



# **THE MANAGEMENT OF REVOLVING FUNDS FOR HOUSE IMPROVEMENT LOANS**

The United Nations Centre for Human Settlements (Habitat)

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## FOREWORD

The adoption of imaginative approaches to project financing is an essential component of the enabling policies which underlie the Global Strategy for Shelter to the Year 2000. The United Nations Centre for Human Settlements (Habitat) has already produced several publications in this field, including *Community-based Finance Institutions* (HS/44/84), *Promotion of Non-conventional Approaches to Housing Finance for Low-income Groups* (HS/44/84) and *Mobilisation of Finance Resources for Lending to Low-income Groups* (HS/167/89/E). The last of these is already widely used as resource material in the formation of revolving funds.

This manual is mainly concerned with the administration of the revolving fund, and area requiring particular attention and improvement. Whilst this model cannot be copied in its entirety, the methodology and procedures provide a guide for professionals involved in administering revolving-fund programmes.

*The Management of Revolving Funds for House Improvement Loans*, has been produced by A. C. Lewin, in co-operation with F. Aybar de Sanabia, O. Méndez and J. Kotowski-Ziss. It is based on the experience of the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), National Housing Institute (INVI), Experimental Housing Improvement and Community Mobilisation Project, Santiago, Dominican Republic and it is designed to be used either independently or in conjunction with the GTZ video, entitled, *Housing Improvement Loans*, INVI Santiago (a 31-minute production) by Deutsche Gesellschaft für Technische Zusammenarbeit.

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Executive Director  
Under-Secretary General

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## INTRODUCTION - WHAT IS IT ALL ABOUT?

The phenomenon of urban squatters in third-world countries has been frequently discussed, analysed and quantified in learned studies. The dismaying details need not be repeated again. It will be sufficient to recall that urban squatter settlements are an expression of and reaction to distorted social and economic development, a result of inadequate urban management and lack of access to basic urban services and facilities.

In the Dominican Republic, urban squatter settlements are estimated to comprise 60 to 70 per cent of the urban population. They are characterized by inadequate and scarce physical and social infrastructure, variable heterogeneous housing conditions, deteriorating health and environmental conditions, diminishing access to formal sector employment and rapidly decreasing real income.

Independently of the prevailing political system, housing production is determined by the market forces of supply and demand. Where a demand exists, formal and informal market forces and mechanisms will regulate the supply. However, of market distortions resulting from inadequate access to land, urban and social services as well as housing finance, to name only a few of the factors, cannot only be adjusted by supply and demand. If one considers the skewed income distribution and low purchasing power of the majority of the households in need of housing. As a result, formal-sector and institutional housing production can and does benefit mostly middle and upper-income households, who usually comprise no more than 30 per cent of urban households. The great majority of low-income families depend on informal sector supply and demand, which explains increasing densities and concentration in older slums located in town centres as well as the growth of peripheral settlements with limited access to infrastructure and urban services.

Like most other third-world countries, the Dominican Republic has attempted to find various solutions to the ever-increasing housing problem. These included "social housing", various types of low-cost housing schemes, site-and-services programmes and others. The results however were not very encouraging.

At current rates (mid-1988) construction cost of a 40 m<sup>2</sup> lowest-cost shelter, including basic services but excluding land value, amounted to \$RD40,000.<sup>(1)</sup> Assuming an interest rate of 12 per cent which is the official rate charged by the National Housing Institute (INVI), and a repayment period of 15 years, monthly instalments will amount to \$RD480 (\$US75.60). As the majority of squatters and other low-income households earn an income of \$RD300 to \$600 (\$US47 to \$94), it is obvious that they cannot afford such housing unless it is heavily subsidised. Similarly, serviced plots offered under the site-and-service scheme are inaccessible for the great majority of the urban households.

To some extent the upgrading and improvement of existing squatter shelter may constitute a viable and important alternative, although only a partial, solution. It is applicable only to those who either lease or possess the plot they occupy or if they may legalise such an occupancy. Often, it is possible to legalise the occupancy of publicly owned land only, whereas the acquisition or expropriation of privately owned land occupied by squatters is extremely costly and lengthy. Yet also in the case government or municipal land, legalisation and the issue of titles is not easy. The applicant may spend weeks and months to obtain signatures, present documents deal with lawyers and purchase the stamps.

Tenants are excluded from access to house improvement loans <sup>(2)</sup> unless arrangements to acquire the shelter from the owner can be made. This, however, is not very easy and there are few positive experiences.

House improvement loans are available for those owners who reside in their homes. In the Dominican Republic, there are no landlords who possess several hundred units and live off the poor as in some other countries. However, there are numerous poorer and often older landlord owners of three to six shelters or shacks whose only secure income is the rent they charge. Are they eligible for a home improvement credit?

<sup>(1)</sup> In September 1988, the rate of exchange for \$US 1.00 was \$RD 6.35 (Dominican Peso).

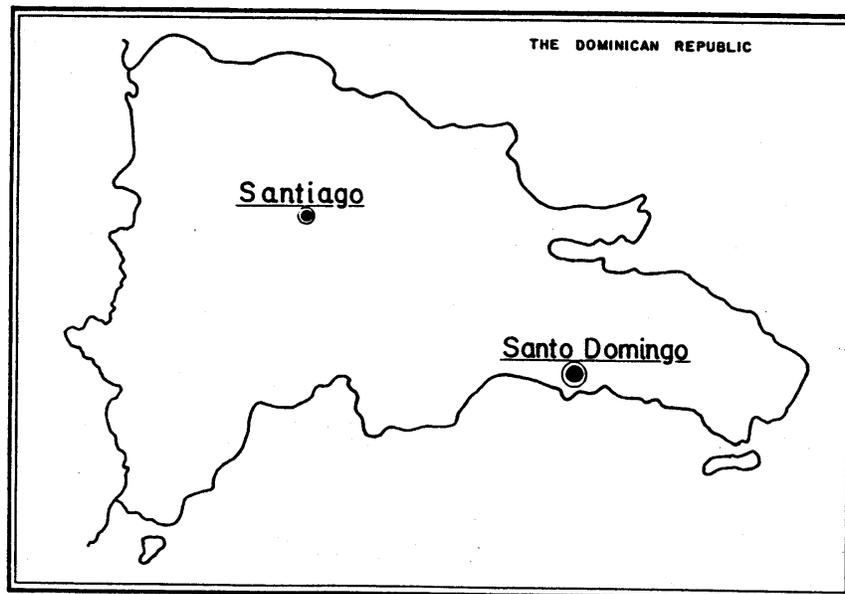
<sup>(2)</sup> The term "Home improvement loans" usually refers to middle-class housing schemes. Therefore we prefer to use the term "House improvement loans".

The upgrading of shelter does not contribute substantially to extending the national and urban housing stock. Rather it implies repair, expansion and replacement or reconstruction of existing shelters. The impact of the scheme is more in the realm of living conditions, health and environmental sanitation. Nevertheless, the additional space constructed is most important for the second and third generations, who often cannot afford to build or rent their own homes.

Consequently, shelter improvement programmes are not a solution to urban housing problems, but rather an important means of improving living conditions in squatter settlements, particularly when they are combined with other projects such as the upgrading of physical and social infrastructure, employment generation, environmental sanitation, education and community development.

The names used throughout this report are fictitious. The events described are indicative of actual events.

### UBICACION DE LA REPUBLICA DOMINICANA LOCATION OF THE DOMINICAN REPUBLIC



## I. THE REVOLVING FUND FOR HOUSE IMPROVEMENT LOANS

### A. *Some general information - the actors*

#### 1. *The Dominican Republic, Santiago and the squatters of Pekin - where are they?*

The Dominican Republic is the eastern part of the island of Hispaniola in the Caribbean. It has an area of slightly more than 48,000 km<sup>2</sup>. Its total population is estimated at 6.5 million and average density amounts to 125 persons/km<sup>2</sup>. In addition, approximately 2 million Dominicans live in the United States of America and maintain close contacts with their relatives on the island. Their influence (not only economically) is substantial. The expectations and aspirations of most low-income households are oriented towards the "Land of Promises".

Nearly 2 million, or a third of the population, live in the ancient but also modern capital of Santo Domingo. The second largest town Santiago de los Treinta Caballeros, has a population of approximately half a million. The other 24 urban centres are considered medium and small towns with populations ranging from 5000 to 150,000 each. Considering the

relatively small size of the country and the good communication system, it is easy to travel or commute.

The rapid urbanization process commenced at the end of the 1950s. Whereas only 16.6 per cent of the population lived in urban centres in 1920, that share increased to 23.8 per cent in 1950 and 52.0 per cent in 1981. Between 1950 and 1981, the population of Santo Domingo increased from 181,550 to 1,313,170 inhabitants and that of Santiago from 56,560 to 278,680. Such an urbanization is the result of various factors such as the concentration of land-ownership (despite or as a result of land reform), the modernisation of the economy, excessive investment in urban areas in general and in the capital in particular, rural-urban income differentials, the modernisation of society and the attractiveness of the big towns.

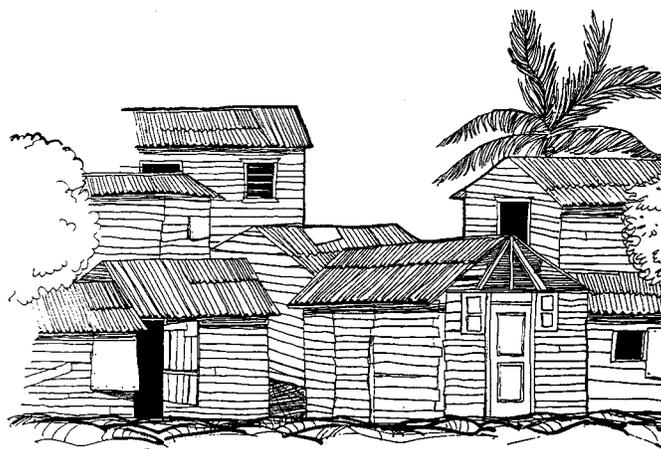
Santiago, the second largest town of the Dominican Republic, was founded in 1495, three years after the landing of Columbus in that part of the world. It is located in the wealthiest agricultural zone of the Dominican Republic, the Cibao, and benefits from a moderate though tropical climate. Santiago is a flourishing industrial, commercial and administrative centre which has competed for generations with the capital. It is estimated that nearly 70 per cent of the town's population of half a million live in squatter settlements, located in the south, the east and the centre of the town.

Pekin is located 4 km from the centre towards the south of Santiago, a zone with 128 squatter settlements and approximately 60,000 inhabitants. It is named after the Chinese capital of Beijing although it has nothing to do with it, nor is it inhabited by Chinese. Many of the squatter settlements in the Dominican Republic have been named after war and crisis zones which made the headlines at the time of their findings as, for example, Katanga, Viet Nam, etc.

Despite its urban features, Pekin still maintains some rural characteristics. Its occupation and consolidation took place during the period 1955 to 1974, when the Municipality of Santiago leased plots to families who had been resettled there from other parts of the town, due to the construction of roads and public buildings. All the land is owned by the Municipality which in some cases has issued land leases. However, many of the plots have changed hands several times and practically none of the residents pay rent, with the result that only a few of them have contacts. Due to the *de facto* though not *de jure* recognition of this *status quo*, the settlement is not bound by the formal building norms and standards of the municipal authorities.

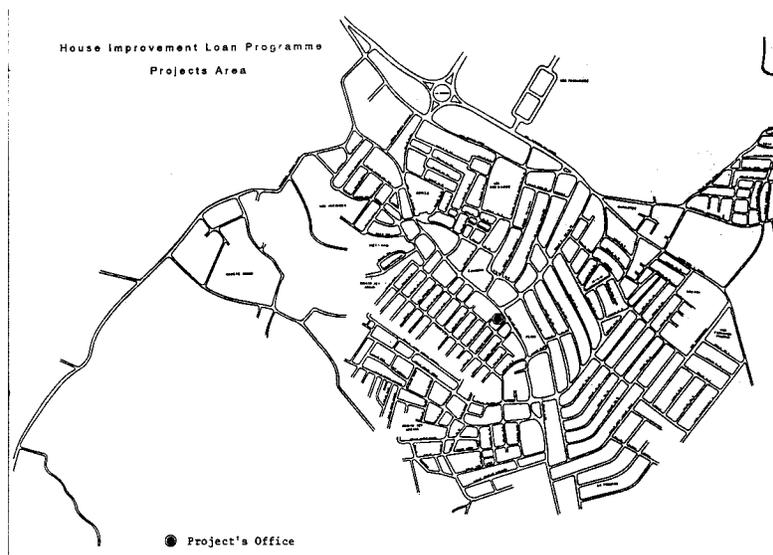
Pekin does not substantially differ from most marginalised squatter settlements in Santiago and the Dominican Republic. The roads are poor (during the rainy season inaccessible), water supply is infrequent, drainage is natural rather than man-made and electricity breaks down daily for many hours. (However, the same can be said about middle- and even higher-income residential estates.)

The population of Pekin amounted in 1981 to 24,500 or 4,089 house holds, of whom 52 per cent were women. Average density amounts to 211 persons/ha. The great majority of the adults are rural migrants from the vicinity and the entire Cibao (68 per cent).



**A SECTION OF BARRIO PEKIN**

The settlement is characterized by its heterogeneity as are most comparable zones. Some one third of the houses are built of blocks and may be considered adequate. The rest are traditional and sometimes beautiful timber houses which are gradually being replaced by block ones, as well as a large proportion of dilapidated shelters built of a variety of materials.



Only some 25 per cent of the heads of household are permanently employed in the formal public and private sector. The majority are casual workers, self-employed mainly in commerce, or as construction workers, while a few are farmers. It is hardly possible to make a valid statement regarding income, taking into account the share of casual workers and the fact that the regularly employed are likely to have a second or even a third source of income. Also, income distribution is characterized by its heterogeneity and fluctuations.

Nearly one quarter of the inhabitants, mostly the older ones, are illiterate and only 45 per cent have attended, though not necessarily completed, elementary school. Most children attend public elementary school but there is a considerable shortfall. As a result of the "educational explosion" of the last two decades, there is an impressive cadre of younger educated professionals living in the settlement.

Fourteen resident organizations and clubs were counted in Pekin and the surrounding squatter settlements of the south of Santiago. There are church organizations, sports clubs, school associations, youth clubs and organizations for the development of the settlement. Despite goodwill and dedication, most of them are weak and unstable. Very often, works and activities which have been planned and even commenced cannot be completed due to the shortage of funds. Most of the community leaders are active in several organizations.

Community ties and interactions are not very strong or pronounced. Migration took place individually and extended-family networks tend to disintegrate rapidly, although some remnants of "village of origin" solidarity have survived. The process of rural to urban migration, modernisation, orientation to new urban values and towards the USA, the search for livelihood and consolidation at the individual level, have also led to the atomisation of society in the squatter settlements. The new urban culture is still in its formative stage and the emerging social networks are fragile.

Pekin is thus a typical squatter settlement. It embodies the urbanization process in the Dominican Republic as in many other third-world countries - the heterogeneity, the contradictions, the daily struggle for survival and the ingenuity of solutions found to meet urgent needs and solve persistent problems.

## **2. The implementing agency - the National Housing Institute (INVI)**

The Agency responsible for low-cost housing in the Dominican Republic is the National Housing Institute (INVI) established in 1962. According to its constituting law, INVI should have been responsible for:

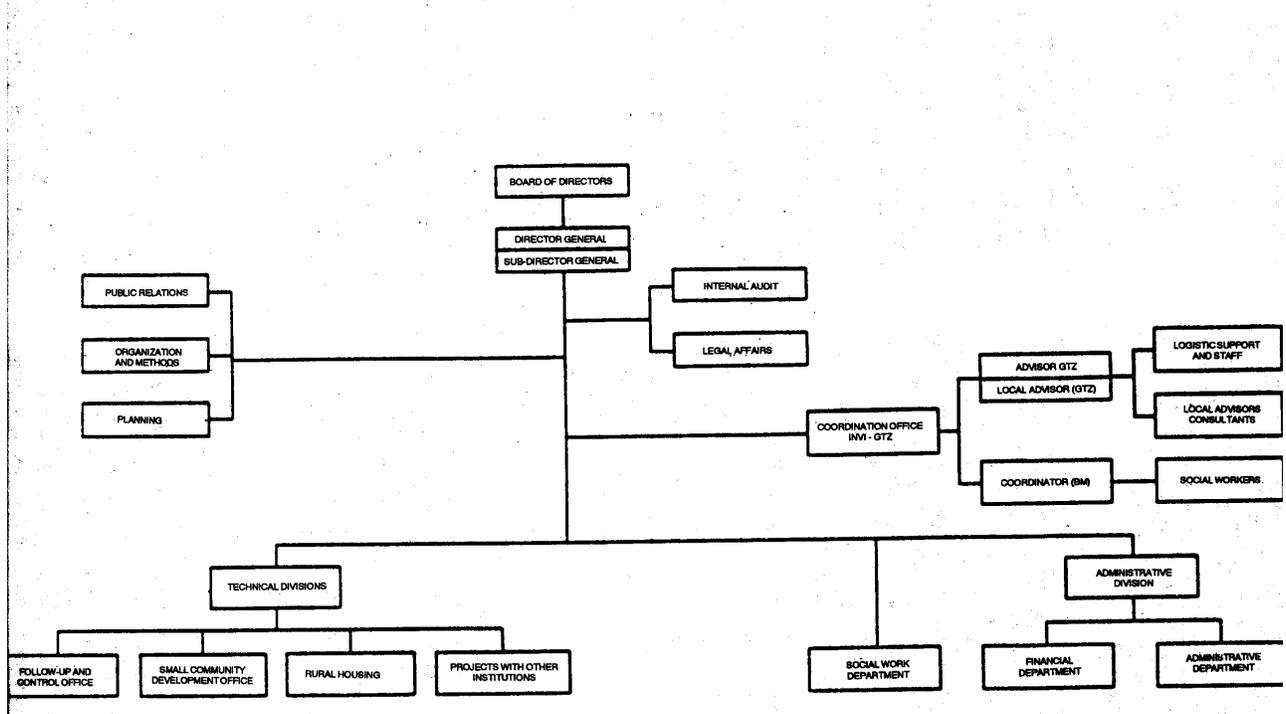
- (a) Promoting national housing policy and programmes in close co-operation with the National Planning Office (ONAPLAN);
- (b) Assuming responsibility for the implementation and administration of housing projects in the public sector;
- (c) Integrating the private sector in the production of low-cost housing;
- (d) Technically assisting and offering advice to people and organized groups interested in solving their housing problems;
- (e) Promoting the production of urban and rural housing by means of self-help and mutual aid;

- (f) Identifying the land required for the execution of the projects envisaged by the National Housing Plan and requesting its expropriation by the Executive Power;
- (g) Creating the conditions to enable low-income families access to the dwellings produced, taking into account their socio-economic requirements and conditions.

INVI's administrative structure is centralised, comprising the following hierarchical levels:

- (a) The Board of Directors, responsible for the formulation of policy, strategy, programmes and projects of the Institution. It also controls the activities and implementation of the plans.
- (b) The Director General, responsible for the execution of the policy and programmes, programming the operations and securing compliance with the Board's decisions.

**ORGANIZATIONAL CHART OF THE NATIONAL HOUSING INSTITUTE (INVI)**



- (c) The technical-operations level in charge of the implementation of the schemes and programmes of the institution. This level is composed of 10 departments, 19 sections and two logistic service units.

The staff of INVI consists of 440 employees of whom 21 are executives, 168 professionals and technicians, and 251 lower-level employees. As often happens, despite its statutory responsibilities and policy options, INVI's activities have concentrated in the past on the construction of approximately 10,000 walk-up apartments for middle-income households. During the period 1983 to 1985 and following the election promises of the President, INVI began with the construction of more than 30,000 dwelling units for lower-middle-and middle-income households in Santo Domingo, the capital, and in Santiago. The scheme proved to be beyond the financial and organizational capacity of the Institute and was discontinued in 1985. In addition to the heavy financial losses, INVI's prestige and image were damaged as well.

Whereas personnel and administration costs are financed out of INVI's rental income, investment and construction funds are provided out of the Government's budgetary contributions. The Institute, therefore, depends heavily on fluctuating sources of funding and the current economic-political situation. Due to the inflexibility of governmental credit policy on the one hand and accelerating inflation (particularly since 1986) on the other hand, INVI has been de-capitalising rapidly.

With the technical and financial support of the German Society for Technical Co-operation (GTZ), INVI planned and, since 1982, has implemented a pilot integrated squatter-settlement upgrading project, "El Caliche" in Santo Domingo. As a result of the experience gained, the House Improvement Loan Scheme in Santiago was designed and is being implemented. Although house and squatter-settlement upgrading do not play an important role in INVI's policy and programmes yet, it is hoped that the significance of such activities will gradually be recognized by INVI's management

and by other policy-making authorities, and that such projects will be planned and implemented in the future both by the Government and non-governmental organizations (NGOs).

### **3. The German Society for Technical Co-operation (GTZ) and its role**

The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) which means German Society for Technical Co-operation, is a public autonomous technical assistance agency owned by the German Federal Government. It is commissioned to undertake the planning and implementation of technical co-operation projects with developing countries, based on a general agreement with the Federal Government and the development policy as formulated by the Federal Ministry for Economic Co-operation.

The main tasks of GTZ are:

- (a) Planning, implementing, steering and monitoring of technical co-operation projects and programmes, together with its partners in developing countries;
- (b) Advising other organizations involved in development activities (German, foreign and private);
- (c) Recruiting, preparing and assigning experts and attending to their professional and personal affairs during their period of assignment;
- (d) Planning and procuring equipment for the projects and its shipment to the developing countries.

At the beginning of 1988, GTZ was implementing 2127 projects in more than 100 countries, either directly or through consultancies and other contributions.

German technical co-operation in the field of housing and squatter upgrading is rather recent and commenced at the beginning of the 1980s.

In accordance with the policy concept of the Federal Ministry for Economic Co-operation (BMZ), housing-supply projects supported by the German Government should contribute to reducing housing shortages and to realising the following objectives:

- (a) Direct improvement of the housing situation of low-income groups. Geared to the local conditions and demands, the projects should help to achieve a minimum of:
  - (i) Protection for the inhabitants against the hazards of the natural and social environment;
  - (ii) Space for a private and public life;
  - (iii) Physical and social infrastructure and easier access to the workplace;
- (b) Introduction of longer-term and broadly effective processes designed to improve housing conditions. The projects should make the legal, institutional, financial and personnel arrangements ensuring that the results are permanent and reach as large a portion of the population as possible. In particular, they should promote:
  - (i) The mobilisation of the self-help potential of the inhabitants and the tapping of local resources;
  - (ii) The development and strengthening of resident's organizations and of grassroot-related State and private institutions and help political decision-makers at all levels to realise the necessity and usefulness of a self-help-oriented housing supply;
- (c) Creation of employment and income. The projects are to contain an income- and employment- generating component whenever possible. Such components might, for example, be directed at:
  - (i) Strengthening the local production of construction materials and the construction industry;
  - (ii) Helping to set up craft and service enterprises which could offer construction services and do maintenance work;
  - (iii) Giving an investment incentive to small-scale businesses catering to the daily needs of the residents.

In the case of the Special Fund for the Promotion of Self-help Initiatives in Santiago and the House Improvement Loan Programme which comprises one of the Fund's components, it had been intended to limit the GTZ contribution to the financing of planned activities and to supervision of their implementation through the INVI/GTZ project office located in the capital, in conjunction with the technical assistance to El Caliche Upgrading Project. However, the experience gained during the first months has clearly indicated that, in the absence of adequate experience and considering the innovative approach of the project, the short-term training provided is not sufficient. It has been necessary, therefore, to incorporate the element of longer-term on-the-job training, continuous monitoring and follow-up, adaptation and updating of the manual as well as internal and external co-ordination. In order to accomplish these tasks, GTZ has

agreed with INVI to expand the local strategic support and to contract experienced local advisors who would assist the team. These would gradually diminish their intervention, enabling the project's own team to administer the scheme efficiently.

## **B. The project's concept**

### **1. The project's objectives and concept**

The House Improvement Loan Programme is only one of the components of the Special Fund for Promoting Self-help Initiatives. Its overall objective is to improve the living and housing conditions in squatter settlements by means of the subsequent dissemination of the experience gained with the pilot scheme.

The immediate goals of the project are to:

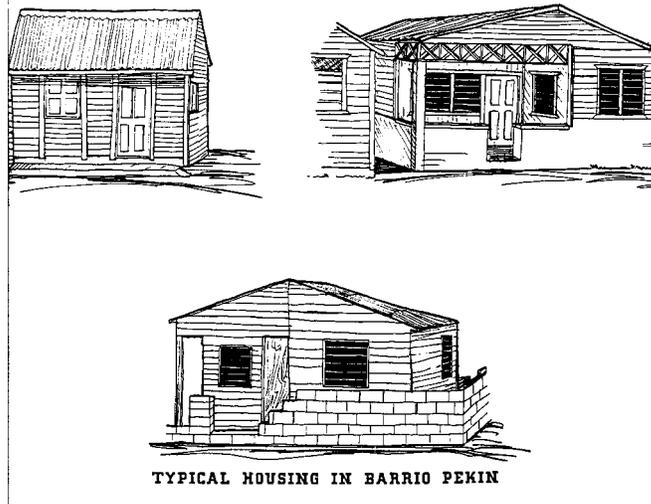
- (a) Build-up the self-management capacity of existing resident organizations by helping them to implement their priority upgrading programmes, acquiring practical experience thereby;
- (b) Strengthen the institutional capacity of INVI to plan and implement similar activities in other medium-size and small urban settlements in the future;
- (c) Contribute to the improvement of housing conditions in Santiago, by means of technical and financial assistance to the interested low-income household residents of squatter settlements;
- (d) Develop and test procedures for the disbursement of housing loans.

In order to accomplish these goals it has been agreed to:

- (a) Establish a special self-help fund, making the house improvement component recoverable;
- (b) Identify an adequate project area.
- (c) Nominate a special project team to administer the project and establish a field office in the project area;
- (d) Prepare a manual for the administration of the scheme in general and the House Improvement Loan Fund in particular.

Conceptually it has been envisaged and agreed that:

- (a) House Improvement loans will be granted for the purpose of repair, improvement, extension and replacement;
- (b) The size of the credits will depend on the payment capacity of applicants. Poorer households may improve their shelter consecutively or progressively;
- (c) Access will be granted to households with a total monthly income not exceeding 3.5 times the minimum wage;<sup>(3)</sup>
  - (3) In mid-1988 the minimum wage in the Dominican Republic was \$RD400 (\$US63) which meant that loans might be granted to households whose income did not exceed \$RD1400 (\$US220) per month.
- (d) Materials rather than cash loans may be made available to borrowers;
- (e) Disbursement will take place by stages, in accordance with construction development and based on the budget prepared for that purpose;
- (f) Borrowers should contribute their own or paid labour whenever able to do so. In other cases, the costs of labour should be charged to the loan;
- (g) In order to secure the loan, borrowers should either mortgage the property or sign a notarial promissory note.



Corresponding to the project goals it was decided to offer improvement loans to low-income households who do not have access to formal banking institutions. The loans are envisaged for the following purposes:

- (a) Construction of foundations for the house;
- (b) Construction and/or improvement of floor, walls, doors and windows, and sanitary facilities;
- (c) Extension and replacement of the entire shelter. (As shown by experience, most of the demand is for this type of credit.)

It was also agreed that no loans will be granted for improvements that are considered to be "luxury" such as fences, granite floors, glazed tiles (for bathroom) and costly painting. However, it is not always easy to determine whether an improvement applied for is luxurious or essential. Thus, for example, as a protection against violent hurricanes which occasionally devastate the Dominican Republic, some applicants wish to replace corrugated iron roofs by cement ones. It is also difficult to determine the maximum size of shelter eligible for improvement, as this depends on the size of the household and its monthly income. Consequently, selection and income priority are determined flexibly in accordance with several variables as well as the impressions of the project team.

## **2. Constitution and use of the revolving fund - the contributors**

Considering the experimental character of the scheme, the entire volume of the Special Fund for the Promotion of Self-help Initiatives has been limited to DM 758,000 (\$US 421,000) excluding personnel, technical assistance and overheads. The share of the revolving fund for house improvement amounts to DM 342,000 (\$US190,000) or approximately \$RD1,130,000 which, at an average loan value of \$RD3,000 (\$US472), may enable the rehabilitation of 376 shelters during the first project phase and before any loan recovery.

Whereas GTZ supplies the funds required for the acquisition of building materials and the payment of the labour force whenever necessary, INVI is providing the personnel, office space, logistic and administrative support.

For the purpose of the project a bilateral agreement has been signed between the Dominican Republic and German Governments and an implementation agreement between the Dominican Republic Planning Minister (Technical Secretary to the President), INVI and GTZ.

Under the terms of that agreement, INVI has received an advance payment of DM 250.000 after having nominated the personnel, established the office and elaborated an implementation manual with the help of the GTZ experts, Once 50 per cent of the funds (advance) have been disbursed, INVI may send a call for disbursement accompanied by supporting documents. These include bank statements, lists of acquisitions and loans granted, contracts with suppliers, bills etc.

While INVI is directly responsible for the management of the fund, GTZ exercises its right of control and supervision through its local project office by periodic revision of accounts and an operations audit as well as by the approval of quarterly financial and progress reports.

## **3. Selection of project area**

Initially it had been planned to commence the experimental project in the capital, Santo Domingo. However, in the summer of 1986 the Government began a large-scale construction and housing program which led to the relocation of several thousand families and to substantial controversy. It was felt therefore, that the scheme should be located elsewhere.

The selection of Santiago was based on the substantial requirements and expected demands in a large town as well as INVI's aspirations gradually to expand the programme to other medium- and small-size towns, once the project had proved its viability.

The selection of Pekin as the project's area can be attributed to the following factors:

- (a) It is located in the centre of a large zone of squatter settlements with a population of more than 60,000. The project therefore, can easily be extended once the experiment has proved itself;
- (b) Despite its central location, the size of Pekin is not excessive. This diminishes such as access, time, costs and the requirements of transport and, so, productivity problems. In a larger settlement, where applicants/borrowers cannot be reached within a reasonable time of 20 minutes at most, the number of cases processed daily by the team will decrease and the costs of administration and overheads increase.
- (c) Assuming that only 10 per cent of the resident households (4000) would apply for loans, the entire initial fund could be consumed in Pekin;
- (d) An exhaustive study of the settlement and its housing conditions had been prepared by the University of Santiago in 1984, three years before the beginning of the project; therefore, there was no need to conduct an additional costly and time-consuming survey in order to determine housing conditions demand for loans etc.
- (e) The land at Pekin is owned by the Municipality of Santiago which has leased it to the residents or their predecessors. The Municipality agreed in writing that INVI might commence the House Improvement Loan Programme.
- (f) Topographic and soil conditions in Pekin are reasonable and permit, appropriate and acceptable technological and economic solutions. Steep slopes or flooded areas might have required costly protection measures, the costs of which often exceed the value of the improvements.
- (g) The community of Pekin has shown great interest in the scheme. Church and other resident organizations are closely co-operating with the project Team.

#### **4. Loan conditions**

Accelerating inflation rates of 165 per cent on basic consumption goods and more than 200 per cent on building materials during the first six months of 1988 in the Dominican Republic required constant adjustment of project credit policy and loan conditions.

One of the project's main goals is to give access to house-improvement loans to lower-income echelons and to reach down the income ladder as far as possible. Of course, it was realised that the poorest 20 to 30 per cent can neither afford housing credits, nor are these considered a priority by them. However, the scheme attempts to offer flexible conditions, options and alternatives in relation to the payment capacity of those interested.

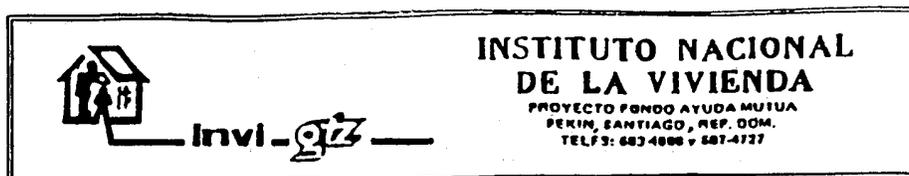
Other than the case of production and income-generation loans, housing credits, which are geared to consumption, need to be subsidised if they are to benefit the stated target group of lower-income households. The project attempts to minimize and rationalize subsidies, which apply to interest rates only, by means of offering various types of loans at different repayment periods. Shorter repayment periods in relation to the improvement required and to payment capacity diminishes the impact of inflation and thus de-capitalisation.

Loan value is determined on the one hand by the applicant's stated total monthly income and the share of income available for housing as computed by the project's accountant. On the other hand, it is based on the applicant's aspirations, the technical evaluation and the budget prepared by the technical supervisor. Applicants who cannot afford the improvements they have proposed may opt for partial repair or rehabilitation or smaller successive loans, disbursable when the previous one has been repaid.

Maximum loan value and indebtedness capacity are determined from the declared monthly household income as shown in the table below:

The precise values are based on the entire monthly household income in relation to the percentage of income available for housing. This percentage represents an average, taking into account factors, such as size of households and the costs of living.

Declared monthly income		Percentage of income for housing	Monthly payment capacity	
\$RD	\$US		\$RD	\$US
Less than 600	(-) 94.50	10-12	40-72	6.30-11.33
601-800	95-126	15	90-120	14.17-18.90
801 or more	127 (+)	20	160 or more	25.20 (+)



## HOUSE IMPROVEMENT LOAN PROGRAMME - LOAN CONDITIONS

Type of Improvement	Graphic Description	Maximum Loan Value (\$RD)	Period years (up to)	Interest rate	Percentage of loans per type	Minimum income required (\$RD)	Monthly repayment (\$RD)
Minimal		500-1000 (\$US79-158)	1.5	14	10	150-300 (\$US 5 -10)	31- 62 (\$US24-48)
Basic		1100-30000 (\$US173-472)	2.5	14	25	218-600 (\$US 34-94.50)	43-120 (\$US7-19)
Extension		3100-5000	3.0	14	50	530-850	106-171
Reconstruction		5100-8000	6.0	14	15	515-825	105-164

## II. THE ADMINISTRATION OF THE SCHEME

### A. The project's internal organization

For the purpose of the experimental scheme, INVI established a Project Unit within its regional office in Santiago. The Unit also maintains a field office in Pekin, located in a simple three-room house leased for that purpose (monthly rent \$US 40).

The Project Director or Team Leader is directly responsible to the Director General of INVI and not to the Technical Sub-Director as in the case of most schemes. Several reasons have led to that decision:

- (a) Like many similar institutions, INVI is highly centralised and nearly every decision, including minor ones, must be approved by the Director, General. Considering the flexible and dynamic requirements of the scheme, considerable delays could be expected if an additional level of decision making had been involved;
- (b) As the scheme is financed by an external aid agency, the Director General prefers to supervise personally implementation and compliance with the bilateral agreement signed between INVI and the GTZ for that purpose;
- (c) The Project is considered politically sensitive, as it applies to squatter settlements.

Although the scheme has been conceived so as to permit optimum independence for the field team, particularly in matters of acquisitions and payments, in practice many of these functions and decisions are centralised at Head-Office level. As is often the case, the delegation of authority is considered a sign of weakness and loss of power. The Project Director, therefore, can administer petty cash but not a separate project bank account.

The Project Unit has been conceived to enable maximum flexibility in the process of loan disbursement and recovery.

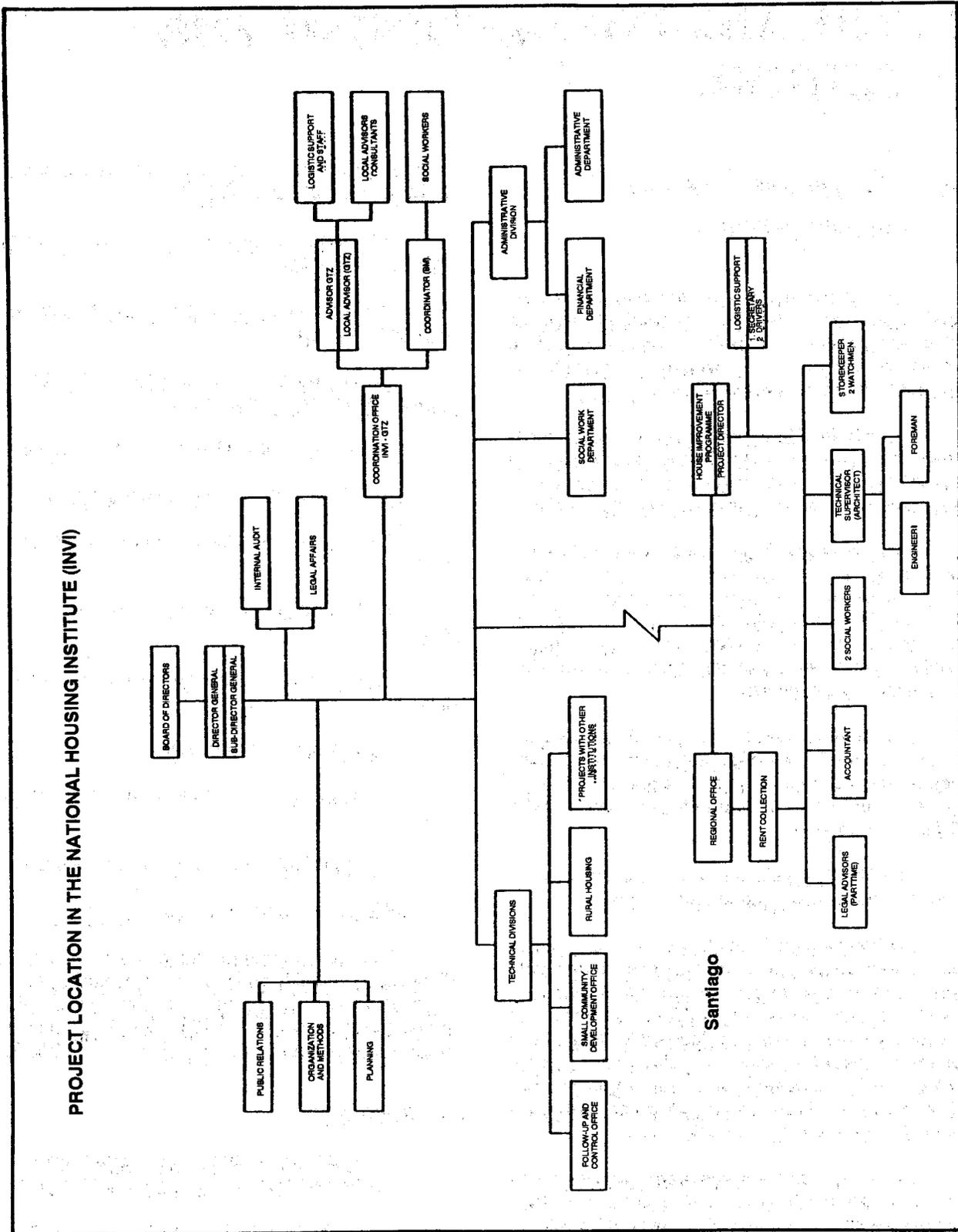
Practically all the related functions are accomplished by the team which comprises social workers, technicians, store personnel, an accountant, a lawyer and a secretary. Such an organizational structure enables a dynamic and functional project administration, centralisation and close co-ordination of activities and operations, better control and group dynamic of the team.

The functions of the Project Team may be summarized as follows:

- (a) Plan and programme the house improvement loan scheme.
- (b) Co-ordinate, supervise and control the implementation of the programme;
- (c) Make the project known to the residents;
- (d) Obtain and evaluate loan applications;
- (e) Design and budget for individual improvements.
- (f) Determine the creditworthiness of applicants;
- (g) Recommend approval or rejection of applicants.
- (h) Legalise loan contracts;
- (i) Supervise and follow up construction works;
- (j) Co-ordinate and follow up loan recovery;
- (k) Prepare monthly and quarterly reports.

To secure adequate internal co-ordination, the Team meets weekly and monthly to evaluate performance and problems as well as to plan activities and prepare working schedules. The individual functions of the team members may be summarized as follows:

- (a) Project director
  - Secure compliance with the objectives, guidelines and the manual of the project;
  - Co-ordinate and supervise the Team's activities;
  - Co-ordinate activities with INVI's Head Office, with the Municipality and other institutions related to the project;
  - Plan and programme activities in co-operation with the Team;
  - Secure the flow of building materials from local suppliers;
  - Prepare materials and other applications to INVI's Head Office;
  - Supervise the administration of petty cash;
  - Control the processing of loan applications, approval and legalisation procedures as well as construction development;
  - Approve house-improvement budgets;
  - Supervise the material store;
  - Participate in the meetings of the Loan Approval Committee;
  - Convoke and preside over the Team's weekly and monthly meetings and follow up the recommendations made;
  - Submit monthly and quarterly financial and progress reports.
- (b) Technical supervisor
  - Evaluate loan applications, determine viability of proposed improvements, propose alternatives whenever necessary, discuss and agree on proposed improvement with the applicant;
  - Prepare the basic design of proposed improvement plans and disbursement applications to INVI;
  - Prepare monthly material requirement plans and disbursement applications to INVI;
  - Obtain quotations for the materials purchased in Santiago;



- Authorise the step-by-step disbursement of materials to approved borrowers;
- Supervise construction development and
- Approve payments of labour force;
- Participate in the meetings of the Loan Approval Committee;
- Participate in the weekly and monthly Team meetings;

- Submit monthly and quarterly reports to the project director.
- (c) Assistant engineer and foreman
- Assist the technical supervisor in the evaluation, budgeting and supervision works;
  - Maintain updated unit costs of the building material used;
  - Prepare and update house improvement budgets;
  - Co-ordinate the borrowers' and builders' work schedules;
  - Co-ordinate material dispatch from store to borrowers;
  - Verify and approve the use of materials in accordance with the agreed design;
  - Approve payments to labourers;
  - Maintain a register of work under implementation;
  - Participate in weekly and monthly Team meetings.
- (d) Social workers
- Inform the residents of the settlement about the House Improvement Loan Programme;
  - Inform interested persons about the loan programmes, conditions etc.;
  - Receive and fill in applications;
  - Obtain from applicants the necessary supporting documents;
  - Confirm income and employment data with employers;
  - Confirm applicants data by means of domestic visits;
  - Prepare recommendations to the Loan Approval Committee;
  - Inform applicants about the approval or rejection of applications and co-ordinate the signing of agreements and legal documents;
  - Socially supervise construction progress;
  - Evaluate cases of arrears and prepare recommendations;
  - Submit monthly and quarterly reports to the project director.
- (e) Legal adviser (part-time)
- Assist leaseholders to obtain relevant documents;
  - Prepare promissory notes and affidavits for applicants who are not leaseholder;
  - Prepare loan agreements and obtain signatures;
  - Legalise affidavits and promissory notes with the public notary;
  - Intervene in cases of arrears and notify debtors;
  - Participate in the meetings of the Loan Approval Committee;
  - Participate in the weekly and monthly Team meetings.
- (f) Accountant

- Determine maximum loan value and payment capacity based on stated household's income;
  - Determine precise loan value and monthly payment based on house improvement budget;
  - Codify the documents, bills, receipts, purchase orders and payment orders in accordance with individual budgets and stage;
  - Control the instalment disbursement of the loan;
  - Maintain store's loan ledger controlling the corresponding debits and credits;
  - Prepare monthly financial reports;
  - Control payments to labourers;
  - Monitor loan recovery;
  - Participate in the meetings of the Loan Approval Committee;
  - Participate in the weekly and monthly Team meetings.
- (g) Storekeeper
- Receive and store materials and equipment;
  - Dispatch materials in accordance with the instructions of the technical supervisor;
  - Maintain a register of materials received in stores and dispatched;
  - Inform the project director on a weekly basis of the availability of materials in store.

Although all the team members had previous experience in their profession, practically none of them had worked in a house-improvement scheme before. Consequently, it was necessary to teach the Team the use of the manual prepared by the project advisers and train them on-the-job during a period of three months.

The training was conducted by local consultants including an institutional advisor, an accounting and systems specialist, and a sociologist. For various reasons, it became necessary to extend this consultancy for a period of approximately one year. It involved a monitoring and operations audit, technical supervision and administrative assistance.

## ***B. The planning follow-up and monitoring of activities***

### ***1. The scope***

Planning, follow-up and monitoring are essential instruments of project management, which permit and enable the improvement of project-implementation efficiency, determine cost-efficient use of resources, internal control, and the identification of concrete or potential problems as well as the introduction of corrective and preventive measures.

Monitoring is, in fact, an internal project activity designed to provide constant feedback on the project, any deficiency and problems, and possible and potential solutions. Its objectives may involve:

- (a) Verification of the use of project's resources (funds, material, personnel) in accordance with the budget and schedule;
- (b) Evaluation of the efficiency of project's implementation;
- (c) Identification of current and potential problems, bottle-necks, alternative solutions, corrective measures and instruments for their respective application;

Who receives which form?

FORM	Director General	Director Admin.	Subdirector Technic.	Financial Director	Accounts (INV)	Chairer (INV)	Stores/Purchases	Project Director	Technical Supervisor	Project Engineer	Project Accountant	Lawyer	Notary	Social Workers	Secretary	Store Keeper	Foreman	Driver	Collector	Collection Section	Turnover	Community	GTZ	Supplier
PM1																								
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O = Original (O++ Copy of receipt)  
 C = Copy  
 X = According to requirements.

(d) Supply of information-flow on the progress of the project in relation to the original planning to the concerned organizations, institutions and the community.

- (e) Gradual training and qualifying of the Project Team on-the-job.

If correctly and continuously applied, the monitoring system can and should enable and promote the Team's participation and identification with the project, secure timely identification and solution of major problems and provide adequate feed-back to all concerned. Where the Team is aware that its problems, improvement proposals and recommendations are discussed and followed up seriously, potential sources of conflicts and frustrations are likely to diminish and the Team's cohesion will be augmented, despite low wages, and long and irregular working hours.

Monitoring involves not only the planning process, but the entire project's cycle. The monitoring functions, therefore, will be identified for each of the project activities.

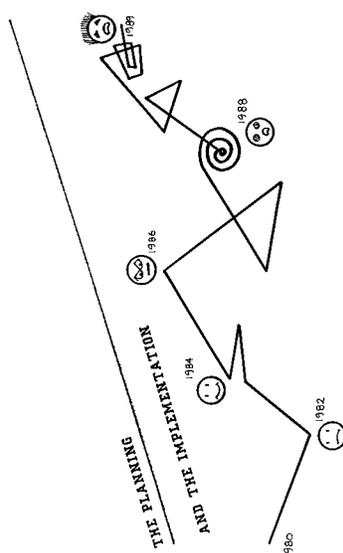
## 2. *The planning of monthly activities (form PMI)*

The elaboration of a monthly plan of activities is based on the list of approved new applications as well as on previous improvements which have not yet been completed. When elaborating the monthly plan, the Team takes into account factors such as:

- (a) Time required for the completion of the individual improvements, expected difficulties and monitoring needs (for example, if the borrower is a mason, supervision needs are less than if the borrower is a widow with no building experience);
- (b) Capacity of the Team;
- (c) Availability of materials in store;
- (d) Logistic support requirements.

The monthly plan of activities enables the project's director and team to:

- (a) Programme weekly activities;
- (b) Co-ordinate and synchronise the inputs of the individual team members;
- (c) Identify material and transport requirements by the due date;
- (d) Rationalize the use of personnel, follow-up and supervision;
- (e) Control implementation continuously.



### **STANDING ORDERS FOR THE PREPARATION OF THE MONTHLY PLAN**

- a. The monthly plan of activities should be prepared by the 29th or 30th of each month.
- b. The project director prepares the plan in consultation with the project Team.
- c. Copies of the plan should be placed on the wall in the INVI office, field office and at the store.
- d. The monthly plan serves for the preparation of weekly working programmes for each Team member.
- e. Based on the monthly plan for the last month, the project director prepares his report.
- f. The discussion of the plan by the Team requires no more than two hours, including one hour for the evaluation of last month's activities.

The actual implementation never corresponds to the plan made at the end of the previous month. There are various reasons why delays may occur or why the improvement of a particular house could not start as planned. These include:

- (a) Borrower did not submit all the supporting documents on time;
- (b) Witnesses did not arrive to sign the affidavit;
- (c) There were no materials in the store (delay in supply);
- (d) The borrower could not obtain a mason;
- (e) Complications in the construction (rocky soil);
- (f) Illness of borrowers;
- (g) Project's Team was overburdened.

Based on the evaluation of the previous month's performance and the status of on-going improvements, the project director and team can prepare a programme for the following month's activities.

### **Observations on the monthly plan April 1988 (PM1 - Model)**

- a. Construction works take place also on weekends. The store is opened Saturdays as well.
- b. Borrowers 065, 069, 072, 085, 086 commenced construction in February or March 1988. Borrowers 066, 067, 068 etc., have completed construction in March.
- c. The processing of applications 091, 092, 093 and 094, for example, has not been completed as yet.
- d. Borrower 069 needed one week more than planned because the mason was ill.
- e. Borrower 072 wants to change the agreed design and add a room but he cannot afford an additional loan; disbursement was discontinued and the case is with the lawyer.
- f. Borrower 107 could not legalise contract as she could not obtain copy of lease document from the Municipality; borrowers 110 and 111 cannot find workers.

**MONTHLY PLANNING OF ACTIVITIES (FM 1)**

MONTH / YEAR: 4/88

NO.	CREDIT NO.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31				
1	065																																			
2	068																																			
3	072																																	3d		
4	076																																	1W		
5	077																																	2W		
6	078																																			
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8	085																																			
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17	099																																		2W	
18	103																																		1W	
19	104																																		4W	
20	105																																		2W	
21	106																																		6W	
22	107																																			
23	108																																			3W
24	109																																			4W
25	110																																			
26	111																																			
27	Weekly meetings				x						x						x								x											
28	Monthly meeting																																		x	
29	Visit DG															x																				
30	Visit Germans																																			