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**GUATEMALA:
EVALUATION OF THE
HOUSING SECTOR**

**PART I:
EXECUTIVE SUMMARY**

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**PART I:
EXECUTIVE SUMMARY**



PREFACE

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

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

This report is divided into three parts:

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

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

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

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

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

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

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

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GUATEMALA: EVALUATION OF THE HOUSING SECTOR

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EXECUTIVE SUMMARY

I. MAJOR FINDINGS: ANALYSIS

Urbanization in Guatemala

This evaluation starts with the premise that the present pattern of growth in Guatemala is unacceptable and cannot be sustained. This growth pattern results from the excessive centralization of all social, economic and political activities in a single center. This situation is particularly difficult for Guatemala because it is a country that has a large agricultural base; for the agriculture sector to perform efficiently, it is necessary to develop population centers which will serve as centers for marketing and commerce.

Guatemala City has become the center of industrialization and export, because it is here that social services and the country's administrative system are concentrated. This concentration results in partial, or perhaps even total, exclusion of the remaining urban centers of the country, which comprise the majority of the country's population found outside Guatemala City. For this reason, Guatemala City has become an uncontrolled center of growth, not only for economic activities, but also for the rural populace trying to escape the overwhelming poverty of the countryside.

Guatemala has historically based its strategies for economic development on a pattern of social and economic organization inherited from a model established in colonial times. Guatemala still maintains an economy based on long-standing traditions, with little sign of modernization and with strong resistance to the changes occurring in the international market.

This situation, plus the country's weak industrial development, are the critical aspects of Guatemala's economic structure, which has resulted in permanent rural and urban poverty. The relationship between economic and social phenomena is easy to visualize in the following way. The nation's economy is incapable of satisfying the demand for jobs; while the employment picture is deteriorating, the population is growing rapidly. This population continues to gravitate toward the capital where more and more resources are concentrated in unsuccessful attempts to decrease the dramatic levels of poverty. The rural areas continue to have high levels of poverty. Based on classifications of the United Nations, approximately 52 percent of the rural population are very poor and 32 percent are considered poor. This means that 84 percent of the rural population suffers some level of poverty. SEGEPLAN has estimated that in 1989, 80.1 percent of the population in the Department of Guatemala lived in extreme poverty and 90.9 percent were considered poor (without sufficient resources to feed a family).

The growth of imported goods which has taken place in Guatemala during the last 20 years has resulted in the natural concentration of resources and population in the capital. In recent years emphasis has been given to the exportation of non-traditional products. With this emphasis, it is possible to develop other urban centers as centers for exportation. Thus, agroexports could become a key element in the consolidation of the nation and in the creation of other urban centers outside of Guatemala City. This economic model could also lead to the assimilation of

small farmers (those with 1.4 hectares or smaller farms which represent one third of the country's agriculture) who are yet to be included as part of the country's economic process.

A change is suggested in the existing process to redistribute the population. Emphasis is placed on the growth and development of the secondary, intermediate and tertiary cities which can serve as alternatives to the overcrowding of Guatemala City, as economic centers for the promotion of agriculture development, and as linkages with the rest of the country. In this way, population pressure on Guatemala City can be reduced. Other results would include more balanced development, better living conditions, and a reduction in poverty in all sectors of the country.

1. **In terms of urbanization, Guatemala is characterized by a marked concentration of population in its capital, while the rest of the country has a largely dispersed population.**
 - a) The population of the country has been estimated at 9,198,447. Of this number, 3,933,000 reside in urban areas.
 - b) The capital and its metropolitan area include one fourth of the total population of the country and 50 percent of the urban population.
 - c) The estimated population of Guatemala City is 1.5 million, which is more than the population of the entire country at the turn of the century.
 - d) The metropolitan area includes only 1.95 percent of the total land area of the country and has the highest population density, with 798 inhabitants per square kilometer.
 - e) The second most populous city in Guatemala, Quezaltenango, presently has less than 100,000 people.
 - f) Approximately 5 percent of the population is concentrated in cities with less than 50,000 people. There are 65 population centers which are considered urban areas, ranging in size from 5,000 to 30,000; 113 centers have less than 2,000 people.
 - g) According to recent studies, small population centers ranging from 1,000 to 5,000 people are beginning to disappear.
2. **Guatemala City is considered a primary city due to the concentration, not only of population, but also of the principal economic, social, cultural, and political activities of the country.**
 - a) Guatemala City generates 47.2 percent of the gross value of the country's production.

- b) Half of the country's goods and services are concentrated in the capital; the capital receives 77.45 percent of all private investment.
- c) The capital has 44.5 percent of the country's employees, 66.7 percent of the industrial establishments, 35 percent of the artisan establishments, and 44.5 percent of the warehouses.

3. The phenomenon of hyperurbanization has its basic explanation in the economic and social structure of Guatemala and the tendency toward a single foundation for development, essentially concentrated in the Metropolitan Region.

- a) This structure has deep roots established during the period of colonization and colonial exploitation initiated in the 16th century. Subsequent events strengthened this structure.
- b) The industrialization policies of the period from 1940 to 1960 favored population and economic concentration in the metropolitan area, while the rest of the country lagged behind, resulting in large areas being uninhabited and lacking proper integration into the nation's economy.
- c) The weakness in the country's agriculture structure can be seen in the poor performance of agriculture exports, in the serious failures in food production, and in the poor integration of agriculture into the economy of the country.
- d) Nevertheless, on the Pacific Coast, there is a modern agriculture sector which contributed 52 percent of the export revenues in 1980, and 10 percent of the Gross Domestic Product, with its exportation of coffee, sugar, cotton, bananas, and meat.

4. The consequences of this pattern of development have been an increase in the levels of poverty, both in the urban and rural areas, which has been aggravated by the present economic crisis.

- a) Unemployment in Guatemala is severe. In the period from 1980 to 1985 total unemployment increased from 31 percent to 44 percent.
- b) In the Metropolitan Area, the employment rate was 44.50 percent during that period. Employment rates were much lower in other areas of the country: 4.43 percent in the Southwest, 9.14 percent in the Central Region, and less than one percent in the Peten.
- c) It is estimated that 90.9 percent of the economically active population in Guatemala City can be classified as poor. In the remainder of the country, 98.5 percent of the economically active population is considered poor.

- d) An estimated 75 percent of all children less than five years old suffer some level of malnutrition, and 50 percent of all deaths result from children less than five years of age.
- e) School attendance at the preschool level is approximately 27 percent, with 59 percent attendance at the primary level, 15 percent at the middle school level, and 6 percent at the secondary level.

The Housing Sector

In Guatemala, severe shortages exist in housing and the basic services, both in urban and in rural areas. Of the many forms of urban poverty, perhaps one of the most definitive and graphic is the lack of housing. A high percentage of the population in Guatemala, and especially in Guatemala City, live in tiny dwellings which are crowded together.

The principal characteristics of the existing housing in Guatemala are: independent housing (76 percent), compacted earth floor (62 percent), adobe walls (31 percent), corrugated metal roof (50 percent), one room (61 percent). Most of these houses are occupant owned (67 percent). Three or more people normally live in these houses, creating conditions of extreme crowding for almost half (45 percent) of Guatemala's families. The quality of urban housing is better than the national average, quoted above, but nevertheless is deficient in many ways: 31 percent of urban houses lack potable water, 57 percent lack sewers, 39 percent have compacted earth floors, and 31 percent are built with poor quality materials.

Tremendous financial resources are needed to provide for the construction of new houses and to overcome the accumulated shortages in both quantity and quality of housing. However, the experience in Guatemala is that investments in housing have been rare.

Housing in Guatemala is provided both by public and private entities. It is the responsibility of public entities to provide for the housing needs of the medium and low-income population. Among these entities are the National Bank for Housing, the Institute for Provision of Insured Mortgages, and the Committee for National Reconstruction [the Banco Nacional de la Vivienda (BANVI), the Instituto de Fomento de Hipotecas Aseguradas (FHA), and the Comité de Reconstrucción Nacional (CRN)]. Private entities also participate in the production of low-income housing, usually as non-governmental organizations (NGOs) such as Home and Development and the Sugar Foundation [Hogar y Desarrollo (HODE), and the Fundación del Azúcar (FUNDAZUCAR)]. Another entity in this same category is the National Federation of Housing Cooperatives [Federación Nacional de Cooperativas de Vivienda (FENACOV)]. The private sector, on the other hand, participates in housing construction through the National Association of Housing Contractors [Asociación Nacional de Constructores de Vivienda (ANACOV)], and through private banks in the system.

In the meantime, the country continues to experience high rates of growth, without having a national housing policy for consolidating and improving housing settlements in Guatemala.

At the present time there are 1,665,000 houses nationwide. Of these, 695,000 are located in the urban areas. A total shortage of 134,000 houses exists in the urban and rural areas, of which 86,000 houses are needed in the urban areas. Of this number, 52,000 additional houses are needed in the Department of Guatemala. Existing houses lack basic services and/or adequate construction materials, thus increasing the shortage of quality units. The future growth of the population will exacerbate these shortages. The demand from future growth is estimated at 280,000 houses for the period between 1990 and 1995. Of this new demand, 175,000 houses will be needed in urban areas, of which 95,000 units would be required in the Department of Guatemala.

1. **The provision of housing in Guatemala is inadequate to meet the need. The demand for new houses is not fully satisfied.**
 - a) According to estimates, Guatemala has 1,665,000 houses, of which 695,000 are located in the urban areas, representing 42 percent of the total houses in the country.
 - b) Presently, 134,000 houses are needed, of which 86,000 would be for the urban area. The Department of Guatemala requires 52,000 housing units.
 - c) These figures increase when the quality shortage is taken into consideration. Deterioration and the lack of basic services make the housing situation worse. The quality shortage is estimated at 230,000 houses.
 - d) Housing demand due to population growth is 35,000 houses annually.
2. **Housing production has failed to satisfy demand, which is satisfied more by the informal sector than by the formal sector.**
 - a) In the last decade, urban housing production by the formal sector reached an average of 10,000 houses annually, much less than the demand.
 - b) The informal sector has been much more active, with a production of 70 percent of today's housing needs.
 - c) Investment in housing has been rare, utilizing only 1.7 percent of the Gross Domestic Product in 1989, which is a slight improvement over the previous figure of 1.5 percent in 1988.
 - d) Most of this investment was made in the Metropolitan Area, with only 26 percent made in the remainder of the country.

- e) The principal entities in the formal sector providing finance for these investments are the 17 state and private commercial banks which exist in Guatemala.
- 3. The institutions of the public sector have the responsibility of providing housing to medium and low-income groups, although other organizations also participate.**
- a) The National Bank for Housing [The Banco Nacional de la Vivienda (BANVI)] has shown modest accomplishments. During the last five years, BANVI has financed an average of 4,646 houses annually. This represents 50 percent of the production of housing in the formal sector, although only accounting for 13 percent of the minimum demand for urban housing during this period.
 - b) One of BANVI's programs is Lots and Services [Lotes y Servicios] which targets the lowest-income sectors of the population with an investment of \$56 million, of which \$43.8 million derive from a loan from the Interamerican Development Bank.
 - c) The program provides a total of 12,500 lots with services, of which one half are located in the Metropolitan Area and the other half in different urban centers around the country.
 - d) Another program of BANVI is the Improvement of Developing Areas [Mejoramiento de Areas Progresivas (MAP)] targeted at inhabitants of precarious housing settlements. Through this program, 22,320 homes were provided between 1986 and 1990.
 - e) The function of the Institute for Provision of Insured Mortgages [Instituto de Fomento de Hipotecas Aseguradas (FIA)] is to foster the construction of housing and to stimulate the investment of capital in housing finance, utilizing the mechanism of insured mortgages.
 - f) In 1988 the investment in mortgages by 17 approved entities within the FHA system was 160.27 million quetzals. Most of the insured housing projects are located in the municipalities which comprise the Metropolitan Area.
 - g) The National Federation of Housing Cooperatives [Federación Nacional de Cooperativas de Vivienda (FENACOVI)] together with 17 affiliated cooperatives, manages four housing programs.
 - h) The Committee for National Reconstruction [Comité de Reconstrucción Nacional (CRN)], with financing from World Bank, initiated the Urban Improvement Program [Mejoramiento Urbano] targeted at improving

living standards in 37 marginal settlements in Guatemala City at a cost of 110.64 million quetzals, of which the World Bank provided 78.39 million quetzals.

- i) The National Bank for Agriculture Development [Banco Nacional de Desarrollo Agrícola (BANDESA)] was given responsibility for administering the loan from the Interamerican Development Bank providing for the reconstruction, repair, or acquisition of rural housing throughout the country.
- j) Since 1988, the commercial banks have managed more than 100 million quetzals, with interest rates that have varied from 12 percent to 21 percent. There is little participation by the commercial banks in the housing sector. This participation is directed only at the highest-income groups.
- k) International entities have played a role in the production of housing in Guatemala. In the period from 1962 to 1987 these entities have provided \$98.06 million, with additional pending amounts of \$109.4 million.
- l) The most important international entities involved in the housing sector in Guatemala are:
 - The Central American Bank for Economic Integration [Banco Centroamericano de Integración Económica (BCIE)] which has financed three housing projects through the Workers' Bank [Banco de los Trabajadores]. A loan of 36.6 million quetzals is presently being considered for Fundazucar.
 - The Interamerican Development Bank (IDB) which has provided a number of loans to the government for investment in the housing sector. Construction is expected to be complete in March 1991 for the first 2,397 lots with services financed by the IDB.
 - The Agency for International Development which has been working in the housing sector in Guatemala for many years, sponsoring numerous programs. In 1986, \$10 million was approved for construction of housing and urban services which began operation in 1988.

The Sector for Urban Services

In the majority of developing countries, the demand for services which cannot be fulfilled represents one of the major obstacles to sustained development. In contrast to industrialized countries, developing countries are characterized by a high level of unsatisfied demand for

services. This fact limits expansion of urban development and has a direct impact on the quality of life.

In Guatemala, the effects of a "zero-growth game" can be clearly seen in relation to the distribution of the basic services: while the majority of basic services are provided to Guatemala City, the rest of the country suffers significant shortages which affect the quality of life and health, as well as the development of the majority of the Guatemalan population. The basic services constitute excellent indicators of the disparity, the inequality, and the imbalance that exists in Guatemala.

- 1. The supply of potable water in Guatemala City is considerably better than the rest of the country, in spite of the shortages that exist.**
 - a) Approximately 80 percent of the houses in Guatemala City are connected to the potable water system, as opposed to only 37 percent in the remaining cities.
 - b) Although Guatemala City enjoys better potable water service than the rest of the country, shortages still remain. Presently, the shortage is some 1.83 cubic meters per second.
 - c) The urban growth in Guatemala City is expected to aggravate the shortage in the potable water supply. The city's projected demand in the year 2010 is estimated to be 13.06 cubic meters per second.
 - d) In the rest of the country, 42 percent of the homes are connected to potable water service, but 22 percent obtain water from public taps, and 36 percent must resort to wells, springs, lakes and rivers.

- 2. Sewer service is in even greater shortage than potable water.**
 - a) At the present time only 18 percent of the homes are connected to the sewer system, an improvement over previous years. In 1964 only 9.4 percent of homes had access to the sewer system.
 - b) The situation is much better in Guatemala City, with 63 percent of the homes having access to the sewer system.
 - c) The level of sewer service has been affected not only by population growth in Guatemala City, but also by termination of the construction of the network of large collectors in 1978 and a decision not to continue the Integrated Plan for Sewerage.

3. Limited, inefficient garbage collection service is provided in Guatemala City, as it is in other municipalities.

- a) In Guatemala City, the municipality and a private company are responsible for collecting, transporting and disposing of garbage in a sanitary landfill.
- b) Although the exact amount of garbage produced by the city is unknown, it is estimated to be 1,714 metric tons daily.
- c) Throughout the rest of the country, the municipalities and, in some cases, private entities provide garbage collection. This service is not very efficient because the municipalities lack the means to provide better service.

4. Guatemala has sufficient land to utilize for urban expansion and development.

- a) Guatemala City still has some 39,283 hectares of land, which is adequate for urban development for the next one hundred years. However, the principal obstacles to urban development are the provision of services and the prices of the land.
- b) The prices of land have increased with urban expansion. Between 1964 and 1984, the prices increased by a factor of five in the older areas of the city and by a factor of 15 in the areas of rapid growth.
- c) Low-income families are the most affected by the rise in prices of urban land.

5. The municipalities lack an adequate set of regulations and coherent policies for the provision of services and for regulation of urban development.

- a) The [Ley de Preliminar de Urbanismo] and the Law for Urban Subdivision [Ley de Parcelamiento Urbano] governs the administration, functions and services of the cities. Only Quezaltenango has its own Governing Plan [Plan Regulador]. The rest of the cities are guided by the decisions of their municipal councils.
- b) Various resolutions and orders complement the two laws, such as the Constitutional Eight Percent, the Presidential Memorandum, and the portion of the National Plan for Development 1987-1991 and the Guatemala 2000 document, all of which concern urban development.
- c) Since 1987 the municipalities have been receiving the constitutional eight percent, permitting them to accelerate construction of specific projects for urban services.

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- d) When the National Plan for Development was not approved, two Presidential Memoranda were issued, as a way for the government to pay its "social debt." Creation of the Fund for Social Investment [Fondo de Inversión Social] was anticipated, but was not approved by the Congress.
 - e) In the National Plan for Development, three steps were designed for urban development. The first two steps were carried out, but the third was not. The third step, dedicated to development plans for each of the regions, was not implemented because this work was left to the Urban and Rural Development Councils.
 - f) The Guatemala 2000 document is the continuation of the previous policies and lays out the development of Guatemala for the next eleven years. This governmental instrument was also not approved.
- 6. Lacking adequate regulations, urban development and the provision of services is based on practical measures and actions.**
- a) The municipalities, with the funding from the Constitutional Eight Percent, have greater resources for investment in basic services. But because of the limited training of their officials, investments are not always made in the priority projects.
 - b) The Institute for Municipal Promotion [Instituto de Fomento Municipal (INFOM)] provides financing for priority public works projects, but its operation has been limited due to lack of resources.
 - c) Other entities, such as the Ministry for Urban and Rural Development, the Ministry for Communications, Transport, and Public Works, and the National Institute for Electrification, also contribute to urban development through specific projects which are jointly implemented.

Financing for Housing

In Guatemala, one of the fundamental obstacles in the provision of adequate housing is the low level of domestically generated savings. This is now a very serious problem because domestic savings, less than 8 percent of the gross national product in recent years, has fallen far below the potential for long-term savings in the country. In an inflationary environment in which the government is the largest and principal borrower, it is not surprising that the potential mortgage borrowers are excluded.

Credit for housing is potentially available through all the banks, but in practice, the mortgage banks play a very limited role in the primary mortgage market, which directly originates residential loans.

For the private banks, the financing programs for construction of housing and for mortgage loans represents a marginal use of their funds. The few banks which continue making residential mortgage loans make these loans at variable interest rates on terms that only the most qualified borrowers could meet.

At this time no banks are making long-term fixed rate interest loans, at least not from funds obtained from their depositors. When loans are made, they are made at fixed interest rates of 22 percent for a term no longer than 5 years. Thus the number of eligible borrowers is very small.

- 1. The low level of domestic savings and the lack of a stable macroeconomic environment have undermined the incentives for participation by the financial sector in the mortgage market.**
 - a) The financial sector has no prior experience in housing, nor is this sector structured to generate mortgage loans in the quantity needed to meet the accumulated housing shortage.
 - b) The participation of the financial sector in the housing sector is also constrained by inflation, now estimated at an annual rate of 70 percent.
 - c) The official policy of refinancing the deficits of the public sector through the central bank has affected the financial sector.
 - d) To avoid losses in private capital, the authorities decided to remove the ceiling on the interest rate, which has now risen into the range of 22 to 28 percent in recent months.
 - e) Although credit is potentially available for housing through all the banks in the Guatemala financial system, the banks are reluctant to participate, doing so only marginally, and only when they have access to large funding resources at the same time that demand for other types of loans is low.
 - f) Another factor inhibiting commercial banks from participating in the housing market is the official regulations. According to banking law, the amount of the mortgage loan is limited to 50 percent of the value of the house, and ceilings are placed on the maximum allowable interest rates.
- 2. House financing, particularly for the low-income population, falls primarily to the entities in the public sector, created to assist with those areas of development where the private sector chooses not to be involved.**
 - a) The Bank for Agriculture Development serves the needs of the small farmer, and to some extent the needs of rural housing.

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- b) The Bank for National Mortgage Credit [Banco de Crédito Hipotecario Nacional] was created in large part to service the demand for resources for housing, but has diversified its operations and maintains a competitive position with the private banks.
- c) The National Bank for Housing (BANVI) functions as an institution to initiate loans, obtaining domestic resources for its operations, resources from external sources, and securities from the government. Its assets account for slightly more than 5 percent of the combined assets of all banks.
- d) As BANVI is obligated to provide loans for the construction and for the development of sites and services, only a portion of its total resources are available to issue mortgage loans.
- e) The objective of the Institute for Provision of Insured Mortgages [Instituto de Fomento de Hipotecas Aseguradas (FHA)] is to promote the construction of housing by means of mortgage insurance.
- f) The FHA guarantees to the lender the recovery of capital, interest, and costs and expenses in case of default by the borrower. Since its founding, FHA has issued insurance for 21,321 mortgages for a total value of 358.9 million quetzals.

3. There are financial risks inherent in interest rates due to political actions which can affect the financing of housing programs.

- a) Because of the way that loan agreements are structured in Guatemala, the lender enjoys total protection against loss from borrower default.
- b) In addition to the collateral provided for the loan, the FHA provides an extra measure of protection. This insurance covers all losses, from loan principal through the court costs.
- c) The principal risk for banks is in the change of interest rates. Due to the length of mortgage loans, their interest rates can fall below current rates.
- d) Adjustable interest rates provide a means to avoid risks due to change of interest rates. Adjustable rates are tied to a series of short-term loan agreements which are guaranteed for the life of the mortgage.
- e) Another risk in the mortgage loan is how it is structured. If not structured in accordance with legal requirements, the bank may not be able to access the discount rate from the Central Bank.

- f) Perhaps the most serious impediment to the efficient utilization of financial capabilities in Guatemala results from the monetary policy to require high reserve requirements which earn no interest.
- g) One solution which has been proposed is the introduction of indexed mortgage loans so that the lowest-income groups can gain access to mortgages.

II. STRATEGIES

In the context of urban development, the two most important conditions identified as obstacles to balanced development in Guatemala are the phenomenon of the primacy of Guatemala City, and the limited activity taking place in other urban centers.

To accomplish spatial and economic integration of Guatemala, three strategies have been identified, directed toward a national policy for housing settlements as described in the subsections below.

First Strategy

Consolidation and expansion of 16 urban centers throughout the country based on the premise that if investments normally available to Guatemala City are redirected toward those population centers, they will be able to expand their social and physical infrastructure and thus become centers of economic activity and the means for urban-rural interaction. The conceptual framework of this strategy is the provision of housing and services, and the promotion of other economic activities in these cities. (The selection of these cities is based on spatial and economic indicators and also on population.)

The urban centers identified are:

Quezaltenango, Escuintla, Poptún, Jalapa, Cobán, Huehuetenango, Puerto Barrios, Chiquimula, Zacapa, San Marcos, Salamá, Tiquisate, Santa Cruz, Jutiapa, Mazatenango, and Antigua Guatemala.

The improvement of the infrastructure outside of the capital, including housing, roads, electricity, potable water, sewerage, telecommunications, and health service could serve as a base for the development of the cities, not only for the integration of physical structures essential to the agriculture economy, but also to increase the level of investment and financing available to the sector.

Guatemala bases its economy on agriculture production. Modern agriculture requires support from the urban centers to be able to increase agriculture production. In a recent evaluation carried out under the auspices of AID, Forty Years on the Plateau Altiplano, the absence of markets was determined to be the major obstacle to agriculture development in Guatemala.

However, it is not possible to develop efficient markets when cities do not exist which are capable of supporting the required economic and social activities, as well as the infrastructure needs.

The economic impact which the development and expansion of the urban centers of the country can have on the rural economy is summarized as follows:

- As agriculture becomes more modernized, the rural population increasingly emigrates to the cities. With the development of other urban centers outside of Guatemala City, these centers can become new goal-destinations for a population in transition.
- The urban centers can serve as centers of non-agriculture employment for excess rural labor, either on a permanent basis, or for off-season work for the farm laborer.
- With the provision of services, such as water, electricity, sewerage, and housing, will come the elimination of structural obstacles which impede the transformation of a subsistence economy to small-scale agriculture, and the traditional population centers to modern commercial centers.
- Through the fostering of agroindustry, the urban centers can provide the infrastructure needed for the processing of agriculture products. With the existence of the urban centers, the farmers could produce commercial crops, since they would have greater access to information and supplies and would be in greater contact with the government extension service and with private suppliers. In this way, agriculture and industry will reach a level of compatibility between them.
- The urban centers and their infrastructure comprise a fundamental support system for the activities of the small and medium-sized companies. The urban centers can promote the diversification of economic opportunities for the private sector in the rural areas and can serve as centers for training and the transfer of technology and information.
- One of the greatest impediments for agriculture is the limited access to credit. This factor is related to the rural finance system being excessively centralized in the capital. The expansion of the urban centers and stimulation of economic activity will increase confidence in the provision of credit and will promote new investments.
- Although their economic base is found in the rural areas, agricultural industries are traditionally located in the cities. With the expansion of urban centers, agroindustries can benefit from economies of scale and from aggregation.
- With urban expansion, the pressure exerted by the growing rural population on the environment can be reduced.

Second Strategy

Consolidation of the present process of administrative [deconcentration] and decentralization as a mechanism of development for the municipal government. The premise of this strategy is that municipal governments are key elements in the process of economic and physical expansion for the cities. The conceptual framework for this strategy is the institutional improvement of the local governments.

Within the process of administrative [deconcentration] and decentralization the central government can promote and/or channel toward local governments: a) greater authority in making their own decisions and operating their municipalities; b) the generation and distribution of resources from central institutions to their local offices; and c) redistribution of decision-making and responsibilities for financing and administration for the implementation of local urban development.

With the strengthening of municipal governments, the existing model for development in Guatemala could be modified in the following way:

- a) The reduction of the primacy of Guatemala City with the economic and social strengthening of the other areas of the country.
- b) Greater influence in the national distribution of resources.
- c) Greater efficiency in the use of land and local resources so as to promote a model for sustainable development.
- d) Reduction of the economic disparities of unemployment and poverty found throughout the country.
- e) Reduction of spatial and population imbalance throughout the country.
- f) The expansion of the other urban centers which are important to the national economy.
- g) Greater balance in terms of housing and services to be provided by the municipalities.
- h) Mobilization and participation in the economy by the formal sector as well as the non-traditional sectors (i.e. NGOs, informal sector) in order to increase the human and social capital involved in the process of local development.
- i) To promote participation by the populace in the integrated development of the country, especially encouraging marginal groups to participate (i.e. the indian groups).

To assure that the process of administrative [deconcentration] and decentralization functions effectively, institutional support is required. Numerous problems occur because of the

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inadequate participation by the institutions involved in the process of administrative [deconcentration]. The ministries and organizations of the country which should be following an orderly process to achieve the goal of decentralization of the country's public administration, apparently are not disposed to give up part of the administrative power which they presently have; or simply they do not have the institutional capacity to implement the process.

The National Council for Urban and Rural Development is the backbone of the [deconcentration] and decentralization system. The Council has constitutional responsibility for the formulation of policy for urban and rural development and for regulation of all Guatemalan territory. This Council is comprised of a system of Councils for Urban and Rural Development, whose objective is the organization and coordination of the public administration through the formulation of policies for urban and rural development and the regulation of all national lands.

The following measures can be used to strengthen the process for municipal development:

Institutional Measures

- A fund should be created at a regional level for financing or assisting projects which are regional in scope. This fund should serve national economic priorities, should resolve the problem of the operating vacuum which exists between the National Council and the Municipal Council, and should create a better balance in spatial development of the nation.
- A better mechanism should be found to deliver the "Eight Percent" to the municipalities to avoid the delays which now have a detrimental effect on the planning process and the projects being implemented.
- The appropriate institutions should provide technical assistance to update and/or to modify the statutes for municipal operation [el plan de arbitrio municipal]. A mechanism should also be identified for their modification without requiring action on the part of the Congress.
- Provision should be made for a broader selection of training programs which are offered by the systems of Councils for Urban and Rural Development, and are presently coordinated through various state institutions. This expanded training should be directed at all levels of government including the regions, departments, and municipalities. Training should involve the municipalities, cooperatives, public employees, and unions in the many municipalities.

Administrative Capability

- **Administration.** A program for municipal strengthening should be targeted toward increasing: the institutional, administrative, and technical capability of the municipalities; the institutional and technical capability of the institutions which assist the municipalities; the capability of the municipalities to mobilize the nontraditional economic and social

sectors; and the capability to offer technical assistance to the communities in the areas which are most critical for their development.

- **Tax Collection and the Finance System.** The local governments require the legal and administrative mechanisms to increase their revenues through collection of their various taxes. Nevertheless, while the municipal governments increase their revenues, they will also need to strengthen their financial system. This requires the implementation of an accounting system of a complexity many times greater than the capability of the local governments.

To accomplish these objectives, it is necessary to reinforce local government finance systems and the revenue collection systems through the imposition of tariffs, the expansion of the regulatory system, and the improvement of the ability to accept loans.

- **Capability for Providing Urban Services.** The municipalities urgently require training in those activities related to the administration and supervision of public works. The municipalities need the ability to analyze development plans and programs and to be able to apply rational criteria for the provision of services to the people. One possible strategy would be the development and maintenance of information systems regarding land tenancy; the preparation of plans for urban reorganization, including existing land use and the areas for developing new housing projects; the capability of preparing budgets and providing supervision and maintenance for infrastructure projects; and the ability to plan and analyze a public sector cost estimate to implement urban service projects for the various locations which can be developed.

The municipalities should foster adoption of programs for improvement of basic services, not only to raise the standard of living, but also to support a strategy for urban expansion based on increasing agriculture productivity and reducing unemployment.

In the specific case of Guatemala City, a metropolitan district could be established to provide basic services to the metropolitan region in a coordinated and centralized manner. One measure could be targeted toward improving the efficiency and operation of the revenue collection system and the provision of more equitable and coordinated service to the various municipalities of the region (regarding this subject, also see Part II, section 3 of this evaluation).

- **Housing.** Housing is a basic necessity of the people. Housing becomes more scarce each day due to increases in the price of construction materials, the lack of land, and the lack of access to financing. The concern over housing and all its complexities (the house, the land, and the basic services) is the responsibility not only of the central government but also of the municipalities.

The municipalities have recognized this problem and have expressed the desire to be involved in the solution. Nevertheless, lacking a defined, political framework, it is difficult to address the housing problem at the municipal level. In isolated cases, some

municipalities have taken action to resolve the housing problem by providing land, construction materials, and loan guarantees to low-income families, but the impact of these efforts is minimal.

The municipalities must undertake their own initiatives to assist the housing sector and should not wait for the authorities from the central government to take action. The municipalities can facilitate the resolution of the housing problem by providing land, construction materials, and loan guarantees to low-income families, by planning and constructing low-cost housing, and by fostering the formation of cooperatives for low-cost housing.

- **Community Participation.** The municipalities have the capability of fostering community participation in the decisions which they make. Participation should be broadened to include other sectors (such as industrial, agriculture, commercial and financial associations, union representatives, NGOs, cooperatives, and neighborhood associations) in regular and special meetings of some directrices as well as meetings of the municipal mayor, so that the Municipality can be differentiated from the Municipal Council.

Incentives should be provided to the communities of the municipal capitals [cabeceras] and their rural zones to participate in the selection of projects of community interest and to contribute to their implementation through self-help. The municipality should play a broader role in fostering and creating the local conditions needed for their inhabitants, especially low-income families, to be involved and to participate in projects for housing and basic services.

Privatization of the Urban Services

Although Guatemala has no policy regarding privatization, this process has nevertheless begun. For example, the Government has awarded long-term concessions to companies in the large cities to supply, purify, distribute, meter and collect user fees for water service. The Agua Mariscal Company, which supplies some 7 percent of the water in Guatemala City, has existed since 1924.

Privatization should be adopted as one of the national policies oriented toward resolving the national economic crisis through the reduction of state subsidies and public expenditures. This policy will have to be directed toward fostering deregulation of the market and encouraging the participation of the private sector, so as to increase productivity and reduce the cost of the basic products.

The privatization of financial institutions and the extension of credit to the private sector should be promoted by the state. For municipalities to become self-sufficient in the production of goods and services for the community, incentives should be provided to the institutions responsible for municipal development.

Third Strategy

There is a need to improve the participation of the informal sector as an instrument for expansion of the urban areas and housing production. In spite of the belief that the informal sector lacks the ability to save and invest, it has, in fact, responded to the need for housing. It is estimated that today the informal sector provides approximately 80 percent of the housing in the country.

Guatemala is presently living under an adverse, inflationary economy which has an impact on low-income communities and families. The informal sector has increased its participation in the various sectors of the economy in the last ten years in response to the numerous crises that have affected the country. For example, the informal sector in Guatemala is responding to the serious problem of unemployment. It is estimated that 73 percent of the [PEA] obtain their income through the informal sector (52 percent in the service sector and 21 percent as peddlers) and that only 6.7 percent of the sector is unemployed.

During the course of this evaluation it was found that the production of formal houses lags far behind the need for housing and services demanded by a growing population. Due to the high level of activity which the informal sector can generate, it is an excellent instrument: a) for the production of housing and related services, and b) as an element for expansion of the urban centers, wherever appropriate (cities with a population too small to generate urban growth).

The community-based organization is indispensable for encouraging the active participation of the informal sector in many aspects of the economy. The principal obstacle to the existence of such organizations in Guatemala is the lack of understanding that exists at the various levels of government regarding the support which the informal sector can generate for the economy, as well as the composition and social aspirations of this sector. Also lacking is a clear delimitation between the social groups created to respond to the most pressing problems of the community, as opposed to those groups created for political purposes.

For the purpose of improving the informal housing settlements, the design of policies for coordination and dialogue between the government and community leaders and/or organizations can have a positive impact on the various sectors related to the economic development of Guatemala.

For the housing settlements to have access to basic services, it is necessary to coordinate efforts by the municipal governments and the informal sector in a search for solutions which make it possible for municipalities to provide for the needs of a growing population within their institutional framework.

Actions targeted at producing better coordination between the municipalities and the informal sector should form an integral part of a program for strengthening the administrative capability of the municipality. The objective is to improve resources for providing basic services and to increase direct participation by the municipality in the community problems.

Although the identified strategies suggest that national development should be oriented toward 16 selected population centers, this does not mean that less importance should be given to Guatemala City.

The strategies for strengthening the informal sector are described in the subsections below.

The Community Organization

- Acceptance by the government of the existence of the free right of association so that the various sectors of the country can resolve their most pressing economic and social problems, and can fulfill the economic and social aspirations of the individuals which comprise the informal sector.
- Acceptance of the fact that the informal sector has been responding, through its own initiative, to its problems of employment, housing and services, and that the creation of community-based organizations will have a multiplier effect on the actions taken to assist the precarious settlements.
- The creation of community-based organizations is the best vehicle for coordination, between the public sector and the informal sector, of dialogue and policies regarding the housing sector.
- Through community-based organizations the government has a good mechanism for contact with the neediest social stratas in the country.

Regarding National Policy

- Better use of the land and resources at a local level;
- Improvement of the quality of life and health of the people;
- Greater participation by the private sector in the production of housing and basic services;
- Spatial redistribution of investments by the public and private sectors; and
- Better utilization of the labor force in the productive sectors of the country.

The Role of the Public Sector as Facilitator of the Urbanization Process

- To promote regulations and institutions related to the efficient operation of the private and informal finance systems.

- To encourage the creation of markets for land (lots at market prices but whose location is planned beforehand), to facilitate the transfer of real estate, and to provide small grants for the adjudication of land ownership.
- To provide incentives for the creation of new products which reduce construction costs.
- To create an attitude of cooperation and dialogue between the public sector and the representatives of the informal sector.
- To support programs for community education, technical assistance, and exchange of information for those communities with scarce resources.
- To support COINAP, especially in its efforts to promote the development of the communities and strengthen the technical and administrative capability of the community organizations.

The Coordination of the Informal Sector with the Municipal Governments

- To identify those functions of the municipality oriented toward broadening the coordination between the municipal government and the informal sector and to analyze the functions of the municipalities which would facilitate working with the community organizations.
- To identify the mechanisms for effective participation in which the informal sector is properly represented -- in the same proportion as the other social and economic sectors of the community -- in those regular and special meetings called by the municipality.
- To offer training programs and technical assistance to the community-based organizations for solving their most urgent problems.
- To create the internal mechanisms for allowing greater flexibility in those municipal regulations which impede the active participation of the informal sector in the production of housing and basic services.
- To promote the establishment of dialogues and meetings with support groups within the community to be able to understand and resolve the most pressing problems of the community.
- To offer incentives to the other sectors to accept integration of the informal settlements.

Facilitation of the Process of Land Tenancy

- Depending on the level of institutional development, the municipalities may or may not have prepared plans and ordinances regulating growth of the city. It is important for all municipalities, whether or not they have these plans in place, to plan for the surveying

and adjudication of lands for the use of low-income housing settlements. These designated areas must have flexibility regarding the costs and guarantees demanded of the purchasers (i.e. the majority of the members of the informal housing settlements do not have permanent jobs, making it difficult to verify their income levels).

The municipalities are often reluctant to provide incentives for the formation of markets for land, under the belief that with the creation of these markets they will attract an influx of migrants considered undesirable by the municipal governments. For municipalities which now have a population level which meets their economic needs, facilitating the purchase of land by low-income families will not be a major new attraction since people will continue moving on to those areas with greater economic opportunities. Thus, the markets for land will benefit the municipalities by increasing their ability to manage and direct urban development and by reducing the size of a completely autonomous informal sector. For those municipalities requiring revitalization and expansion, this measure will in fact be an additional attraction.

- To increase the participation of the informal sector in the process of developing the community, it is necessary to reformulate the municipal cadastral system. This reformulation should create a cadastral system which facilitates the transfer of ownership for those who possess lands and housing in the informal settlements. A cadastral system of this type should also facilitate the supply of basic services to these housing settlements.
- The major obstacles facing the low-income families in the construction of their houses are the construction codes and regulations, which cause an increase in the cost of the construction. These regulations provide measures to assure safety and comfort in the homes: nevertheless, these codes are often adapted from the codes from other countries and thus are not appropriate for local use. To increase the number of low-cost houses which can be constructed within existing regulations, the restrictions of these codes should be analyzed and made more flexible without neglecting necessary safety factors.

The Informal Sector's Access to Credit

- Increase the flexibility for approving the guarantees which members of the informal sector can offer, i.e. land titles cosigned provisionally by the municipalities or by a recognized community organization.
- Develop a program for incremental loans. Loans could be provided to coincide with the advance in the construction of the house. [Once the house is completed, payments would be made to the lending institution reflecting the total loan package.]
- Increase the ability of the cooperatives, unions and associations of workers to obtain soft loans to be used in housing programs for the workers.

- Create the necessary incentives for large, private sector companies to create a fund to provide credit to those employees who would like to acquire a home. This program is especially applicable to those companies which would like to promote low turnover in their employment force. This fund could be backed by deposits made by the employees or by funds provided exclusively by the company. Support may also be available from international agencies, preferably through soft loans.
- The employee associations from the various sectors of the economy can create a credit system or an association for housing projects, such as Fundazucar. Long-term financing could also be made available through private banks for large corporations and associations.
- Access to credit for the informal sector could be broadened through the NGOs. This means educating the possible beneficiaries so they may avail themselves of the resources which are available to them.

Actions of the NGO's and the Informal Sector

- Act as intermediaries in an impersonal public bureaucracy;
- Collaborate in defining the problems confronting the institutions;
- Assist in the process of organizing the communities;
- Offer technical assistance for the priority problems of the communities, and to transfer new and appropriate technology;
- Promote creativity by the community in solving their problems of credit, housing and basic services; and,
- Offer their experience in funneling international assistance for community actions, and to serve as a vehicle of communication with the outside world.

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