATION AND THE INFLUENCE OF THE EXCHANGE RATE

Inflation is one of the most severe problems of the Guatemalan society, and likewise is one of the major problems affecting the financial sector. In 1989 prices increased on the order of 11.4 percent; in 1990 the annual rate of increase was approximately 70 percent. This process, without precedent in the history of the country, has been aggravated by a succession of budget deficits, most of which were financed by the central bank. During 1988 and 1989, most of the potential inflation inherent in monetizing the public debt was compensated by losses in the international reserves, due to government intervention in support of the exchange rate at such levels that the quetzal became highly devalued in relation to the dollar. In fact, the super-inflationary pressures were hidden, at least temporarily, in a massive erosion of the international reserves of Guatemala.

In light of these facts, and in an effort to contain or prevent further losses in private capital, the authorities removed controls from the interest rates in August 1989. During 1990, the price of the dollar increased by 77 percent in relation to the quetzal, a change which resulted in increases, more or less equivalent, in local prices both for imported products as well as for those for exportation.

The political implications are quite clear now that the exchange rate is determined by the market. Any increase in total monetary resources will likely be reflected in a deterioration of the exchange rate together with an increase in the domestic prices of both imported and exported merchandise. At the present time, the authorities are not in a position to control the exchange rate. It is difficult to check inflation during periods of excessive expansion of domestic credit. In summary, there is a strong interrelationship among monetary growth, the exchange rate, and inflation.

Table No. 26
THE ANNUAL RATE OF INFLATION AND THE EXCHANGE RATE:
1985-1990

	1985	1986	1987	1988	1989	1990
Annual rate of inflation %	18.7	36.9	12.3	10.8	11.4	70
Exchange rate quetzal/dollar	2.96	2.83	2.66	2.63	2.83	5.00

Source: Bank of Guatemala

4.3 MOVEMENTS IN THE INTEREST RATE

In the absence of measures to reduce the budget deficit, interest rates continue to move upwards. So as not to run a risk, the banks suspended the exchange of currency during the period immediately after the decision was made to remove controls from interest rates. This was perhaps done because a generalized increase would expose the lenders to additional losses, which in turn would result in a deterioration of the loan portfolios of the banks. As a result, the interest rates both for deposits as well as for loans began to rise in February 1990, while the interest rates on government securities rose to much higher levels. Thus interest rates for deposits, which varied between 8 and 13 percent at the beginning of the year, rose to 12 percent for small denominated, short term accounts, and to 21 percent for large deposits with longer

term maturities. In the same manner, interest rates for loans increased to a range of 22 to 28 percent in recent months.

Even at these levels, the interest rates on time deposits are lower than the returns on the certificates offered by the Bank of Guatemala called bearer certificates. Additionally, the real interest rates on deposits, after deducting the effects of inflation, have been negative since November 1989. As a consequence, it is not surprising that some banks have found themselves affected by large withdrawals of deposited funds because depositors have taken advantage of the high interest rates of market securities or have invested their funds in unregulated organizations in the "informal" sector, or have undertaken the purchase of dollars in speculative transactions. Some banks are reluctant to pay more competitive interest rates on deposits because the demand for loans has diminished. Moreover, other banks are already confronted with a heavy burden because of the loans which haven't been made, and any increase in the interest rates on bank deposits will directly result in losses.

Nevertheless, a more pertinent impediment affecting the banks' abilities to utilize their deposits is the set of regulations regarding reserve requirements, that is, the requirement to maintain non-remunerative reserves to back the deposits from the public. In effect, the requirement for reserves makes the banks subject to a form of tax, since funds held without interest being earned means a loss of income. With reserve requirements established as 41 percent of those funds in checking accounts, and 13 percent of savings accounts and other securities, the tax is relatively high. The way for banks to reduce losses is through a transfer to the borrowers in the form of higher interest rates on loans, or by transferring resources to deposits with lower reserve ratios. In one form or another, the levels of reserve requirements that have been established diminish the ability of the banks to utilize their financial resources and also diminish their efficiency in operating as financial intermediaries.

Viewed in another way, the reserve requirements represent a provision of interest-free credit for the public sector via the Central Bank, and consequently, the reserves facilitate the general financing of the deficit of this sector. To compensate for the reserve will certainly tend to lessen the increases in the interest rate, but only at the cost of increasing the combined deficit of the public sector. Thus, until the public deficit is reduced and the monetary authorities are in a position to make the reserve requirements more flexible, the capacity of the banking system to extend credit to non-governmental borrowers will be severely hampered.

In an inflationary environment, within which the government is the major borrower, it is not surprising that mortgage borrowers have been excluded from the market. Those banks which made home mortgage loans did so using adjustable rate loans and on terms which could be satisfied only by borrowers with large incomes. Most common in loan agreements is the inclusion of stipulations to increase interest rates, without clearly specifying the frequency of increases or the maximum rate of interest.

Table No. 27
BANKING SYSTEM
(in Percentages)

Origination Date			Maximum Interest Rates		Reserve Rates for Deposits	
Day	Month	Year	[Assets]	[Liabilities]	Checking Acct. and Short-Term	Savings and Long-Term
-	-	1946	6	2	25	10
-	-	1954	8	7	25	10
-	-	1961	8	7	35	10
-	-	1974	8	7	30	15
-	-	1975	11	9	40	15
-	JAN	1979	11	9	40	13
-	FEB	1979	11	9	40	14
-	MAR	1979	11	9	40	15
-	APR	1979	11	9	40	16
-	JUL	1979	11	9	40	15
-	AUG	1979	11	9	40	14
-	SEP	1979	11	9	40	12
-	OCT	1979	11	9	40	11
-	DEC	1979	11	9	40	12
-	JAN	1980	11	9	40	13
-	FEB	1980	11	9	40	14
-	MAR	1980	11	9	40	15
-	APR	1980	11	9	40	14
-	MAY	1980	11	9	40	13
-	JUN	1980	11	9	40	12
-	SEP	1980	11	9	40	10
-	OCT	1980	11	9	35	10
14	OCT	1981	15	13	35	10
15	NOV	1982	12	9	35	10
01	JUN	1986	14	11	35	10
-	JUL	1986	14	11	37	11
-	AUG	1986	14	11	39	12
-	SEP	1986	14	11	41	13
23	JUN	1988	16	13	41	13
16	AUG	1989	LIBRE	LIBRE	41	13
25	AUG	1989	LIBRE	LIBRE	41	13
31	OCT	1989	LIBRE	LIBRE	41	13

Source: Banking and Financial Programming Section of the Banks of Guatemala until 1984.

Note: Until August 15, 1989, the Junta Monetaria [Monetary Board] fixed interest rates for [assets] and [liabilities] at 16 percent and 13 percent, respectively.

Additionally, the credit activity with external resources did not occur as rapidly as planned because the banks were reluctant to originate loans using official external credits, even though said loans could be discounted through the Central Bank, with the Central Bank assuming the currency exchange risk. This reluctance on the part of the banks reflects the need which exists in Guatemala for modifying the procedures for discounting with the Central Banks; or reflects

that the difference of four percent between the cost of the funds and the interest rate charged to the borrower could simply be insufficient to cover the costs to service a relatively small loan portfolio; or reflects that the regulations imposed by the external lenders on these funds are not being adjusted for the ever growing increases in the cost of construction.

At the present time, the primary mortgage loan market is depressed and unlikely to become more active until such time as the government restores measures to stabilize prices, revises policies on legal reserves, and provides a level of certainty regarding the discounts from the Central Bank to the user of external credits.

4.4 INSTITUTIONAL FINANCING SECTOR

The Constitution of the Republic of Guatemala establishes the regulations which govern the national financing system. The State can issue and regulate currency with the objective of creating and maintaining monetary currency exchange, and credit conditions favorable for the development of the national economy. For the same purposes, the State promotes the creation and strengthening of public and private banking institutions, assists in the development of their economic activity, and assures their liquidity and solvency. Monetary, banking and financial activities are organized under the Central Bank, whose function is carried out by the Bank of Guatemala.

The national financial system integrates all public and private entities which perform in either general or specific areas of this sector. Thus, the following entities make up a part of the system: the Ministry of Economics; the Monetary Board; the Bank of Guatemala; the public development banks; the private banks (commercial, mortgage, capitalization, savings and loan); the cooperatives; the insurance companies; the Institute for Promotion of Insured Mortgages; and other institutions with lesser participation.

The system is based on the statutes of the Law of the Ministry of Finance and Economics, the Organic Law of the Banks of Guatemala, the Law of Banks, and the Monetary Law. A special law also exists for savings and loan institutions although its obsolescence is evidenced by the absence of institutions operating under its statutes.

A) BANK OF GUATEMALA

The objective of the Bank of Guatemala is to promote the creation and maintenance of more favorable monetary, exchange, and credit conditions for the orderly development of the national economy. The Bank of Guatemala's governing body is the Monetary Board.

The regulations are principally directed toward resolving:

- The financial liquidity and solvency of the banking system;
- The adequate distribution of credit;

- The distortions in the exchange rate of the quetzal;
- The types of interest rates and rediscount rates;
- The security of deposits by the public by means of legal reserves;
- The inflationary and deflationary trends.

B) THE PUBLIC DEVELOPMENT BANKS

State banks have been created to provide for areas of development not fully covered by the private sector. The Banco de Desarrollo Agrícola [Agriculture Development Bank] makes provisions for credit to small rural farmers and, to some extent, for rural housing. The Crédito Hipotecario Nacional [National Mortgage Credit] was originally created to meet the demand for financing for housing; at the present time it has diversified its operations and now is competitive with private banks, placing it in a very good financial position. The objective of the Corporación Financiera Nacional [National Financial Corporation] is to foster industrial development, but its serious administrative problems puts it now in danger of failure.

The Banco de los Trabajadores [Workers' Bank], created by the government with initial capitalization from budgetary funds and with mandatory contribution by workers, is intended to strengthen credit and savings activities of the workers' sector. The development of this bank has been slow, and in terms of profitability it has failed to report any dividends in the last 30 years. Nevertheless, it has provided credit to workers to the extent its resources have allowed.

The Banco Nacional de la Vivienda [National Housing Bank](BANVI) is another intermediary within the formal financing system, working as a loan producing institution similar to the Crédito Hipotecario Nacional [National Mortgage Credit]. The resources available to this bank are relatively small, coming mainly from deposits of domestic sources, loans, external donor advances, and contributions from government securities. Basically, BANVI's total assets are slightly more than five percent of the combined assets of the entire banking system.

Loans for housing originated by BANVI are issued on better terms than those available through other banks. For those loans granted for the purchase of units occupied by the owner, the loan to guarantee ratio is higher than at other banks. The loans are commonly up to 20 years. In recent years the interest rates have varied between 8 percent for the acquisition of lots to 16 percent for mortgages for average income borrowers.

Today, most of BANVI's loans are targeted for the needs of low income groups, which means the return in BANVI's loan portfolio is considerably lower than the return generated by mortgage banks, probably because many debtors are conscious that BANVI has been relatively slow in taking action against overdue payments. In spite of this, BANVI is a significant institution within the financing system, especially in relation to attracting deposits and in generating mortgage financing. Nevertheless, there is concern that in recent years, BANVI has been involved in high risk operations that put it in a difficult financial position.

NON-BANKING INSTITUTIONS

Non-banking intermediaries -- finance companies, insurance companies and pension funds -- play a limited role as primary lenders for mortgage financing. Due to the nature of mortgage financing, the initial transactions with the borrower require proximity between lender and borrower, regardless of the size of the loan. If a network of branch offices cannot be established, it is not possible to succeed in penetrating the market. These institutions have not been able to provide the necessary local offices; therefore they participate only in a peripheral nature as primary lenders. Moreover, there is no regulation limiting or prohibiting an active role for secondary lenders in house financing, a fact which affects the development of these institutions.

The potential participation of non-banking institutions in the mortgage financing market is yet to develop, and the amount of resources available to these institutions is too important to be rejected in any effort to mobilize financial resources for investments in housing. Taken as a group, assets of the finance companies equal about 18 percent of combined assets administered by the banking system, and assets of the insurance companies represent another nine percent of the total controlled by commercial banks. These resources could not be easily or rapidly mobilized for use in providing mortgage financing, but the potential they represent cannot be denied. Moreover, non-banking investors are better structured than commercial banks to hold long term mortgages. Finance companies in Guatemala lend for terms longer than a year, and the average term of their loans varies from three to five years. The terms of liabilities assumed by insurance companies are even longer. In summary, both types of institutions are better suited as investors in mortgage securities than the banks or any other institution which is in a position to directly issue loans.

Among these types of institutions, there are also savings and loan cooperatives for housing which have received major support from the Confederación de Cooperativas de Vivienda [Confederation of Housing Cooperatives] and from the Cooperative Housing Foundation (CHF); however, loans are limited to associated cooperatives.

D) PRIVATE BANKS

Banking legislation establishes the standards to be observed by private entities involved in the banking business. Private banks function as partnerships with limited responsibilities and depending on their operations, can be commercial, mortgage, capitalization, or combined commercial and mortgage institutions.

Commercial banks receive cash deposits and short term deposits to invest in short term operations. Mortgage banks issue mortgage bonds and receive savings deposits and short term deposits to be able to invest in medium and long term working assets. Capitalization banks issue capitalization certificates and with the premiums are able to invest in various working assets with terms compatible with their liabilities.

In theory, housing loans are available through all banks, but this does not happen in practice. Mortgage banks play a key role in the primary mortgage market, directly originating housing loans. In contrast, the role of non-mortgage banks is quite limited.

For the private banks, the financing of programs for housing construction and mortgage loans is apparently only a marginal use of their funds. This statement can be made although official sources do not issue any significant information about the distribution of banking loans. The limited information available clearly suggests that mortgage financing is a very small part of the loan activities in private banking.

Some private banks are more active than others in mortgage financing. The Granai & Townson Bank, S. A. for example, has indicated that it maintains a loan portfolio of mortgages which comprise 20 percent of its total portfolio. Most of these mortgages are for units occupied by the owners. The Banco Inmobiliario [Savings and Loan Bank] maintained around 12 percent of its loan portfolio in residential mortgages before it was purchased by a foreign bank. Only three other institutions, the Banco del Agro [Agriculture Bank], the Banco de la Construcción [Construction Bank], and the Banco del Ejército [Armed Forces Bank], indicate they have more than 10 percent of their portfolio in mortgage financing. The remaining twelve banks in the system have been highly selective and intermittent mortgage lenders. Taken as a whole, the combined system of insured mortgage funds and other types of real estate loans represent, more or less, four percent of assets reported by banks at the end of 1989.

This does not mean that private banks can't play a significant role in the issuance of new loans. On the contrary, these institutions could play a large role within the mortgage financing process. The problems encountered by these banks are the result of present banking regulations, which limit incentives for the banks to provide long term loans. For example, until 1989, loan rates were subject to maximum rates established by monetary authorities and were not differentiated by term or type of loan.

In addition, the ability of the banks to generate a greater volume of mortgages has been hindered by certain regulations. According to banking law, mortgage financing is limited to 50 percent of the appraised value, except for the Instituto de Fomento de Hipotecas Aseguradas [Institute for the Promotion of Insured Mortgages](FHA), which can loan as much as 100 percent of the value of the house, though the types of units eligible for insurance are very limited.

Furthermore, all new loans, including mortgages, are subject to a three percent tax, adding to the closing costs each time the borrower takes a new loan or refinances an old mortgage. As a result, with the tax and collateral requirements, private banks are hindered in their efforts as intermediaries between bank depositors and mortgage borrowers. Nevertheless, these banks are similar to those functioning in other countries. These banks are an appropriate vehicle for offering long term and fixed rate mortgage financing. But, as long as loan rates are regulated by limits on the interest rate, initiating variable rate mortgages is not an alternative. It was only in 1990 that interest rates were deregulated. Thus, a change is now anticipated in overall credit activity.

Banks' operational activities have generally deteriorated in recent years. Since the banks have tried to procure resources through low cost savings, the number of branch offices have grown, offering various types of savings plans. Without doubt, these activities have increased the operational expenses of the banking institutions. There are also indications that banks have experienced considerable deterioration in the quality of their loan portfolios. One reason is that banks are reluctant to pay higher rates to their savings customers since interest costs tend to grow faster than investment income. As a result, some banks have begun to look for higher returns in an effort to compensate for the loss of interest income from loans not executed.

Banks increased their presence in the mortgage market the moment they had relative liquidity and when demand for short term commercial loans was relatively low. Nevertheless, the effect of limiting the interest rate assured that any difference between long term mortgage rates and short term commercial loans was never large enough to encourage banks to move aggressively toward mortgage financing.

E) SAVINGS AND LOAN BANKS

Guatemalan legislation provides for specialized banking in Savings and Loans for Family Housing. Under this legislation, the Banco Inmobiliario, S.A. [Savings and Loans Bank], and the Banco Granai & Townson were created (see also 4.4, D, in this section).

Originally, the purpose of these institutions was to procure contractual savings for housing construction. However, the boom in commercial banking as competitive institutions, combined with the lack of an experienced entity already functioning within the system has caused the change of savings and loan banks into commercial and mortgage banks.

After the transformation of these banks, the savings and loan system for family housing practically stopped functioning. Presently, the Law of Savings and Loan remains in force but without practical application, due to the obsolescence of the law and the absence of a central organism.

In recent years, there have been five legislative initiatives, including the creation of funds for housing; nevertheless, the legislation has languished in Congress.

Table No. 28
BANKING SYSTEM: LOANS AND DISCOUNTS BY ECONOMIC SECTOR, BALANCES HELD
AT THE END OF EACH PERIOD (Thousand Quetzals)

Sector	<u>1985</u> December	<u>1986</u> December	<u>1987</u> December	<u>June</u>	<u>1988</u> September	<u>December</u>	<u>March</u>	<u>1989</u> June	<u>September</u>
TOTAL	1,831,104	2,033,112	2,626,887	2,768,696	2,904,761	3,037,498	3,179,906	3,199,911	3,265,758
Agriculture, Cattle Forests, Hunting and Fishing	372,693	383,817	415,241	414,529	443,884	449,347	435,508	424,246	456,887
Mines and Quarries	3,877	4,144	6,596	6,411	6,827	7,485	6,624	8,683	9,611
Manufacturing Industry	415,548	467,482	678,035	741,730	762,480	817,701	867,209	882,603	863,842
Electricity, Gas and Water	3,741	6,838	4,457	2,800	2,636	2,359	2,246	4,793	5,158
Construction	189,601	200,125	232,610	258,468	277,761	289,308	304,645	326,759	354,633
Roads	3,352	3,021	2,758	2,117	2,102	2,938	2,233	2,264	2,417
Buildings	28,441	25,781	37,891	45,002	47,503	51,886	55,015	60,876	73,045
Housing	148,769	157,837	177,877	196,370	216,030	212,146	222,540	236,502	247,867
Other	9,039	13,486	14,084	14,979	18,126	22,338	24,857	25,117	31,304
Commerce	332,136	439,910	598,939	628,622	661,620	879,568	740,937	728,946	729,012
Transportation and Warehousing	10,847	15,036	28,455	28,483	30,739	35,217	35,510	37,773	38,151
Financial Entities, Goods	125,013	132,718	161,229	166,763	180,057	209,405	213,195	217,666	224,475

F) THE INSTITUTO DE FOMENTO DE HIPOTECAS ASEGURADAS
[INSTITUTE FOR THE PROMOTION OF INSURED MORTGAGES](FHA)

The object of FHA activities is to promote housing construction using mortgage insurance. This insurance guarantees that the investor who provides housing loans (banking institutions and others) recovers capital, interest, costs and expenses, in case the borrower defaults.

The FHA is a government institution and since its creation in 1961 until December 1990, has issued insurance for 21,321 mortgages for a total of 358.9 million quetzals. The insurance portfolio as of December 31, 1990 is estimated at 176.0 million quetzals. The government's

contribution to initiate FHA operations was 0.9 million quetzals. At close of operations for 1990 it is estimated that capital, reserves and surplus total some 14.5 million quetzals, with an asset total of 23.2 million quetzals. The financial position of FHA makes it one of the few institutions in Guatemala maintaining financial autonomy. It has been determined that the institution has good technical capabilities in terms of its employees and is an administratively and financially healthy institution. This assertion is based on the fact that in the past five years the FHA earned an average annual profit of 1.3 million quetzals, an amount far above that earned by other public institutions. However, in recent years its operations have grown much smaller forcing a reduction of personnel to only 100 employees.

FHA's standards are often regarded as inflexible. In addition, mortgages insured by FHA in fact have higher closing costs and higher debt service costs than other loans for housing. Mortgage insurance adds one percent to the annual debt service premium. This is in addition to a commission for administration charged by the entity that administers the debt. For closing costs the FHA receives 50 basis points of the loan, and the investor or financing bank charges a commission which may reach 10 percent of the value of the loan. Thus, what FHA charges is minimal in comparison to the amount charged by the participating bank.

In relation to FHA's standards for the issuance of an insured mortgage, three risks concern the FHA:

- The borrower's capacity to repay the loan, set at 30 percent of the family income, which is the monthly payment for capital recovery and service on the debt. This percentage is adequate for median income families; nevertheless, it is known through polls that families below the median devote a higher percentage of their income for housing payments.
- The FHA can lend for construction of houses as small as 13 square meters on a 64 square meter lot, built in accordance with municipal and urban legislation and FHA standards. In Guatemala's present economic environment, this type of house is out of the reach of the lowest income families due to high construction costs. This type of house in the Metropolitan Area would cost around 17,000.00 quetzals. For a 20-year term and 25 percent interest rate, this results in a monthly payment higher than the allowable 30 percent of the legal minimal salary of a three member family with combined income. Moreover, banks are reluctant to participate in small loans.
- Sometimes, the high cost of projects due to requirements established for the eligibility papers. This regulation includes quality of construction materials, the observance of seismic standards and availability of basic services -- potable water, electricity, sewers, streets -- and other expenses added to land urbanization costs.

To make the FHA system accessible to low income families, there have been suggestions regarding revisions in the law, so that mortgage insurance can be provided to lots equipped with services; however, this type of loan should be handled by the Banco Nacional de la Vivienda [National Bank for Housing]. Although the FHA criteria is considered conservative, this is the

reason for few defaults in relation to loans granted. Defaults total barely four percent of the mortgages since the creation of the FHA.

Table No. 29
MORTGAGE INSURANCE ISSUED, INSURANCE CLAIMS PAID AND
CLAIMS PAID AS PERCENTAGE OF MORTGAGES ISSUED:
1962 - 1988

Year	Insurance Issued		Insurance Claims		Percentage Relationship	
	Cases	Value	Cases	Value	Cases	Value
TOTAL	20,100	323,624.9	572	13,888.8	3.74	4.29
1962	3	29.3	-	-	-	-
1963	250	1,569.8	-	-	-	-
1964	627	3,406.7	-	-	-	-
1965	642	6,023.8	-	-	-	-
1966	630	5,736.2	3	27.4	0.48	0.48
1967	729	6,170.0	11	106.4	1.51	1.72
1968	724	6,168.9	56	553.0	7.73	8.96
1969	729	6,074.4	58	575.9	7.96	9.48
1970	451	3,930.7	75	715.3	16.26	18.20
1971	654	4,538.0	85	855.1	13.00	18.84
1972	1,155	7,212.9	42	407.1	3.64	5.66
1973	639	4,441.8	38	337.5	5.95	7.60
1974	691	4,762.2	29	283.4	4.20	5.95
1975	502	5,328.0	15	129.9	2.99	2.44
1976	300	3,943.0	5	58.1	1.67	1.47
1977	371	5,131.1	-	-	-	-
1978	418	6,987.6	-	-	-	-
1979	885	16,075.1	4	27.5	0.45	0.17
1980	1,181	27,094.9	2	12.2	0.17	0.06
1981	1,304	31,538.9	-	-	-	-
1982	1,511	36,383.2	8	215.6	3.30	0.59
1983	1,454	33,131.3	23	678.8	1.58	2.06
1984	1,420	31,011.0	44	1,268.5	3.10	4.09
1985	1,238	27,043.7	115	3,343.3	9.29	12.34
1986	792	17,240.8	89	2,763.6	11.24	16.03
1987	416	9,302.3	25	813.5	6.01	8.75
1988	474	13,349.3	25	716.5	5.28	5.37

Source: Department of Statistics and Assets Control of the FHA

4.5 INTEREST RATE AND CREDIT RISKS

As with all types of long-term obligations, mortgage loans carry risks that are not present, at least at the same level, in short term loan portfolios. Part of the reluctance of banks to increase their presence in the mortgage loan market can be easily explained by the fact that interest rates are regulated by means of an upper cap on these rates. In fact, the credit risk, or the risk of repayment on a residential mortgage loan, seems to be much less serious in Guatemala than in

many other countries. In contrast, the risks related to interest rates are now very real, and these risks can become less and less manageable in years to come now that the current exchange rate is floating and ceilings on interest rates have been eliminated. If the home finance system is to evolve with the times, new procedures must be introduced to permit both the lender and the borrower to agree in an environment in which interest rates are much more volatile. Without doubt, reduced risk in Guatemala is essential; this means that loans are made for less than 50 percent of the value of the collateral and when this criteria is exceeded FHA provides a loan guarantee.

4.5.1 CREDIT RISKS

In the form that loan agreements have been structured in Guatemala, the lender enjoys great protection against risks of loss in case of borrower default. Stripped of all the legal complexities, the mortgage provides to the creditor the right over the real property and thus the right to foreclose on the property should the borrower not comply with the terms of the contract.

Mortgages in Guatemala are not different from standard agreements in the United States; the principal difference lies in the fact that lenders in Guatemala enjoy special protection in that mortgages which are not guaranteed are legally limited to 50 percent of the value of the basic asset. In effect, the loan is so well guaranteed that if a borrower has to initiate foreclosure proceedings, the resale of the property is almost always more than adequate to recover the loan balance, court costs, and accumulated interest. In addition to the basic security, mortgage insurance from FHA provides an extra measure of protection. This insurance protects against loss of principal interest, and court costs which can result from default on payments, and can only be used after the lender has exhausted all other legal means to recover the loan.

This insurance provides protection for a period of one year to account for any delays occurring during the foreclosure proceedings. As a result, very few residential mortgage loans are left unpaid; the occurrence of default on payments in Guatemala for private banks is not significantly higher than occurs in the United States. In this sense, the perception exists that mortgage loans for low-income families do not represent a credit risk; however, this is difficult to verify since there is no available information on the relationship between late payments and the amount of the loan. It also appears that an external audit does not exist regarding overdue accounts, nor information published regarding experience with late payments, nor uniform criteria for classifying executed mortgage credits. These gaps in information are very serious and should be filled as soon as possible, so that both the participants in the market and the public officials can make reliable estimates of the credit risks which actually exist and the costs which would result from implementing any new mortgage insurance program.

4.5.2 INTEREST RATE RISKS

The risks related to interest rates have been more difficult for the banks to manage because loans at fixed rates are prevalent in the granting of mortgages. It is anticipated that the essential

elements of this problem will persist as long as long-term loans are financed with bank deposits and other long short term sources of funds. When market interest rates rise (whether for commercial paper or for financing in the informal sector) the banks must offer higher interest rates on the deposits or run the risk of heavy withdrawals by depositors. However, mortgage loans carry the original interest rate for their entire term, and given the lengthy period of mortgages, these interest rates can very well fall below current market rates, thus limiting the yield of these loans.

The risk is greater in Guatemala because it is very difficult for the banks to extend the average maturity of their liabilities. This problem is aggravated by the fact that very little housing is available and rents are high. Thus it is common for owners to live in their homes for many years, frequently until the mortgage has been paid off.

The second element of the problem concerns new mortgage loans. The problem has resulted from the lifting of controls on interest rates in August 1989. This problem is further exacerbated because banks are free to increase interest rates in periods of high inflationary pressure, while the number of potential borrowers qualified for higher interest rates becomes dramatically smaller. In effect, with a fixed interest rate, the monthly or annual debt service payment remains unchanged throughout the life of the loan, for any given interest rate. However, with variable rates, the amount of the payment changes rapidly in response to the expectation of higher rates of inflation. The result is that the large majority of potential borrowers become ineligible as mortgage rates continue to rise.

Consequently, in periods of growing inflation, if mortgage rates do not increase at a slower rate than other interest rates, the demand for mortgages falls rapidly. Additionally, with the rapid increase in interest rates during the last twelve months, many banks are experiencing an increasing financial burden from their outstanding mortgage loans which were issued at lower rates. For example, among the more active mortgage financiers, the Banco de Agro [Agricultural Bank] has approximately one half of its mortgage portfolio in loans made at nine percent or less, with an average of seven years remaining on these mortgages. In the Banco Inmobiliario [Housing Bank], more than 65 percent of its mortgage portfolio consists of loans with interest rates lower than nine percent and with about five years remaining on most of these loans. The Banco Granai & Townson has succeeded in issuing the majority of its mortgage loans at interest rates between 12 and 14 percent, but even at these levels the average return from the mortgage portfolio is still insufficient to cover the total costs of the financial intermediation. The acquisition of a home for the majority of Guatemalan families becomes more difficult each day; while interest rates increase rapidly, the salaries remain more or less at the same level.

4.5.3 ADJUSTABLE MORTGAGE RATES

At the present time no banks in Guatemala will issue a loan at fixed rates, at least not using the funds from depositors' accounts. In those few cases where mortgage loans are made at fixed

rates, mortgages are at an interest rate of 22 percent for no more than five years. Consequently, the range of eligible borrowers has been greatly reduced.

In an effort to limit their exposure to risks from interest rates, the majority of Guatemalan banks have begun to offer adjustable rate mortgages which are based on a series of short term loan agreements whose renewal is guaranteed until the total amount of the mortgage is paid. That is, the mortgage provides for periodic adjustments to the loan rates in accordance with changes in market interest rates. Consequently, when interest rates on bank deposits are changed to reflect market rates, mortgage rates also change, so that interest rates and real income from mortgage loans are better protected.

The principal problem in this situation is that the entire weight of the interest rate risk falls on those who borrow the money and are generally not in a position to assume this risk. In the most countries, the adjustments in the interest rate is tied to a well-defined reference rate, generally a rate determined by the market for government securities. Or, most instruments governing the adjustment of rates establish limits regarding the frequency and size of the increase in interest rate which the borrower must pay. In the specific form adapted in Guatemala for mortgage rates, the loan agreement does not contain such safeguards. The agreement permits the lender to increase the interest rate from time to time, at their own discretion and without reference to any clearly defined market rate. In some cases, the rate adjustments are tied to decisions by the Junta Monetaria [Monetary Board].

Under these procedures, the entire risk related to interest rates is transferred to the borrowers. Nevertheless, the discretionary nature of rate increases should not be viewed as inevitably abusive. In the case of a dramatic increase in the interest rate, the borrower has only two options, to refinance the loan through another lender, or to go to court for protection. Both options are uncertain and costly.

In Guatemala, neither the creditor nor the borrower is protected by any legal instrument against inflation. At the present rates of inflation, the lenders which depend on unsubsidized funds, can only issue loans at very high fixed rates; these are not affordable for the majority of borrowers. The adjustable mortgage rates are likewise not workable even though the initial interest rate is very low. The instrument which provides the greatest lender protection against risks related to interest rates can result in being the greatest credit risk for this lender. Until the present inflation is under control, it is not possible to have a mortgage instrument which is adequate for both lender and borrower.

This evaluation concludes that one of the principal priorities for restructuring the financial system in Guatemala is to contain inflation and to develop a diversified group of mortgage instruments and financial mechanisms, as well as specific means to reduce the risks that have been described here.

4.5.4 RISKS IN DEVALUATION

Mortgages run the risk of losing their real value as a result of the present level of inflation, even with the use of adjustable rates from new mortgage loans. That is, the debit balance continues to lose its purchasing power. In effect, banks are issuing their loans at interest rates greater than 70 percent, reflecting the inflation experienced in 1990. The solution could be indexed credit systems or monetary correction systems. The unsuccessful experience in South America, combined with the salary structure in Guatemala, offers little hope of success for these concepts. A more feasible model would be the use of new methods for amortizing loans, resulting in more rapid recovery of investments made by the banks for home loans.

4.5.5 THE RISKS FROM JUDICIAL, ADMINISTRATIVE OR FISCAL DECISIONS

In judicial and administrative terms, mortgage can experience numerous problems. For example, within the FHA system, the banks are precluded from recourse to the Central Bank discount rate, due to errors committed in the contracts establishing the credit or in the incorrect interpretation of parameters established as part of certain housing programs. There is no insurance in Guatemala capable of protecting against such risks, even though these risks can be easily minimized by the careful selection and training of the personnel responsible for these operations.

Nevertheless, risks such as the deterioration or destruction of the house itself, lack of adequate maintenance, the occurrence of fires, earthquakes or other natural disasters, are covered in Guatemala since all credit for housing must be insured against such circumstances.

4.6 OTHER NEW INSTRUMENTS TO CONSIDER FOR HOUSING FINANCE

Recent economic development in Guatemala, characterized by rampant inflation and monetary devaluation, has had a negative impact on home financing. This situation has been further aggravated because the monetary authorities and the government have not reacted with policies needed to stimulate and protect the continuity of the financial institutions specializing in the issuance of long term credit. In Guatemala, the short-term policies of the Monetary Board [Junta Monetaria] have adversely affected the availability of long-term financing for housing. Nevertheless, the private sector has continued its financing activities at a marginal level, motivated perhaps by the need to resolve, in part, the social problem presented by housing, or simply because housing finance is protected, in large measure, from the risks related to the provision of credit.

In addition to the influence of the economy and the lack of stimulus provided to the private sector, the problem is aggravated by the low level of savings and the limited investments by the private sector which suggests that an easy or rapid solution does not exist to the scarcity of housing in Guatemala.

In spite of these obstacles, this evaluation concludes that additional financial resources can be mobilized for mortgage credit by means of well thought out policies. The clear fact is that Guatemala possesses the basis of a financing infrastructure capable of generating a sustained increase in the flow of mortgage credit and could develop a reasonably operative system for home financing. Nevertheless, these aspects require the development of new institutions, and this could take a long period of time. Meanwhile, policies should be identified to improve the operation and structure of the present financial system.

4.6.1 REQUIREMENT OF A LEGAL RESERVE

Perhaps the most serious impediment to a more efficient financing system in Guatemala is the large, non-interest bearing reserves required by monetary policy. The reduction in the legal reserves and the utilization of these funds for home financing is a possible financial mechanism.

These requirements are equivalent to a tax on bank income, and can only be avoided by transferring their impact to depositors in the form of lower interest rates or to borrowers in the form of higher loan rates. The effect is to increase bank interest rates and in the process, to limit the banks' ability to perform their essential function as a financier.

Any permanent reduction in the reserve requirement will contribute to a more efficient banking system, and any improvement in efficiency will lead directly to an increase in the availability of mortgage credit. However, a reduction in the reserve requirement in itself does not guarantee an increase in the availability of credit for housing. Thus the monetary authorities must require that the use of the reserves be only for housing loans. The use of the reserve credits should be extensively analyzed since their utilization may cause a dramatic rebound in the issuance of mortgages. In its simplest form, a reserve credit for mortgage loans would permit the bank to consider at least part of loan amount for the housing credit portfolio. For example, 10 percent could be designated as the amount needed to satisfy the reserve requirements. In effect this would free the reserves for use in other loans, and would forego the requirement that the reserves be withheld from investment. Clearly, a reserve credit for mortgages with insurance from FHA would encourage the issuance of mortgages, since the credit increases the beneficial use of the assets.

The type of mortgage which would apply to this kind of credit can be established by means of regulation based on policy decision. Especially pertinent to this situation would be residential mortgage loans below a given ceiling amount, which could be designated for low and medium income groups. Further, these credits could be applied only to the increase in the amount of banks' mortgage loans, since the desired effect is to encourage new loans, more than to reward or penalize the banks for their prior presence or absence in the mortgage market.

The principal strength of this concept is quite clear: the reserve credit could provide incentives for all banks, in conformity with market mechanisms. This should produce more significant competition in the issuance of mortgages loans.

The regulations establishing the bank reserves require the banks to maintain in the Banco de Guatemala [Bank of Guatemala], in the form of demand deposits, a reserve proportional to total bank deposits. It is the responsibility of the Junta Monetaria [Monetary Board] to establish the required reserve ratio at no less than 10 percent nor more than 50 percent. Consequently, any attempt to eliminate the bank reserves would require petitioning the Congress to modify this regulation.

The Junta Monetaria [Monetary Board] can regulate the reserve requirements within the stated limits and can direct the credit activity of the bank. An incentive of this type would benefit the banks of the national financing system and the financing of housing. This measure is highly effective; in December 1989, deposits increased to 4,356.6 million quetzals, for a reserve total -- non-interest bearing -- of 863.8 million quetzals.

The tendency of the authorities is to establish just one reserve percentage at 25 percent. Therefore, for 1991 the legal reserve will be a little more than one billion quetzals. The conclusion of this evaluation is that the responsible decision makers should make all possible efforts to reduce the reserves or to pay interest on these reserves and direct these funds to be used for housing credit.

4.6.2 EXTERNAL CREDIT AND THE PARTICIPATION OF OTHER FINANCIAL BODIES

It is anticipated that Guatemala will have a need for external credit from donor governments for many years in order to partially resolve the housing shortage. So that this assistance is fully effective, it is important to enlist the participation of organizations which can be the entities offering credit to the lowest income groups. Private banks are simply not the most appropriate conduits, at least not in Guatemala, to direct these lines of credit toward those social groups. For example, in the terms of the Programa de Préstamos Garantizados para la Vivienda [Program for Guaranteed Housing Loans], the Banco Central [Central Bank] assumes all the risk for currency exchange, so that any mortgage loan within the Program is discounted by the Central bank at an interest rate four percent lower than the rate charged for the mortgage.

A participating bank can easily return its loan to liquidity as soon as the loan is made. In this way the bank simply acts as an originator of loans and loan service. Nevertheless, with few exceptions, the banks have never been aggressive in the development of the mortgage business, much less with the low income borrowers whose needs for loans are relatively small.

To reach low income groups, the donor governments should make every possible effort to take advantage of the experience of non-governmental organizations. An example of this type of organization is the Cooperative Housing Foundation, which in close collaboration with the housing cooperatives and their affiliated credit unions, has been involved for a long time in a variety of housing projects throughout the country. (Note that other institutions perform similar activities as described in the strategy on the informal sector of this evaluation.)

Most of the time, these organizations have only a limited and uncertain access to domestic financing sources. The funds managed by the credit unions are small amounts and only part of these resources can be used for loans related to housing. From time to time, credit is available through public sector institutions -- such as the Banco Nacional de la Vivienda [National Bank for Housing], the Crédito Hipotecario Nacional [National Mortgage Credit] or the Banco Nacional de Desarrollo Agrícola [National Bank for Agricultural Development] -- but none of these institutions has a source of a sustained financing.

Access to bank credit is limited by the lack of FHA insurance for lots with basic services, designed for low income groups. Consequently, private bank financing, if available, cannot exceed 50 percent of the value of the guarantee. Thus, unless the FHA becomes more flexible in its standards for reinsurance, or permits mortgage insurance with other institutions, the programs for lots with basic services cannot be serviced by private banks.

For many of the projects developed by the Fundación Azucarera [Sugar Foundation], the equivalent of private mortgage is provided by the Fundación, guaranteeing the repayment of the mortgage in case of default by the borrower. The exposure to risk under these procedures appears minimal. The borrower enjoys at least some measure of employment security, and the repayment is made via salary deduction. But even if the defaults on payment are greater than anticipated, the Fundación absorbs the losses. (This approach has also been adopted by other non-governmental institutions -- see 3.3 of the strategy for the Informal Sector in this evaluation.)

For the borrowers who are not employed by well-established companies, bank credit may be difficult to obtain if some form of private mortgage insurance does not exist and if the insurance companies in the country are not prepared to underwrite mortgage insurance for the lowest income groups. From the point of view of the insurer, the risks are difficult to estimate without access to information regarding the incidence of losses from loans.

In this evaluation it is concluded that equivalent mortgage insurance could be provided in a variety of ways. For example, funds for guaranteeing loans in the form of deposits located in commercial banks could be utilized to provide additional protection to the lender over and above the mortgage guarantee of the real estate.

The creation of private mortgage insurance should be considered in light of the experience and capacity of FHA. If it is certain that FHA is not going to provide mortgage insurance for lots with basic services, it has increased flexibility in its standards of construction for "piso-techo" solutions of 13 square meters of construction, and for land of 64 square meters. As a result of this new regulation, developers are presenting for FHA approval 35 square meters units.

4.6.3 SAVINGS AND LOAN ASSOCIATIONS AND THE SECONDARY MORTGAGE MARKET

Actions described in the previous subsection could still result in gaps in the provision of mortgage credit in Guatemala. Perhaps the most important of these gaps is the absence of any institutional tie between the accumulation of savings and the financing method on one hand, and the extension of mortgage credit on the other. For example, the BANVI provides deposit services, but still depends in large measure on external credit and the support of the state, yet is not a significant competitor in the market for deposits. The simple fact is there is no extended network of institutions for deposits. In their absence, many individuals and homes are left with few financing options. Under these circumstances, the most important incentive to save is clearly affected, since the construction, purchase, and renovation of the home is usually the most important motive of the individual for saving.

Proximity between the lender and borrower is of critical importance in any system for housing finance. Personal contact is generally required, and since the amount of money involved in the transactions is small, the relative cost of these contacts is quite high. For this reason, consideration should be given to the creation of a network of Savings and Loan Associations, oriented toward local needs, legally established to accept non-commercial deposits and with the mandate to provide credit for housing. It is not surprising that similar suggestions made in recent years encountered resistance from the Asociación de Bancos de Guatemala [Association of Guatemalan Banks]. But if Guatemala wants to develop a more competitive financial system, which can respond more completely to the housing associations, it is necessary to open the system to lenders specializing in mortgages.

Almost inevitably, these lenders experience problems of liquidity, given the interest rate risks which are inherent to mortgage loans. These risks can be controlled in great part by requiring any new lenders to finance their operations largely through medium-term obligations instead of using short-term deposits. To isolate these institutions from direct competition with commercial banks, they can be limited to areas outside of Guatemala City, at least initially. Together with the creation of a savings and loan system, it would be necessary to establish, in one form or another, a public institution, or quasi-public, designed to provide secondary liquidity. This is an activity which could be developed by FHA through help from the state and by changes in the law. In addition, it would be necessary to establish a secondary market of mortgage facilities with the capacity to work with those entities which issue mortgages, so these entities could sell a packaged set of loans to permanent investors. Of course, the banks issuing the loan would continue servicing the loan and in the process could develop a continuous flow of income without interest. If the savings and loan system were established, it could operate, in large measure if not almost entirely, as a conduit for the origination and sale of loans.

At the present time, the securities market is still in its infancy, and a secondary mortgage market will take time to develop. However, the potential is there, in part because the institutional investors have very few investment alternatives. By law, insurance companies are not permitted to invest in private companies unless the return is guaranteed to be at least 10 percent.

Indirectly, this precludes companies with high value government obligations whose returns are quite low. However, there appear to be no legal impediments to investing in mortgages which are insured by FHA. In fact, some companies now hold small quantities of mortgages which are purchased directly from lender banks approved by FHA.

If mortgages are to become more attractive as investments, they must be packaged as securities which are easily negotiable or completely marketable. In a fully developed secondary market, the mortgages are revalued in a variety of forms, but with much in common. First, the principal mortgages are usually insured against risk of default so that the investor is protected. Secondly, the majority of the securities contain provisions to assure adequate cash flow. This is done through either a governmental or private insurance company which guarantees the on-time payment of interest and/or principal, even if the payments are not made on time by the borrower.

There is no reason why similarly structured securities cannot be introduced in Guatemala, at least none in principal. Insurance against default is now provided by FHA, and if cash-flow insurance would also be provided, the securities comprised of mortgages could easily qualify as investments eligible for institutional investors. To the extent that secondary investors are integrated into the mortgage market, the banks can become active as mortgage generating institutions.

4.7 COMMENTS

With the changes in interest rates in late 1989, the money and credit markets became much more volatile in terms of the frequency and magnitude of the movement of these rates. Under these circumstances, it is much more difficult for any institution to accept short-term deposits for use in the long-term, fixed-rate, mortgage market, except when rates are fixed and very high, a situation which is unattractive to potential borrowers.

In Guatemala, new loan contracts should identify the reference rates to which the mortgage interest rates are linked, the limiting increase in interest rate per adjustment period, and the automatic interest rate reduction if the reference rate falls. In addition, the authorities should provide incentives for the development of new amortization methods which provide inducements for mortgages with fixed payments and variable terms. Thus, instead of allowing payments to vary with the change of interest rate, payments should be fixed while the term of the loan could be lengthened or shortened, depending on the rise or fall of the reference rate.

Indexed mortgage loans should also be considered as part of the efforts to provide mortgages for the lowest income groups, linking mortgages to changes in prices or salaries, or a combination of both.

This does not imply that indexed mortgages are the solution, in that problems arise when borrowers experience a significant erosion in their real income. Experience in other countries suggests that indexed contracts are generally viable only when rates of inflation do not exceed

30 to 40 percent. Above this range, these instruments do not provide sound solutions. However, indexed mortgages will perform well once the government of Guatemala is able to bring inflation under control.

Thus, indexed mortgages should be made available. BANVI, with a clear mandate to provide for the needs of low income groups, should initiate the design and introduction of these instruments, building into their design future changes in wages and salaries and realistic means for the borrower to meet the payment adjustments required by indexing. If this program is not well designed, the resulting problems will be similar to those occurring when adjustable rates are employed without any regulation.

Clearly, the housing sector is in crisis. This is not an isolated social problem, but rather one resulting from the widespread socio-economic problems of the country and of limited savings capacity.

The government should structure, define and set short, medium and long term priorities for strategies and actions toward improving the conditions for the provision of housing to Guatemalans, with preference to the lowest income families.

The analysis of housing finance emphasizes that it is not possible to meet the growing demand for housing with existing mechanisms. They are based on the participation of public agencies with little funding and on the marginal participation of the private sector acting with great caution. It is evident that in Guatemala, home financing is by nature totally different than short-term credit. With short-term credit it is possible to know, at the time it is issued, the variables which dictate the level of risk being taken. This is not true with long-term financing, thus reducing the level of funding resources being invested in this area. Such situations require the identification and application of protection mechanisms to control inflation and maintain the real value of both the savings and the loans which have been issued from these savings.

The problem of housing finance is further aggravated by the growing demand, the lack of new homes available, the increase in construction costs, and the lack of resources by the majority of Guatemalans for investing in housing. These problems contribute to the structural weakness of the housing finance sector and the public institutions involved. Although these institutions have accumulated a certain level of experience, they still require substantial revitalization.

Each of these institutions defines its own course of action in accordance with its own regulations and particular limitations, and according to the nature of its programs the resources available. These actions should reflect a sectoral policy, but do not. The institutional criteria often overlap or oppose one another, even though there exists common objectives.

This situation is further aggravated by the fact that housing has traditionally been considered by economists of the Junta Monetaria [Monetary Authority] as a consumer good which absorbs capital and does not contribute to the growth of the economy; thus, macroeconomic policies have

been applied without considering the effect which this sector might have. As a result, this approach has generally weakened the housing sector.

Based on the concepts which have been presented, the first step to be taken in reactivating the sector should be the creation of a strategy within a Guatemalan macroeconomic and social framework and the establishment of a national housing policy. The purpose is to provide direction for the best utilization of scarce resources, to encourage savings, and to postulate the necessary steps for the future through methods and actions which are of a lasting nature, easy to implement, and consistent with Guatemalan reality.

The national housing policy should provide common objectives among the interested groups, and a basis for the adoption of decisions in all the public agencies as well as in the private sector. This policy should clearly define the functions of each institution, should identify the specific problems which hinder their actions, and should make recommendations for solving the problems identified.

In summary, the general characteristics of the housing sector and its financing make it necessary to establish a national housing policy which serves as a guide to the concerned entities. This policy should have a legislative basis and should offer short, medium, and long term plans. (A series of actions which should be considered in the formulation of policy and plans for the housing sector are discussed in Chapter III.)