

Project ME-426
Comite de Defensa Popular
de Zaragoza
(CDPZ)





**“PROYECTO DE DESARROLLO LOCAL Y PARTICIPACIÓN COMUNITARIA EN EL MUNICIPIO
DE ZARAGOZA, VERACRUZ”**

Project ME-426

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I. Executive Summary - Microcredit: Lessons Learned

Overview

The project ME-426 was implemented in Zaragoza, a small town of 9000 inhabitants, mostly rural, located in the Las Selvas region in the State of Veracruz, Mexico. IAF funds totaling \$ 423,596 would be used for training workshops, technical assistance, start-up capital for infrastructure and operating expenses for the micro-enterprises as well as some administrative expenses. The organization CDP-Z would contribute financial and in-kind resources for training and workshops. The project aimed to address: the lack of adequate housing and health services; and, low income levels by integrating training, technical assistance and investment/operating capital to allow the community to construct and operate a traditional public health center, establish and begin operation of a housing micro-enterprise, and establish a pilot enterprise to raise cows for both meat and milk consumption.

Although housing funding is the fundamental part of the project. CDP-Z did not provide the evaluation team with any financial record related to the project which is an indication of its status looking from a microcredit perspective. This seem to be a common feature of small projects that ask for a revolving fund to complement its actions (and do not borrow this expertise from other specialized credit institution). ME-426 presents valuable lessons by contrast with the role played by a typical microcredit institution.

Sustainability of impacts

One key aspect is the need of Mexican social policies to change from transferring compensatory poverty alleviation resources to policies that attempt to enhance the poor income generating potential and their ability of self-insure against adverse shocks, through assets accumulation and grass-root development. Non-agricultural wages and public income transfers, like Oportunidades, have increased their participation in the income sources of the rural population between 2000 and 2004. More specifically for villages with 2,500 to 14,299 inhabitants in the South-East Region (which includes the state of Veracruz)

income from work has decreased from 87% to 76%, while public transfers have increased their participation from 2% to 19%.

Three broad types of capital enhancing policies are implemented by CDP-Z with the grant support: housing, health and cattle breeding, but the main effect is probably to enhance the creation of social capital through the organization itself.

The possibility of offering the possibility of housing finance at affordable interest rates and prices satisfies not only the demand for affordable housing services but also the need to supply life-cycle assets for the old age. The comparative technological advantages found in housing building activities using local knowledge and reproducible physical resources (e.g. palm trees) also justifies the intervention as a way of relaxing existing credit constraints. The main financial issue here is not to distort too much the housing funding conditions in order to avoid the incentives for the diversion of the project funds into other financial applications. Of course, the final outcome depends crucially on how strong is the commitment of the organization filling its housing supply mission.

The preventive health approach pursued in the project is atypical and may also justify the type of intervention as a result of financial markets failures. Recent studies have shown that the main source of the probability of entering poverty (narrowly defined as insufficiency of per capita income with respect to a poverty line) are health shocks. Health services are seriously precarious in Saragoza, where there was only one *primer nivel* medical unit and 3 doctors in 2000. In the area of health, CDP-Z and community members would establish and operate a traditional public health center, complete with hydrothermal baths and botanical garden for natural medicine production. This innovative center would operate on the basis of recovering administrative and operational costs while providing service to the municipalities 8,000 residents.

Although there is a component of cattle breeding and small crops in the project. This is certainly not the emphasis of CDP-Z or the project at hand. This component of the project would provide more for subsistence needs than selling the production in the market.

Although the health component of the project attempt to fit in this category, it will probably generate more external impacts to the wellbeing of individuals in the community than a possibility of generating sustainable incomes. The key elements of the project at hand namely housing and health are very much in line with a direct welfare effect of the project, boosting the community well being. Overall this raises a question about the capacity of maintaining these effects in the long run or perhaps more challenging reproducing this type of project in other areas in a sustainable manner.

Housing funding environment

The housing funding part is the key component of ME-426 project budget and it is worthwhile looking at the environment of official projects that attempt to extend access to the formal housing sector, in particular for the lower income sections of the population with an eye in: Overcrowded housing, Housing expenditure share of total expenditure, the physical state of the houses and property rights associated.

There is a widespread shortage of adequate housing for the poor around the world. Many microfinance institutions (**MFIs**) have started providing housing financial services. The main constraint of official housing projects has been that they have not been able to reach scale, the main microlending programs for housing are:

Mibanco's Micasa credit program where the income cap is 3 vsmd DF (e.g. 3 times the Federal District minimum wage). The benefited family may count on credits ranging from 18,000 pesos (US\$ 1658) to purchase a plot of land with basic services to 25,000 pesos (US\$ 2300) to build a basic rural housing unit, among others. Interestingly, "few projects are completed with a first loan and financing 'stages' of a project with multiple, shorter-term loans rather than a larger, long-term loan reduces interest and risk".

Fideicomiso Fondo Nacional de Habitaciones Populares (**FONHAPO**) focuses mostly on non-salaried families with individual incomes ranging from 2,5 to 4 times vsmd and helps them to improve, acquire or build housing. It offers a diverse portfolio of financial products. Fonhapo will provide up to 90% of the total cost, whereas the beneficiary will

respond to 10%. The beneficiary will have to pay up to 25% of its personal income per month or up to 30% of its family income.

Programa **Vivienda Rural** targets the rural poor homeless or living in bad conditions in areas with less than 5,000 inhabitants, are entitled to access this program. Among many requirements, the beneficiary is expected to demonstrate land tenure. Families may receive up to 24,000 pesos (US\$ 2211) (subsidized) in order to build their house.

Housing funding implementation

In the area of housing, the grantee would establish and manage a building materials fund and oversee the construction of at least 100 new homes. CDP-Z would manage a revolving loan fund to finance housing construction with repayments set at 33% of the cost of the home. Approximately 100 loans would be provided for up to \$2,500 at below market rates of interest. In addition, the project will establish three sustainable community micro-enterprises and manage a revolving loan fund. After an initial budget adjustment, CDP-Z managed to build 97 houses. At that time, 16 to 18 jobs were created in order to build each house, hence exceeding the initial target (around 8). Over 185 people were reported to have been trained on subjects as diverse as construction, credit, savings and natural resources. The project was originally designed as to allow the money from loan repayments to help establish a rotating fund for the construction of additional houses. CDP-Z managers indeed established a retailer of construction materials– a micro-enterprise that has been operating commercially for the past two years, but it has not yet begun to provide credit for additional housing as a social enterprise *per se*.

Each house cost a total of 32,000 pesos (US\$ 2950), of which IAF donated 19,057 pesos (US\$ 1756) that would be partially recovered by the Committee (33%). This amount should cover the costs of building the “lower part” of the houses; each beneficiary would be responsible for the costs and workforce of the roof made of palm leaves. Beneficiaries also attended courses on housing and credit related issues. The finished houses measure 42 square meters building homes took 2 months on average. An interest rate of 9% would be applied on the total loan amount. The interest payments and amortization would be used to

capitalize a construction material low prices shop. In terms of payment while some took nearly two years to pay off their debt, some were able to pay it all before. The CDP-Z reported that only 3 people did not pay up the whole loan.

After the IAF withdrawal there have been no credit schemes and no more houses have been built. Loan recovery money has been used to stock a construction material shop, buy a delivery car and form the fund. The shop generates seven direct jobs, from the salesperson to a brick-molder. Their goal is to build 6 houses per year, with interest rates of 5% per year – despite this increase in interest rates, the demand is still strong for this kind of scheme.

The housing project present key strengths, namely: accessible technology, sustainable use of local resources, speedy construction, housing structural robustness, the use of social capital to achieve low lending risks, reinforcing social cohesion.

Health Centre

The Health Centre opens every Monday, Wednesday and Friday where c. 10 volunteers provide traditional therapies at low prices. The main objective of the Health Centre is to prevent diseases through herbal medicines and hygiene improvement measures – thanks to their preventive actions, there have been great strides in reducing cholera and intestinal illnesses. These volunteers have worked there for over 2 years, showing a strong commitment to this initiative. They have attended capacity building on how to prepare herbal medicine – which they sell to help cover the costs of the clinic.

Livestock

Through the IAF donation, the Comite could buy 20 cows. The aim of the cattle farm was not only to raise the income of participants, but also to improve the quality of local cattle. We had the opportunity to visit part of the farm, where c. 12 cows were kept. There were 20 cows initially (bought with IAF funds) which have increased to 45 nowadays. Their main problem is the shortage of pasture. They have started replicating the project, by providing assistance to a similar group in neighboring Coatzacoalco.

Recommendations

i) The houses lack bathrooms for instance or an indoor space for hygiene. As most of them also lack piped water. Most beneficiaries are still unable to carry on improvements to their houses that they repute important, mostly due to the lack of employment opportunities in that region that hinder an increase in their income and curb access to credit.

ii) It is reasonable to expect that the various project activities be better integrated, in order to achieve greater advances. The livestock strategy seems out of place in this context, where initiatives to improve human capital for instance would have been welcome.

iii) The project design also contemplated two main efforts aiming to improve the health of the population in Zaragoza with a Health Centre and a kitchen. Gathering efforts would be more productive than scattering initiatives. There could have been more integration between the grantee and the public authorities in order to make both initiatives more effective.

iv) For future lending programs, interest rates should be kept at the market level taking into consideration the cost of capital, expected loan losses, the related administrative costs. Imposing low interest rate levels is limiting the institution to self-finance its growth and creates donor dependency. Pricing is the fundamental to sustainability.

v) There was little acknowledgement of the need for an improvement in the capacity of the grantee to manage financial funds. The institution did not present the records to represent its credit repayment performance and its financial status. Although, the IAF “strict audits and monitoring” gave them opportunities to correct any mistakes and impose more discipline on them. We could also not have access to the beneficiaries’ database.

The main question is: What did the project really tried to achieve? What was its main intent? Was it a donation? Or was it intended as a starting point for a revolving fund that would generate enough resources to make the grantee operations sustainable? None of

these questions could be clearly inferred from the project documents, or through interviews with CDP-Z personnel.

II. Overview of the Project

The project entitled ‘*Proyecto de Desarrollo Local y Participación Comunitaria en el Municipio de Zaragoza, Veracruz*’ (ME-426) was implemented in Zaragoza, a small town of over 8945 inhabitants (2000¹⁸) located in the Las Selvas region in the State of Veracruz, Mexico. Of its 22 localities, 21 are considered rural - inhabited by an indigenous population of over 4991¹⁹. Water and electricity reach, respectively, 48% and 81% of the 1666 households in the Zaragoza territory. Health services are seriously precarious in the area, where there was only one *primer nivel*²⁰ medical unit and 3 doctors in 2000²¹.

In view of these circumstances, the project aimed to address some of these deficiencies, notably: the lack of adequate housing and health services; and, low income levels by integrating training, technical assistance and investment/operating capital to allow the community to construct and operate a traditional public health center, establish and begin operation of a housing micro-enterprise, and establish a pilot enterprise to raise cows for both meat and milk consumption.

In the area of health, CDP-Z and community members would establish and operate a traditional public health center, complete with hydrothermal baths and botanical garden for natural medicine production. This innovative center would operate on the basis of

¹⁸ XII Censo de Población y Vivienda 2000, INEGI

¹⁹ idem.

²⁰ “**Primer Nivel de Atención.**- Lo constituyen las Unidades de Medicina Familiar en donde se otorgan servicios de salud integrales y continuos al individuo y su familia. Es el sitio de entrada al sistema institucional. **Segundo Nivel de Atención.**- Corresponde a los Hospitales Generales de subzona, zona o región en donde se atiende a los pacientes, remitidos por los servicios del primer nivel de atención, que requieren procedimientos diagnósticos, terapéuticos y de rehabilitación. **Tercer Nivel de Atención.**- Es la red de hospitales de alta tecnología y máxima resolución diagnóstica-terapéutica. En ellos se atiende a los pacientes que los Hospitales de segundo nivel de atención remiten”

http://www.imss.gob.mx/IMSS/IMSS_SITIOS/Regional/Coahuila/IMSS+en+Coahuila/

²¹ Fuente: Anuario Estadístico de Veracruz, 2001. INEGI

recovering administrative and operational costs while providing service to the municipalities 8,000 residents.

In the area of housing, the grantee would establish and manage a building materials fund and oversee the construction of at least 100 new homes. CDP-Z would manage a revolving loan fund to finance housing construction with repayments set at 33% of the cost of the home. Approximately 100 loans would be provided for up to \$2,500 at below market rates of interest.

In the area of agriculture, CDP-Z would establish a cooperative to implement a pilot cattle breeding and dairy production program. Eight farmers would initiate the program with 23 cows on 17 hectares to produce milk and beef at affordable prices for local consumption. In addition, the project would create eight full-time jobs with the potential to create many more and generate additional income over the life of the project.

In addition, the project will establish three sustainable community micro-enterprises and manage a revolving loan fund. CDP-Z will organize community members into work committees by project area. Members and leadership within each committee will be responsible for implementing the sub-project activities.

As a result of project activities, CDP-Z would provide direct benefits to 3,000 people and indirectly benefit 8,000 in the municipality with improved levels of health. The project would also create long-term employment for at least 84 people and foster new skills in health, construction, and animal husbandry for approximately 400 more individuals.

IAF funds totaling \$ 423,596 would be used for training workshops, technical assistance, start-up capital for infrastructure and operating expenses for the micro-enterprises as well as some administrative expenses. The CDP-Z would contribute financial and in-kind resources for training and workshops. DECA Equipo Pueblo would provide trainers and

training materials as well as some travel expenses. The municipality and the beneficiaries would provide land, labor, and water resources to the project.

CDP-Z (hereafter, also “Comite”) was well positioned at the time to implement this project, as a long-established, local indigenous membership organization in Zaragoza – although it did not have any experience in financial services provision. On a positive note, activities carried out by the Comite would (ideally) take local customs into consideration, especially with regards to the Nahuatl traditions.

After an initial budget adjustment, CDP-Z managed to build 97 houses. At that time, 16 to 18 jobs were created in order to build each house, hence exceeding the initial target (around 8). Over 185 people were reported to have been trained on subjects as diverse as construction, credit, savings and natural resources. The project was originally designed as to allow the money from loan repayments to help establish a rotating fund for the construction of additional houses. CDP-Z managers indeed established a retailer of construction materials– a micro-enterprise that has been operating commercially for the past two years, but it has not yet begun to provide credit for additional housing as a social enterprise *per se*.

Concomitantly, a health centre was built in Zaragoza to help complement the provision of services to the population. A medium-sized house, with approximately 7 rooms and 2 bathrooms was erected to accommodate the 10 volunteers who have been trained in the traditional practices of medicine – who today can provide therapies such as massages and dispense with herbal (simple) medicines.

The cattle-breeding cooperative began its operations with the sale of 4 small bulls, which helped to cover its operational costs for six months. With project funds, they were able to buy a milk pail and a meat chopper. By the end of the project, they had started building a warehouse.

We present below an overview of the project goals:

GOALS	Aims of the project	Strategies	A-1	target
health	community health center	training + technical assistance + investment	workshops	recover admin costs
			form local health committees	services to 8000 people
			training on curative medicine	
shelter	housing micro-enterprise		establish manage a construction materials fund	100 homes = 100 LOANS
			revolving loan fund	repayments at 33% of the costs
			jobs	180
agriculture	cattle breeding		train 185 individuals	
			micro-enterprise	vehicle to train residentes in construction, increase income? Provide employment 66 individuals
			cooperative to implement cattle raising and dairy production program	
			produce milk and beef at affordable prices	
		create 8 full time jobs	8	
		train in animal husbandry and admin	20 farmers	
		organize community members into committees by project area	Foster new skills	

In the following sections, we will first approach the main trends in housing microfinance and the Mexican context; then, recapitulate the project implementation main aspects and, finally, address the project outcomes.

III. Project Impact Conceptual Framework

This section aims to organize conceptually poverty alleviation impacts related to CDP-Z actions. The final objective here is to help to assess the operation and design of IAF actions specially in terms of funding microcredit arrangements as capital enhancing poverty alleviation policies using the project at hand as a reference. One key aspect is the need of Mexican social policies to change from transferring compensatory poverty alleviation resources to policies that attempt to enhance the poor income generating potential and their ability of self-insure against adverse shocks, through assets accumulation. As we are going to see in next section, there is a chronic shortage of housing and health services for the poor in Mexico that the project address. The final purpose of sound social intervention is to

achieve poverty reduction in a sustainable manner. The sustainability of livelihoods is a function of how people utilize assets in both the short-term and the long-term. Assets are defined as not only as physical or human resources but include the so-called social capital dimension (family, networks, participation etc). The methodology to assess poverty and attain sustainability contains 'adaptive strategies' (a mix of traditional livelihood systems and participatory approaches boosted by externally induced innovation such as those that attempt to support grass root development). Three broad types of capital enhancing policies are implemented by CDP-Z with the grant support: housing, health and cattle breeding, but the main effect is probably to enhance the creation of social capital through the organization itself.

As usual, the assessment of resources possession effect of the project could be structured under three headings:

- Physical capital (housing and cattle breeding activities)
- Human capital (health)
- Social Capital (enhancing the CDPZ organization)

In general, increasing asset holdings of the poor can have three types of effects on social welfare: first, increasing asset holdings is to improve poor individuals ability in dealing with adverse shocks. The role played by the smoothing property of assets depends on how important are these shocks and how developed are markets (i.e., asset, credit and insurance markets). Therefore, the assessment of this last effect requires an analysis of dynamic properties of poor individuals income processes and an evaluation of institutions that constraint their financial behavior taking into consideration different time horizons. Long-run issues are related to the study of low frequency income fluctuations. The possibility of offering the possibility of housing finance at affordable interest rates and prices satisfies not only the demand for affordable housing services but also indirectly the need to supply life-cycle assets for the old age. The comparative technological advantages found in housing building activities using local knowledge and reproducible physical resources (e.g. palm trees) also justifies the intervention as a way of relaxing existing credit constraints. The main financial issue here is not to distort too much the housing funding conditions in order

to avoid the incentives for the diversion of the project funds into other financial applications. Of course, the final outcome depends crucially on how strong is the commitment of the organization filling its housing supply mission.

Short-run issues are related to assessing the poor behavior and welfare losses in dealing with health shocks which could have long lasting effects on individual welfare. Recent studies have shown that the main source of the probability of entering poverty (narrowly defined as insufficiency of per capita income with respect to a poverty line) are health shocks. The preventive health approach pursued in the project is atypical and may also justify the type of intervention as a result of financial markets failures. The project effect in fostering social cohesion and social capital accumulation also has a relevant shock buffering effect on the project stakeholders well being.

The second type of effect analyzed is that higher asset levels can increase the poor income generating potential leading to a permanent poverty reduction. The assessment of the rates of return and utilization of different assets can help the design of capital enhancing policies to alleviate permanently poverty. In particular, by informing how the accumulation of different types of capital impact income-based poverty outcomes. Although there is a component of cattle breeding and small crops in the project. This is certainly not the emphasis of CDP-Z or the project at hand. This component of the project would provide more for subsistence needs than selling the production in the market. Although the health component of the project attempt to fit in this category, it will probably generate more external impacts to the wellbeing of individuals in the community than a possibility of generating sustainable incomes. Overall this raises a question about the capacity of maintaining these effects in the long run or perhaps more challenging reproducing this type of project in other areas in a sustainable manner.

The last effect, and perhaps most important effect derived of the project at hand, is that individuals directly extract higher welfare levels by owning certain higher asset levels. This implies, in practice, expanding the measures of social welfare used to include the possession of different kinds of assets. The idea is that the lack of certain assets may imply

in unsatisfied basic needs in the same sense that an income level below the poverty line implies. This point is especially relevant in Latin America and the Caribbean given the long established tradition of using income based poverty measures which at least partly explains the emphasis given to compensatory schemes present in social policies throughout the continent. The key elements of the project at hand namely housing and health are very much in line with this direct welfare effect, boosting the community well being. The housing funding part is the key component of ME-426 project budget attracting most of our attention.

IV. Overview in Housing Microfinance & The Mexican Context

Notwithstanding the previous booms in the construction sector, the long term trend in the housing construction sector is one of sharp bumps and deep slumps. The main challenge is to extend access to the formal housing sector, in particular for the lower income sections of the population with an eye in the following problems/indicators:

- Overcrowded housing
- Housing expenditure as a share of total expenditure or income
- The size of the dwellings
- The physical state of the houses
- Property rights associated with the houses

There is a widespread shortage of adequate housing for the poor around the world.

Following in the footsteps of microfinance initiatives, many microfinance institutions (MFIs) have started providing housing financial services to the poorest through:

- Subsidized mortgage loans
- Low-income housing developments
- Direct-demand subsidies

The main constraint to some housing projects has been that they have not been able to reach scale, hence compromising their chances of self-sustainability. In a study entitled Building

the Homes of the Poor - One Brick at a Time: Housing Improvement Lending at Mibanco, Rhyne & Brown²² assess the Mibanco's Micasa credit program. With an active portfolio of 7,000 clients in 2002, the program showed a high client satisfaction. Interestingly, 'few projects are completed with a first loan and financing 'stages' of a project with multiple, shorter-term loans rather than a larger, long-term loan reduces interest and risk'. The study also acknowledges the adequacy of progressive-build strategies, that is, lending at a pace that poor households can afford in order to make incremental improvements to their homes.

The government has failed to widely address this rural poverty. A study shows that non-agricultural wages and public income transfers, like Oportunidades, have increased their participation in the income sources of the rural population between 2000 and 2004. Despite this increase, income from work still accounts for 83% - of which 73% is from employment and 27% from self-employment. Public transfers are equivalent to 8,2% of the average monetary income of the rural sector households. More specifically for villages with 2,500 to 14,299 inhabitants in the South-East Region (which includes the state of Veracruz) income from work has decreased from 87% to 76%, while public transfers have increased their participation from 2% to 19%²³.

Nevertheless, official policy has increasingly searched for financial products that could possibly tackle the housing and credit shortage. For instance, Fideicomiso Fondo Nacional de Habitaciones Populares (FONHAPO), a trust fund organized by Secretaria de Desarrollo Social (SEDESOL), aims to meet the national demand for housing credits from low-income families. It focuses mostly on non-salaried families with individual incomes ranging from 2,5 to 4 times the Federal District minimum wage and helps them to improve, acquire or build housing²⁴. It offers a diverse portfolio of financial products:

?? Through credit: acquisition; enlargement; construction; and, entitlement.

?? Through subsidies: Programa Tu Casa and Programa Vivienda Rural.

²² http://www.microfinancegateway.org/files/3665_building_homes.pdf

²³ El comportamiento del ingreso rural en México 1994 - 2004 (Secretaria de Agricultura Ganadería, Desarrollo rural pesca y alimentación) April, 2006.

²⁴ Sedesol, Fonhapo website.

We have chosen to quickly approach the construction credit product and the two subsidized programs, in order to provide a brief overview of the official policy in Mexico.

In the case of Programa Tu Casa, the beneficiary will have to prove that there is at least one poor person depending economically on him/her. The income cap is 3 vsmd DF (e.g. 3 times the Federal District minimum wage). The benefited family may count on credits ranging from 18,000 pesos (US\$ 1658) to purchase a plot of land with basic services to 25,000 pesos (US\$ 2304) to build a basic rural housing unit, among others.

To obtain credit for construction through Fonhapo, the individual must comply with the following requirements: to be over 18 years old, to have people depending economically on him/her; to receive an individual income of up to 4 vsmd DF or up to 5 vsmd DF when in a couple. Once these requirements are fulfilled, the program will provide housing with the basic infrastructure and the necessary space to “be, eat and cook” including also a bathroom, electric, sanitary and hydraulic facilities. Fonhapo will provide up to 90% of the total cost, whereas the beneficiary will respond to 10% (“la aportación del beneficiario se considera como amortización inicial del financiamiento”). The beneficiary will have to pay up to 25% of its personal income per month or up to 30% of its family income. Fixed interest rates will be agreed upon by the implementing agent and FONHAPO. El Agente Operador, deberá contar con el ahorro previo de los acreditados finales del crédito. Delinquency charges will be calculated by multiplying 1,5 per CETES²⁵. Apparently, there is a choice of guarantee: either mortgage or *quirografaria*, that is, based on the beneficiary’s signature.

Finally, the Programa Vivienda Rural targets the rural poor so that they can “tener una vivienda construida con materiales adecuados y que cuenten con espacios habitables dignos, factor primordial para su bienestar.” All rural or indigenous families, homeless or

²⁵ Cetes stable at 7,02% in March 2007

http://mx.today.reuters.com/news/newsArticle.aspx?type=businessnews&storyID=2007-04-10T170443Z_01_N10404587_RTRIDST_0_MERCADOS-MEXICO-SUBASTA-SONDEO.XML

living in bad conditions in areas with less than 5,000 inhabitants, are entitled to access this program. Among many requirements, the beneficiary is expected to demonstrate land tenure. Families may receive up to 24,000 pesos (US\$ 2211) (subsidized) in order to build their house.

V. Project Implementation

The Centre for Social Policies team manufactured a video with the project's location and interviews with its stakeholders. This video is an integral part of this evaluation and is available on DVD and on the project website together with the main outputs and inputs used in this evaluation. The electronic version of this report will provide links to these resources at specific points of the text.

Mr. Arsenio Cruz, CDP-Z president, told us of their struggle to implement the project. Only after their second application to the IAF, they were successful in obtaining the respective grant ([video](#)). Given the lapse of time between the approval and the actual disbursement, when the dollar value changed in Mexico, the grantee had to make an adjustment to the budget. As a consequence, only 90 houses out of the initial 100 proposed would be built. In the end, they managed to save money and allowed the construction of 97 homes. Due to their lack of experience in this kind of operation, they did not foresee this currency issue.

Each house cost a total of 32,000 pesos (US\$ 2950), of which IAF donated 19,057 pesos (US\$ 1756) that would be partially recovered by the Committee (33%). This amount should cover the costs of building the "lower part" of the houses; each beneficiary would be responsible for the costs and workforce of the roof made of palm leaves. The finished houses measure 42 square meters.

Beneficiaries were selected during an assembly, where CDP-Z could identify the most marginalized people. Credit was granted according to the following main criteria:

- People leaving in non-brickwork houses, like clay;
- People with some source of income;
- People with a family to provide for.

Once the beneficiaries were selected, they started building homes, which took 2 months on average. In terms of payment, the CDP-Z reports that attitudes and delinquency varied: while some took nearly two years to pay off their debt, some were able to pay it all before. In order to ensure the construction and the repayment, CDP-Z formed a local commission to oversee any issues and address weaknesses.

Moreover, parallel to the construction, beneficiaries also attended courses on housing-related issues, such as forestation and traditional construction methods (e.g. palm leaves) and the role of credit for their future.

Given this close relationship between the grantee and the beneficiaries – which in fact predates the beginning of the project – the grantee could tailor well the project to their financial profile and loan recovery rates were high; the CDP-Z reported that only 3 people did not pay up the whole loan, for reasons they did not precise.

Loan recovery resources formed a fund to provide credit to purchase construction material at lower prices – for instance, as the shop can purchase cement straight from the manufacturer. Despite having gathered funds from loan recovery, after the IAF withdrawal there have been no credit schemes and no more houses have been built. Loan recovery money has been used to stock a construction material shop, buy a delivery car and form the fund. The shop generates seven direct jobs, from the salesperson to a brick-molder. Mr. Arsenio argues that the shop has been operating at market prices as to allow it to remain capitalized and strong enough, before handing out loans. Their goal is to build 6 houses per year, with interest rates of 5% per year – despite this increase in interest rates, the demand is still strong for this kind of scheme ([video](#)).

VI. Project Outcomes and Impacts

In order to assess the main outcomes of project ME-426, a team of the Centre for Social Policies at the Fundação Getulio Vargas, visited Zaragoza in two waves of interviews

during February 2007 and met with some. Apart from visiting the project beneficiaries houses and talking to them and to their families, we also had the opportunity to walk around the areas targeted by the project – hence being able to observe their living conditions beyond their living quarters. These aspects are also registered on a video that is an integral part of this evaluation.

In order to better assess the outcomes of Project ME-426, we have implemented an open-ended interview touching mainly on the following issues:

☞☞Demographics

☞☞Livelihoods strategies

☞☞Project implementation aspects – how did the beneficiary get involved? Was it difficult?

☞☞Social Capital – what is their relationship with the grantee? And the community? What have been the benefits, constraints?

☞☞Project Impacts – how did their lives change as a result of the project? Comparisons between their past and current way of life.

☞☞Credit component – how did they manage to repay their loans? Did they have to change their livelihood strategies in order to meet their needs?

The grantee arranged the home visits, based on our previous talks regarding the aims of this qualitative impact evaluation. We could not have access to the beneficiaries' database. As a result, we had but a limited influence in the chosen sample. This constraint notwithstanding, we believe that the sample is helpful in providing a picture of the situation in the periphery of Zaragoza, and how the project intervened with their lives.

Ms. Elacia Ramirez, 51 years old, is from Colonia Cascahal, near the Zaragoza centre. According to her account, she had to ask for a house 5 times, before being granted the

credit. Her acceptance was based on their previous acquaintance or as she has put it, “nos entendemos informalmente” – which shows a tacit trust between the grantee and the beneficiary. Her family income is based mostly on her husband’s maize production and her sale of homegrown chicken (at present, she has 40 chicken). More than providing income, this livelihood strategy ensures her family consumption: maize is used for making tortillas (staple food); and chicken eggs to feed 7 people – 5 of her 10 children still live with her. As part of her livelihood strategy, she used to walk to a river 5 km away from her home, to fish and sell it in the market. Since becoming ill in December, 2006 with erysipelas, she has not been able to work, thus her family’s income has decreased. She had never lived in a brickwork house before entering the CDP-Z programme. She recalls that building her current house was easy, because no one demanded her to pay for it: she paid when she could do so. Changes in her life are quite big, as she had always longed for a brickwork house. She is now “proud” of having paid for it and feels better living there, mainly because she finds it easier to keep it clean. The previous clay house had no proper flooring, so dirt was ever present. The house has been furnished very basically, but as with other houses, it has a large television set, a sound system and a fridge. She still wants to change the roof from *palma* to a laminate – as the former has a limited useful life - but has not yet gathered the money to do so. She does not attend CDP-Z monthly meetings, but she says that she trusts them to make decisions on her behalf. She speaks only nahuatl among her immediate relatives.

Estela Fernandez, from Comunidade Cahizal, also is a nahuatl speaker. Like Elacia, she lives in a small farm with other 7 relatives. She built her house “poco a poco”, after attending a CDP-Z assembly where she asked for the credit. Once credit was granted, she felt quite hesitant to take it, as she was not entirely sure she could meet the payments. Contrary to her fears, she managed to repay the loan entirely, counting on the CDP-Z flexibility. Despite enjoying living in the new house with her husband and three children, she still keeps the old clay house for “hotter days”. Like the other beneficiaries, she owns her land. Her living room reflects the consumption priorities of many beneficiaries: a tv set and a sound system – which they could only connect after a struggle before the public authorities to obtain electricity, in a collective action together with CDP-Z. Such

achievements have secured her loyalty to the group, and she feels compelled to participate in whatever initiatives that are promoted by the Committee. They still have no access to piped water.

Iara, 27 years old, although much younger, also experienced the same changes as Estela and Elacia as a result of the project. She moved from a clay to a brickwork house, where she now lives with her 2 sons and her husband. She also complains about the difficulties in keeping the clay house clean. Another benefit of the newly built brickwork house is the available space, which accommodates her family more comfortably. Her previous acquaintance with CDP-Z personnel was helpful at the time of selection for the project, according to her. Her husband works as a mechanic in Minatitlan and what he earns is enough to keep them all – so she is responsible to look after the house and the children. After the swift approval of their credit, they began building the house. Their loan repayment was, as with other interviewees, adapted to their capacity. In other words, they paid as and when they could; when they had more money, they could pay larger amounts. Her husband built their roof at the time, which cheapened the cost of the house. Unlike other beneficiaries, they have been able to enlarge the construction, thanks to her husband's promotion at work.

As her husband is a builder, the costs of her house were also considerably lowered, according to Cirila Martinez Cruz, 58 years old. In front of their house, they run a small *abarrote* (grocery shop) whose revenue helps cover household expenses. At the time of the project, Cirila tells that she used to go fishing in order to boost the family income, thus becoming able to repay the loan. She reckons that moving into a brickwork house has provided them with more safety, as the other clay house is far too vulnerable. The clay house also demands constant rebuilding and attention. She has been sick for a while now, and has not been able to work – she tells of the difficulties in obtaining medicine at the town health centre. As a result, she has to buy the medicine, which is very expensive for her.

Some beneficiaries have faced serious difficulties in finding employment in the Zaragoza region – not least because of their low educational background. The husband of Roberta Cruz Lopes, 51 years, works as a *machetero* (cane sugar cutter) only seldom, whenever there is work for him. Given this seasonality, they found it quite difficult to maintain their loan repayment – which they tried to keep at 50 pesos (US\$ 4,60) a week. The brick house shelter the couple and three of their 11 children – who work and help her with the house expenses. In her opinion, they would not have been able to build the house without CDP-Z help. The only drawback in her opinion in that palm leaves (for the roof) were expensive, each *pié* costs 25 pesos (US\$ 2,30) and they needed at least 40 to finish off the roof. For this reason, she feels utterly grateful to the grantee and, consequently, tends to support the Comité's initiatives. With the money from Oportunidades, she can buy clothes and shoes for her children.

Mr. Timoteo Hernandez Cruz, 66 years old, is also a *machetero*. He agrees with Roberta in that palm leaves were an expensive item to buy. As work opportunities are rare, he found it extremely difficult to repay the loan. His wife keeps the house, receives Oportunidades, and cares for domestic livestock (chicken, for instance – whose eggs are for subsistence). He also acknowledges that it would be very unlikely for him to build the house on his own, that is, without CDP-Z support. He shares the same trust in the Comité, as his other peers.

Apart from this trust, Ms. Demetria Hernandez Francisco (40 years old) also feels that they share some political ideas, as she has been a PRD supporter since she started voting. She also likes how the Comité works, by helping the most needed. At the beginning of the project, she worried “de donde agarro el dinero?” but CDP-Z gave them plenty of freedom for the loan repayment, so that she and her husband were able to administer it to their interest – either paying it monthly or weekly, as they preferred. Her husband's income as a *sastre* (taylor) in Minatitlan keeps the house, since she stopped working as a housekeeper after having serious back problems. Oportunidades transfers (360 pesos – US\$ 33,17 - every 2 months) also help to increase the household income.

Anastácia Antonio and Elacio Lopez Zaragoza have lived in this brick house for 5 years now. As Elacio is a builder without a steady source of income and Anastácia is a housewife, it took them two years to pay off their debt. “Amarramos la tripa”, she says. The biggest impact in her life is that the brick house demands far less maintenance than a clay house – which needed rebuilding every 8 to 10 years. The biggest benefit from participating as a member of CDP-Z is to be kept well informed about common demands and solutions.

In her turn, Sophia Santo also thinks that it would have been almost impossible to build her house without external help; especially, because CDP-Z has provided better loans terms for her. As soon as her husband heard about the project, they placed their demand for help. Thanks to her husband income, not only is she able not to work, but also to pay their loan entirely – without much difficulty.

VII. Other PROJECT ACTIVITIES

a) Health Centre

The Health Centre opens every Monday, Wednesday and Friday where c. 10 volunteers provide traditional therapies at low prices. The main objective of the Health Centre is to prevent diseases through herbal medicines and hygiene improvement measures – thanks to their preventive actions, there have been great strides in reducing cholera and intestinal illnesses, for instance, according to the volunteers although they cannot precise the length of this stride. These volunteers have worked there for over 2 years, showing a strong commitment to this initiative. They have attended capacity building on how to prepare herbal medicine – which they sell to help cover the costs of the clinic. Apart from providing services at the clinic, the volunteers also give talks on hygiene and other health issues in distant neighborhoods. There has been an increase in the number of clients, as people have felt more confident about the positive outcomes achieved by the volunteers. They have yet to finish building the “baño temascal” – a herbal bath that has relaxing and curative properties ([video](#)).

b) Livestock

Through the IAF donation, the Comite could buy 20 cows. According to Mr. Arsênio, the aim of the cattle farm was not only to raise the income of participants, but also to improve the quality of local cattle. In his opinion, the project aimed to change the local tradition according to which people leave the cattle to grow without much care. So this farm introduced the concept of vaccination, vitamins. By raising awareness, it will be possible to turn livestock breeding into a more profitable business. We had the opportunity to visit part of the farm, where c. 12 cows were kept. Mr. Arsenio told us that there were 20 cows initially (bought with IAF funds) which have increased to 45 nowadays. Their main problem is the shortage of pasture. Their main achievement is to produce good quality controlled cattle – which they are able to sell and keep the farm. What’s more, they have started replicating the project, by providing assistance to a similar group in neighboring Coatzacoalco ([video](#)).

VIII. Project strengths

Project ME-426 achieved its main objective, that is, to build 97 houses at affordable prices for a low-income population who did not have access either to credit or to adequate housing. During the evaluation visit, we could observe some of the main aspects of the project that led to this achievement, as described below:

- a) **Accessible technology**: the house design was developed by CDP-Z staff and was kept very simple and attainable, which not only ensured its widespread adoption, but also kept costs under control.

- b) **“Sweat equity”**: the beneficiaries were responsible for building up their house roof – which in many cases decreased the costs of construction. As communities are small and very cohesive, they were also able to help each other, thus complementing their skills.

- c) **Sustainable use of local resources**: the house roof, for instance, was made of palm leaves, an abundant resource in Zaragoza. In addition, CDP-Z established a reforestation scheme.
- d) **Low risks**: given the mutual acquaintance between the grantee and the beneficiaries, there was very little delinquency risk involved in this loan transaction – especially as they live in close quarters. Moreover, the selection process was kept simple enough and well focused to target those in most need. Consequently, loan recovery was high (the interest rates were low, but we will approach this issue in the next section).
- e) **Social cohesion**: the project built upon the community pre-existing social links and, given its positive outcomes, it also helped to reinforce those links, gathering constant support to the grantee’s initiatives.
- f) **Speedy construction**: the house design was very simple, the material for construction was cheap and available and there was timely disbursement of funds.
- g) **Housing structural robustness**: all the houses visited during fieldwork were in excellent condition, even 3 – 4 years after their construction. Although almost all beneficiaries kept their clay houses, they all preferred to live in the new brickwork ones.

IX. Project constraints & Related Recommendations

The project was successful in many instances, as we highlighted above. Nevertheless, some improvements could have been made in order to attain better outcomes in terms of sustainability, continuity and quality issues. We address some of these below:

- a) **House design**

In their work ‘Uma visão integrada da análise e avaliação de conjuntos habitacionais: aspectos metodológicos da pós-ocupação e do desempenho tecnológico’,²⁶ Martucci & Basso make a distinction between the concepts of house, home and housing:

The **house** “is the protective shield, it is the wrapping that divides internal spaces as well as external spaces. It is the physical being”.

A **home** “has the much stronger connection to the elements that make the house function, in other words, it takes into consideration the “house’s habits of use.” A house by itself does not qualify as a home. For such, it needs to be identified with the “living styles” of its inhabitants in a broader sense.

And, finally, **housing** needs to be more considered more broadly – “we have to consider and analyze, working towards the concept of ‘habitat,’ integrating the internal with the external. In other words, guiding ourselves with the elements that are related to people’s lives and their respective social, political, economic, historical and ideological relations.”

Or, as they have summed it up:

House + Home + Infrastructure = Housing

As the authors have mentioned in their work, “the concept of inhabitability encompasses the sociological, psychological and physiological human needs (...) The study of inhabitability conditions comprise the user’s safety, hygiene, durability and comfort issues”, by analyzing environmental comfort indicators, such as lighting, acoustic and temperature. Design simplicity worked to the beneficiaries’ advantage in many ways, as we have previously discussed. But, consequently, the houses lack bathrooms for instance or an

²⁶ in Inserção Urbano e Avaliação Pós-Ocupação (APO) de Habitação de Interesse Social, Abiko A and Ornstein S © 2002, Coletânea HABITARE, FINEP – Financiadora de Estudos e Projetos.

indoor space for hygiene. As most of them also lack piped water, the services infrastructure is quite also very feeble – the better served the house, the more qualified the housing.

b) The total budget for each house was \$ 19,057.29 Mexican pesos (US\$ 1756), of which 67% was a donation and the remaining 33% was a loan to be paid in up to 24 months. An interest rate of 9% would be applied on the total loan amount. The interest payments and amortization would be used to capitalize a construction material low prices shop.

For future lending programs, interest rates should be kept at the market level taking into consideration the cost of capital, expected loan losses, the related administrative costs, and a reasonable margin to ensure the integrity and the sustainability of the loan fund.

c) The flexibility in the loan repayment was, to a certain extent, a favorable factor for the low delinquency rate. Nevertheless, this might have compromised the ability of the grantee to remain capitalized.

d) As it became clear through the interviews with the beneficiaries, most of them are still unable to carry on making improvements to their houses that they repute important (new roof, for instance). Reasons for this vary, but refer mostly to lack of employment opportunities in that region that hinder an increase in their income and curb access to credit. Besides, some of the women especially face health problems, for instance in the knee, back, stomach, that prevent them from working, hence worsening their family situation. Therefore, they are less vulnerable in terms of housing, but their ability to change their circumstances is still limited. Here we are at a crossroads since a small organization such as the CDP-Z would actually have to touch on Mexican macro-scale problems. This would not be attainable (at least in the short term) but it is reasonable to expect that the various project activities be better integrated, in order to achieve greater advances. In this sense, the livestock strategy – albeit potentially interesting - seems out of place in this context, where initiatives to improve human capital for instance would have been welcome. We'll approach health issues in the next item.

e) The project design also contemplated two main efforts aiming to improve the health of the population in Zaragoza, as follows:

- A Health Centre;

- A kitchen: *“como parte del programa de salud, se construyo la Cocina Nutricional, que se pudo equipar y poner en operación gracias a un proyecto que el CDPZ presento al Instituto Nacional de Solidaridad. Esta Cocina cumple con el objetivo de promoción de la Salud, atendiendo a niños y niñas desnutridas del municipio, a mujeres embarazadas y ancianos de escasos recursos”*.

In view of Zaragoza’s precarious health system, it seems reasonable to suppose that gathering efforts would be more productive than scattering initiatives. There could have been more integration between the grantee and the public authorities in order to make both initiatives (kitchen and health centre) more effective. The health centre is still at the margin of the main public health system in town and the kitchen is no longer in operation and works as a depot for the construction materials.

Possibly, the actual goals and concrete targets of the project could have been spelled out more clearly. In this way, maybe these gaps would have become more apparent (goal clarification exercises) and the feasibility of the strategy could be tested. Although all initiatives were honorable, the cost-benefit relationship does not seem to be so positive, given this disconnection between objectives allied with a short-term perspective.

f) Possibly in view of these deficiencies in the design of the project, there was little acknowledgement of the need for an improvement in the capacity of the grantee to manage financial funds, to provide adequate help to its beneficiaries and to maximize the benefits of the project.

- g) Total operating revenues divided by total administrative and financial expenses, adjusted for low-interest loans and inflation. In a microfinance context, an institution is financially self-sufficient when it has enough revenue to pay for all administrative costs, loan losses, potential losses and funds. Imposing low interest rate levels at the start-up phase is limiting the institution to self-finance its growth (client outreach and Return on Asset (RoA)) and creates donor dependency to support unrealistic pricing and expansion plans. Pricing is the fundamental key to sustainability, which entails several delicate variables that may impede low interest rate provision in certain areas.²⁷
- h) The institution did not provide the evaluation team with any financial record related to the project. This seem to be a feature of small projects that ask for a revolving fund to complement its actions. In this case the housing funding is a fundamental part of the project but nevertheless the institution did not present the records to represent its credit repayment performance and its financial status. We show below what we could expect from a microfinance institution.

The main question is: What did the project really tried to achieve? What was its main intent? Was it a donation? Or was it intended as a starting point for a revolving fund that would generate enough resources to make the grantee operations sustainable? None of these questions could be clearly inferred from the project documents, or through interviews with CDP-Z personnel.

²⁷ Guy Dionne, Srebrenica Regional Recovery Programme, UNDP at: http://www.uncdf.org/english/microfinance/pubs/newsletter/pages/july_2004/voice.ph
See also <http://www.gdrc.org/icm/glossary/index.htmlp> for references on that.

X. Final considerations

We managed to derive interesting lessons from our evaluation findings. Initially, we could verify similar lessons as those highlighted by Shumann²⁸:

- a) “Housing microfinance is a more appropriate lending methodology than traditional mortgage lending for serving the housing finance needs of microentrepreneurs”

All interviewed beneficiaries lacked collateral to enter mortgage arrangements, but this circumstance did not jeopardize their chances to access credit. Like in the Acción study, CDP-Z paid “more attention to repayment capacity and tenure security”.

- b) “Based on evidence from Integral, intensive construction assistance is not justified. The construction quality survey found construction assistance had no visible impact on construction quality. The costs of such assistance, particularly hiring extra staff, more time training existing loan officers, and lower staff efficiency were substantial, lowering the product’s profitability.”

Particularly in relation to this project, the following considerations can also be made:

- b. CDP-Z management team believes that credit was the best way to encourage people to change their own status and to seek their own growth. At the same time, they recognized that donation is considered an important stepping-stone though in the early stages of the project.
- c. The IAF grant introduced important changes to the way CDP-Z operated. For instance, the IAF “strict audits and monitoring” gave them opportunities to

²⁸ Developing Housing Microfinance Products in Central America
Shumann, R. Key lessons learned on housing products from ACCION affiliates FAMA and Integral. This highlight is based on [ACCION InSight #12](#). The full text of the report is available for download in English and Spanish, free of charge at <http://www.accion.org/insight>.

correct any mistakes and impose more discipline on them (as audits are not systematically practiced in Mexico).

- d. CDP-Z greatest challenges related to their inexperience in providing financial services. Project goals and expectations scared them at first and they were not sure of the capacity of the beneficiaries to make their own input. In view of these factors, which they could not anticipate, they were forced to make (questionable) institutional arrangements as and when difficulties arose. As Mr. Arsenio told us, he was kept as the president of the Comite in 2002, when there should have been elections in order “to ensure that the project would carry on smoothly”.

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