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Social Entrepreneurship Program

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To: The Board of Executive Directors

From: The Secretary

Subject: Bolivia. Executive summary of a proposal for financing and nonreimbursable technical-cooperation funding for the expansion and diversification of microcredit for housing improvements. Social entrepreneurship program

Inquiries to: Mr. Robert D. Wittkowski (extension 2410)

Remarks: Attached for your information, as indicated in document GP-75-9, is the executive summary of a proposal for financing and nonreimbursable technical-cooperation funding for the expansion and diversification of microcredit for housing improvements, in Bolivia.

On 1 June 2001*, the date on which the five-day circulation period required for this document expires, the President, or such officer as he may designate, will approve this operation.

Reference: GP-75-9 (11/98)

Other distribution: Managers, Division Chiefs, Representative in Bolivia

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BOLIVIA

SOCIAL ENTREPRENEURSHIP PROGRAM

**PROPOSAL FOR FINANCING AND
TECHNICAL-COOPERATION FUNDING**

**EXPANSION AND DIVERSIFICATION OF MICROCREDIT FOR
HOUSING IMPROVEMENTS**

(SP/TC-99-12-04-8-BO)

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BOLIVIA
EXPANSION AND DIVERSIFICATION OF MICROCREDIT FOR HOUSING
IMPROVEMENTS

(SP/TC-99-12-04-8-BO)

EXECUTIVE SUMMARY

Borrower: Taller de Proyectos e Investigación del Hábitat Urbano y Rural –
 [Workshop for Projects and Research on Rural and Urban Habitat]
 (RED HÁBITAT).

Executing agency: Fundación Provivienda (FUNDAPROVI)

Amount and source:	<u>IDB (US\$)</u>	<u>Local (US\$)</u>	<u>Total (US\$)</u>
Financing:	300,000	50,000	350,000
Nonreimbursable technical-cooperation funding:	<u>150,000</u>	<u>240,000</u>	<u>390,000</u>
Total:	450,000	290,000	740,000

The resources will be from the net income of the Fund for Special Operations (FSO) in foreign currency.

Financial terms and conditions:

Financing:

Amortization period:	10 years
Grace period:	3 years*
Interest rate:	4% in U.S. dollars
Execution period:	30 months
Disbursement period:	36 months

* The grace period applies only to the principal.

Technical-cooperation funding:

Execution period:	36 months
Disbursement period:	42 months

Objectives: **The problem:** Over the last several years, population growth in the city of El Alto (considered one of the highest in Latin America) has made any urban planning impossible and given rise to a huge number of shantytowns on the outskirts of the city. Of the city's total population, an estimated 85% have potable water on their property (through public taps or household connections), but only 45% have sanitary sewerage. In addition, more than 60% of housing units do not have sewerage service, and even in areas with a sewerage system, many homes do not have household connections, and fewer still have bathrooms. This situation is exacerbated by the almost citywide lack of a storm drainage system, which has caused serious environmental and public health problems. The combination of these problems has led to unstable, substandard housing, overcrowding, and squatting by the low-income population in El Alto.

The **general objective** of the proposed program is to help resolve the problems of unstable, substandard housing, overcrowding, and squatting by the low-income population in El Alto's shantytowns by improving their access to loans for housing upgrades. The specific objectives of the program are to: (i) expand and diversify the financial services offered for improving housing conditions and environmental sanitation for microenterprises and self-employed workers; and (ii) strengthen the business management and technical and operating capacity of FUNDAPROVI to offer sustainable financial services, technical advisory services, and legal counsel to the low-income urban population of El Alto.

Description: **The program:** The program will consist of two components, a financing component and a technical-cooperation component. The financing will total US\$350,000, of which US\$300,000 will be contributed by the Bank on a reimbursable basis, and will be used to: (i) expand FUNDAPROVI's three different lines of credit so that it can serve more clients; and (ii) diversify the lines of credit, adding one for property titling and construction (FREPCON), which will enable borrowers to cover the costs of the procedures required for obtaining legal title to their property and building on it.

The second component, which will total US\$390,000 in nonreimbursable funding, is designed to strengthen FUNDAPROVI's business management and its technical and operating capacity during the consolidation and expansion stage supported by this operation. The proposed activities will help strengthen and enhance the improvements already made by FUNDAPROVI and to reduce administrative costs to ensure efficient, sustainable delivery of the services it provides.

The executing agency: FUNDAPROVI will be the executing agency for the proposed operation. It was founded in 2000, based on the established track record and committed staff of RED HÁBITAT. The main purpose of RED HÁBITAT, an El Alto-based, nonprofit organization that was launched in 1993, is to support local development and improvements in low-cost housing in order to consolidate sustainable, safe neighborhoods, thereby enhancing the quality of life.

Over its six years of activity, RED HÁBITAT, with support from the Government of Holland and OXFAM-Great Britain, has generated its own lending technology. As of August 2000, it had extended a total of US\$1.5 million in loans for housing upgrades to 2,333 clients. RED HÁBITAT founded FUNDAPROVI in order to provide more specialized financial services, make costs transparent, improve the efficiency of its Urban Housing Program (PHU), and ensure the sustainability of the PHU. The assets, lending technology, portfolio, accounting and inventory software, policies, rules and regulations, active loan portfolio as of 31 December 2000, and technical staff of the PHU, who have proven experience in microcredit for housing, will be transferred in their entirety to FUNDAPROVI.

Both Bolivian law and the by-laws of FUNDAPROVI allow FUNDAPROVI to carry out lending activities for the proposed sector.

**Environmental
and social
review:**

The Committee on Environment and Social Impact (CESI) approved the profile of the proposed operation at its meeting on 2 June 2000 and made no recommendations.

Beneficiaries:

The financing will directly benefit 1,200 microentrepreneurs or self-employed workers and indirectly benefit their 6,000 family members. Currently, most of RED HÁBITAT's borrowers (who will be transferred to the FUNDAPROVI and whose profile will be replicated in the proposed program's target population) are: (i) Aymara rural migrants; (ii) microentrepreneurs who work at home, self-employed workers, or unskilled workers or day laborers; (iii) members of families with 5-7 people.

**Program
rationale:**

The rationale for the proposed program is that it will: (i) provide low-income groups in urban areas with greater access to sources of credit to help them meet their needs for housing upgrades and obtain legal title to their land; (ii) help improve the living conditions of the borrowers by upgrading their housing, increasing access to basic services (water, sewerage, gas), and reducing overcrowding, all of which will have a positive impact on the health and education of the population; and (iii) lay the foundations for the executing agency to

develop its capacity for business management in order to sustainably increase the supply of microcredit for housing upgrades. FUNDAPROVI is one of the few institutions that offer microfinance services for housing upgrades to the most impoverished segments of the population in El Alto, along with the technical advisory services and legal counsel necessary to ensure the desired results and expected quality.

Specifically, the proposed program will have the following results: (i) expand FUNDAPROVI's service area to seven districts in El Alto; (ii) benefit more than 1,200 families during the program execution and loan amortization period, which means helping improve the living conditions of more than 6,000 inhabitants of marginal urban areas in El Alto; and (iii) enable FUNDAPROVI to generate enough operating income to cover 100% of its operating expenses during the program execution period.

Risks:

There are two main risks associated with the proposed program. First of all, in the case of the financing component, if the current economic crisis in the country persists or worsens, the living conditions of the beneficiary families would further deteriorate and their capacity to assume debt and make payments would consequently be reduced. To mitigate this risk, FUNDAPROVI will apply a graduated lending methodology, under which borrowers would be required to make good use of the subloans and repay them promptly. The other risk for the lending activity is that the government may adopt sector policies that could distort the housing microcredit market through direct subsidies. To mitigate this risk, the executing agency's management has made contacts and participated in the National Dialogue forums in order to encourage the government to adopt policies that will ensure a competitive market with clearly defined regulations and no subsidies. The Bank, through its program to support the housing policy (1006/SF-BO, approved in June 1998), may contribute to convincing the government to adopt policies that do not distort the market and would not hinder the growth of the methodology proposed under this program.

Bank's country strategy:

One of the priority areas identified in the Bank's strategy for Bolivia (GN-2036, approved in June 1999) is improving the living conditions of the low-income population through increased access to, and enhanced quality and efficiency of, basic social services, including housing and basic sanitation. Consequently, the proposed operation is consistent with the Bank's strategy for Bolivia.

It should also be noted that the proposed operation will meet the general goal of the Bank's microenterprise development strategy (GN-1938-3), since it will provide low-income groups with greater access to financial and nonfinancial services and help strengthen the institutions that provide such services.

**Special
contractual
clauses:**

It is recommended that the following special conditions precedent to the first disbursement, in addition to the conditions precedent stipulated in the General Conditions, be included in the financing and technical-cooperation agreement:

Financing: The FUNDAPROVI will submit the following documentation to the Bank's satisfaction: (i) FUNDAPROVI's initial balance, indicating the transfer of RED HÁBITAT's assets and liabilities; (ii) the Credit Regulations that will govern the proposed program; and (iii) a work plan for first-year activities that will include semiannual benchmarks and assumptions for their achievement.

Technical cooperation: FUNDAPROVI will submit to the Bank for consideration and nonobjection the terms of reference and selection procedures that will be used to hire the consulting services described in the operations plan.

Special condition for program execution: During program execution, the Bank will not disburse more than 50% of program financing before being appraised of the results of the consulting services on: (i) portfolio management procedures; and (ii) management information systems to be hired under the technical-cooperation component.

Liquid funds are required for the proposed program so that loans can be disbursed and technical assistance can be delivered expeditiously. It is therefore recommended that the Bank set up a revolving fund with 20% of the total financing for both components.

Reports:

During program execution, FUNDAPROVI will submit semiannual progress reports to the Bank that will include at least the following: (i) statistical and financial information on the performance of the portfolio, borrowers, and benchmarks, based on the indicators agreed upon in the program; (ii) information on the technical assistance received and its results; (iii) information on who has been trained and in what subjects; and (iv) a summary of FUNDAPROVI's cash contribution in accordance with the budgeted items.

Mid-term evaluation

To ensure satisfactory execution of the proposed program, the Bank will use nonreimbursable technical-cooperation resources to carry out a mid-term evaluation of the program once 50% of the financing has been disbursed. It will directly hire the necessary consulting services to conduct the evaluation. Among other things, the evaluation will measure: (i) the progress made in financial services, in terms of lending, the sustainability of operations, and compliance with the program benchmarks; (ii) the degree to which recommendations made by consulting services on procedures, products, and management information systems have been implemented; and (iii) the progress made in the institutional strengthening of FUNDAPROVI. The Bank will make recommendations on any improvements needed during the second half of program execution.

**Exceptions to
Bank policy:**

None.