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END OF CONTRACT REPORT  
PARAGUAY OPERATIONAL PROGRAM GRANT  
#AID/otr-G-1583

Prepared by Charles Van Fossen,  
CHF Resident Housing Advisor  
Aunción, Paraguay

August 2, 1982



## THE COOPERATIVE HOUSING FOUNDATION

A NON-PROFIT ORGANIZATION DEDICATED TO BETTER HOUSING AND BETTER COMMUNITIES

2501 M STREET, N.W., SUITE 450, WASHINGTON, D.C. 20037 • (202) 887-0700

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With the arrival in January 1979 of the resident CHF housing advisor in Asunción, Charles Van Fossen, field work began on the Paraguay OPG.

The principal objective of the T.A. program was to assist the Paraguayan National Housing Bank (BNV) develop its capacity to provide shelter for groups of low-income families organized into cooperatives or other types of associations. Utilizing funds available in AID's first HG loan to the BNV (526-HG-001), a pilot program was carried out in cooperation with CREDICOOP, a national, second-degree cooperative composed of cooperatives scattered throughout Paraguay.

The Program's general design and operational form were determined; an office was established within the BNV to administer its new activity; the BNV staff were trained; model forms and documents were prepared; inter-institutional agreements were reached; the program was promoted; cooperatives were selected; operational manuals were prepared and distributed; coop personnel were trained, and the pilot program was fully executed without significant difficulties.

The details of this pilot program, its evolution, its problems and its achievements are contained in numerous periodic progress reports and evaluations.

In summary, the pilot program administered by the public sector BNV in coordination with the private sector CREDICOOP, utilizing the existing credit union structure, substantially expanded the geographic coverage of the nation's long-term shelter credit delivery system for low-income families.

In addition to the obvious benefits received by the Program's loan recipients from their home improvements and new shelters constructed on their individually-owned lots, the eight participating cooperatives themselves were also significantly strengthened.

Because they were able to offer a service previously unavailable (long-term shelter credit), the cooperatives attracted large numbers of new members, thereby increasing both their capital base and positions in their respective communities.

As the pilot program gained momentum, the relatively-small amount of HG funds available were soon consumed, forcing the BNV to begin turning away interested cooperatives and new loan requests from those cooperatives already included.

Based on the positive experience of the pilot program, and recognizing the potential for expansion, the design of the second HG program anticipated a principal role for the cooperatives in channeling shelter credit to low-income families of Paraguay.

CREDICOOP, which had played a significant, but rather informal role in the pilot program was expected to take over directly the administration of the cooperative component of the expanded, second-phase program.

Following the CREDICOOP model, the second HG also contemplated channeling shelter credit through the municipalities in a program administered by the Municipal Development Institute (IDM), a public sector institution strongly supported during its formation by AID. Such a shelter credit delivery mechanism aimed to further broaden the geographic coverage of the system headed by the BNV by facilitating service to regions of the country covered neither by the Savings and Loans nor by the cooperatives.

Because of the nature and scale of the projects, the pilot program with the cooperatives drew its construction materials and labor primarily from the immediate area, thereby further benefitting the communities as a whole. The many communities expected to participate in the IDM component of the second HG Program would certainly enjoy this same benefit.

Furthermore, just as the cooperatives, grass-roots, democratic institutions, were strengthened by participation in the pilot program, the municipal governments, by channeling shelter credit into their communities and being encouraged to participate more actively in municipal growth and improvement, were expected to be strengthened as part of the IDM municipal development strategy.

This focusing of public institution resources was also anticipated under the HG-002 by combining the land resources and under-utilized technical capacity of the National Housing and Urbanization Institute (IPVU) with the financial management capabilities of the BNV. Although not discarded as a Program possibility, the achievement of such a "marriage" was expected to be somewhat difficult.

Throughout the process leading to its authorization in September, 1980, the second AID-HG received the enthusiastic support of the BNV and the active involvement of CHF. The scope of work for the extended technical assistance agreement signed by the BNV, CHF and USAID upon completion of the pilot program was broadened to reflect the needs of the ambitious new HG.

The HG-002 Implementation Agreement (I.A.) was drafted with the BNV in January 1981 and soon thereafter submitted for approval in final form to the Paraguayan Ministry of Finance. After a delay of several months, the Implementation Agreement was approved by the Ministry of Finance, and the corresponding decree issued authorizing the BNV to sign the document.

Because of the wording of certain clauses of the HG-001 Implementation Agreement approved by the Paraguayan Congress, the BNV was able to work with cooperatives in the pilot program. However, among the Conditions Precedent to seeking a U.S. Investor for HG-002, the BNV was required to acquire the modification of its existing law (independent of the I.A.) in order to permit it to provide shelter credit through institutions other than the Savings and Loans on a "permanent basis".

The BNV therefore, submitted to the Ministry of Finance a request for a decree including provisions to this end. Approximately 10 months was to pass before this decree was signed and issued.

The changing economic picture in Paraguay during the last year, the GOP's increasing concern over its external debts, and the dramatic shift in the U.S. financial market conditions in some measure account for the delay. (The interest rate assumed during the Program design was 11%, well below prevailing rates for the period under discussion.)

In spite of these serious uncertainties, the BNV, utilizing its own capital resources, had proceeded with the Program to the extent possible within its current legal and financial limitations. Therefore, operating under the authorization acquired through the clauses of the congressionally-ratified Implementation Agreement of HG-001, the BNV has invited CREDICOOP, in representation of the cooperatives who participated in the pilot program, to submit a request for funding to continue their shelter loan activities begun under the pilot program. The BNV had indicated that if felt that it could commit approximately \$400,000 at this time to the CREDICOOP component.

Upon leaving Paraguay, on July 15, 1982, the total of the loan requests received from the first three cooperatives to respond by themselves exceeded the BNV figure. Responses had not yet been received from the remaining five cooperatives who also wished to continue their participation in the Program. In light of the limited funds available, 10 other interest cooperatives who had been pre-selected for HG-002 were not even being invited to submit loan requests.

Obviously the demand among the cooperatives far exceeds the funds which the BNV is presently inclined to assign to the CREDICOOP program. Hopefully, the BNV will reconsider its position when CREDICOOP presents its formal request for financing.

Given the relatively small and uncertain flow of BNV funds to the CREDICOOP cooperatives and the discontinuance of the CHF technical assistance in Paraguay, due to expiration of the Operational Program Grant, the BNV and CREDICOOP decided it was best at this time to simply continue with the operational form developed for the pilot

program rather than to transfer the direct implementation responsibilities to CREDICOOP as had been planned for the expanded program under HG-002.

With the project's implementation under HG aegis still in doubt, the BNV has not pursued the dialogue initiated with the several other private and public sector institutions initially contacted for participation in the HG-002 program.

Very early in the design of the pilot program, the possibility of developing housing cooperatives through the formation of a Technical Service Organization (TSO) was briefly considered (see Annex No. 1), but given the limited time frame, available project funds and technical assistance support for such an ambitious undertaking, the housing cooperatives/TSO model was quickly set aside.

However, under the conditions of the HG-002 a slight variation of the same model held greater promise and captured the interest of the BNV, the National Cooperative Agency (DIGECOOP), and particularly CREDICOOP, who would develop the capacity to function as a housing cooperative TSO.

Although not a single housing cooperative exists in Paraguay, the national laws governing cooperatives provide for their formation. Likewise, CREDICOOP's legal structure would permit it to promote the formation of housing cooperatives which could also become full members of CREDICOOP. In addition, CREDICOOP already has the necessary basic administrative structure, a staff well-trained in general cooperative concerns, and an excellent, fully-equipped physical plant (including its own office computer, several video camera/recorder-player sets for "out reach" training programs, a complete line of duplicating equipment, and several office and field vehicles).

What CREDICOOP lacks to venture seriously into cooperative housing is access to long-term, project construction credit and technical assistance to train selected CREDICOOP personnel in those aspects unique to the development and management of housing cooperatives.

Both the access to credit and technical assistance were expected under the HG-002 loan and the CHF T.A. contract.

The first step taken in this process was to conduct a seminar on housing cooperatives in Asuncion co-sponsored by the BNV and CREDICOOP with guest instructors provided by CHF/Washington.

The brief, 3-day introduction to housing cooperatives was attended enthusiastically by representatives from key housing, finance and cooperative organizations in Paraguay, including among others: the BNV, CREDICOOP, DIGECOOP, various S&Ls, IDM, the National University, and the Organization of Municipalities.

Unfortunately, considering the current status of the HG-002 and the discontinuance of the CHF technical assistance, the seminar may have been both the first and last step towards an objective envisioned under the Paraguay program.

In summary, the technical assistance provided under the CHF OPG, the financing provided under the AID-HG-001, and the commitment to a new policy emphasis on low-income housing by the BNV combined to begin a process whose initial positive results prompted these same three institutions to continue their joint efforts to build on the experience gained and greatly expand on the pilot program, incorporating additional organizations and institutionalizing the shelter credit delivery mechanisms being developed.

All went smoothly through the preparation of the Implementation Agreement for HG-002. At this point, the Ministry of Finance did not take action on documents required by AID prior to authorizing the BNV to seek a U.S. Lender and the process came to a halt.

Hopefully, before AID decides to withdraw the HG-002 authorization, the Ministry of Finance will see fit to act in order that the Program may proceed as planned.

Paraguay is fortunate to have several institutions in the private and public sectors with both interest in low-income shelter and latent capacity for greater involvement. Seed capital and properly applied technical assistance would very likely produce innovative urban and rural shelter programs directly benefitting Paraguay's lower income families. Unfortunately, with the scheduled closing of the USAID mission in Paraguay and the discontinuance of in-country technical representation through the CHF OPG, there is every likelihood that this shelter potential will be developed at a considerably lower rate.

Should the HG-002 Program eventually begin, the technical assistance component as originally designed remains important to assure that the Program successfully develops its full potential.

# MUTUAL — BNV — S.A.

