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Update on the Shelter Sector in Paraguay and
Conclusions on Potential A.I.D. Interventions

Final Report

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CREDICOOP Portfolio of Housing and Total Loans

The local Paraguayan currency Guarani(Gl.) is expressed in dollars throughout the report. The figures have been changed at the rate of Gl.1200 to US\$1.

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Executive Summary

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This final report on the Shelter Sector in Paraguay is divided into two sections: Part I: *Shelter Sector Update*; and Part II: *Observations and Recommendations on potential A.I.D. assistance to Paraguay*. Part I serves as an update to the Office of Housing and Urban Development's Shelter Sector Assessment conducted in 1980, and a national shelter sector study carried out by the government of Paraguay. Part II was drafted in the field and reviewed with the R.UDO on the consultant's return trip; it provides practical recommendations for A.I.D. to assist Paraguay to begin immediate implementation of its new housing initiatives.

This study was conducted in October and November of 1990, beginning with two days of discussions and meetings in Washington D.C. with The World Bank, The Inter-American Development Bank, the Office of Housing and Urban Programs, the Cooperative Housing Foundation, the Peace Corps, and the World Council of Credit Unions. This preliminary orientation was followed up by two days of research and meetings in Ecuador with staff of the Regional Housing and Urban Development Office, and one week in-Country. A total of 15 days were allocated for the consultant to research and write the report.

Part I

Part I reviews the housing conditions and delivery systems in Paraguay, focusing on organizations that provide housing to low-income sectors. Most (80-85%) of the housing in Paraguay has been produced by informal methods, with very little help from the public sector.

National public sector financing for shelter comes from the savings and loans associations and the Paraguayan Institute for Housing (IPVU). From 1983 to 1988, the annual loans made by the savings

and loans associations increased from 1,255 to 6,583, an increase of 524%. The primary government lender is the National Housing Bank (BNV). IPVU is the primary implementation agency for social interest housing and it lends for individual acquisition or construction. CONAVI was created in 1989 to plan and coordinate the lending and implementation activities of BNV and IPVU respectively. [pages 5,6]

Savings and loan societies have to place at least 25% of their portfolio for low-cost, social interest housing. They charge variable interest rates depending on the amount of the loan from 24.7% to 30.1%. [page 7]

Private financing for the informal sector has been a recent phenomenon by both social interest and religious groups. The highlighted groups are the following: Church Committee for Emergency Help; the Salesians; Social Pastoral Development; People Without a Roof; and, Co-ops. [pages 8,9]

There are approximately 200 co-ops in Paraguay. Of these, 95 are production co-ops, 55 are credit unions, 18 are services co-ops, and 20 are other types. The credit cooperatives have 65,000 members with the next largest group being production co-ops, with 28,000 members.

The National Office of Cooperativism regulates and oversees all co-op activity in the country. Funds for this Office come from the budget of the Ministry of Agriculture, with voluntary contributions from the co-ops themselves. [page 10]

The Paraguayan Foundation, mainly specialized in micro-enterprise lending, has recently become interested in making shelter loans as they relate to business productivity. The Paraguayan Foundation receives funding from USAID and the Inter-American Foundation. They make market rate loans at 91.2% annually — the street rate for micro-enterprises is 10% per day. [pages 10-14].

The National Housing Bank, in conjunction with the National Housing Council (CONAVI), is planning a US\$100 Million housing program, funded equally by the World Bank and the Inter-American Development Bank, to implement the new government's commitment to provide greatly expanded housing services for Paraguay.



In 1989, The National Housing Bank offered to provide the equivalent of US\$1.0 Million for a housing loan program through the credit cooperatives — CREDICOOP. This offer led to the development of a proposed program by the Cooperative Housing Foundation and the Peace Corps Paraguay to provide technical assistance to the credit unions. The Bank has gradually withdrawn its commitment to work with CREDICOOP. Concerns stated by the National Housing Bank focus on the interest rate spread proposed by this credit union Central.

Peace Corps, CREDICOOP and BNV have been struggling to overcome impediments to the implementation of this project. Partly as a result of there being no current technical assistance, the project is in risk of not going forward. [pages 16-23]

Paraguay has borrowed one housing guaranty loan, and was approved for a second, which was not executed due to concern over foreign exchange risk. Although payments are now current on HG001, Paraguay has been recently in 620 Q status. Any new housing guaranty loan made at this time would need to address the foreign exchange risks. The Chilean housing guaranty loan with COVIP, S.A., might serve as a model for a non-government secured loan in an inflationary economy. [pages 24-26]

Part II

This section reports on options for A.I.D. participation in the shelter sector in Paraguay. The recommendations follow.

- A.I.D. should support Peace Corps in its project with CREDICOOP and BNV.
- This project needs technical assistance *now* rather than *later*. The tasks for the technical interventions are:
 - Work out an agreement with the Bank
 - Structure terms and conditions for the loans and sub-loans
 - Develop a satisfactory scope of the loan program and security for the loans
 - Assist with the development of procedures and training
 - Explore avenues for adding other components or retail outlets for the program, such as the Paraguayan Foundation
 - Resolve the question of conduit of funds

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- Assist with the initial training of the permanent volunteers and technology transfer to Peace Corps
 - Assist with the integration of such a program within CREDICOOP.
- This report recommends that A.I.D. investigate ways by which it can assist the Fundación Paraguaya in obtaining capital funds for a *vivienda-taller* pilot project and for the technical assistance necessary to start up such a project.
 - By providing training and technical assistance for the home improvement and construction program of the Bank and Peace Corps, A.I.D. can be influential at this critical time in the shifting of policies in Paraguay.
 - There is no better or more efficient way to reach the low income population of Paraguay with housing credit than through the credit union system as a primary, if not the only, vehicle.
 - Any influence or leverage that the RHUDO or the Mission could apply at this time to move the Bank toward market rates could be based on an industrial loan, recently beginning implementation.
 - It is possible that using the Chilean private-sector housing guaranty model and requiring indexed, short-term loans would be acceptable to all concerned.
 - In regard to low-cost, short-term interventions, it appears that policy level discussions and training with the credit union organizations in countries with high rates of inflation may be the most timely topic for any inputs from the *Latin American Training Center*.
 - A second short-term intervention might be a study tour to neighboring countries with high rates of inflation to see how their indexation programs are working.
 - The credit union system would benefit from assistance to computerize the individual credit unions.

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Part I

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Part I: Shelter Sector Update

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This study began in October and November of 1990, with two days of discussions and meetings in Washington D.C. with The World Bank, The Inter-American Development Bank, the Office of Housing and Urban Programs, the Cooperative Housing Foundation, the Peace Corps, and the World Council of Credit Unions. This preliminary orientation was followed up by two days of research and meetings in Ecuador with staff of the Regional Housing and Urban Development Office, and one week in-Country.

Part II was drafted in the field and reviewed with the RHUDO on the consultant's return trip.

PART I

Housing Conditions in Paraguay.¹ CONAVI has recently completed a monumental study of housing conditions in Paraguay, consisting of three volumes and a summary. The following information is largely drawn from this study, although supplemental information from other sources is also included, with sources noted.

Housing in Paraguay is provided by individual initiative, the public sector and the private sector.

Indigenous housing. Between 80% and 85% of the housing in Paraguay has been produced by informal methods, with very little help from the public sector. The most popular housing type in Paraguay is the *Culata Yovai*, or *vivienda de cuartos enfrentados*. This housing consists of 2 *culatas* as rooms or closed spaces, a semi-open covered space, with the *enramada* as prolongation of the multi-functional space, and the kitchen separated from the house.

Spontaneous Settlements. There are approximately 120,000 people living in spontaneous settlements in Paraguay. Over half of the houses in flood plain areas are of precarious construction. "The dedication of the families in building their homes is not matched by the efficient help of state organizations in charge of public services." A small number of religious and community organizations are working with the population in these settlements, helping them rebuild in safer areas, through "induced settlements". There are now 15 such settlements, covering about 1,000 families, representing about 5% of the total population in the flood plains.

Private Sector. There is no discrimination against the type of organization that can receive financing for low-cost housing projects of social interest. The major source of private sector funding ultimately comes from the National Housing Bank, through the savings and loan system.

¹Source: *Sintesis del Diagnóstico, Paraguay, diciembre 1989, CONAVI.*

Savings and Loans — Sociedades de Ahorro y Prestamo para la Vivienda. These savings and loan associations are required to have 25% of their loan portfolio in credits for low-income housing.

Economic Conditions in Paraguay with Respect to Shelter. A household survey was conducted in 1977 by the National Census Office (Dirección General de Estadística y Censos) and revealed the following:

Monthly Household Incomes—Ingresos por Hogares
(in US\$)

	\$83 or less	\$83 to \$124	\$125 to \$165	\$166 to \$332	\$333 and up
Metropolitan area	17.3%	17.4%	12.7%	30.0%	22.6%
Asunción	12.9	12.9	12.9	34.4	29.5
Rest of metropolitan area	22.1	22.1	15.3	25.6	14.9

Median monthly income in 1988 was US\$106; and the minimum monthly salary was US\$103

The most significant public works recently carried out in Paraguay is the construction of the Itaipú Dam, in collaboration with Brazil. This project has shown the capability of the country to mount a major construction project. The seventeenth generator at Itaipú has recently begun operation. Number eighteen should be started in March of 1991. The capacity will increase up to 11.9 Million kilowatts. This project has resulted in a total cost of US\$11 Billion for construction and US\$10 Billion for finance costs. Brazil is consuming 98% of the power, with Paraguay consuming the remainder.²

In 1989, banks received in deposits US\$15 Million with interest rates from 15% to 22%.³ This year, they have received in deposits US\$66.7 Million with rates up to 28%, through certificates of savings, with terms ranging from months to years. These certificates have a required reserve requirement of 15% versus 37% for savings accounts.

²Source: *Noticias*, 21 October 1990.

³Source: 24 Oct 90 ABC, p. 11.

Rates charged for consumer loans, such as personal loans and credit cards, reach 48% annual. Rates charged for commercial loans reach 42%, with agricultural rediscount rates between 36% and 38%, and for savers from 16% to 24%, although one institution has published a rate of 30% for a one-year term, with a minimum US\$833 on deposit.

Shelter Resources. Materials. The country has the ability to respond to the need for building materials. This was shown by the great increase in materials production for housing related to the Itaipú dam project and cement and related products for the dam proper.

Delivery Capacity. The Paraguayan Chamber of Construction has 250 construction companies. There are 1,335 graduated and titled Civil engineers and 1,740 architects. The Ministry of Public Works and Communications records show that in November 1989 there were: 921 engineers and 488 architects, with 161 topographers and land surveyors. The Municipality of Asunción has: 413 architects; 497 builders; 448 civil engineers; 804 builders; 3 contractors of the works; 15 masons and no construction carpenters. November 1989.

In the entire country there are 69,900 people dedicated to the construction sector, with 52,495 of these in urban areas. Of the urban workers, 34,748 are in Asunción.

Sources of Financing for Shelter. There are a limited variety of formal financing sources of shelter in Paraguay. These include both public and private, national and external sources.

External Financing for Shelter. International loans were taken in the 1970s, which was a time of relative economic stability in Latin America. During this time, the National Housing Bank borrowed US\$10.2 Million. The exchange rate was 1US\$= 126G/. Due to the increase in the value of the Dollar in relation to the Guaraní, this results in an increase in G/. from 1,285,200,000 to 9,462,985,000, an increase of over 700%.

With this loan, the following new construction and home improvement consumer loans were made: *New construction:* 748 homes through the savings and loan associations, at US\$3,251,000 Million. *Home improvements:* 245 loans through the savings and loan associations and the credit unions, at US\$752,000. Of the

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improvements, 147 such loans were through the credit co-ops, for a total of \$588,064.

In the early 1980s, a second housing guaranty loan was programmed for Paraguay, but never implemented.

National Public Sector Financing for Shelter. These sources include the national savings and loan system, the Paraguayan Institute for Housing (IPVU), and several other smaller organizations.

**National System of Savings and Loan for Housing
(Portfolio growth from 1983-1988)**

<i>Society</i>	<u>1983</u>	<u>1988</u>
Progreso S.A.	7,046,500	12,842,400
Hogar Propio S.A.	1,856,000	3,593,000
Ahorros Paraguayos S.A.	8,238,600	11,716,300
Itapua S.A.	194,740	1,068,200
Oga Rape S.A.	3,339,800	13,680,900
Solar S.A.	<u>3,405,100</u>	<u>8,534,200</u>
Totals:	24,080,740	51,435,000

Source: National Housing Bank, Operations Department.

**Number of Loans
by Savings and Loan 1983 and 1988**

<i>Society</i>	<u>1983</u>	<u>1988</u>	<i>Cumulative</i>
Progreso S.A.	71	576	4,670
Hogar Propio S.A.	82	314	3,520
Ahorros Paraguayos S.A.	455	870	9,313
Itapua S.A.	115	513	2,416
Oga Rape S.A.	296	4,206	15,080
Solar S.A.	<u>236</u>	<u>104</u>	1,900
Totals:	1,255	6,583	36,899

Source: National Housing Bank, Operations Department.

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The number of loans made annually by the savings and loan system has increased steadily. Composite loan figures over a five year period show an increase in annual loans from 1,255 to 6,583, an increase of 524%. From 1983 to 1988, the total loans made were as follows:

<u>Year</u>	<u>Number of Loans</u>
1983	1,255
1984	1,746
1985	3,291
1986	3,913
1987	5,199
1988	6,583

Prior to 1983, the cumulative total was 14,912 loans; at the end of 1988 it was 36,899.

National Housing Bank—Banco Nacional de Vivienda (BNV): The primary governmental lender is the National Housing Bank, which operates mainly through the savings and loan system. Historically, the savings and loan associations have registered 163,873 savers, who have deposited US\$51,434,975 which has allowed, as of 12/31/88, 36,899 loans for an equivalent of US\$39,185,283. With 5 persons per family, this has benefitted 184,495 persons. The National Savings and Loan Association for Housing (SNAPV) long-term deposits account for 32% of the total national long-term savings in savings and loans.

Paraguayan Housing Institute—Instituto Paraguayo de Vivienda y Urbanismo (IPVU). This institution is the primary implementation agency for social interest housing. Basically, IPVU develops two types of projects, 70 square meters and 60 square meters. The Type A (70M2) new construction projects have a term of 197 months, and payments are based on 25% of the minimum salary. The Type B (60M2) have a term of 180 months, with 25% of the minimum salary as the payment.

IPVU also lends for individual acquisition or construction. For purchase of lots, construction on one's own lot, or purchase of a home, IPVU lends with the following terms: 40% of assessed value; 24% annual interest; with closing costs at 8% of the loan amount, which includes deed recording (escribanía). Closing costs can be

capitalized. The borrower must have 10% of the amount of the loan on deposit as savings in IPVU, and must provide a first mortgage.

IPVU was created in 1964 by Law No. 970. It took the place of the Instituto Paraguaya de la Vivienda, created in 1962, and was started with one Billion G/.

CONAVI was created by Decreto Ley No. 25, in May, 1989, and combined the National Housing Bank with IPVU. The new plan calls for CONAVI to serve as the planning and coordinating arm, with the Bank serving as lender and IPVU as project implementation agent. CONAVI will have new infusions of money to carry out the President's mandate. There is a strong interest in starting new housing projects. It has been observed that these new projects will require someone to focus on the social development.

Savings and Loan Societies—Sociedades del Sistema Nacional de Ahorro y Préstamo para la Vivienda. USAID provided US\$100,000 operating money plus US\$2 Million for initial capital. The Savings and Loan Societies have to place at least 25% of their portfolio for low-cost, social interest housing.

These institutions lend up to 80% of the value of the property, including the cost of the land. Borrowers must have a steady income and a stable job. Interest rates vary depending on the amount of the loan.

Savings and Loans Lending Rates
(Annual Interest Rates)

Loan Equivalents	Interest Rates	Rates with add-ons
US\$3,000	18%.	24.7%
Up to US\$3,000	18%	24.7%
	(of outstanding balance)	
Up to US\$5,000	20%	27.3%
Over US\$5,000	22%.	30.1%

Terms: up to 240 payments.

Based on a typical example of increases in the minimum salary, the cost to the borrower per square meter is G/. 190,635 or \$159.

Savings in IPVU earn the following:

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Passbook Savings: 7-14% depending on balance; fixed term (minimum US\$167; 10-12%.

Additional Sources of Funds for social interest housing include:

Issuance of VEIS Bonds

placed in Sociedades of SNAPV 89-90	US\$ 5,292,000
VEIS bonds with BNT	2,000,000
.30% on mortgages other than VEIS	85,000
Tax Law 1003/64	417,000
1% on Insurance payments	<u>167,000</u>

Total: US\$ 7,960,000

VEIS=*Bonos de Viviendas Económicas de Interés Social*

National Housing Bank— Banco Nacional de Ahorro y Préstamo para la Vivienda (BNAPV). This organization had 114 employees in both 1988 and 1989. The Central Bank had 1,300 employees (88 and 89). The City of Asunción had 2,634 in 1988 and 2,703 in 1989.

Private Financing for the Informal Sector. A fairly recent phenomenon in Paraguay is the development of social interest housing by non-governmental organizations and religious groups. They include the following:

- a) *Church Committee for Emergency Help—Comité de Iglesias para Ayudas de Emergencia (CIPAE).* This group works with families affected primarily by floods. After 1982, they changed their method of payment to a fixed payment of US\$3 monthly plus an annual readjustment of US\$0.30. The current payment is now approximately US\$4.42. The recovery is 50% of what was invested in the cost of construction, without counting the labor cost. Each family has a right which is acquired through self-help efforts, valued at the rate of a construction assistant, equal to US\$250. Collections are done by a private real estate company.
- b) *The Salesians—Salesiano-Obra de Don Bosco.* When the *Diagnóstico* was prepared, this Catholic religious order had invested over US\$600,000 in housing. The group now has a field staff totalling 12 people. In their most recent project,

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Villa Enrique, the per unit development cost was US\$167. As in the case of CIPAE there is a required labor contribution valued at US\$250 and a direct subsidy of US\$334. The remainder, is financed over 10 years, with adjustments based on income to a minimum of US\$1.25 per month.

As an example, the Salesians have developed a self-help housing project, called Villa Santander, which features a savings co-op, a common garden, a school (k-8), and a crafts co-op. This project, located in Limpio, began in 1984, when the Salesians began working with approximately 47 families who lost their homes in a flood. There are now 57 units in the project. Other Salesian projects are: Villa María Auxiliadora; Villa Lombardia; and, Villa San Vicente.

- c) *Social Pastoral Department—Departamento de Pastoral Social.* This is a social services office of the Catholic Church, which obtains its capital from an annual collection called *Mano Abierta*, through which they receive about US\$11,667. The beneficiaries make payments which are now US\$5.75 per month, with an annual increase of US\$0.25. As is often the case with deeply subsidized projects directed by social organizations, delinquencies are a problem. Five months delinquency is seen as "normal." They threaten to take away the property at 6 months delinquency, but even this is often not observed.
- d) *People without a Roof—Gente Sin Techo.* This is a newly organized group, which has provided housing for nearly 400 families in two separate subdivisions. The houses measure over 60 square meters, and are valued at US\$3,334. The payments are based on 5% of the Minimum salary. There are 150-200 houses in each of two subdivisions.
- e) *Housing Co-ops.* In July of last year, the Director of the National Cooperative Directorate (Dirección Nacional de Cooperativismo) met with the only housing co-op organizing in the country, but there has not been any contact since then. This co-op hopes to buy a factory, currently not operating, and reopen it to make building materials. It does not appear that any serious housing co-op activity will take place in the near future. In Chapter 8 of the co-op law Law 349, Decree 27,384,

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entitled *Régimen Legal de Cooperativas*], Section III on service co-ops, there is allowance for housing cooperatives.

Offer of homes and financing by Real Estate Companies. There are 25 such firms included in the Paraguayan Association of Developers (APEL) [*Asociación Paraguaya de Empresas Loteadoras*]. At this time, they have 125,000 lots under development, with 20% of these having already been paid for; 60-75% are being paid over time and the rest are under sales negotiations. The payments vary between US\$4.15 and US\$5.80 for lots. The total delinquency is between 10% and 12% of the total portfolio. 25% of the lots located near Route 3 (towards Limpio) already have improvements. Likewise 70-75% of those near Route 2 and 50% of those along Route 1 have improvements.

Of the 125,000 lots, 70% are in the metropolitan area, 20% in are Ciudad del Este and the rest in Encarnación and Coronel Oviedo.

The Cooperative Sector. There are about 200 co-ops in Paraguay. Of these, 95 are production co-ops, 55 are credit unions, 18 are services co-ops, and 20 are other types. The credit cooperatives have 65,000 members with the next largest group being production co-ops, with 28,000 members.

The National Office of Cooperativism regulates and oversees all co-op activity in the country. Funds for this Office come from the budget of the Ministry of Agriculture, with voluntary contributions from the co-ops themselves, which helps with the items they cannot buy through their budget.

The cooperative law was established in 1972 and a revision is planned for March of 1991. The Director would welcome input on changes to the law to accommodate housing co-ops. As it is currently structure, the law favors export co-operatives.

Paraguayan Foundation. An organization that is beginning to develop an interest in housing for its constituency is the Paraguayan Foundation.⁴ Two years ago, the Foundation conducted a study on the informal sector housing. Although the primary focus and mission of the organization is to help with the development of micro-

⁴Sources include: meetings with Astrid Gustafson and Carlos Rivarola, and review of materials provided by the Foundation.

enterprises, this study has led to their development of a proposal for productive housing, called *Vivienda-Taller*. It is one of the recommendations of the consultant's report that A.I.D., which is already supporting the Foundation, explore opportunities to assist the Foundation in the development of this productive housing program. For this reason, this report documents extensive background information on the Foundation.

At this time, the Foundation is attempting to establish a joint project on micro-enterprise with CREDICOOP. This is an effort to expand the Foundation's work to the rural areas, where CREDICOOP already has significant inroads. Under this proposed joint program, prospective borrowers who do not qualify for membership in the credit union, would be referred to the Foundation's program, which, ironically, has much higher interest rates.

By Foundation estimates, there are over 100,000 micro-enterprises. The *Office of Census and Statistics* recently estimated 85,000 micro-enterprises nationwide. There are an average of four persons working in dependence on each micro-enterprise, or 340,000 people, according to a study by the Foundation and the *Organización Internacional del Trabajo* (1989). Micro-enterprise is defined as a business characterized by there not being a clear separation between labor and capital. The micro-entrepreneur participates directly in the process of production, realizing personally some of the activities: still a worker. It is characterized by informality and the use of manual tools. The Foundation works with three levels of micro-enterprise: survival micro-enterprise; micro-enterprise in expansion; and micro-enterprise in transformation.

The basic form of collateral used by the Foundation for its micro-enterprise loans is the *Prendaria* or lein, and at times the inventory. The other form of guaranty is the solidarity group. The Foundation does not make loans to individuals. Rather, it makes loans to groups of three to five micro-entrepreneurs.

To receive the loans, the groups have to attend a training session. They also receive follow-up visits and assistance according to their needs. Training covers such things as: using legal documents and checks; planning payments and charges; assuming responsibilities; receiving and offering assistance; punctuality; and planning their future loan(s).

To form a solidarity group, the applicants must: (a) have 3, 4, or 5 members; (b) have its members live in the same barrio or zone; (c) know and trust one another; (d) have all members be over 20 years of age; (e) have up-to-date identification documents; and (f) have a minimum of one year of experience in business.

One of the results of the Foundation's study on informal sector housing is that they discovered that they are interested in making shelter loans as they relate to *production*, not as they relate to *housing, per se*. For example, a micro-entrepreneur may need to expand the home as a workshop (and hence the name *Vivienda-Taller*) or add a room to be used as a storefront sales outlet. In this way, their interest in housing is secondary, and the interest in business development is primary. A positive side effect is the betterment of the housing itself.

One of the characteristics of the Foundation's lending is that it has repeat customers, since its clients need repeated access to credit. This serves as leverage for repayment of the Foundation's loans. If the borrowers default, they will have to go back to paying 10% per day, as they did before, in the open market.

The loan characteristics include: simple forms, with help being provided; fast analysis and lack of guaranty other than the *Grupo Solidario*; processing and disbursement in a term of not more than 10 work days, which time includes three training sessions. Subsequent loans for responsible groups are immediate and can be for higher amounts. Loans cost 3% per month. Training and technical assistance costs add an additional 2.85% per month. The loan documentation taxes are an additional 1.75%. Thus the total is 7.6% monthly or 91.2% annually.

In 1989, the Foundation made a total of 2,592 loans for US\$1,265,000, an average of \$488 per loan. In all, they have made US\$2,940,000 in loans in their four years of existence, for a total of 6,873 loans, with an average of \$428 per loan.

The following chart summarizes some of the characteristics of the Foundation's loan portfolio:

Paraguayan Foundation Portfolio Characteristics

- 55% of borrowers are women
- 3.21 people are dependent on each micro-enterprise
- 54% have primary grade level education only
- Type of activities include: 63% micro-entreprises; 19% micro-industries; 18% micro-services
- Borrowers have an average of 10 years with their businesses
- Gross assets average: US\$9,500, including family goods (*bienes familiares*)
- Gross monthly income averages: US\$618; for women, 15% less
- 75% of borrowers have no access to formal credit
- Borrowers average 6.3 workdays per week with an average 10.8 hours per day
- 55% of borrowers have no working capital
- 87% of borrowers would expand if they had the capital

The types of work carried out by borrowers of the Foundation are:

Nutritional products	22%	Various sales	26%
Clothes designer	15%	Storefronts	14%
Other	11%	Tailoring	5%
Crafts	3%	Masonry	3%

In 1989, nearly two-thirds (62%) of the borrowers own their own homes, with 18% enjoying the use of other peoples' homes, and 20% renting. This homeownership rate is up from 1988, when it was 48%. 90% of the beneficiaries have family expenses under US\$250 monthly.

Regarding delinquencies in the loan portfolio, the Foundation has a total of US\$30,000 out of over US\$5,000,000 that is uncollectible. They run 4-5% past due. The loans have 2-8 month terms, with weekly or semi-monthly payments, flexible according to the business with which they are working.

After the Foundation's start-up, it now pays 34% annual for capital, through commercial loans. To this the Foundation adds 3% monthly plus 2.75% per month for training. Only the poor apply for these loans, and no one disguises themselves as poor to get access to this money. According to Foundation staff, people are happy to pay these rates because they are getting credit, and they are no longer paying 10% per day, which is the street rate for micro-enterprises. Nearly 80% of the loans made by the Foundation are for amounts under \$300.

As stated above, the Foundation conducted a study on informal sector housing. This was a study of 8,000 micro-enterprises and looked at questions such as how much did they put into housing and how much did they spend? The study revealed that in spite of very irregular incomes, these families invest about US\$1,000 per year for housing. Within a couple of years they have an average of nearly US\$3,000 in housing. They buy materials a little at a time, stockpile them and then construct a couple of months later.

The Foundation has concluded that it wants to begin a housing program, but as it relates to micro-enterprise: productive housing. By their estimates, they need from US\$300,000 to US\$500,000 for a pilot project. In terms of requirements, they will probably require that applicants have already done something toward their house, just as they require one year experience before lending to micro-enterprises. Foundation staff recognize that they will have to make other changes in their procedures, such as: following-up to make sure that the funds are being used for housing; lending in materials and small amounts of money; making loans in stages and reviewing productive capacity.

In summary, the beginnings of the Foundation are very favorable. They are operating at market rates of interest. They do not see themselves as competitive with the credit unions because they charge higher rates of interest. The proposed housing program, *Vivienda-Taller*, seems worthy of support and possible integration into a home improvement lending program.

The Foundation has received some criticism from various quarters, although sources in A.I.D. discount the majority of these complaints. The primary criticisms are that the Foundation operational costs are very high and that unintentionally, they lend money to people who then become the usurers in the market.

*USAID Perspective.*⁵ Paraguay is an advanced developing country, and as such receives technical rather than financial assistance from USAID. Next year the Paraguay Mission plans to have a full time person. They hope to finance projects through buy-ins.

⁵Source: meetings with Oscar Carvallo, Julio Basualdo and Jonathan Farrar.

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A.I.D. does not have any active contact with CREDICOOP, and hence there is no direct connection. In A.I.D.'s view, CREDICOOP was very influenced by the previous governmental administration, and with the change in government there have been many changes in CREDICOOP's management. Now they have more urban programs.

When the savings and loan associations started, they originally indexed loans to the cost of living. Then they changed to adjustable rate mortgages.

At the time of this consultant's visit, interest rates were allowed to float freely. Inflation varies from 30% to 60% depending on who is speaking. The labor unions say it is 60%, with the government saying 30%. There is a lot of speculating going on with money. There is pessimism that inflation will increase. Light, water, gas are all subsidized. There is no official indexed savings method. People speculate more than invest. The exchange rate has been steady, fluctuating around G/1,200 per Dollar. In March, April, June, July and August it was under this level. In September and October, it was mostly over G/1,200.

In conjunction with the IMF program, the Government of Paraguay goal for inflation for next year is 15-20%. On the exchange rate side, they called for G/1,250, for 1990, and will come in within that. They are planning G/1,350 for 1991. Paraguay is very dependent on what happens in Brazil and Argentina. Both their currencies have been over-valued. Cruziero has moved in recent weeks from 70 to 100 versus the US\$. Guaranis are also overvalued vis-a-vis the dollar, but related to these other two currencies, this currency is okay.

The Fundación Paraguaya will receive USAID funds for one more year. They also receive funds from the Inter-American Foundation. In A.I.D.'s view, the Foundation has good leadership and good technicians. They are modern and equipped with computers. They are seeking an Inter-American Development Bank (IDB) loan to create 100,000 new jobs. Funders understand the difficulties the foundation has in self-financing due to: high overhead costs and the short duration of loans from 2-3 months. A.I.D. is pleased with the Foundation's good educational program. One concern of the Mission is: what would happen at the Foundation if Martín Burt and Astrid Gustafson were to leave? The Mission is pleased with the Foundation's approach to interest rates. Campesinos are paying an

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effective interest rate of 80%, and thus the rates charged by the Foundation are market rates in many respects.

Economic Conditions in Paraguay

National Housing Bank.⁶ The National Housing Bank, in conjunction with the National Housing Council (CONAVI), is planning a US\$100 Million housing program to implement the commitment of the new government to provide greatly expanded housing services for Paraguay.

The program will include several components, including new construction, upgrading and home improvements. The National Housing Bank (Banco Nacional de la Vivienda) intends to begin using the model developed by The World Bank and the Inter-American Development Bank, in terms of typology. According to individuals interviewed at the National Housing Bank, they will begin using a one-time front-end subsidy, based on salary, followed by adjustments tied to the minimum salary. They view this as similar to the Chilean system. The National Housing Bank is planning to charge 0% interest, with graduated payments based on the minimum wage. In the view of the Bank, the cost of their money is zero, since it is provided by the budget and by a salary contribution.

Program with CREDICOOP. In 1989, The National Housing Bank offered to provide the equivalent of US\$1.0 Million for a housing loan program through the credit cooperatives. This offer led to the development of a proposed program by the Cooperative Housing Foundation and the Peace Corps Paraguay to provide technical assistance to the credit unions.

The Bank has gradually withdrawn its commitment to work with CREDICOOP. Concerns stated by the National Housing Bank focus on the interest rate spread proposed by this credit union Central. The Bank was proposing to lend this money at 10% interest, and CREDICOOP was proposing a total 6% spread to be shared equally by CREDICOOP and the credit unions. In the view of the Bank, if highly subsidized funds are being provided by the government to serve low-income people, and if the Bank itself is not benefitting from the

⁶Sources include: Licenciado Gerardo García, etc.

loans, the credit unions should not derive financial benefit from this either.

Another concern raised by the Bank is the potential legal issue of the mortgage being made by the borrower to the credit union, which is then passed along to CREDICOOP, which then pledges to the Bank. As a result, the Bank is concerned about its true security.

Mortgages are required by law for Bank funding, according to those interviewed. To this point, neither Peace Corps or CREDICOOP has mentioned home improvement loans to them. They have been talking about new construction loans only. This is another area where discussion will be required to clarify the program, should it be possible to re-open the communication and bring the program into existence.

During the course of the consultant's visit, the Bank, Peace Corps and CREDICOOP were scheduled to sign a three party agreement. The signing was cancelled by the Bank. In the course of negotiations between the Bank and Peace Corps, the Bank made it clear they did not want CREDICOOP to be a party to the agreement, although they left the door open to subsequent inclusion of additional parties, possibly including CREDICOOP. In the view of the Peace Corps staff, this project is "dead in the water" from the standpoint of additional funds from the Bank, until mutually acceptable terms can be agreed upon.

In the past year, the Cooperative Housing Foundation has made several interventions to help define and establish this program. Recently, CHF prepared a pre-feasibility study and submitted a proposal to A.I.D. for long-term technical support for this Peace Corps-CREDICOOP-Bank housing program. After clearing initial hurdles, the proposal was ultimately not funded. Thus, at present, there is no regular source of technical assistance to help establish this program.

The Government of Paraguay has recent precedents for receiving low-interest monies and on-lending it at market rates. USAID Paraguay Mission actively watched a recent example of a large, US\$30 Million IDB industrial loan to Paraguay's National *Banco de Fomento*, where end user rates were 30% or higher. For the Housing Bank to insist on low-interest loans to the end users at this critical time could be very counter-productive in the long run. Thus, any

influence or leverage that the RHUDO or A.I.D. could apply at this time to move the Bank toward market rates could be based on the parallel industrial loan.

Peace Corps.⁷ Peace Corps staff recognize the exigency of starting some housing programs soon to help the government move in the right direction. At present, the Peace Corps is committed to this project, with or without financial assistance or new funds. They need, in their view, technical assistance in the areas of how to work with both CONAVI and CREDICOOP, negotiating interest rates, effecting an agreement and how to have some impact on the policy implications of the proposed program. Ultimately, they will need new money for the project also.

According to Peace Corps staff, CONAVI has less than complete confidence in CREDICOOP. There is no movement currently regarding the tri-partite agreement. They had hoped to have an agreement in principle signed in October, but this did not happen and would have left many questions still to be resolved such as the terms and conditions of the loan funds. According to one source, the lawyer for CONAVI thought the only problem with this agreement was that it included CREDICOOP.

Peace Corps considers CREDICOOP to be well-positioned for a major home improvement program because they have infrastructure in place: they have a lot of member co-ops, they already have money and they have a long record of experience in housing.

CREDICOOP had made some bad investments, or at least managed them poorly. This past year, after a number of unproductive years, the cotton gin acquired by CREDICOOP made a profit and it is now recommended that they should keep the gin. Other weaknesses of Credicoop include: communication and co-op promotion at the local level; follow-up on loans at the member level.

Peace Corps has also worked for a long time with the Fundación Paraguaya, although they have no volunteers there at the moment. Within a year they see the possibility of having people there again, especially if the Foundation starts a housing project or program. In

⁷Sources: Tim Fuller, Director, Kristine Vega, Rubén Rolón.

the Peace Corps view, they have a good inter-institutional relationship.

The plan is to train 6 current volunteers with the 3 extending volunteers serving as trainers. Those 6 will be from among 13 volunteers already with the credit unions. Each volunteer will work at only one credit union. There is no transportation provided to the volunteers and most credit unions are the only one in town. Their job descriptions include processing loan applications, establishing procedures, and training counter-parts.

The Cooperative Housing Foundation (CHF) trained the volunteers in Costa Rica, and in a certain sense it was really a CHF program, rather than a Peace Corps program. In Paraguay, volunteers will have to train other volunteers. Their training center, CHP, does not have experience in the housing area.

CREDICOOP.⁸ The major focus of CREDICOOP is on rural areas, which are most lacking in human and financial resources. The current president of CREDICOOP is Dr. Gabriel Malvetti Massari, and the present General Manager is Justo Vera.

CREDICOOP is represented in CONAVI (Consejo Nacional de la Vivienda) and the national Cooperative Office (Dirección General de Cooperativismo).

At the end of 1989, CREDICOOP had 58 member credit unions, with over 49,200 members. This represents an increase of 3 credit unions and nearly 20% of the members from the prior year. Rural membership increased 25% from the prior year, while urban members increased 16%. In absolute numbers, there are 22,000 rural members in 37 credit unions and 27,200 urban members in 21 credit unions. Financial resources contributed by rural credit unions increased 55% from the prior year, while urban contributions were up 22%.

The largest member of CREDICOOP is the *Cooperativa Universitaria*, with 7,000 members, 14% of the total CREDICOOP membership. Maximum loans made by this co-op are US\$6,667. 80% of the

⁸Review of information provided by Executive Director Justo Vera and several meetings and phone conversations with him.

members of this co-op have a median income equal to the minimum salary or slightly higher. Only 5% of the membership can borrow the maximum amount of US\$667. Interest rates are as follow: 24.5% for terms of 18 month; 27.5% for terms of 24 months; 29.5% for 30 months, and 32.5% for 36 months. This co-op's total loan portfolio is US\$3,167,000, which is almost equivalent to a mid-sized commercial bank in Asunción. According to the Directors, 80% of these funds, or US\$2,534,000, goes to housing construction or home improvements.

CREDICOOP has experienced substantial change in the past year. The board composition and staff changed radically as a result of a close vote of the membership. By a vote of 18 to 17, the board members changed the composition of both the board and the managerial staff, all the way to the consumer level. Juan Peralta was the previous general manager.

The staff size has been reduced by nearly 50% as well. The membership vote came after an eligibility ruling which disqualified approximately one third of the membership, and the motion carried by only one vote.

The portfolio and financial condition of CREDICOOP have improved in recent years. Delinquency is 3.56%, US\$41,517 over US\$1,163,755. Of this delinquency, nearly half is uncollectible, 34% is collectible, and 8% is transitory. Reserves are US\$63,334.

Total Delinquency:	US\$ 41,517	100.0%
Uncollectible:	23,514	56.6%
Collectible:	14,168	34.1%
Transitory:	3,836	9.3%

Total delinquency is down from 25.48% in 1985, 18% in 1986, 10.6% in 1987, and 7.4% in 1988. According to the General Manager, delinquency is at about 10% through the third quarter.

The Education Department was reduced to one staff person in 1989. With this reduced staff level, the Department did some joint training together with *Cooperativa Universitaria* and *Coomecipur*. CIDCOOP, from Montevideo, gave grants for courses in Montevideo, and also sent Sr. Daniel Mussi to give two courses: *Cooperativismo Escolar* and a seminar on Cooperativism. In all, the department gave 8 courses and local workshops in 8 co-ops; and 5 courses at a national level.

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In 1989, the budget for cost centers resulted in profit of US\$184, compared with a budgeted profit of US\$151.

The Financial Statements of CREDICOOP are summarized as follow:

Balance Sheet

Assets

Cash:	US\$ 168,476
Short Term Loans:	1,311,298
Long Term Loans:	189,773
Investment: CD's	204,368
Fixed Assets:	940,988
Land:	402,697
Other:	2,609
TOTAL:	US\$ 3,220,209

Liabilities

Short Term Loans:	
Bank Loans:	US\$ 722,500
BNF-AID (this year)	7,600
CUNA stabilization (and BID)	3,168
COLAC	208,326
Other Payables:	223,389
Interest Payable:	51,427

Long Term Loans:

Banks:	
BNF-AID	US\$ 302,795
BID	49,875
COLAC (in \$)	482,815
Deposits (precio fijo)	64,212
Funds and Reserves	81,522

Net Equity: US\$ 1,022,852

[Cumulative Results] US\$ -67,840

From 1986 to 1989, capital in the co-ops increased from US\$2.1 Million to US\$5.16 Million, with savings deposits increasing from US\$1.25 Million to US\$5.3 Million. Equity has increase in the period 1986 to 1989, from US\$447,500 to US\$1,022,500. This appears to be

keeping up with inflation, but the number of members is also increasing and should be considered in assessing these increases.

The Peace Corps has assigned a volunteer to work full time with CREDICOOP, Todd Sorenson. Todd is one of the Costa Rica volunteers extending for a third year and worked there with a credit union home improvement lending program.

According to the General Manager, 50% of the credit union resources go to housing, for short term loans to finance repairs and minor works, but not for major construction. The 1989 CREDICOOP Annual Report shows that CREDICOOP made five loans to its members for housing, but these were never disbursed.

CREDICOOP has been working for over 7 months with CONAVI and the National Housing Bank to receive \$1.2 Million committed by the Bank, but this has not yet materialized. In the view of CREDICOOP, it is possible that CONAVI is less interested in channelling the funds through CREDICOOP since they will not be using typical contractors for the housing. As a result they have lost interest in channelling funds through CREDICOOP. The parties have also had disagreement over the spread that they want to charge, as noted earlier. CREDICOOP has submitted justification to CONAVI and the Bank to justify the spread being requested. As an alternative, CREDICOOP has been working to get a small amount of monies released.

In 1976, CREDICOOP managed a \$3.0 Million loan from A.I.D. for the agricultural sector. They have also borrowed in dollars from COLAC, but were able to obtain income in dollars as well to repay, primarily from exports. As required, they had registered the loans with the Central Bank.

One of the major problems facing CREDICOOP is indexing. In October, 1990, all interest rates were freed by the government and it is unclear what they will be in the future. At the time of this assignment, market commercial rates were 38%. A year previously they were 28%. Commercial housing loans are at 24%, with 10-12 year terms. However, terms for commercial and housing loans are being reduced to 2,3 and 4 years in the face of inflation.

CREDICOOP pays depositors 18-24% interest and lends at 24-27.5%. Their normal spread is 3.25-6%. When the loan amounts are larger, they can reduce their spread.

With assistance from CREDICOOP and the Peace Corps, data for the following chart was compiled, analyzing the lending portfolio of the credit unions. It reflects a high percentage of their loans being made for housing. For the complete chart, see the Appendix of this report.

Housing Loans by Credit Unions⁹
1989-1990
(Amounts in US\$)

Total Housing Loans—1989-90	3,808
Total Loans—1989-90	23,141
Percent of Housing Loans	16%
Amount of Housing Loans	US\$ 1,712,700
Total Loans	7,496,085
Percent of Loans	23%
Average Loans Size	US\$ 450

CREDICOOP has proposed the following terms for loans made by the Credit Unions with funds from the National Housing Bank¹⁰.

- *Maximum loan amount* of US\$1,000 for members who do not have their own home. US\$3,334 maximum, to cover land, mortgage expenses and technical assistance.
- *Maximum term* of 180 payments, with a readjustment in the payments in a percentage similar to the readjustment of the legal minimum salary decreed by the Government, the increase being applied to the capital, which would result in an acceleration in the payments.
- *Interest rates* to CREDICOOP will be 10% annual on the outstanding balance, with cost to beneficiary at 16%, with no commissions or other expenses.

In addition to questions raised about CREDICOOP by the Bank, there has also been some criticism of the structure of the organization, which may account for some of the recent strife at the board level.

⁹The appendix covers many, but not all of the credit unions in CREDICOOP. Most notably, it does not include Cooperativa Universitaria, the inclusion of which would substantially increase the number of loans and the percentage.

¹⁰Source: letter of 16 Oct 89 from Justo Vera to Enrique Díaz Benza.

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This observation noted that there may be need for regional second-level organizations, since the differences from north to south and east to west are marked. In this view, CREDICOOP should be a third level co-op.

Potential Housing Guaranty Loan and Risks. Paraguay has borrowed one Housing Guaranty loan, and was approved for a second, which was not executed due to concern over foreign exchange risk. Although payments are now current on HG001, Paraguay has been recently in 620 Q status. Any new housing guaranty loan made at this time would need to address the foreign exchange risks.

The Chilean housing guaranty loan with COVIP, S.A., might serve as a model for a non-government secured loan in an inflationary economy.

Commercial Risk: The cooperatives operate exclusively within the system of *Unidades de Fomento*. This indexation system insulates them from inflation and provides for a real return on all of their investments. All local currency is secured by their capital and reserves up to \$500,000 and by first mortgages on land and improvements for the remaining \$4.5 Million.

Transfer Risk: Borrowers of foreign loans, who register the loan with the Central Bank and who bring the proceeds of the loan into Chile are assured access to the foreign exchange required to repay the loan.

Foreign Exchange Risk: The Chilean Central Bank is willing to swap dollars to pesos for up to one year at a time, renewable. Under this arrangement, the co-ops, who are actually the borrowers, will be insulated from the foreign exchange risk for each one year period. In fact, they will also earn interest in the process from the Central Bank, which they can offset against the interest owed on the housing guaranty loan. Today they would earn close to 5% in a swap of dollars for pesos. The swap with the Central Bank will only cover the foreign exchange risk on the repayment of principal. However, private banks in Chile, including Citibank, have agreed to provide hedge contracts which could be used to protect the co-ops from the foreign exchange risk in repayment of interest. Today, such a contract could be for one year, again renewable.

These swaps and hedges¹¹ provide reasonable protection to the co-ops against the transfer and foreign exchange risk. These are contracts which are strictly adhered to and have functioned regularly in similar cases in Chile.

Therefore, the only problem of not having covered the interest payment by a swap contract is that COVIP will not have fixed the exchange rate. The convertibility risk is almost the same, because either a swap contract or a regulation stated by the Central Bank are both subject to the future availability of US Dollars at that Bank.

Worldwide Housing Guaranty Project. This project has an authorization of \$34,994,000 for production and finance of housing for the urban poor, through the private sector.

The requirements include:

- 1) Housing produced must be affordable for below median income borrowers;
- 2) The proposal must come from the private sector;
- 3) It must represent new territory in the production or financing by the private sector of housing for the urban poor in one of three ways:
 - (a) moving into lower-income housing markets not previously served by private builders and banks;
 - (b) privatizing specific housing production and/or finance functions currently performed by public agencies or parastatals; or
 - (c) removing obstacles to private housing initiatives caused by government rules or regulations or by government competition with subsidized housing in otherwise viable private sector housing markets.
- 4) Local finance institutions must be available to originate and service both the construction and permanent financing.

¹¹ Memo from Leon Cohen, Citibank Santiago to Ida Smyer, AID/W states: A swap agreement is a contract between two parties. COVIP gives a certain amount of US\$ to the Central Bank and receives in return an equivalent amount of local currency. At maturity, COVIP has to repay the local currently (indexed by local inflation minus 4.8%), receiving back from the Central Bank the same amount of Dollars (US) that they gave at the beginning. Therefore, the swap is basically a hedge product, that allows the use of local currency, but having fixed the exchange rate they will face at the end of the contract.

- 5) Preference is given to projects that involve tangible change in policies or regulations by the government in supporting an expanded private sector role; emphasize the financing of housing by the private sector; and require no construction financing from A.I.D.

Exchange risk problems: The preferred method of dealing with the risk is for the host government to repay the Dollar housing guaranty loans in consideration of a Dollar swap and general benefits derived from the private sector program. Alternately, private borrowers can arrange for a currency swap with a reputable bank having both a need for housing guaranty Dollars and the ability to carry the foreign exchange risk. Another possibility is the deposit of the borrowed Dollars in U.S. Banks, which, in turn, will facilitate the private projects by issuing standby letters of credit to local banks—thus permitting local bank loans of local currency to be used for the program purposes.

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**Update on the Shelter Sector in Paraguay and
potential A.I.D. interventions**

Part II

Part II: Observations and Recommendations

This final report on the Shelter Sector in Paraguay is divided into two sections: Part I: *Shelter Sector Update*; and Part II: *Observations and Recommendations on potential A.I.D. assistance to Paraguay*. These Conclusions and Recommendations presuppose a familiarity with the information presented and issues raised in Part I. The draft of Part II of this report was reviewed with the Regional Housing and Urban Development Office for South America, the World Council of Credit Unions, as well as select representatives of Peace Corps Paraguay and Washington.

The scope of services for the portion of the assessment covered in Part II is as follows:

"The contractor will prepare a report . . . providing analysis of recent trends and developments in the shelter sector in Paraguay. Based on findings and analyses, the report will explore options for A.I.D. participation in the shelter sector."

Briefings by the acting RHUDO chief elaborated on this point by suggesting that the contractor look at an array of options from the least costly to the most costly. In other words, what are A.I.D.'s options from training interventions and study tours to short-term and long-term consultancies, to a housing guaranty loan.

1. In the last year, Peace Corps Paraguay and the National Credit Union Central (CREDICOOP) have developed a program to expand credit union lending for home improvements and construction for members. Peace Corps Paraguay has begun implementation of this program, which calls for the placing of volunteers with select credit unions, within CREDICOOP itself and within CONAVI, Paraguay's newly established National Council of Housing. Peace Corps has brought three third-year volunteers from Costa Rica to act as advisors and trainers for the program. While in Costa Rica, they worked on a similar

credit union housing program, with technical assistance provided by the Cooperative Housing Foundation (CHF).

This combined Peace Corps-credit union housing program is an excellent one and one that the USAID Mission to Paraguay and the Office of Housing and Urban Programs should support. The Volunteers from Costa Rica have developed good skills which will be very adaptable to the Paraguayan situation. There is good leadership in Tim Fuller and Rubén Rolón, the Peace Corps Director and Project Director, respectively. The third year volunteers are well placed in CREDICOOP and CONAVI. Peace Corps Paraguay has already worked with a number of the credit unions and will draw six volunteers from that group and train them. The three third year volunteers will only be here one more year, and thus the timing of assistance is critical.

2. In 1989, the *Banco Nacional de la Vivienda* (Bank) offered to channel up to US\$1,200,000 through CREDICOOP to Credit Unions for low-income housing loans. The Peace Corps has worked with the Cooperative Housing Foundation to try to obtain funds for a significant technical assistance program in support of this new proposed effort. Negotiations have gone on for over a year between the various parties, including Peace Corps, CREDICOOP, the Bank and CHF.

At this point, however, the Bank-Peace Corps-CREDICOOP housing project is stalled and needs technical support now, rather than later. For a variety of reasons, the scope of the proposed agreement has been reduced and will not be signed by all parties until mutually acceptable terms are agreed upon. These reasons include:

- possible resentment on the Bank's part because of foreign exchange losses it suffered due to a sub-loan to the Credit Unions. The loan was made to CREDICOOP in local currency and repaid with deflated currency;
- lack of understanding on the Bank's part about the role to be carried out and risks to be taken by a financial mediator, such as CREDICOOP, in serving as a conduit to a number of participating credit unions. The Bank has indicated that it does not want CREDICOOP to be a signatory of the

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agreement or conduit of funds at this time, but may still make funds available directly to various credit unions;

- CONAVI/BNV's skepticism about co-ops, possibly due to their strength or potential for political power. CREDICOOP also raises the possibility that since the borrowers will not use conventional builders, CONAVI lost interest, since this is one of their constituencies;
- concern that CREDICOOP would use the funds for other purposes. For example, CREDICOOP has requested a five year grace period before repayment of the loan funds.

The long-term technical assistance proposal was not selected by A.I.D. for funding, and the Paraguay Mission does not have funds sufficient for a long-term technician on a full-time basis. If technical assistance is to be provided at all, it is needed at the outset of the program, in a concentrated form, rather than over a longer-term, piece-meal fashion. For example, four months of concentrated effort now could provide the impetus to have the Bank release funds for the program, assist with its initial implementation and provide a basis for its continuance. Without an intervention at a respected, technical level, funds may never be forthcoming from the Bank to CREDICOOP or even to the credit unions. The Peace Corps has the will and desire to negotiate with the Bank, but lacks by its own recognition the technical skills to convince the Bank to move forward. It is therefore doubtful that the Peace Corp will be able to mediate this problem successfully, without technical assistance. Certainly, the extending volunteers assigned to CONAVI and CREDICOOP do not have the background in finance to serve as mediators on this issue. Tim Fuller and Rubén Rolón have requested that USAID provide support to the Peace Corps in order to work successfully at this policy and program-structuring level.

The volunteers are well-skilled, with various backgrounds, including accounting, auditing, and business management. They have practical, program implementation experience. However, they are lacking in three areas: (a) they were not responsible for negotiations at a policy level in the Costa Rica program, and thus lack some experience in this area; (b) in spite of their abilities, they will be viewed as youthful and

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enthusiastic, but not as peers or advisor-level technicians to work with the Bank or even CREDICOOP; and (c) Costa Rica was experiencing stability in its economy and thus they were not exposed to issues related to hyper-inflation and the need for indexation. [Paraguay is experiencing inflation at over 30% at this time.] These are areas of the highest importance for the start-up of a program of home improvement lending or a new construction program. Technical interventions, therefore, are required, in my view, for the following:

- i) Working out an agreement with the Bank. The Bank currently wants to sign an agreement only with the Peace Corps and not CREDICOOP. The Bank has indicated that they are willing, at some point in the future, to consider some additional partners to the agreement, but do not appear to want CREDICOOP to be part of the program at this point in time;
- ii) Structuring terms and conditions for the loans and sub-loans. This has importance at both the Bank and the CREDICOOP level. The Bank is planning to index the principal, tying it to the minimum salary, but is offering 10% financing and objects to even 3% added on to this for intermediation costs and operating costs at the credit-union level. One possibility is to convince the Bank that they should lend at 10% and have CREDICOOP and the co-ops lend at market rate, with a small spread for operations and the balance going to a revolving fund so that the reflows can be used to continue the program and provide a capital fund. CREDICOOP and its credit unions, on the other hand, are also still looking for soft loans so that they can lend at below-market rates. A senior home improvement loan specialist or financial advisor could mediate these issues and help provide a design for this program that will help the Bank with its policy and the credit union movement with its policy as well;
- iii) Working out a satisfactory scope of the loan program and security for the loans. The Bank states that it is required by law to have the loans mortgaged. This is actually one of their objections to using CREDICOOP, since the borrower would have to mortgage the property to the credit union, and the credit union to CREDICOOP and CREDICOOP to the

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Bank. Most of CREDICOOP's members' housing loans are small (under \$300) and would hardly justify the work and cost of mortgages. The Bank, it appears, is looking toward larger loans, more closely approximating new construction. One indication of this is that one of their requirements is that the borrower not own their own home, and thus how could the loans be for home improvements? This will need to be negotiated.

- iv) Assist with the development of procedures and training. At the outset to make sure that the program will be able to carry forward once the extending third year Peace Corps volunteers have left. At that time, there will be Peace Corps volunteers at the credit union level, who will have had one year of experience.

- v) Explore avenues for adding other components or retail outlets for the program. For example, the Salesians, a Catholic Religious Order, or the Fundación Paraguaya are both possibilities. There are a very limited number of non-governmental organizations involved in housing delivery in Paraguay. One of the better known groups recently initiating housing projects is the Salesians, who have developed at least five projects, several of which were established to relocate poor families in the flood-plain zones. As described in detail in Part I of this Report, the Fundación Paraguaya is now designing a market-rate loan program for *home expansion* for the purpose of helping their micro-enterprise clients improve their businesses. The Fundación has already been negotiating with CREDICOOP to collaborate in rural areas for the provision of credit for small entrepreneurs. Likewise, the Fundación has recently requested funds from the Bank to lend at market rates for its *vivienda-taller* program. In this way, the Fundación may actually serve as a bridge between CREDICOOP and the Bank and may pave the way for the Bank to consider market rate re-lending, when its own loans are at below market rates.

- vi) Resolve the question of conduit of funds. The Bank does not appear to appreciate the amount of work involved in wholesaling funds to 20 or more credit unions for 350-700 loans. It would require an experienced technician, knowledgeable in the costs and procedures of operating a

small home improvement credit program, to work with the Bank to help them realize the savings they would receive by sub-contracting this to an intermediary such as CREDICOOP.

- vii) Assist with the initial training of the permanent volunteers and technology transfer to Peace Corps. In the Costa Rica project, CHF provided the training for the volunteers. Thus, although the third year volunteers are experienced in the operation of the project in Costa Rica, they have not necessarily had experience in training others to operate such a program, particularly in light of variations in construction practices and problems.
- viii) Assist with the integration of such a program within CREDICOOP. The organization has undergone a substantial reduction in force within this past year, with considerable change in both the Board of Directors and the CREDICOOP staff. The leadership was changed as a result of a close vote of the members. Staff was reduced by nearly half as a cost-cutting measure to help balance the budget.

3. The Paraguayan Foundation for Development and Cooperation (Fundación Paraguaya) has an apparently excellent program for micro-enterprise development. They have conducted a substantial study of their clients' housing conditions and needs and have decided to attempt a pilot project on "productive housing" or *vivienda-taller*.

This is not a home improvement program per se, but certainly has substantial betterment effects on the housing of this low-income sector. The program will help micro-entrepreneurs expand or improve their homes for the purpose of enlarging or improving their business operations. An example might include the adding of a room to the home for the purpose of setting up a small workshop to produce their products.

Whereas many other organizations have attempted and failed to establish links to the informal sector and work directly with them, the Fundación has been successful both in reaching the target group and establishing a sustainable lending and training program. It has received financial assistance from A.I.D., and has the Mission's respect and support.

Moreover, the Fundación lends at true market rates. Their current rate for commercial lending is over 70% annually. And although the organization may not be truly self-sufficient at this time, in spite of charts which show that they are (due to placing some higher salaries and overhead costs "off budget"), they are moving in that direction and have that as a serious goal.

This report recommends that A.I.D. investigate ways by which it can assist the Fundación in obtaining capital funds for this *vivienda-taller* pilot project and for the technical assistance necessary to start up such a project. At present, the Fundación is seeking US\$250,000-\$300,000 for this fund. They estimate making 750 loans with this money, including the use of reflows.

4. The newly formed government of Paraguay has made a substantial public commitment to the improvement of its people's housing conditions. At the instigation of the government, a joint World Bank-Inter American Development Bank project for US\$100,000,000 is working its way through the respective approval processes. One of the motivations of the RHUDO in requesting this study of the shelter situation in Paraguay was concern that the new Government of Paraguay would make hasty decisions with far-reaching consequences that would be difficult to undo later. The RHUDO is correct in suspecting that the National Housing Bank may make false steps in the short run in order to get housing programs established quickly. As noted in Part I, the National Housing Bank plans to continue making loans at zero percent interest, although the principal will be indexed to the minimum salary. Certainly by providing training and technical assistance for the home improvement and construction program of the Bank-Peace Corps-CREDICOOP, A.I.D. can be influential at this critical time in the shifting of policies in Paraguay.
5. CREDICOOP, or at least the credit unions, are extremely well positioned to serve as a channel for housing funds in Paraguay. Unlike many other countries of Latin America, there is minimal housing delivery infrastructure in Paraguay outside the government. This is especially true in the rural areas. CREDICOOP and its member cooperatives have a strong

infrastructure, with a rural emphasis. This is not to say that there are not problems with these organizations. For example, CREDICOOP has recently experienced a total change in leadership, from the Board and Management level, to the individual credit union level. The staff has been cut nearly in half to help balance the budget, leaving CREDICOOP understaffed. After several years of financial problems, the situation appears to have changed and the last two years have shown a surplus in annual operations. One of the sources of the losses in prior years was a cotton gin, purchased by CREDICOOP, which experienced significant losses, but is now realizing a profit. Unfortunately, CREDICOOP is not receiving all of these profits, since it leased out the cotton gin to help reduce its losses.

In spite of these problems, the position of CREDICOOP is clearly recognized as key to rapid implementation of a program reaching the rural sector. This is evidenced by the approach by the Paraguayan Foundation to CREDICOOP to establish a joint lending program in the rural areas. The Bank's objections to CREDICOOP perhaps arise more from a fear of the strength of CREDICOOP and concern that it will not be able to control it, rather than from a belief that it is not well-positioned to reach a key target market.

It is possible that bringing in the Paraguayan Foundation and CREDICOOP into a joint effort would assuage some of the Bank's concerns. At any rate, a program working outside the credit union movement would require tremendous start-up and overhead costs to build an infrastructure to serve this target population. Thus, it is this observer's conclusion that there is no better or more efficient way to reach the low income population of Paraguay with housing credit than through the credit union system as a primary, if not the only, vehicle.

6. The Government of Paraguay has recent precedents for receiving low-interest monies and on-lending it at market rates. The USAID Paraguay Mission watched with interest a recent example of a large, US\$30M IDB industrial loan to the *Banco de Fomento*, where end user rates were 30% or higher. For the Housing Bank to insist on low-interest loans to the end users at this critical time could be very counter-productive in the long run. Thus, any influence or leverage that the RHUDO

or the Mission could apply at this time to move the Bank toward market rates could be based in the parallel industrial loan.

7. If the Central Bank of Paraguay were willing to take the foreign exchange risk of a housing guaranty loan, which it does not appear to be willing to do at this time, a small, private sector housing guaranty loan would be extremely useful to lead the new housing policy implementation in Paraguay.

For a housing guaranty program to work at this time, however, it will be necessary to find an acceptable local host country guaranty, as it would not be wise for CREDICOOP to take the foreign exchange risk. Alternatively, Paraguay may provide an opportunity for A.I.D. and the Office of Housing to develop a local currency guaranty. Through such a lending mechanism, A.I.D. could guaranty loans made by eligible local investors to local institutions. This would enhance the borrower's creditworthiness.

Perhaps using the Chile private sector housing guaranty model and requiring indexed, short-term loans would be acceptable to all concerned. The Government's goal for inflation for the coming year (Fiscal Year 1991) is 20% or lower. For 1990, the Government had projected the exchange rate to be at 1,250 G/. per US\$1.00. It appears that it will finish the year below that, at 1,200 G/. or below. They are budgeting next year to be at G/.1,350. The Guarani is over-valued in relation to the Dollar, but not as much as the currencies of Brazil and Argentina, and the economy in Paraguay is closely dependent on what happens in these two countries. Thus, it is possible that there will not be major changes in the Guarani/Dollar relationship in the next few years, which might allow for a fairly short-term loan at moderate risk, along the Chilean model. Chile, of course, is a better credit risk than Paraguay.

8. In regard to low-cost, short-term interventions, it appears that policy level discussions and training with the credit union organizations in countries with high rates of inflation may be the most timely topic for any inputs from the *Latin American Training Center (LATC)*. At present, there is no LATC activity programmed for Paraguay for the coming fiscal year, although

one event is still unprogrammed both as to its content and location.

9. A second short-term intervention might be a study tour. For example, a study tour to other countries with hyper-inflation for both the Bank and Credit Unions would be valuable. Perhaps a joint trip would help them see the problems together and develop a mutual understanding and rapport. If a collaborative program between CREDICOOP and the Paraguayan Foundation is also envisioned, they might round out the study tour and help soften the relationship between these two organizations.
10. The credit union system would benefit from assistance to computerize the individual credit unions. If consumer lending for housing is to be expanded through the credit unions, they could benefit from implementation of a computerized system. This is also true at the CREDICOOP level, and separately, with the Paraguayan Foundation. At present, the majority of the work done by these organizations is carried out manually. Computers would increase their efficiency and their ability to more quickly monitor their financial condition, which should lead to better portfolio management—a benefit to both the lender and the borrowers.

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**Update on the Shelter Sector in Paraguay and
Conclusions on potential A.I.D. Interventions**

Appendix

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CREDICOOP Portfollo of Housing and Total Loans

Cooperative	Housing Loans	total Loans	% of total	Housing Loans In Guarani	Total Loans In Guarani	% of total	Average Size
Coop del Norte	52	471	11%	13,898,000	100,565,000	14%	267,269
Coop San Ignacio	37	405	9%	12,191,696	309,448,621	4%	329,505
Credivill	145	511	28%	73,909,575	222,620,575	33%	509,721
Coop Ypacarai	594	2440	24%	321,098,700	1,086,298,796	30%	540,570
Coop Coaguazú	70	2759	3%	45,124,776	868,966,326	5%	644,640
Coronel Bogado	218	1886	12%	77,145,800	530,834,859	15%	353,880
Coronel Oviedo	580	2628	22%	309,448,621	1,512,912,832	20%	533,532
General Artigas	34	179	19%	10,712,380	35,209,728	30%	315,070
Educ. de Concepción	19	56	34%	3,717,000	10,978,000	34%	195,632
Carmeña	28	270	10%	17,629,920	97,856,458	18%	629,640
Paraguay	90	381	24%	46,104,000	163,587,200	28%	512,267
Coopeduc	378	1005	38%	179,030,000	428,677,000	42%	473,624
Po'a	0	20	0%	0	3,528,000	0%	0
Manduvira	0	11	0%	0	2,021,800	0%	0
Capiata	85	206	41%	50,688,237	106,582,165	48%	596,332
Coodeño	256	948	27%	139,706,200	630,405,300	22%	545,727
La Barrereña	163	1136	14%	65,515,000	354,482,920	18%	401,933
Juan O'Leary	0	26	0%	0	11,261,819	0%	0
Muselec	0	122	0%	0	62,952,728	0%	0
Coopersom	326	1030	32%	284,790,500	538,360,000	53%	873,590
Carapegua	22	114	19%	16,898,835	78,980,852	21%	768,129
La Rosarina	7	206	3%	517,040	10,908,224	5%	73,863
La Roseña	19	1188	2%	9,728,239	195,009,421	5%	512,013
Quilnelo	65	435	15%	53,236,068	257,395,231	21%	819,016
Yaguaron	38	194	20%	15,180,000	53,773,990	28%	399,474
Nazareth	386	826	47%	206,342,607	411,794,074	50%	534,566
Yboty	7	66	11%	1,520,700	14,966,299	10%	217,243
Itacurubi	86	897	10%	53,912,000	286,691,788	19%	626,884
Santaní	69	1502	5%	28,685,086	269,048,084	11%	415,726
Itarubiense	15	715	2%	3,556,300	44,837,961	8%	237,087
Ayacape	12	197	6%	5,303,330	111,727,406	5%	441,944
Mburicao	7	311	2%	9,649,500	184,620,990	5%	1,378,500
TOTALS	3,808	23,141	16%	2,055,240,110	8,995,302,247	23%	539,716