HiFi NEWS

The newsletter of the Working Group on Housing Finance and Resource Mobilisation for the Habitat International Coalition

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Introduction

News from three corners of Africa illustrates some of the successes and struggles of loan finance in supporting housing and infras–tructure development in low-income communities. The Kenyan Affordable Shelter Project managed by the Intermediate Technology Development Group and KREP shows how carefully put together loan programmes can reach out to those who can afford to take loans to improve their houses – but who have long been excluded from formal financial institutions. As with many micro-finance programmes, borrowing conditions do not exclude those working in the informal sector and therefore many of those who found it impossible to borrow are now served by a financial institution.

In Morocco, USAID's own interest in innovating with micro-finance for housing has resulted in a new programme that is now running within an institution more experienced in lending for enterprise development, called Al Amana. A study by Davies and Mahony draws on existing experiences to develop a framework to for the planning and establishment of such ventures. Those previously unable to obtain funding to improve their homes (and their workspaces) now find that improvements can be financed by credit.

Approaching the lack of adequate housing from a different direction, Ted Baumann reports on the frustration of the South African government with a conventional housing subsidy programme delivering capital funds to construction companies to build for the poor. Houses have been badly located with regard to jobs and services and are too small. Housing construction had had little to do with need and capacity on the ground but is driven by the bureaucratic requirements of large state agencies. In order to secure a more flexible and user responsive system, the government is introducing a more demand-oriented approach with a savings requirement for all but the very poor. The lowest-income groups will be allowed to contribute their "sweat equity" in self-build initiatives.

Despite their optimism and evident success, the examples also point to one of the difficulties that these programmes face. How can the poorest families be included in programmes that require financial payments, however small or flexible? As evidence mounts that micro-finance programmes exclude the poorest and most vulnerable families, finding approaches that are inclusive rather than exclusive is surely the greatest challenge facing savings and loan programmes.

From Asia comes news of the Community Mortgage Programme. In spite of continuing difficulties in accessing funding, the Programme continues to offer community loans to low-income communities seeking secure land tenure. It is now seeking to decentralise state support from national government to local authorities in order to ensure a more flexible and responsive approach.

Finally, this issue of HiFi News includes a report from PRODEL in Nicaragua, a loan and grants programme for housing and community development. The Programme is decentralised, working in a number of the poorest municipalities within the country. Within the first four years, just under 40,000 people were assisted within the infrastructure and community development component alone. Funding is tripartite with international development assistance, local state funds and community contributions combining to offer cost-effective interventions with strong local ownership. Through their joint participation in funding initiatives, local authorities and low-income residents have learnt to work together in new ways, expanding options for the development of low-income neighbourhoods.

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Kenya Affordable Shelter Project (KASP)

Kenya affordable shelter project aims to provide low-income people with affordable and quality home ownership through credit, appropriate low-cost housing technologies and community involvement. It targets those low-income groups who have struggled to obtain access to housing credit from formal financial institutions.

The project seeks to reach those employed in both the formal and informal sectors and is being implemented by the Intermediate Technology Development Group in partnership with the Kenya Rural Enterprise Programme.

The main goal of the project is to provide quality durable and affordable shelter to the low-income population in Kenya in a sustainable and replicable manner. More specifically the activities include:

- establishing a framework for collaboration for the partnering organisations;
- improving access to housing credit facilities;
- improving the quality of affordable housing in the urban and rural areas; and
- enhancing community management of shelter development initiatives.

The loan package that is offered is estimated to be just sufficient to complete a habitable house in the municipality of the applicant. Borrowers can receive a maximum of 250,000 Kenyan shillings.

In order to receive a loan, the applicants must:

- be registered with Kenya Affordable Shelter Project, which requires membership of a community group with at least five members who trust each other;
- be Kenyan citizens over 21 years of age;
- have documented legal land ownership, e.g. the title deeds;
- be living within the KASP area of operation in Nakuru;
- have some regular income from daily activities (formal or informal);
- be willing members of a housing cooperative or willing to be members of a similar group;
- be willing to offer their house or land as collateral, or any other acceptable form of security; and
- be ready to abide by the laid down K-REP rules and regulations (as given below).

The houses constructed with the loan finance must comply with the revised (1995) building standards which became effective in1997. For new houses, the loan requested and approved must be adequate to complete the proposed dwelling unit. There is no minimum loan amount or minimum size of house. However, the loan must be sufficient to complete the proposed improvement and must be subject to appraisal of the repayment capacity of the borrower.

For all house types and sizes, the municipal council of Nakuru must approve the plans to ensure that the proposed houses meet the required standard. The Municipal Council have now agreed to “fast track” approval and this has been one of the achievements of the Programme. Approval is now often granted within two weeks and it used to take up to six months.

The community-based group to which the applicants belong must certify the capability of the person to repay the loan. In addition, the applicant must contribute at least 10 per cent of the amount to be borrowed. Interest is charged at 20 per cent a year on a declining balance. Therefore, there is an incentive to pay off the loan in order to reduce interest payments.

The loans are repaid monthly with the first repayment due a month after the house has been completed. (The grace period, to allow for construction to take place, should not exceed 90 days.) Loans are given to the group that then approves and supervises the construction process with support from KASP. The borrowers are free to use artisans of their choice providing they are competent and the finished house meets building requirements. A project officer monitors the construction quality and faults are corrected as necessary. If there are serious problems, further disbursements of the loan are suspended until the problem is rectified.

Loans are disbursed in stages depending on the complexity of construction. For a new house there are five stages: foundations, walls, roof, fixtures and finishing. Before any of the amounts are disbursed to the developer, quality control and the proper utilisation of the materials is assessed by the construction committee and any problems rectified before the next funding instalment is given out.

The experience so far

To date, the project has been working with ten community groups, each with an average membership of 25 families. Loans have been disbursed to five groups, assisting 24 families, and applications have been received from a further seven groups. Due in part to the relatively small number of borrowers to date, there have been no problems with loan defaults.

There has been much interest in alternative building technologies and all houses have included Ferro-cement technology, stabilised soil blocks or natural stones.

The experience to date has shown that the community can afford credit facilities that improve the quality of their housing. (This, in part, reflects the preparation process, which places great stress on the affordability of repaying the loan that is requested.)

A number of lessons have emerged from the first loans that have been issued:

- The community needs to be given a longer grace period to allow them to complete their houses prior to starting repayments.
- Many families construct mixed-use dwellings that are both a home and a work area. This has been of great importance in enabling income generation both through enterprise development and through subletting.
- The group-based model has been used and has been seen to be suc-

cessful. Community groups have assessed and recommended the loan applicants for further consideration by K-REP and the ITDG staff. They have also helped to identify possible material suppliers and artisans to be trained. They have supervised and monitored the construction process and have been instrumental in the follow-up of the loan repayments among the community members.

- The requirement for land ownership has been one of the major hurdles to reaching the poor. Most poor people living in Nakuru low-income areas are tenants without access to land. Others do not have legal documents to certify their ownership of land. To enable the project to extend its reach to assist people such as these, non-conventional land ownership documents such as letters of allotment are now being used (with reduced loan amounts to reflect the additional risk). Staff are also considering a land realisation component to address the lack of legal land ownership. This would enable those with land but without documents to borrow money to legalise their holding.

Contact: Michael Kinyanjui

Housing loans in Morocco

Over the past decade, US Agency for International Development (USAID) has demonstrated its commitment to micro-enterprise development by investing more than US$ 1 billion to encourage and support micro-enterprises (defined as business activities with ten or fewer employees and very limited assets). More recently, the agency has turned its attention to the role of micro-finance institutions in supporting housing. Davis and Mahony have recently completed a study for USAID's Office of Micro-enterprise Development to examine the potential for micro-finance institutions to successfully enter the housing loan market. The study reviewed experience with housing lending within five micro-finance institutions and then worked with a local MFI in Morocco (Al Amana) to develop a model for the design and creation of a housing loan programme.

The fact that much housing in the South is of poor quality is widely acknowledged. Davis and Mahony argue that a fundamental cause is the gap between the financial products that households want in order to upgrade their housing and the financial products that are supplied. Housing loans are simply not accessible in the shape and form that low-income households can best use them. A belief that affordability is the problem has resulted in limited public sector subsidies that are inadequately financed and mis-targeted.

Davis and Mahony argue that micro-finance institutions (MFIs) are well positioned to fill many of the gaps in traditional housing finance, primarily by using current operating principles to support the poor's incremental building process. They examine how small repeat loans with frequent (perhaps irregular) repayments can best be delivered. In addition to provision on the basis of market criteria, micro-finance institutions have demonstrated flexibility in absorbing what subsidies are available to provide a diverse range of support to borrowers. Perhaps surprisingly, one finding is that whilst micro-finance institutions often use different terms and conditions for housing (as opposed to income generation lending), they do not link up with specialised housing providers.

There are multiple reasons for micro-finance institutions to provide finance:

- there is overwhelming need;
- it is an opportunity for micro-finance institutions to reach lower income households than those typically reached by entrepreneurial-based lending;
- there are complementarities with home-based enterprises;
- some micro-enterprise loans are already being diverted to home improvement;
- it is a large new market.

Drawing from existing strategies, what lessons emerge for general processes by which MFIs can assess, design and implement housing programmes? The template process for housing programme design has four principal steps:

1. Analysing the regulatory climate: assessing state policies and conventional lenders for housing investment as well as the potential for micro-finance institutions. As, critically, understanding the land tenure process and land use regulation, all of which affect the demand for investment as well as the risks of lending.
2. Assessing and segmenting potential demand for housing: including the scale of need, the size of potential borrowers and the interest in borrowing and repayment capacity.
3. Designing the housing product: with associated terms and conditions for the length and size of the loan, payment schedules, interest rates, collateral and eligibility
4. Preparing the organisation to administer a housing programme: through a consideration of the relationships between lending for enterprise and housing devel-opment, personnel issues, capital and training plus support needs.

Morocco is a country of acute housing need with an estimated deficit of 730,000 units. In urban areas, just under 50 per cent of families own their own home, 25 per cent are squatters, 8 per cent rent and the remainder live in a home without paying rent. Only 6 per cent of all formal housing loans are for low- and moderate-income households despite a government subsidy programme offering low-interest loans. Micro-finance activities are regulated under special legislation that specifically excludes lending for housing. One of these housing finance institutions is Al Amana, an organisation working predominantly in urban areas with an interest in piloting lending for housing. The study describes in some detail a pilot housing lending programme that is currently being undertaken. With a primary focus on the contribution of housing improvements to productive and income-earning activities, the loan package is acceptable within the existing legislation.

Contact: Geoff Davis

A new housing policy for South Africa?

Since the end of legal apartheid in 1994, South African housing policy has been based on two pillars:

- **Growth in real incomes and finance sector reforms are supposed to increase access to formal housing through "normal" means – mortgage-financed private purchase.**
- **Whilst the first part of the policy is taking effect, government provides a small (about US$ 2,000) one-off capital subsidy for land, services and basic shelter to those who have no other options.**

In practice, 95 per cent of post-1994 housing has been subsidy-financed. Attempts to extend middle-class housing markets and bank finance to the black poor have failed.

South Africa's macro-economic growth has averaged less than 3 per cent *per annum* since 1994 (compared to an official target of 6 per cent). Real incomes of the poorest – those disadvantaged by apartheid – have fallen as a result of widespread retrenchments in traditional sectors and slow growth in new ones.

For its part, South Africa's banking sector is actually withdrawing from the "low end" of the market. Facing pressure for competitive returns on equity from globalising financial markets, SA banks have admitted they cannot make housing loans to the poor and do not anticipate that they will.

Given this, the housing subsidy system – never intended as a permanent solution to the housing backlog, estimated at 4 million units – has come under increasing scrutiny. It has come up wanting:

- First, under the subsidy, actual shelter is a residual. The subsidy must pay first for land, services and delivery – whose price and standards are largely market-determined and/or determined by local authorities, who may benefit from land sales. This often leaves tiny amounts for housing. "Houses" of less than 12 square metres are common.
- Second, to reduce site costs, local authorities tend to locate new developments on peripheral land far from economic opportunities, reinforcing the spatial and racial distortions of apartheid and entrenching poverty.
- Third, the system is driven by national budget allocations, not actual human settlement need. Provincial governments face little pressure to streamline delivery mechanisms that are bureaucratic and slow. Hence, housing budgets are persistently under-spent.

The result has been increasing public dissatisfaction with the government's performance in housing, one of South Africa's key post-apartheid social sectors.

Recently, government began quiet work on a new policy. The core elements are:

A shift from a supply-driven to a demand-driven system. Instead of "pushing" out housing at a provincial level with annual national budgets, housing is to be "pulled" by local authorities and communities through locally negotiated five-year "rolling development plans". This is intended to make the system more responsive to holistic development needs of low-income neighbourhoods. *In situ* upgrading is seen as an acceptable option for the first time.

Ending the fixed subsidy, replacing it with a fixed "housing product". A fixed subsidy leaves little for housing after land, service and delivery costs. By contrast, the new policy stipulates a standard minimum subsidised house. Local authorities will then call for competitive tenders to deliver such houses in terms of their settlement development plans. The actual subsidy will vary according to site conditions.

Requiring a savings contribution from beneficiaries. Government favours a package of savings, loans and subsidy. Although the subsidy entitlement will remain the same for all, higher-income groups will have to save predetermined amounts in a bank before getting a subsidy. The poorest of the poor – 85 per cent of those needing government subsidies of some kind – will contribute "sweat equity" – in other words, will build their own houses with government-supplied materials or vouchers.

Key issues remain unresolved. Although the proposals recognise that current land use and planning laws are inadequate, changing either is beyond the Department of Housing's policy scope. The all-important question of whether South Africa's 800-odd local authorities have the capacity to implement an "holistic multi-year human settlement development framework" is not clearly addressed.

But, most importantly, although the proposals place heavy emphasis on grassroots self-delivery for the poorest of the poor, they show no improvement over the current inadequate support systems for the people's housing process. Only 2 per cent of subsidies currently go to this self-help process. Unless South African government at all levels is able to improve its record of engagement with and support for people's housing organisations, the policy may well be old wine in new bottles.

Contact: Ted Baumann

The Community Mortgage Programme under the Estrada and Macapagal-Arroyo governments

The shelter and urban development vision of the short-lived Estrada administration focused on creating a viable housing finance system with sufficient long-term mortgage finance; on improving targeting to focus on the poorest 30 per cent; on rationalizing the operation of shelter agencies; and on enhancing local government capability (in partnership with the private/civil society sector) in planning and shelter development.

This vision was informed by earlier mistakes, particularly the inability of the agencies responsible for middle-income housing loans to collect repayments. To correct this problem, the Estrada administration attempted to separate housing subsidies from housing finance, as well as targeting subsidies for social housing in the first ten years of loan repayments instead of the 25 years currently followed within the Community Mortgage Programme (an innovative programme offering subsidised group loans for housing development and land tenure). Ironically, the efforts of the Housing and Urban Development Coordinating Committee to "clean up" the housing finance mess and secure CMP fund support ended up putting the programme almost on hold for up to two years.

Under the Macapagal-Arroyo administration, the advocacy efforts of housing-focused NGOs are on decentralization, with attempts to establish the CMP as a social housing corporation. It is hoped that these institutional moves will give the CMP more autonomy and efficiency in processing housing loans.

While in the past, 80 per cent of government resources went to middle-income housing, current efforts are focused on reversing the ratio (80-20 in favour of social housing). The focus on social housing will emphasise resettlement, the CMP and medium-/high-rise housing. Of the three, however, the CMP has the biggest problem in obtaining consistent funds because it is the most dependent on budgetary support that needs approval by the Philippine Congress.

The reforms of the HUDCC under the Estrada administration during the time of Karina David prioritised the strengthening of the housing finance system by removing so-called "market-distorting" policies, particularly with respect to interest rates. It had planned to scrap interest rate subsidies and to adopt a subsidy scheme that provides a one-time capital grant to qualified beneficiaries in order to reduce lending to those who are not so poor but who want to take advantage of the CMP's low interest rates. This scheme would have meant a yearly infusion of around P4 billion to social housing. The government's *Pag-ibig* Housing Fund also revised its guidelines to include 9 per cent interest rates with a 30-year term. To build the capacity of local government to respond to the housing needs of the poor, several special programmes were also established. However, due to limited available resources, complicated procedures, and lack of technical capacity and relevant social experience these programmes did not flourish.

During Karina David's administration, the HUDCC also tried to rationalise the operations of all shelter agencies. One proposal that HUDCC sent to the Philippine Congress was to transform HUDCC into the Department of Housing and Urban Development, thereby harmonising all housing-related agencies and providing overall supervision and direction. The NGOs/CBOs continued to lobby for the creation of a Social Housing Finance Corporation, afraid that the special financing needs of the poor would be lost in the institutional maze of a Department of Housing. But all these proposed institutional reforms, however, had been put on hold because of the changes in the political administration and the uncertainty related to the election in May 2001.

The programme initiatives of the Estrada administration offered several alternatives that demanded new institutional arrangements and partnerships among stakeholders in the social housing sector. Foremost among these were the Pasig River Relocation Programme, Erap City Resettlement Programme and the OFW City to be implemented in partnership with local governments, NGOs, and the private sector. These programmes obtained support from the private sector because of the political mileage they provided for the political regime and its supporters.

The pro-poor stance of the Estrada administration conveyed the impression that social housing was given high priority. But the administration was heavily occupied with the resettlement of residents along the Pasig River, *esteros*/canals and other slum/squatter populations of Metro Manila under threat of eviction. There was a concentration of programme resources in Metro Manila, an anomaly long criticised by NGOs and local officials alike. Efforts to decentralise the CMP and other social housing interventions to local governments were hampered a lack of implementation and delivery models.

In response to NGO pressure to decentralise the CMP, in March 1999 Karina David initiated the experimental decentralisation of the CMP in two regional offices. It was a short-lived experiment. In October 1999, Karina David, the NGO leader who became the housing secretary of President Estrada resigned because resources in the social housing sector was used by the administration to reward political cronies. When Lenny de Jesus took over the position in March 2000, she made moves to re-centralize the processing of the CMP.

Under the current Macapagal-Arroyo administration, the CMP and other social housing initiatives for the poor are again being made central to their social agenda. The newly appointed HUDCC chair, Mike Defensor, has announced that regularising informal settlements (especially those on government-owned lands) is a central goal of his administration. More

ASIA

importantly, he has stressed that programmes for the poor should be beneficiary-led. Some critics have argued that these pronouncements are made because of the critical need of the newly installed Macapagal-Arroyo government for legitimacy and support among the poor, the political base of the deposed President Estrada, but others wait to see what the outcome will be.

The CMP remains heavily dependent on the government for financing. Even with greater available funding since 1999, there is a need to develop the institutional capacities of national government housing agencies, local governments, NGOs and the CMP housing associations so that they can effectively provide support to community-based housing projects among informal settlers and low-income segments of the population. The problems and pitfalls of housing finance programmes for the poor such as the CMP are rooted in the structure of the financing market, institutional weakness of housing agencies and the social orientations of NGO/PO mobilisation at the community level. The absence of a broad-based movement for savings mobilisation for housing and other self-help initiatives among the poor communities such as those in Bangkok and other Asian cities seems to reinforce a widespread but mistaken idea that the poor cannot generate resources for their own housing needs. Most NGOs have yet to discover that the need for housing credit can be achieved by mobilising the informal credit system present in urban/rural poor communities. More importantly, the government's recognition of the particular housing needs and resource capacities of the poor, the specific resource mobilisation roles of NGOs and the private sector, and the need to support informal housing is yet to be achieved.

Contact: Emma Porio

SOUTH AMERICA

Increasing development options in Nicaragua

PRODEL (the Local Development Programme) has supported community activities in Nicaragua since April 1994. More than 38,000 families have benefited from infrastructure and community works projects, housing improvement loans and loans to micro-enterprises. For each US$ 1 of external development assistance finance, at least US$ 0.66 of local resources has been mobilised. In the housing improvement component, for each US$ 1 provided as a loan, families have mobilised at least US$ 0.30 of their own resources. The break-even point in the operation of small loans has now been reached, allowing a profit of 15 per cent per annum after paying the commission to the commercial bank that manages the revolving fund.

Many experiences have shown that technical solutions defined with the direct participation of the end-users can save money. In the case of PRODEL, projects costing up to US$ 50,000 have been carried out with community participation with savings of up to 20 per cent over and above the cost of projects carried out by local governments. The experience of PRODEL shows that the scarcity of state financial resources is not the principal obstacle encountered by low-income families. If institutionalised systems make families participate in the processes of co-management, it is more likely that users will assume greater responsibility and be more committed in the financing and management of the services. Community participation (both through involvement in neighbourhood planning and in project management) allows local governments to be more effective in focusing public investments in infrastructure, services and housing on the actual, coordinated and negotiated demands of the poorest families.

When PRODEL was consolidating its approach during the formation of the institution, Nicaraguan society was coming out of a period characterised by war, political polarisation, record levels of hyper-inflation, the highest foreign debt in the region, and increasing unemployment and underemployment along with rising wage levels. More than half the population in the cities included in the first phase of PRODEL had incomes below the cost of a basic food basket, with more than one basic need remaining unfulfilled (chronic poor). Another 30 per cent were classified as "recent poor" and "borderline poor."The absence of adequate housing policies and programmes for these people meant (and still means) that the majority of housing has been constructed through self-help. These municipalities faced further difficulties when Hurricane Mitch struck at the end of October 1998 and about 10 per cent of the housing stock in the cities was partially damaged or destroyed.

It was in order to address the need to improve the physical environment and the socio-economic conditions of the poor that PRODEL developed the following kinds of support:

- **Infrastructure and community works** including the introduction, expansion, repair and improvement of infrastructure and services through small-scale projects costing up to US$ 50,000.
- **Housing improvement**. Small loans (between US$ 200-1,400) targeted at low-income families who can afford to repay their loans, to enlarge and improve houses.
- **Financial assistance to micro-enterprises** with small short-term loans (between US$ 300-1,500) for fixed and working capital. These loans are directed in particular at micro-enterprises owned and operated by women.
- **Technical assistance and institutional development** to strengthen the capacities of local governments and encourage institutionalised financial entities to become involved in non-conventional lending programmes for housing improvements and micro-enterprise loans.

Between April 1994 and December 1998, 260 **infrastructure and community projects** were carried out in 155 different neighbourhoods, benefiting more than 38,000 families. Total investment has been US$ 4.4 million (an average of US$ 16,972 per project). Contributions from municipal governments and the beneficiary communities (in kind, cash, materials, tools, labour, administration and supervision) totalled 43.1 per cent, with the other 56.9 per cent coming from the programme. Thirty-five per cent of the projects were for improving roads, gutters and sidewalks; 10 per cent for improving and expanding potable water and sewage systems; 14 per cent for rainwater and storm water drainage projects; 18 per cent for electrification (public lighting and/or household connections); and 23 per cent addressed community infrastructure (including construction, improvement, expansion and repair of primary schools, day care centres, health centres, parks and playgrounds). The communities contributed some 132,000 days of work to these 260 projects, both volunteer and paid, using their own resources.

In five years, more than 4,168 loans were given for **housing improvements** (total disbursed funds reached US$ 2.7 million). These benefited approximately the same number of families. Families contributed their own resources, construction materials, labour, transportation and project administration to a minimum amount equivalent to at least 15 per cent of the value of the labour, transport and building materials. Seventy per cent of the families have monthly incomes of US$ 200 or less, including many with monthly incomes below US$ 100.

More than 12,451 loans to **micro-entrepreneurs** were allocated to communities in which PRODEL is active, with almost US$ 5.5 million being disbursed, benefiting approximately 2,400 existing families. Seventy new micro-enterprises have been created giving jobs to some 210 people.

More than 60 per cent of the housing improvement loan recipients and 70 per cent of the micro-entrepreneurs are women. Approximately 30 per cent are women-headed households.

With more than 6,500 borrowers, the low level of default in the housing improvement and micro-enterprise revolving loan funds has resulted in increasing recognition in Nicaragua. Current levels of cost recovery show that there is a real possibility that the funds will become financially sustainable. In 1998, the default risk or portfolio at risk rate was about 18 per cent in the housing improvement loan component and 10 per cent in the micro-enterprise component. An external evaluation of housing and micro-enterprise loans at the end of 1998 showed that only 1.5 per cent of total loans had more than three payments in arrears or had portfolio at risk which might be lost and never recovered. About 2.5 per cent have to be recovered through judicial procedures and 96 per cent through simple administrative and follow-up procedures that the Bank needs to implement.

The experience has generated important lessons regarding the potentials and limitations of community participation and institutional and financial sustainability in social programmes aimed at providing infrastructure, social services, housing improvement and income generation, especially for the urban poor. Community participation has helped in:

- **Improving the quality of life of the poor**. More than 38,000 poor families whose basic needs are not being met, and who represent 47 per cent of the total population of the eight cities, have been involved in projects to improve neighbourhood conditions.
- **Targeting and focusing social investments to the poor**. The involvement of community leaders in municipal commissions established for the Programme means that local governments can more accurately identify areas with higher levels of poverty.
- **Making more efficient use of public resources**. As local governments developed projects in conjunction with communities through micro-planning workshops, public investments (including those provided by central government via the municipal government and the municipal government's own tax revenues) reflect the priorities and preferences of the users and the actual capacities of the municipal government.
- **Improving accountability and transparency**. The participation of beneficiary families in different phases of the operation and management of the infrastructure projects helps to establish new habits of control and accountability within municipal governments and local communities.
- **Mobilizing internal savings**. Contributions from the communities in kind, in labour and in materials exceeded 10 per cent of the direct costs of the infrastructure and community assets projects and exceeded 15 per cent of those for the housing improvements. This mobilisation of local and community resources further encouraged the municipal governments to improve the tax collection processes. The resources mobilised over four years totalled US$ 10.5 million: 53 per cent from the central government, with foreign aid financing provided by Sida; and 47 per cent from local governments, the communities and the user families (including loan repayments).
- **Increasing social and gender equity**. In the case of housing improvement and micro-enterprise loans, the primary benefits have been to poor groups with a certain capacity to repay their loans. The participatory methodology employed also helped women in access to the benefits of the projects and the loans.
- **Revitalizing local economies**. In addition to making some 12,000 loans to finance 2,400 micro-enterprises, the other components have also contributed to local employment. Self-help construction processes have been revitalised and loans have been given to micro-enterprises that produce local construction materials. Unemployed skilled and unskilled workers have been given temporary work.
- **Improving national reconciliation**. Relationship between local governments and the communities have become more transparent. Relations

are now based on incentives and clear alliances with tangible plans and solutions. Communication has been increased and the improvement of neighbourhoods has taken place between groups that might appear to be politically and ideologically irreconcilable.
- **Making programmes sustainable**. The incentive system and the involvement of beneficiary families in the management and administration of the project cycle have created a solid basis for an increased commitment and division of responsibilities between participants. Evidence suggests that sustainability of social programmes can best be achieved when there is a clear division of labour between financial institutions and organisations offering technical and social assistance. The fact that a bank operates at the level of the community has been a critical factor in a good loan recovery record.

Other factors have also helped in the design, organisation and implementation of the PRODEL participatory model:
- **Non-partisan programmes**. In spite of the political changes in Nicaragua, central government authorities and local governments (regardless of their political tendencies) have made it possible to create alliances and to utilise methodologies which provide incentives for the participation of poor families, without any discrimination on the basis of political, ideological or religious grounds.
- **Programmes with limited resources**. Experience shows that the lack of urban services and facilities in low-income neighbourhoods is more than financial resources. It is important to provide (limited) resources that stimulate and provide incentives for community contributions. These incentives can be for the introduction of urban infrastructure and services, and the possibility of individual household improvements in the form of the housing and micro-enterprise loans. By quantifying the real and positive contributions of participants (in terms of money, materials and labour), the municipal governments gain an understanding of the importance of cooperating with and involving communities. They enhance their legitimacy and mobilise real resources that offer communities greater control and decision-making authority over the use of the scarce tax and outside resources available to municipal governments.
- **Work with existing institutions**. It has been important to identify and use the institutions at the local level that are close to the demands and needs of the users of the services. Local governments and a commercial bank have been able to promote different types of participatory solutions in the areas of infrastructure, housing improvement and income generation. These activities obviously required training and new working practices, making it possible for municipal technicians to promote participation in established communities.
- **Streamlined and flexible mechanisms**. Communities are heterogeneous groups of people with potential beneficiaries for different forms of technical assistance and financial services. Participation in the introduction and upgrading of urban infrastructure and services requires the communities to have more information and a greater understanding of the principal technical, physical, social and financial variables that influence a construction project. At the same time, they must have rapid decision-making mechanisms and access to resources.
- **Division of functions and responsibilities**. Important factors in the development of the Programme are the complementary nature of activities between the administrators and other parties involved. Municipal governments try to involve communities in co-financing the projects and in contributing to the maintenance of the infrastructure and community assets. The commercial bank aims to increase the commissions it will earn from managing the portfolio of housing improvement and micro-enterprise loans, and to accumulate capital for the rotating funds. The effectiveness of the relationship and the coordination between the participants in the Programme has been more effective when the sequence of the Programme's components has been discussed and planned with the community and its leaders.
- **Adequate social organisation of the community**. Projects of this type may have unrealistic expectations about what can be accomplished through community participation. Actions may be based on models of community organisation which have very little to do with the requirements of the construction process. When providing infrastructure in established communities, it is important to strengthen the participation and organisation of the beneficiaries in groups appropriate to the neighbourhoods. It is also important to promote the democratic election of area-based representatives in order to effect better technical work as a result of the administrative and physical design of the project.
- **Empowerment of and technical assistance to the beneficiary families**. Community participation requires effort to provide the families with new options, capacities and skills in different areas. This mainly relates to the identification and analysis of problems, project planning, mobilisation of internal and external resources, specialised physical execution, the administration and supervision of the projects, the evaluation of projects and project maintenance.

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