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# **RHUDO-SA Capabilities in Urban Environmental Quality Management**

**August 3, 1995**

*prepared for:*  
**RHUDO-South America**

**Contract No. 518-1008-C-00-437600**

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## **RHUDO-SA CAPABILITIES IN URBAN ENVIRONMENTAL QUALITY MANAGEMENT**

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RHUDO-SA is the South American field office of USAID's Office of the Environment and Urban Programs. RHUDO-South America excels in achieving policy reform in areas linked to Urban Environmental Quality Management (Urban-EQM) with modest expenditures. Joining RHUDO-SA capacities in policy reform and technical expertise with a Mission's knowledge of local conditions and, sometimes, funding potentially offers the best vehicle for effective action in Urban-EQM.

RHUDO-SA has built capacity over four operational stages from 1961 to the present. In the Builder-Developer/Savings and Loan Period from 1961-72, the organization built expertise in housing finance and development through use of Housing Guaranty loans. The second phase of RHUDO-SA--the Basic Human Needs Period (1973-80)--shifted RHUDO-SA's focus to providing basic infrastructure to the poor and to policy dialogue with host governments. The Public-Private Partnerships phase (1980-1993) developed RHUDO-SA's capacities for working with local government. A fourth phase--characterized by Urban-EQM--has begun that integrates the capacities developed under the previous phases to focus on the urban environment.

RHUDO-SA applies its capacities through three program areas: (1) urban environmental services and disaster prevention; (2) urban management and local governance; and (3) housing and infrastructure finance. The urban environmental services and disaster prevention programs have reformed service provision entities and local governments to provide water, sanitation, and solid waste. The urban management program operates through policy dialogue at the national and regional levels with a wide range of public and private-sector actors to practice, while the local governance program strengthens selected municipalities. RHUDO-SA's housing and infrastructure finance component uses capital investments provided through RHUDO-SA's Housing Guaranty loans to leverage policy change, as well as build projects.

USAID Missions often have an interest in the urban environment and funding, but lack the management and technical staff to operate a program. RHUDO-SA has these strengths, and works with USAID Missions both through operating Mission-sponsored programs in Urban-EQM and through extending its efforts to cities selected jointly with Missions.

### **INTRODUCTION**

RHUDO-SA is the South American field office of the Environment and Urban Programs Office of the United States Agency for International Development (USAID). In this capacity, this Regional Housing and Urban Development Office (RHUDO) focuses on urban management issues primarily by providing assistance to USAID country Missions. This assistance includes both operation of Mission-funded programs in the urban environment and extension of RHUDO-SA programs to cities selected jointly with USAID Missions. RHUDO-SA also works with other organizations and donors in urban management and the environment.

Over a twenty-five year history of operating programs and promoting policy reform in local development, RHUDO-SA has come to focus on improving the urban environment of low-income populations. A number of crucial factors explain this central focus of RHUDO-SA.

South America is the most highly urbanized region in the world, and continued urban growth appears inevitable. The largest poverty group in Latin America is now the urban poor. Ninety percent of Latin America's poor will live in cities and towns by the year 2000. Not surprisingly, the environmental problems of poverty--inadequate water, sanitation, and solid waste--exceed those typical of growth-- in most of the region.

Latin American cities are also the engines of sustainable economic growth. Urban areas are projected to generate roughly three-quarters of future economic growth. In sum, South American cities create great environmental challenges--especially for the poor--but also provide the wealth necessary to meet them. The key is better urban management.

Institutional failure has blocked cities from fulfilling their potential to improve environmental conditions. In this context of institutional failure, Urban Environmental Quality Management (Urban-EQM) must have six components: (1) setting environmental priorities through measurement, assessment, and prioritization of environmental risks, and development of action plans; (2) economic reform through introducing competition, autonomy, better pricing, and regulation into service provision; (3) socio-political reform through decentralization, participation, targeting the poor, and social marketing; (4) financing that moves toward market and away from patronage; (5) application of best practices and appropriate technologies to water supply, household sewerage, solid waste, industrial waste, and transportation/land management/settlement; and (6) strategic support of municipal reform through gearing interventions to the level of local institutional capacity, using successful experiences elsewhere in Latin America as models, cultivating local change agents, and building relationships.

RHUDO-SA's approach to Urban-EQM joins these six components. This multi-faceted approach has developed from the Office's twenty-five years of operational experience and policy reform in many of the areas that compose Urban-EQM.

## **THE COMPARATIVE ADVANTAGE OF RHUDO-SA IN URBAN ENVIRONMENTAL QUALITY MANAGEMENT**

Many bi-lateral, multi-lateral, and other agencies work in South America. These entities provide a wide range of technical assistance and project financing under the rubric of "promoting development." RHUDO-SA's capabilities distinguish this office in a fundamental way: RHUDO-SA excels in achieving policy reform in areas linked to Urban Environmental Quality Management (Urban-EQM) with modest expenditures.

The largest donors in Latin America--the Inter-American Development Bank and the World Bank--invest many times more in project capital than RHUDO-SA. Smaller bi-lateral donors--such as GTZ (German Assistance) and FLACSO (Spanish Assistance)--often have highly effective programs in narrow areas related to Urban-EQM. In Central America and parts of South America, for example, GTZ and FLACSO have established excellent training courses for municipal staff. However, neither these large nor these small donors join the key institutional resources of RHUDO-SA essential for maximizing policy change: RHUDO-SA's extensive history in South America, its

field presence, its policy and professional networks, and its experience in working directly with local governments and other local groups.

RHUDO-SA also has some key advantages over USAID Missions in the urban environment. RHUDO-SA staff have built a technical expertise in areas linked to Urban-EQM--shelter, local governance, urban environmental services, disaster prevention, and urban management. The concentration of this expertise in one office tends to be more cost effective than replication in diverse countries. Because of its regional focus, RHUDO-SA can also more effectively assess, borrow, and transfer successful approaches among countries. In sum, RHUDO-SA sits in the middle of a regional information stream in areas linked to Urban-EQM. Consequently, the Office is often better able to use this knowledge than individual Missions.

Missions, however, often have the knowledge of local conditions necessary for effective action and can add funding. Joining RHUDO-SA capacities in policy reform and technical expertise with a Mission's knowledge of local conditions potentially offers the best vehicle for effective action in Urban-EQM.

In addition to its capacity to promote policy dialogue, RHUDO-SA has cultivated two other core comparative advantages in areas linked to Urban-EQM. First, RHUDO-SA reaches the urban poor--which now represent the great bulk of impoverished households in South America--more effectively than many development organizations. Second, RHUDO-SA works well with local government officials.

RHUDO-SA has developed these strengths over a twenty-five year period. The importance of this history cannot be over estimated. RHUDO-SA has operated longer in urban development and settlement than any other major donor in South America, and accumulated expertise over various phases. In turn, South America has received urban-sector assistance through USAID longer than any other developing country region. Approaches pioneered by RHUDO-SA--such as the Housing Guaranty Program--have spread to other regions. Partly because of this long history, RHUDO-SA continues at the forefront in innovation. This history underlies the RHUDO's current efforts and capacity in Urban-EQM: its programs in shelter, local governance, urban environmental services, and urban management.

## **HISTORY OF RHUDO-SA CAPABILITIES**

USAID's urban-sector efforts have passed through three phases from 1961 to 1994<sup>1</sup>: (1) the Builder-Developer/Savings and Loan period, from 1961-1972; (2) the Basic Human Needs period, from 1973-80; and (3) the Public-Private Partnership period, 1981-1992. A fourth period that integrates many aspects of these previous periods has begun, the urban environmental quality management period. The change in name of USAID's urban-sector office in 1994 from the "Office

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<sup>1</sup> See USAID. 1989. *History of A.I.D.'s Housing and Urban Development Programs*. Draft. This document contains ample background on these three periods.

of Housing and Urban Development" to the "Office of the Environment and Urban Programs" aptly characterizes the new emphasis. RHUDO-SA has participated fully in all four periods.

RHUDO-SA emerged as the first Regional Office of Housing and Urban Development of USAID from the Alliance for Progress. The Alliance for Progress--begun in 1961--sought to raise living standards in Latin America. Also in this year, the US Congress established the Housing Guaranty Program (HG). Essentially, the HG authorizes RHUDOs to raise funds backed by the faith and credit of the United States government on US capital markets to invest in urban development projects in the developing world. US government backing results in low interest rates relative to those characterizing developing countries. These interest-rate savings are passed on to these urban projects. This powerful, largely self-supporting tool has been the mainstay of RHUDO-SA's capital investments.

From 1961-64, the HG was used only in Latin America.<sup>2</sup>

Largely because of these early HGs, the first RHUDO offices in South America--which were established in 1971--built substantial capacity in housing development and housing finance--see Box 1 for an illustration. However, these early HGs ended up largely finance two to three bedroom units for lower middle and middle-income families.

The second phase<sup>3</sup> of RHUDO-SA shifted the focus from the housing solutions and needs of the middle-class to

**Box 1--The First Housing Guarantee Loan; the Apollo Project in Lima, Peru**

The Apollo Project--which was the first HG--typifies the use of this program during the developer/savings and loan phase. Contracted in April 1963, a total of US \$1.189 million was disbursed by Chase Manhattan. Without the 90% guarantee provided by the US, the 15-year term of this loan would have been unacceptable to US investors. Chase disbursed the amount to the developer, Promotora de Viviendas Populares, which built 405 3-bedroom units 30 minutes from downtown Lima. A Peruvian Bank, Banco del Progreso, made the home loans to household purchasers.

AID staff were closely involved in implementation, inspecting houses, obtaining mortgages, conveying title, and receiving mortgage payments. Another 405 homes were built with a second HG of slightly over \$1 million contracted in 1965.

<sup>2</sup> Although other regions began to use the HG in 1965, the loan authority for Latin America continued to exceed that of the rest of the world combined into the late 1970s. Initially, the program was intended to support US homebuilders to develop housing projects in Latin America. In tandem, US Savings and Loan leaders helped launch the establishment of Savings and Loans in Latin America. Twelve Savings and Loans were established in Latin American countries in the 1960s, starting with Peru. These institutions represented the start of long-term, amortized mortgage finance in the region. One assessment of the HG worldwide concludes that "the Savings and Loan movement in Latin America can be considered one of the HG program's greatest accomplishments." US Savings and Loans also became the major source of U.S. private finance of South American HGs in the 1970s. Hence, the HG supported both these efforts.

<sup>3</sup> By the end of the 1960s, US homebuilders had found use of the HG to develop housing in Latin America problematic. Instead, the HG came to be used primarily by government housing institutions. This shift in clients required development of policies capable of reaching the poor rather than programs that benefitted the middle-class. It is worth noting that the settlement programs of many Latin American governments have yet to make this transition. The focus on the poor lead to RHUDO-SA's second phase, which emphasized basic human needs.

those of the poor. This phase followed a paradigm change in development thinking about shelter and settlement.<sup>4</sup> Informal settlement and self-help provision--which had been seen as the shelter problem--was increasingly seen as a crucial part of the solution.<sup>5</sup>

An amendment to the Housing Guaranty legislation in the mid 1970s helped stimulate this change by requiring that 90 percent of HG-financed units benefit households below the median income. Partly as a result, RHUDOs in South America and elsewhere have made extra efforts and developed the skills to reach the poor.

During this period, the HG shifted from construction of complete 2-3 bedroom units to emphasizing: (a) home sites to poor families; (b) expandable core shelter units on serviced sites; (c) slum upgrading projects; and (d) community facilities and services in support of projects authorized to improve shelter occupied for the poor. One estimate is that about 60 percent of the HG projects during this period were sites and services, 30 percent core housing, and 10 percent upgrading.<sup>6</sup>

This period lay the basis for RHUDO-SA's expertise in urban environmental service provision and working with local government. Some of the HG projects of this period included schools, health clinics, markets, community centers, employment offices, small industry centers, job training centers and post offices. South American RHUDOs also helped pioneer Municipal Development Funds (MDFs) during this period.<sup>7</sup> MDFs extend credit to local governments for construction of small urban infrastructure projects, including sewer, water, markets, and road paving. A decade latter, other donors borrowed the MDF program structure pioneered by the RHUDOs in Latin America and have made expanded it worldwide.<sup>8</sup>

Because of the focus on the poor, policy dialogue became a major part of HG negotiations and policy changes--frequently resisted by host governments--were often required as conditions precedent in HG contracts. This emphasis on leveraging policy change as well as low-cost housing solutions affordable to the poor has continued into subsequent phases.

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<sup>4</sup> Based on the work of John Turner in Peru and others in Latin America.

<sup>5</sup> Rather than eradicate squatter settlements and build new complete units, the new thinking emphasized upgrading informal communities and assisting the self-help process. USAID as well as other key donors--such as the World Bank--refashioned their programs to emphasize sites and services and upgrading projects.

<sup>6</sup> See p. III-16 in USAID, 1989.

<sup>7</sup> See Gall, P.M. 1976. *Municipal Development Programs in Latin America; An Intercountry Evaluation*. New York: Praeger Publishers. Gall evaluated several early USAID-sponsored MDFs in Latin America in this study.

<sup>8</sup> See Ferguson, B. 1993. The Design of Municipal Development Funds in *Review of Urban and Regional Development Studies*, United Nations Center for Regional Development, Tokyo. The World Bank, for example, started creating MDF programs in the early 1980s and has established over thirty, making this structure the main vehicle for this organization's urban development lending.

RHUDO-SA helped lead the crucial innovations of the Basic Human Needs period--emphasis on the poor, low-cost shelter solutions such as upgrading and sites and services, an emerging focus on infrastructure provision, and involvement of new actors such as NGOs and private developers. However, central government agencies<sup>9</sup> came to dominate the process. The key drawbacks of these agencies--operational inefficiency, patronage, and swollen bureaucracies--led to a third phase, the Public-Private Partnership phase.

This shift, too, followed changes in development thinking on settlement. By the end of the 1970s, a consensus had developed that country governments should facilitate the private-sector to build and finance housing, rather than produce or finance units directly. Governments' role is to support markets through ensuring necessary inputs that the private sector, alone, has trouble providing. Such inputs include urban land, infrastructure, title, and mortgage and construction finance.

Many of these inputs require strengthening local government. RHUDO-SA has encouraged the momentum throughout South America towards decentralization of power and resources from national to local governments. RHUDO-SA now works directly with local governments to operate many of its programs and has honed its capacity to manage local efforts. In contrast, larger donors--such as the World Bank and IDB--typically wholesale larger amounts of funds and technical assistance through national and state governments--sometimes to local governments--and, thus, work mainly with higher levels of government. Thus, RHUDO-SA's experience in managing local programs helps to distinguish the Office from these larger donors.

Partly prompted by funding cuts, RHUDO programs began to shift from traditional capital development programs to technical assistance and training in the 1980s. Policy change--rather than just piling bricks on mortar--has become the central focus. The cumulative effect of many training events at the conference and seminar level has been to create a sense of community and shared purpose among the RHUDO's leading public and private-sector clients.

A fourth phase characterized by an emphasis on Urban-EQM has arguably just begun. The Urban-EQM phase integrates the approaches and strengths developed by the RHUDO-SA in previous phases: housing development and finance from the Builder-Developer/Savings and Loan phase; knowledge of sites and services projects, upgrading projects, urban infrastructure finance, and housing sector reform from the Basic Needs phase; private sector involvement in infrastructure provision, local government, and decentralization from the Public-Private Partnership phase. The holistic, inter-sectoral nature of Urban-EQM demands this wide range of capabilities reflected in RHUDO-SA's current programs.

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<sup>9</sup> Different organizations often operated these programs in the Basic Human Needs period than during the Builder-Developer/Savings and Loan period, such as private builders and NGOs. Central government came to replace Savings and Loans--which were reluctant to lend to the poor--as the key actor in HG programs.

## CURRENT PROGRAMS OF RHUDO-SOUTH AMERICA

RHUDO-SA's programs linked to Urban-EQM can be grouped into three categories: environmental services and disaster prevention, urban management and local governance, and housing and infrastructure finance.

### *Urban Environmental Services and Disaster Prevention*

RHUDO has established a number of projects specifically focussed on urban environmental services.

Urban Environmental Services. Two of these projects provide particularly useful models for replication elsewhere: the financial reform of the Quito water company and the solid waste management project in Machala, Ecuador.

In 1989, the Quito water company (EMAP Q) had plans to extend service to five informal-sector barrios--an unprecedented ambition for an Ecuadorian water company. However, EMAP Q had little sense of the appropriate technical specifications for this job. RHUDO-SA supported the company in using appropriate technologies that reduced the cost 20-25 percent and made this project economically feasible.

RHUDO-SA assistance has also played an instrumental role in dramatic reform of fiscal management of the Quito water company. As of 1988, EMAP Q recovered only 57 percent of costs, with the remainder made up by governmental budget allocations, and reached only 55 percent of the population efficiently. A RHUDO-supported analysis determined that EMAP Q lacked basic financial management and planning techniques, and had little idea of the condition of its system and equipment.

RHUDO-SA assistance consisted of: (a) technical assistance to develop an accounting manual, and modification of water company accounting to allow its use; and (b) based on the new accounting--which made costs transparent--restructuring tariffs to cover costs. These reforms underlie a dramatic improvement in the EMAP Q's performance. Eighty percent of the population now receives efficient coverage. The company is also now recovering all its operation and maintenance costs.

The striking improvement stimulated by RHUDO-SA assistance to EMAP Q has caught the attention of other funders. The Inter-American Development Bank has recently approved the largest loan ever given to a water company to the EMAP Q. Now that RHUDO-SA has tested these methods in "fertile ground"--the relatively well-managed municipality of Quito--the Office intends to introduce them in two other large Ecuadorian cities, Guayaquil and Cuenca, and possibly to Paraguay.

The RHUDO-SA program in Machala has developed a method for assisting rapidly growing cities in managing Urban-EQM. In Ecuador, the rapid growth of the medium-sized cities along the coast--such as that of Machala--has far outstripped their ability to provide infrastructure. Household income in Machala is two-and-one-half times the Ecuadorian national average. However, municipal management capacity and service provision has been dismal. An indication is that Machala was reportedly the point of entry of cholera into Ecuador.

With modest support from RHUDO-SA, two local university students and a Peace Corps volunteer analyzed solid waste collection and disposal. The report and other activities have resulted in: (a) rationalizing garbage routes for increased efficiency and lower cost; (b) an action plan currently funded by the RHUDO to stimulate the formation of micro-enterprises to collect garbage, which the municipality intends to implement; and (c) plans for a sanitary landfill. RHUDO-SA Machala project has also resulted in the passage of municipal ordinances for water and sewer companies.

Thus, RHUDO-SA has taken advantage of windows of political opportunity and provided technical support at strategic moments to realize these gains in Machala. From this and other experiences, RHUDO-SA has learned that providing the key technical assistance and documents at the right time represents a crucial key to reform. RHUDO-SA keeps in close touch with cities in which it works in order to hone its sensitivity to needs and to time interventions.

Based on its urban environmental work in Machala, Quito and elsewhere, RHUDO-SA has established a method for working in high-growth secondary cities where urban service needs far outstrip municipal capacity. This method consists of: (a) a repertoire of Urban-EQM technical and institutional innovations for key problems; (b) tools for assessing the urban environmental service needs of these cities and windows of opportunity for improving Urban-EQM; and (c) a strategy for working in such cities based on providing key t.a. and modest investments at politically opportune moments.

Disaster Prevention. RHUDO-SA views disaster prevention as environmental management. Too often, an artificial line gets drawn between "(hu)man-made", progressive disasters--such as the water and sanitation deficits that led to the spread of cholera in many South American countries--and sudden, "natural" disasters caused by fires and earthquakes. Assessment of risk in order to strengthen crucial links in infrastructure projects and other systems lies at the heart of RHUDO-SA's disaster management philosophy.<sup>10</sup> RHUDO-SA seeks to decrease cities' vulnerability to a range of threats--chronic disasters from poor service provision as well as sudden disasters from earthquakes, floods, and fires.

RHUDO-SA's work in Quito and Asuncion has helped institutionalize such risk assessment for disaster prevention in local decision-making. RHUDO-SA has also promoted a project to create an atlas of potential disaster threats in Chile, Peru, Colombia, and Ecuador that links scientific knowledge--often buried in reports--to the plans of national and local authorities. Box 2 illustrates RHUDO-SA's disaster prevention work.

In a more traditional disaster-response vein, RHUDO-SA managed \$3 million in assistance in the aftermath of a landslide that blocked the junction of two rivers in Southern Ecuador that

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<sup>10</sup> A balance must be struck between disaster prevention and achieving greater population coverage for Urban-EQM services. Strengthening the crucial links in a system to prevent disasters (larger and strong pipes in a drainage system, for example) costs "extra" money. Without such disaster prevention expenditures, these sums could be invested in extending services to greater numbers.

displaced 5,000 people, destroyed several towns, and threatened a major hydro-electric plant that produces 70 percent of the energy of the country. RHUDO-SA also responded to a special request from the White House via the U.S. Embassy in Ecuador to mitigate the effects of a major fire that destroyed 20 percent of the largest island in the Galapagos.

### *Urban Management and Local Governance*

The environmental quality of cities depends, above all, on urban management. Although many actors--developers, financial institutions, central government ministries, and housing agencies among others--play a role in urban management, local governments have a critical role in this process. RHUDO-SA's efforts focus on two facets of this critical problem--policy dialogue largely at the national level on urban management, and working directly with local governments to strengthen them.

Policy Dialogue at the National Level on Urban Management. RHUDO-SA has established a program that informs and influences urban management practice throughout Latin America. This program--the Latin American Center for Urban Management (LACUM)--leverages policy change through networks of key public and private-sector decision-makers.

LACUM networks include: (a) the Inter-American Housing Union, consisting of representatives of housing financing entities--such as Savings and Loans; (b) the Inter-American Federation of Construction Industries (FIIC), composed of national chambers of construction; (c) municipal training organizations, including those of Quito, Lima, La Paz, Maracaibo, Colombia, and Chile; (d) an annual conference of the Ministers of Urban Development of Latin American countries; and (e) NGOs active in the urban environment in Chile, Paraguay, the Dominican Republic, Colombia, and elsewhere.

LACUM uses a wide range of activities and events to engage in policy dialogue--Box 3 profiles them.

### **Box 2--Disaster Prevention in Quito**

Many donors--including USAID--have invested large sums in scientific studies that document risks. Typically, however, these studies fail to reach municipal authorities in a useful form, and this costly knowledge remains largely unused.

RHUDO-SA has developed a number of programs to identify and apply such studies to prevent disasters. The key to success has proved organizations that can translate this knowledge into a form that others can use. The results have reached both government and the private sector.

In Quito, for example, a series of meetings with the private sector (banks, insurance agencies, corporations etc.) has led to Project Alert--an effort by the private sector to reduce the risk of its investments. The municipality has created a disaster prevention unit and a staff position in charge of disaster prevention within its Planning Department. Various groups that work at the community level--including the Red Cross, the police, firefighters, and universities--have received disaster preparedness training. The municipality has also passed an ordinance ordering PETROECUADOR to move a dangerous fuel storage facility to an unpopulated area outside of the city. The program has trained five municipal employees and 100 private-sector individuals.

Overall, the RHUDO-SA has helped stimulate Quito going from a reactive mode capable only of responding to disasters to prevention.

Through these activities and events, LACUM has succeeded in influencing the environment within which urban program and policy development occurs in many Latin American countries. Among its accomplishments, LACUM has played a substantial role in: legislation allowing use of concessions for public service provision in Colombia, Peru, Chile and Argentina; transfer of the property tax to local government in Paraguay; the introduction of mortgage-backed securities in Colombia; greater support for informal-sector housing production in Venezuela and Colombia; the creation of the Chilean Association of Municipalities; and the spread of key housing and urban development innovations from Chile and Colombia--including indexation, efficient subsidy systems, and fiscal decentralization in various sectors--to other Latin American countries.

Strengthening Local Governments. The most critical unit of urban management should be local government. The poor first turn to local government for medicine, food, and other basic necessities. Municipalities also have the responsibility to provide critical urban environmental services. Latin American municipalities retained the responsibility for solid waste management even at the height of centralization of service provision in central government parastatals during the 1970s.

In the 1980s, however, national governments found that the rapid growth of cities and urban service needs far outstripped their shrinking budgets. In the name of democracy, but also to avoid these infrastructure provision costs, national governments have recently devolved many services to municipalities throughout Latin America. However, financial resources adequate to meeting these needs have usually failed to follow. In addition, local governments have traditionally had precarious technical and management capacity. Consequently, they are now unable to handle their new responsibilities. In sum, local governments face tremendous pressures to provide the urban environmental services that national government largely failed to meet with few financial resources and shaky capacity. Strengthening the institutional capacity of municipalities is a critical priority for RHUDO-SA. Consequently, in addition to the many efforts in other areas (environmental services, disaster prevention) that support local government, RHUDO-SA has developed a local government program.

### **Box 3--Activities and Events Sponsored by the Latin American Center for Urban Management (LACUM)**

LACUM uses four types of activities to promote policy change through these networks. First, LACUM often stimulates dialogue among many key decision-makers, possibly in the form of a conference. Information exchange typically follows dialogue. For example, an article in LACUM's newsletter--to which more than 2,700 organizations subscribe--may deal with the topic. Dialogue and information exchange result in identification of a key problem. LACUM then disseminates technical advances targeted at solving this problem among countries.

To this end, LACUM sponsors dozens of high-level conferences, workshops, study tours, and other events each year. In 1994, for example, these events included a regional meeting of the Ministers and Authorities of the housing sector, a workshop on Ecuadorian housing policy and grassroots community organizations, a solid waste collection and management exchange between Quito and Louisville (Kentucky), a study on Argentine housing policy and finance, a panel on the use of double indexation in Paraguay's housing system, a congress on traditional housing finance mechanisms (Congress IX of the Latin American And Caribbean housing, Urban Management, and Urban Environment Network), technical assistance on privatization of potable water and basic sanitation services in Ecuador, and publication and distribution of quarterly newsletters.

The Regional Decentralization and Local Governance Program is an example. RHUDO-SA has contracted with Metro-Dade County Florida and Florida International University to assist local government in three Departments in Paraguay including Asuncion and also parts of Chile. The Spanish-speaking abilities of Dade County staff have greatly contributed to this program's success. In Paraguay, Metro-Dade County has provided technical assistance in fiscal accountability to the municipality of Asuncion. FIU has also evaluated citizen participation initiatives of the mayor of this city and prepared a diagnostic of decentralization and local government for Paraguay. Partly as a result of these efforts, the government of Paraguay has decided to decentralize primary health care. In Chile, three conferences have lead to legal reforms that have established direct election of governors. This program--funded at \$2 million--began a year ago. RHUDO-SA may use it to expand its work in water company reform begun in Quito to Paraguay.

RHUDO-SA also operates programs to strengthen the role of women at the local level, focussed on Colombia, Peru, Bolivia, and Ecuador. Phase 1 of the Women in Local Development Program held forums and disseminated information over a three year period to this end. Results include: (a) a weekly radio program in Colombia on women in local government; (b) a national network to train informal-sector women leaders created by a female mayor in Peru; and (c) enhanced capacity of many organizations, including the International Union of Local Authorities--which helped implement this project--to promote the role of women in local development. Phase 2 of this project has just begun.

Thus, RHUDO-SA has honed its ability to work well with local government officials. This capacity lies at the root of RHUDO-SA's success in other areas--in particular, urban environmental service projects--as well as its local governance programs.

### *Housing and Infrastructure Finance*

RHUDO-SA operates Housing Guaranty programs in Ecuador and Chile. In addition, the Office has established a low-income housing program jointly with the Peace Corps and the Cooperative Housing Foundation in Ecuador and Peru, and an NGO Technical Assistance program with field offices in Bolivia, Colombia, and Ecuador.

RHUDO-SA's housing activities in Ecuador well illustrate how the Office has achieved substantial policy reform with modest investments. The capital base that leveraged these policy changes consists mainly of HG 007. This HG started in 1989, funded at the level of \$35 million. A relatively modest amount has been spent--\$10 million disbursed, mainly in the last two years.

However, the policy changes inspired largely by RHUDO-SA activities have laid the groundwork for fundamental sectoral reform--see Box 4.

Together, these and other policy reform actions have broken the inertia that surrounded Ecuadorian housing programs and policy and that have helped provoke huge housing deficits<sup>11</sup>, an explosion in informal sector development<sup>12</sup>, high and untransparent subsidies<sup>13</sup>, and bloated housing bureaucracies<sup>14</sup>. Concrete results of this policy dialogue include:

- Legal adoption of a constant value unit (Unidad de Valor Constante--UVC). The UVC has been the basis for creating a mortgage instrument adapted to inflation in other Latin American countries, such as Chile, and promises to fulfill this role in Ecuador.<sup>15</sup>
- Consolidation and great reduction in public sector bureaucracies involved in housing and urban development; 2,000 employees from one urban development organization and 600 from another have been dismissed.
- The Ministry of Urban Development (MINDUVI) has evolved into a true leader of the sector. MINDUVI depends heavily on RHUDO-SA for advice on its programs and policies, and typically telephones the Office once or twice daily. As a result of RHUDO-SA influence, MINDUVI's philosophy is shifting from that of a traditional high-cost, high-subsidy government builder of complete units for the middle-class to an enabler of private sector development oriented towards low-income households.
- Creation of a secondary market/refinance facility. Seven financial institutions have committed funding for a refinance facility.<sup>16</sup>
- Inclusion of savings and credit cooperatives that largely serve the poor--which account for 30 percent of national savings--into the formal housing finance system.

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<sup>11</sup> The formal sector in Ecuador has produced around 17,000 units annually, while household formation runs at 55,000 per year.

<sup>12</sup> More than 70 percent of Ecuadorian households have developed their own shelter solution outside of formal processes (land-use, formal housing finance) in the last decade, sometimes paying interest rates more than 150 percent per annum.

<sup>13</sup> The main housing subsidies have included interest rates far below market rate on loans to households and developers, and great land discounts.

<sup>14</sup> Together, the former Junta de la Vivienda and the Banco Ecuatoriano de Vivienda had over 4,000 employees in 1991. The Junta de la Vivienda has now been abolished with essential employees and functions transferred to the Ministry of Urban Development and Housing (MINDUVI) and the BEV re-organized.

<sup>15</sup> Its implementation promises to narrow the tremendous spread between interest rates on loans and those paid to savers in Ecuador, and allows positive real interest rates for housing loans for the first time in memory.

<sup>16</sup> This facility, the Corporation for Housing Refinance (CRH), promises much greater liquidity for housing loans through securitization and represents a mechanism for standardizing and greatly improving the efficiency of primary lending.

These changes have created a momentum for the adoption of a transparent, housing transfer system similar to that of Chile among housing-sector leaders in both the private and public sectors. This momentum carries top governmental decision-makers with it, who do not want to be left behind. RHUDO-SA sponsors the bulk of the talks and technical assistance--such as a forum with a former Minister of Urban Development of Chile with a key role in implementing this country's housing reforms--that spur the movement for reform.<sup>17</sup>

In Chile, RHUDO-SA operates three HGs: 08, 09, and 010. These programs have also performed well. HGs 08 and 09 each consist of a revolving fund in the amount of \$5 million to finance low-income housing construction. Most important, they have succeeded in reaching the poorest households--those in the first and second income decile--a rare accomplishment in Latin America and elsewhere.

These three Chilean HGs have also been remarkably productive; 08 has revolved six times since its inception and 09 has revolved three times. HG 010--funded at \$40 million--has three components: low-income mortgage securitization, urban revitalization, and small-scale environmental programs. Policy achievements related to this HG include passage of a laws allowing securitized mortgages, a payroll deduction for mortgages, and home-lease purchase. The first tranche of HG 010 has just been borrowed.

#### **Box 4--RHUDO-SA's Role in Housing Finance Reform in Ecuador**

Ecuadorian housing institutions have suffered from traditional vices--low production, bloated housing bureaucracies, high cost and subsidies per unit, untransparent subsidies to supply in the form of below-market interest rates on household loans, and direct production by the public sector. The lack of a mortgage instrument adapted to inflation exacerbated these problems.

RHUDO-SA has conducted a series of policy actions that have shifted the housing sector environment from one of inertia to active interest in change in Ecuador. These activities started with sending four groups of high-level public and private sector leaders to Chile, which has implemented housing reforms that have eliminated many of these traditional vices. RHUDO-SA paid for these four trips, which exposed about 50 (CHECK) housing sector leaders from the public and private sectors to new practice.

After these study tours, RHUDO-SA held two national seminars, one in Quito--the capital--and one in Guayaquil--the next largest city whose economy leads Ecuador's growth. The Vice-President of Ecuador gave the lead address in Quito. The National Chamber of Construction helped sponsor the event in Guayaquil. The national press came to both events and sought interviews with the head of Ecuador's Ministry of Urban Development on the topic of housing reform. RHUDO-SA provided the Minister with information for these interviews. At various points in the process, RHUDO-SA has sponsored technical studies on aspects of housing reform.

Together, these and other policy reform actions have broken the inertia that surrounded Ecuadorian housing programs and policy, and moved the country towards many of the mechanisms that have rationalized this sector in Chile (see text).

<sup>17</sup> The next steps in Ecuador housing reform include legal approval and implementation of direct, transparent, and progressive housing subsidies similar to those used in Chile, implementation of the refinance/secondary market facility, and completion of the change of MINDUVI from a direct provider of housing to a facilitator.

In addition to operating HGs in Ecuador and Chile, RHUDO has joined with the Peace Corps and the Cooperative Housing Foundation (CHF) to strengthen the capacity of local financial institutions to lend to poor families in Ecuador and Paraguay.<sup>18</sup>

In sum, housing is a traditional strength of RHUDO-SA. RHUDO-SA operates a wide range of housing finance and development programs targeted at the urban poor. These programs have leveraged substantial policy reform with modest capital components. They have also provided thousands of solutions to poor households--a rare accomplishment in a continent where the bulk of supposedly "low-income" housing solutions still end up with the middle-class.

RHUDO-SA capacity in housing development and finance has been essential to these accomplishments. Both these fields are fairly specialized, with a long operational history in Latin America. RHUDO-SA has helped create this history since its inception twenty-five years ago. The Office has specialists and maintains a roster of consultants able to understand and help solve the technical problems of housing finance institutions and developers. In addition, the RHUDO-SA has the policy development skills necessary to achieve change in housing finance and development in the public and private sectors.

#### **How RHUDO-SA Works with USAID Missions**

RHUDO-SA often operates programs sponsored by USAID Missions. Missions often have an interest in the urban environment and funding, but lack the management and technical staff to operate a program at the local level.

The Environmental Pollution Prevention Program (EP3) is an example. EP3 is a project of the Global Bureau of USAID and managed out of the main office in Washington, D.C. It provides technical assistance on pollution prevention and the use of clean technologies to countries in which USAID is operating.

In Ecuador, the EP3 project design called for focussing on industrial pollution prevention. The Global Bureau and the Ecuador Mission jointly decided to fund the start of this program in Ecuador, providing \$742,823 for three years of operation from 1994-97.

As a financial contributor to this project, the Ecuador Mission could have chosen to operate EP3. However, the Mission lacks staff knowledgeable in the area and has delegated the funding and operation of the project to RHUDO-SA because of the Office's managerial capacity.

RHUDO-SA's operation of EP3 has been ahead of schedule. Within three months after the agreement with the Ecuador Mission, RHUDO-SA had accomplished the following:

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<sup>18</sup> These households receive Credit Union loans for water and sewer hook-ups, home improvements, and the purchase of land. In turn, the Credit Unions refinance these loans through banks that channel HG loans--in Ecuador, the Banco Ecuatoriano de la Vivienda. RHUDO-SA has provided a small sum, \$445,000 in administrative funding to this program, over the last two years. CHF and the Peace Corps assist provide technical assistance to these credit unions and low-income housing cooperatives.

- Established a local office in a local environmental NGO and contracted with this NGO to undertake some of the project's activities.
- Conducted site visits to 15 factories.
- Completed nine pollution prevention pre-assessments, and identified two tanneries for follow-up full assessments and two metal and plating plants for partial assessments.

RHUDO-SA reports regularly to the Ecuador Mission on the program's status. In turn, the Mission has given RHUDO-SA substantial operational flexibility. The arrangement has worked well for both.

## **CONCLUSION**

In sum, RHUDO-SA excels in achieving policy reforms in areas linked to Urban Environmental Quality Management with modest expenditure. The Office's capacity comes from an evolution through four approaches to local development over twenty-five years in South America. The Office's development projects and dissemination activities have made the RHUDO-SA known and respected by leading Latin American experts and practitioners.

USAID Missions often have an interest in the urban environment and funding, but lack the management and technical staff to operate a program. RHUDO-SA has these strengths, and works with USAID Missions both through operating Mission-sponsored programs in Urban-EQM and through extending its efforts to cities selected jointly with Missions.