



# A market-based housing improvement system for low-income families – the Housing Incentive System (SIV) in Ecuador

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1. UN (1999), *Desarrollo Humano en el Ecuador 1999*, Quito, page 143.

2. Figures are extracted from the following sources: ECO&Arquitectos, Centro de Investigaciones CIUDAD, Indian University UIMPI-CONAIE (2002), "Lineamientos de políticas de vivienda y desarrollo territorial" (Guidelines for housing policy and territorial development) for the government of President Lucio Gutiérrez 2003–2006, developed by

**SUMMARY:** *This paper describes a successful housing finance programme in Ecuador through which low-income families can receive technical and financial support to improve their housing. Eligible families, who make their own contribution in the form of savings, are awarded a subsidy that can be supplemented by loans at the usual local interest rate. A state agency facilitates the programme, which is implemented through small construction firms working within the programme on a market basis. In the first four years of the programme, 25,000 families received these subsidies, and almost US\$ 69 million was invested. The programme has demonstrated the potential for successful cooperation between the private building sector, financial institutions and government. International funding for the programme will end in 2005 and, despite its success, its future is uncertain.*

## I. INTRODUCTION

ECUADOR HAS A population of approximately 12 million, with a population growth rate of around 2.4 per cent between 1974 and 1990.<sup>(1)</sup> Approximately 70 per cent of Ecuador's population live below the poverty line and there is evidence that a large quantitative and qualitative housing deficit in urban areas primarily affects low-income families. Very few concrete data exist, but it is estimated that in urban areas approximately 53,000 new dwellings are required every year, 210,000 houses have defects and 330,000 houses are overcrowded. The majority of families who require housing have no more than US\$ 60 at their disposal for monthly payments.<sup>(2)</sup>

A simple analysis supports this hypothesis. In December 2002, a family needed a monthly income of US\$ 353.24<sup>(3)</sup> in order to purchase the government-defined basket of commodities necessary to meet basic needs. Yet, many families earn far less than this – around US\$ 40–120 a month. It is evident that this group cannot afford the usual market price of around US\$ 5,000 for new, solidly built housing in Ecuador unless they have access to credit and the support of governmental or non-governmental housing schemes.

The reasons for this situation are generally well known:

- families with low incomes have no, or insufficient, access to housing finance opportunities supported by formal institutions; they are not usually able to fulfil the necessary requirements and can provide very little savings;

- financial institutions usually have little incentive to provide credit with favourable conditions for borrowers;
- the state has not created sufficient incentives for the construction of housing for low-income groups; previously implemented housing programmes did not work efficiently and only reached a small part of the target group; and
- the private building sector has not been sufficiently integrated to create housing solutions for low-income families.

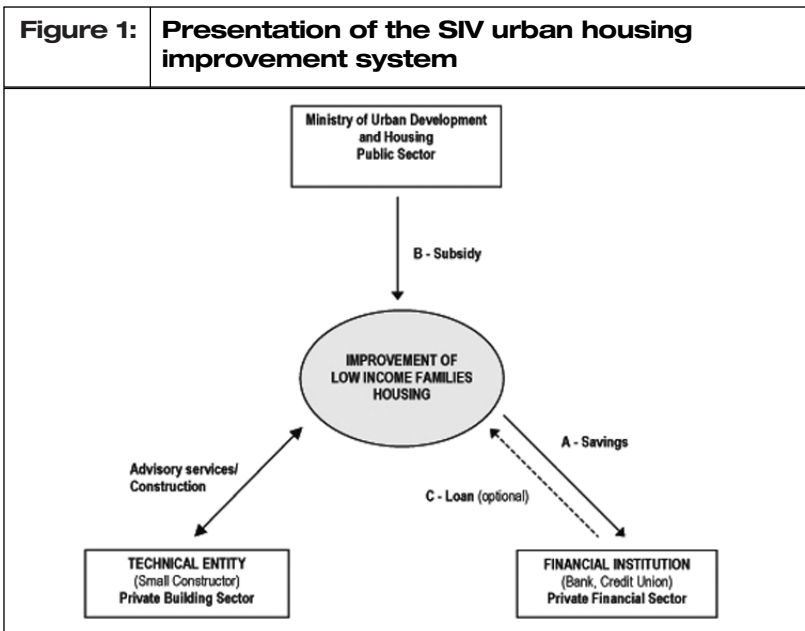
In view of these problems, Ecuador’s government initiated a nationwide programme called the Housing Incentive System (SIV).<sup>(4)</sup> Based on a market-led approach, low-income families can now receive technical and financial support to improve their self-built houses and apartments. This programme, which has been in existence since 1998, has two components: the first promotes new housing; the second, which is discussed in this paper, supports housing improvement. The government rewards savings by means of a single premium awarded to families in need of assistance.

Within the new housing component, a voucher known as the *Bono para Vivienda Urbana Nueva* finances up to 75 per cent of the value of the new construction, with a maximum subsidy of US\$ 1,800. These vouchers are aimed only at middle-income families. For low-income families, who build their houses and apartments with their own resources, a housing improvement component has been established that subsidizes building improvements such as roof repairs or the addition of a room to a house. This premium (*Bono para Mejoramiento de Vivienda Urbana*) is worth up to US\$ 750 (US\$ 850 in historic city centres). The difference between this amount and the estimated building costs can be borrowed as a mortgage loan from a financial institution working within the system, at the usual local interest rate. The programme is also known as the ABC programme, ABC standing for *Ahorro* (savings), *Bono* (subsidy) and *Crédito* (loan) (Figure 1).

the round table, which dealt with the housing topic, Quito, 19 December.

3. República del Ecuador, Instituto Nacional de Estadística y Censos (2002), data on the basket of commodities (*Canasta básica familiar*) December; www.inec.gov.ec.

4. Besides the SIV programme, MIDUVI (Ministerio de Desarrollo Urbano y Vivienda) has three different, parallel programmes in the area of housing incentives. These are the programme for rural homes, Programa de Vivienda Campesina, the programme for beneficiaries of the solidarity subsidy, Vivienda para Beneficiarios de Bono Solidario and the programme for urban, marginal housing improvement, Mejoramiento de Vivienda Urbano Marginales, with funding of about US\$ 8 million; see also Banco Interamericano de Desarrollo–BID (2002), *Perfil II, Ecuador, Programa de Apoyo al Sector Vivienda II*, EC 0207, April, page 7. The names of the programmes, particularly the last one, confuse inhabitants. In this programme, building materials are donated directly to the families and, in contrast to the SIV programme, the beneficiaries do not have to fulfil any requirements. It can be assumed that, of the subsidies mentioned, the subsidy for “marginal housing” is politically motivated.



A distinctive characteristic of both components of this programme is the fact that the voucher is a targeted, single payment made directly to individuals. This is more easily manageable than financing particular programmes. In a previous housing promotion programme, the government provided subsidies that reduced the interest rates on loans for building, but the scheme did not prove successful.

Between the beginning of the programme four years ago and October 2002, approximately 25,000 vouchers were awarded and paid out to 25,000 low-income families for housing improvement. The same amount was paid out for new houses, assisting 25,000 middle-income families.

The state has thus provided approximately 50,000 vouchers in total, and a sum of around US\$ 69 million has been invested. It should be noted that these vouchers were not distributed equally throughout the country; the provinces of Pichincha and Guayas, home to the two most populated cities in the country, received approximately 50 per cent of the total number.<sup>(5)</sup>

5. MIDUVI-UCP (2002), "Total calculation table", unpublished, Quito, 31 October; also Urbana Consultores Cia Ltda (2002), Evaluación y Seguimiento de los Aspectos Centrales del Programa de Apoyo al Sector Vivienda en Ecuador, prepared for MIDUVI, Document No 3, unpublished, Quito, February, page 7.

## II. KEY ACTORS – HOUSING IMPROVEMENT

### a. Organizational structure

VARIOUS ACTORS PARTICIPATE in the housing-improvement component of the programme, each with their own clearly defined task. The basic principle is that these actors cooperate and share resources and knowledge at national, provincial and local levels and throughout the public and private sectors (Figure 2).

### b. Project-executing agency – the public sector

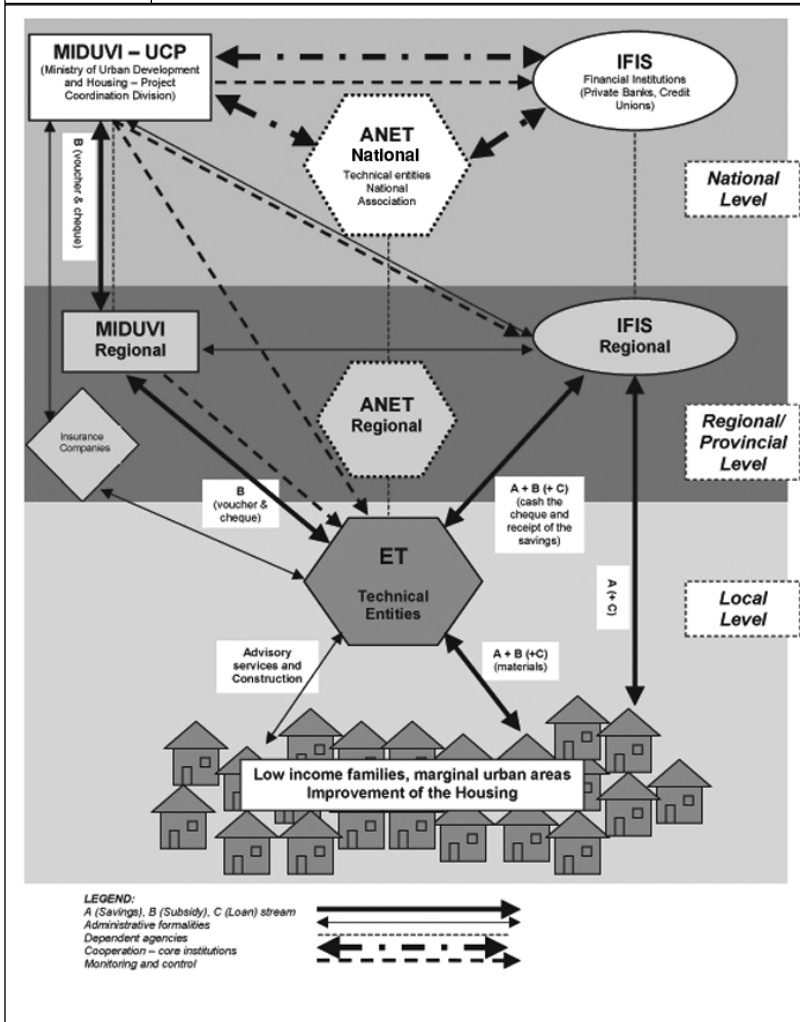
The executing agency for the SIV programme is the Ministry of Urban Development and Housing (Ministerio de Desarrollo Urbano y Vivienda – MIDUVI). The programme is directed by the Project Coordination Unit (Unidad Coordinadora de Proyecto – UCP), an affiliated unit of the ministry. The public sector has taken on the role of facilitator and promoter of the programme, but no longer of direct implementor or builder. Regional MIDUVIs exist in almost every province of the country, and are administered by the central MIDUVI; they carry out essential tasks throughout the entire process of the SIV programme. The executing agency plays a significant role in the SIV programme because it authorizes and pays out the subsidy as well as supervising the other participating partners.

### c. Advisory services and construction – the private sector

The private sector is responsible for the implementation of the programme. Small technical construction firms known as "technical units" (*Entidades Técnicas – ETs*) work within the SIV housing-improvement scheme on a market basis. Any private firm in the country can be accepted as an ET within the system once certain conditions have been fulfilled. In 2002, there were approximately 180 MIDUVI-accredited ETs in the country.

The ETs draw up an individual contract with each customer and earn a percentage of the construction costs. It is their responsibility to help families with housing needs obtain the building subsidy, i.e. file applications and fulfil the necessary requirements. They also provide advice on

**Figure 2: Incentive programme for housing improvement - SIV**



the type of building project that should be undertaken, carry out the planning and supervise the technical implementation of the construction. The ETs therefore assume a much greater responsibility in this system than is usual for planning and construction firms.

Because of their multi-faceted tasks, the ETs employ not only technical staff, such as architects and engineers, but also social workers, who are responsible for contact with customers. Generally, each ET consists of a group of 4–12 people. They are usually located in or near low-income neighbourhoods and can therefore make contact more easily with the people involved and establish a good relationship with them.

The ETs are organized within a national association, called the Asociación Nacional de Entidades Técnicas (ANET), that aims to coordinate the process with the public and financial sectors and to represent their interests. ANET is legally recognized and is made up of regional associations of ETs, organized at provincial level. Membership is voluntary and the elected representatives are not paid.

6. See also Frank, Daphne (2003), *Elementos para la Formulación de un Programa de Integración de Barrios Informales con Participación de Actores Públicos y Privados*, Bocetos, Quito.

7. In Spanish, BID: Banco Interamericano de Desarrollo.

8. See reference 4, Banco Interamericano de Desarrollo (BID) (2002); also *El Comercio* (newspaper) (2002), "Crédito para vivienda", Quito, 1 August. From the total sum of more than US\$ 40 million, 10 per cent will be invested in an integrated upgrading programme, the Programa de Mejoramiento Integral de Barrios (PROMIB).

9. The head of the family can be either the mother or the father.

10. MIDUVI (2002), *Sistema de Incentivos para Vivienda SIV, Reglamento*, Quito, June. For a new building, it is necessary that the value include the urbanized value of the plot, which should amount to at least US\$ 2,400 but may not exceed US\$ 8,000; also, the family monthly income should not exceed US\$ 360 and the family should have saved a minimum of 10 per cent of the total building investment sum, i.e. up to US\$ 800.

#### d. Financial institutions – the private sector

In order to apply for a subsidy, low-income families must open a bank account with a deposit of at least US\$ 100. All participating banks are supervised by the banking regulatory authorities, with the exception of the auxiliary financial institutions (*instituciones auxiliares financieras*) that also form part of the system. These institutions, which include credit unions (*cooperativas de crédito*), enjoy a greater acceptance by the population as they are located close to low-income neighbourhoods.<sup>(6)</sup> Financial institutions receive the deposit and related fees of US\$ 20–40 from each individual family, determine their creditworthiness and extend the loan at a normal market interest rate.

#### e. International donor agencies

In order to further its goal of reducing poverty, the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) (German Technical Cooperation) supported the housing improvement component of the programme by providing advisory services up until the end of 2002. This organization played an essential role in the design of the project and strongly supported the application of market principles. One of GTZ's principal tasks was to train the ETs for their responsibilities within the SIV programme. Training courses on marketing, office organization, tax-related matters and accounting took place in local institutions such as the Chamber of Construction (*Cámara de Construcción*), in order to create a self-sustaining system that could potentially function in the absence of an international donor agency. Regional MIDUVIs and ANET were also trained and strengthened.

The Inter-American Development Bank (IDB) also plays an important role.<sup>(7)</sup> The vouchers for the SIV programme are financed by this institution which, to date, has loaned a total of US\$ 62 million for the two components of the SIV programme. The Ecuadorian government has contributed an additional US\$ 6.6 million. The second, and final, phase of support was planned to run from around August 2000 to mid-2005. In 2002, the IDB issued a new credit for US\$ 25 million for this purpose, to which the Ecuadorian government was expected to contribute an additional US\$ 15 million. Under this new arrangement, the government must finance 100 per cent of the vouchers in the future.<sup>(8)</sup>

### III. PROGRAMME PROCEDURES – HOUSING IMPROVEMENT

#### a. Conditions for applicants for housing improvement

EVERY ECUADORIAN CITIZEN over the age of 18 has the right to apply for a housing subsidy. He/she can also act as the representative of his/her family.<sup>(9)</sup> The families are included in the entire process and make decisions about what action is to be taken.

In order to qualify, the family must meet the following conditions:<sup>(10)</sup>

- the monthly family income should not exceed US\$ 240;
- the family must not own more than one dwelling;
- the family must have proof that at least US\$ 100 is held in a savings account in a financial institution;

- the estimated value of the dwelling prior to improvement should not exceed US\$ 4,000;
- the property should not be larger than 300 square metres and must lie within the city limits;
- an individual or global land title is required, with a certification that confirms the possibility of access to basic services; and
- the total value of the new construction must be between US\$ 850 (minimum savings plus voucher) and US\$ 2,500.

### b. Procedures

Several administrative steps are necessary for an individual to obtain a voucher. The average time from application to completion of the construction is approximately one year.<sup>(11)</sup> Most of the procedures take place at local and provincial levels between families, ETs, financial institutions and the regional MIDUVIs. These procedures can be summarized as follows.<sup>(12)</sup>

- **Invitation to apply and initial application:** At least once a year, the UCP (Project Coordination Unit) announces a date, published in the newspapers, encouraging the target group to apply for the subsidy. The announcement, with the invitation to tender, publicizes the release of a specific number of vouchers and contains details of the participating financial institutions, corresponding information services and the closing date for application. The initial application is confirmed with a copy of the applicant's national identity card and the opening of a savings account at a local financial institution, with a minimum deposit of US\$ 100. The applicant may withdraw his/her application at any time and the full amount will be reimbursed. In order to find out if he/she is eligible to qualify, the applicant may, at no additional cost, undergo a preliminary examination by an ET.
- **Application:** More than 18 documents must be submitted in the course of the application process. Cooperation between families, ETs, financial institutions and regional MIDUVIs is therefore necessary at local and provincial levels. These documents include certificates stating the applicant's income, documentation of property ownership from the responsible land-registration office and proof that the applicant owns only one property. The relevant ET then calculates the credit points achieved by each applicant, basing its assessment on the documents provided and on official regulations. Families with children but with only one parent, those with lower incomes and those with more savings (among other criteria) are given preference. Selected local financial institutions must then direct the completed documentation to the UCP for further handling.
- **Qualification:** When the required amount of savings has been deposited and the relevant documents submitted, the UCP selects the families which will qualify with the help of a specially developed points system and computer programme. The names of both the successful and the unsuccessful families, along with those of the responsible ETs, are subsequently published in the newspapers. This greatly improves the transparency of the system. Families that do not qualify may re-apply at the next tender opportunity.
- **Payment of the subsidy:** Initially, the voucher is a single-page document signed by the current MIDUVI minister, which is handed over to the qualifying families by the regional MIDUVIs. The following stage in the approval process occurs at local and provincial levels, and

11. See reference 5, Urbana Consultores Cia Ltda (2002), page 103.

12. See reference 10; also MIDUVI (June, 2000), Sistema de Incentivos para Vivienda SIV, Instructivos, Quito.

requires several transactions between financial institutions, ETs and regional MIDUVIs. The final release of the sum awarded must be authorized by the UCP. After successful qualification and authorization of the voucher, the subsidy is paid to the ET, together with the savings in the account held at the financial institution, with the consent of the beneficiary family. The subsidy is never paid directly to the family. The ET then uses these funds to purchase the necessary construction materials. In order to guarantee that the subsidy is used correctly for the intended purpose and that the planned construction will be carried out, the ET must take out an insurance policy that would repay the amount of the subsidy to MIDUVI should the subsidy be lost.

- **Execution and delivery of the construction work:** The ET (not the owner of the house) supervises the construction work. Once this is complete, one of the owners of the dwelling must sign a formal acceptance of the work and a certificate of delivery is issued. This provides the regional MIDUVI with evidence that the construction has been completed, and the insurance guarantee may then be released. The regional MIDUVI has the authority to carry out spot checks throughout the entire process.

#### IV. THE PRIVATE CONSTRUCTION SECTOR - THE ETs

DESPITE ECUADOR'S SEVERE economic crisis in 1999, the privately organized ETs have managed to carry out their responsibilities within the SIV programme and, in this way, guarantee a part of their income.<sup>(13)</sup> Initially, there was a steady increase in the number of ETs participating in the system. In 2001, there were more than 300 ETs throughout the country; during 2002, some of them withdrew from the system for various reasons, leaving approximately 180 working with the SIV programme. However, an indication of the ETs' success is that, over three years, only one insurance case has emerged.

The decrease in the number of ETs can be seen as a type of "natural selection" within a system that uses a market-based approach. Not all ETs can provide the same number of vouchers or offer the same skills. The strongest ETs can provide up to 400 vouchers, while others procure only one voucher per tender interval.

It is only worthwhile for a firm to participate in the SIV programme if it receives more than a minimum number of orders for housing improvement. Consecutive housing-improvement projects can be implemented more efficiently by making bulk purchases of materials for several improvements or by particular ETs specializing in certain types of projects that are frequently in demand, such as roof repairs.

The skills offered by ETs are also not uniform. The owners normally belong to the middle-income sector. They are aged between 35 and 50 and have previous professional experience. Most of the men work on the technical side, while women tend to carry out the social work.<sup>(14)</sup> Some participants in the stronger ETs have already worked with GTZ for several years on an earlier social housing consultation project,<sup>(15)</sup> and have therefore gained valuable experience working with public institutions and low-income families. These participants have acquired necessary skills by participating in training courses offered by the programme, and have received technical assistance over a long period.

Some ETs are also involved with the work of NGOs and are able to get

13. In 2000, with the introduction of the US dollar as the official currency, the inflation rate was 100 per cent (US dollar inflation). In 2002, the inflation rate in Ecuador was still 60 per cent.

14. Rodríguez, Ana Paulina, Gustavo Ojeda and Eliana Vivanco (2002), *El Pequeño Constructor y el Mejoramiento de la Vivienda*, MIDUVI, GTZ, Quito, page 12f.

15. The project was called CAVIP (Centro de Asesoramiento para la Vivienda Popular) and ended in 1999.

additional resources.<sup>(16)</sup> Because of this, many ETs are very familiar with each other, and their work is cooperative and based on a strong commitment and trust. Although these ETs have advantages over the “younger” ones, they do not necessarily provide more subsidies.

The housing-improvement component essentially offers the ETs an additional and stable source of income. In the housing improvement scheme, an ET earns approximately US\$ 140 for each US\$ 850 spent on a construction project. This calculation is based on the total cost of the construction work and, in 2002, represented about 17 per cent<sup>(17)</sup> of the building costs. This amount is paid by the customer for each house improvement, and is usually allocated together with the subsidy so that payment to the ET is assured. The long-term financial security of the ETs is, however, dependent on the total budget of the SIV programme, and therefore on the relevant policy makers.

To ensure stability within the system, the invitation to apply for subsidies should come from the ministry (the UCP) at regular intervals. Unfortunately, this has not been the case. Between 1999 and 2002, there were between one and four invitations to apply per year. Nearly 3,000 subsidies for housing improvement were assigned at each invitation.<sup>(18)</sup> But MIDUVI has made a commitment to only one invitation to apply per year.<sup>(19)</sup> This makes it difficult for private construction firms to plan effectively.

Some ETs are dedicated exclusively to the activities of the housing-improvement component. Others also work with the new housing component, where more profit can be made because of the greater value of the construction. The more stable and therefore more successful ETs are those that carry out activities in addition to those of the SIV programme. These ETs are not as dependent on the irregular tender cycles as those who work exclusively with the programme. Regulated, long-term planning could, however, lead to an increase in contracts, the hiring of more personnel and higher incomes.

The ETs involved have reacted very positively to the programme and have confirmed their wish to continue their involvement with it in the future. Another positive aspect is that it is extremely difficult for the programme to be influenced by corruption. A certain degree of social motivation is necessary for participation within the housing improvement component of the programme, and this is appreciated by the participants.<sup>(20)</sup>

## V. TARGET GROUP – LOW-INCOME FAMILIES

THE PROGRAMME HAS been well received by the target group and has become very well known. This is confirmed by a steady increase in the number of applications for construction subsidies, in the number of subsidies awarded and in the construction projects that have been undertaken. For many low-income families, the SIV programme represents the only realistic financing that they are able to access in order to improve their housing situation. In fact, due to the high demand in 2002, it was not possible for all of the applications that achieved the necessary number of points to be approved.

The programme requires that the plot concerned lie within the city limits and that the family possess a land title. Generally, Ecuadorian cities develop in an informal way, by occupation or by illegal sub-division of

16. For example, NGOs supported families by providing a US\$ 50 grant per family to help secure the necessary US\$ 100 savings.

17. See reference 14, page 11.

18. In 1999, there were four, in 2000 only three, in 2001 there was one and in 2002 there were two invitations to apply; also see reference 5, Urbana Consultores Cia Ltda (2002), page 73.

19. See reference 10, page 18, Capitel IV, Article 46.

20. See reference 14, page 12f.

|                         |   | Minimum           | Average           |
|-------------------------|---|-------------------|-------------------|
| Family                  | Savings (A)   | US\$ 100          |                   |
|                         | Fees for technical assistance (ETs: technical units)                                  | US\$ 140          |                   |
|                         | Accounting fees, acquiring documents  | US\$ 40           |                   |
|                         | Personal contribution to building costs (e.g. additional savings, building materials) |                   | US\$ 200          |
|                         | Loan (C)  |                   | Optional          |
|                         | <i>Total minimum contribution</i>   | <i>US\$ 280</i>   |                   |
| State                   | Subsidy (B)   | US\$ 750          |                   |
| <i>Total investment</i> |   | <i>US\$ 1,030</i> | <i>US\$ 1,230</i> |

21. For a résumé, see Frank, Daphne (2002), "Algunos aspectos sobre la informalidad urbana en Quito, Ecuador", Paper prepared for the professional course on Informal Land Markets at the Lincoln Institute of Land Policy, 18–22 November 2002, Cambridge, Massachusetts.

22. Metzger, Pascale and Nury Bermúdez (1996), "El medio ambiente urbano en Quito", *Colección Quito Metropolitano* No 15, Municipio del Distrito Metropolitano de Quito, Dirección General de Planificación (editors), Quito, page 25.

23. Jaramillo Barcia, Jakeline and Wladimir Rosero Ortiz (1996), "Mercado del suelo en Quito", *Colección Quito Metropolitano* No 13, Municipio del Distrito Metropolitano de Quito, Dirección General de Planificación (editors), Quito, page 26.

24. See Municipio del Distrito Metropolitano de Quito (1998), *Ordenanza según Registro Oficial No 310, Martes 5 de Mayo de 1998*, especially Section III: *De las Urbanizaciones y Programas de Vivienda de Interés Social*, Art. II 42 and Art. II 43, Quito.

25. See reference 14, page 11.

26. See reference 5, page 31.

land.<sup>(21)</sup> In the capital, Quito, over 45 per cent of construction is undertaken without public authorization.<sup>(22)</sup> The city limits have therefore been gradually adjusted.<sup>(23)</sup>

But informal occupation and illegal sub-divisions do not necessarily imply an absence of legal tenure. Global (or communal) land titles can be made available to legally recognized neighbourhood organizations or cooperatives, and are very common in Ecuador, not only in rural but also in urban areas. Because a global land title is accepted by the programme, access to subsidies based on land tenure is possible for a very large number of families. Local governments are responsible for legalization and regularization procedures and can also authorize the division of a global land title into several individual land titles. This procedure involves fees for each beneficiary. In certain areas (e.g., Quito), informal settlements can also be legalized by means of new cooperation between municipalities and local ETs, so that more families can obtain land titles and have access to the programme. In any situation where the owner of a global or communal land title is a neighbourhood organization or cooperative, the organization itself is responsible for providing basic infrastructure.<sup>(24)</sup> (Despite these titling practices, many families still have neither a global nor an individual land title.)

The other required document is a guarantee that access to basic services is possible (but not that this access actually exists.) The SIV programme permits an investment of up to 30 per cent of the building costs in the improvement of water supply and sanitation.

The average investment in a single housing-improvement construction project was US\$ 1,050.<sup>(25)</sup> This exceeds the US\$ 850 initially available (US\$ 100 in savings plus a US\$ 750 subsidy). Only one-third of the construction projects were financed with an additional mortgage loan, however.<sup>(26)</sup> The difference was usually made up by the provision of personal resources, for example additional construction materials.

It is evident that most families do not seek additional access to credit markets. Local bank interest rates are high, reaching up to 18 per cent a year on a US dollar basis. There has been insufficient research to show whether families actively try to obtain a loan, whether they are discouraged before applying, whether the requirements of the financial institutions are too demanding, or whether families simply cannot afford such

a loan. But evidence does suggest that families often lack confidence in the formal banking system.<sup>(27)</sup> It can be concluded that, in general, low-income families have access to the subsidy but not to housing loans.

In 1999, Ecuador suffered a severe banking crisis. Several important banks “disappeared” due to bad administration. Private bank accounts were frozen and families lost their deposits. Fiscal deficits of up to US\$ 2,800 million were incurred in order to cover the losses of the bankrupted banks and to pay back part of the savings to account holders.

In 2000, Ecuador introduced the US dollar as the exclusive official currency and froze the exchange rate at US\$ 1 to 25,000 sucres, the country’s former currency. This led to a high US dollar inflation rate. In other words, if a client deposited 1 million sucres in 1998, this was equivalent to US\$ 200 (the exchange rate was then at US\$ 1 to 5,000 sucres). In 2000, this amount was worth only US\$ 40, i.e. one-fifth of its former value. Meanwhile, clients with bank loans gained. During January 2000, food prices doubled in one week. Due to the situation, 400,000 Ecuadorians left the country in one year.<sup>(28)</sup> This supports the hypothesis that one reason for the small number of loans provided during this period was a lack of confidence in the formal banking system.

In this context, it should be noted that poverty in Ecuador has increased considerably in recent years, and family incomes are already far below the US\$ 240 maximum monthly income permitted in the SIV programme. This is reflected in the incomes of the beneficiary families, with the overwhelming majority of successful families (80 per cent) having incomes of less than US\$ 100 a month.<sup>(29)</sup>

It should therefore be emphasized that a family’s personal contribution to the programme is not only the required US\$ 100 minimum savings in a financial institution but also an additional US\$ 180,<sup>(30)</sup> consisting of accounting fees (US\$ 40),<sup>(31)</sup> the costs of acquiring the required 18 application documents (e.g., photocopies, transportation costs, etc.) and the fees paid to the ET (US\$ 140) (Table 1).

In order to raise the necessary funds, low-income families must reduce their daily expenditure on food, travel and clothing. Furniture is often sold to raise the money. It takes families between two and six months to save the required amount.<sup>(32)</sup> As yet, no detailed study has been carried out to determine the extent to which this affects the target group.

Nevertheless, only a small percentage of families withdraw from the programme during the process.<sup>(33)</sup> This is remarkable, as the entire procedure can take up to a year. The significant efforts made by families to save money contribute greatly to the success of the programme.

Beneficiaries are also usually satisfied with the completed construction projects. In a survey carried out at the end of 2002, every low-income family indicated that their housing situation, and therefore their quality of life, had significantly improved. The SIV programme even allowed some families to build an additional room, which they then used to set up a small business and further improve the family’s income.

## VI. PROGRAMME FINANCING AND ECONOMIC IMPACTS

AS PREVIOUSLY MENTIONED, the programme is financed by three elements (ABC): savings, the subsidy and a loan, although mainly by the first two components. An average of US\$ 1,050 is invested in each construc-

27. See reference 6.

28. Jara, Diego Delgado (2000), *Atraco Bancario y Dolarización*, Artes gráficas SILVA, Quito, February, pages 7f and 54.

29. See reference 5, page 76f.

30. See reference 14, page 11.

31. Bank charges vary between US\$ 20 and US\$ 40.

32. See reference 14, page 10f.

33. Usually, this is because they need the savings; see reference 5, Urbana Consultores Cia Ltda (2002), page 119.

tion project, and there are additional incidental costs of more than US\$ 180 (accounting fees, fees for the ET, etc.). The average total sum invested in housing improvement is therefore US\$ 1,230. Of this amount, US\$ 480 (US\$ 100 savings + US\$ 200 additional savings + US\$ 180 incidental costs) is provided by the family and US\$ 750 by the government subsidy; that is, approximately 40 per cent is contributed by the family and 60 per cent by the state.

To supplement the 25,000 vouchers awarded for housing improvement, US\$ 12 million were invested by the beneficiaries themselves. The government, in turn, contributed around US\$ 18 million in the form of subsidies. A total of around US\$ 30 million has therefore been invested in the housing improvement component in the last four years.

The programme has also had several secondary financial impacts. For example, the construction projects have resulted in additional tax revenue for the government: on average, US\$ 100 in taxes were paid per construction project, yielding a total of around US\$ 2.5 million. For the whole programme (housing improvement and new construction), US\$ 24 million of the US\$ 69 million investment were paid back to the government in taxes.<sup>(34)</sup>

Similar positive effects were also noted in the labour market and in the purchase of construction materials. Jobs were created – every ET employs, on average, 25 people (part-time labourers in addition to its core staff)<sup>(35)</sup> and, in the last three years, 24,000 long-term jobs have been created.<sup>(36)</sup> MIDUVI states that over 130,000 new jobs were also created for construction workers.<sup>(37)</sup>

In the financial sector, between US\$ 25 million<sup>(38)</sup> and US\$ 141 million in savings were estimated to have been invested in the programme. Between US\$ 11 million<sup>(39)</sup> and US\$ 100 million were brought in as loans for housing construction.<sup>(40)</sup> Despite the differences in these estimates, it is clear that the SIV programme has had a positive overall impact on the building sector and on the economy of the country.

## VII. SUSTAINABILITY OF THE PROGRAMME

IN THE FOLLOWING section, aspects of the programme's sustainability will be discussed. The programme is based in participating institutions and functions independently. The procedures and the structure of the system itself are organized in such a way that market incentives for the private sector are created, and this promotes the sustainability of the programme. There are, however, important points to be considered regarding political, financial and institutional sustainability.

### a. Political and financial sustainability of the programme

The programme depends financially on international credit, having been supported by credit from the IDB. Authorized credit from 2002 will finance the continuation of the programme. This loan is approved on the condition of 100 per cent funding or the release of a minimum of 10,000 subsidies annually.

Although the IDB loan was promised in the summer of 2001, it had not been released by January 2003. This was because the state's participation had not been guaranteed. This was to be decided by the new government of Lucio Gutiérrez, which came into office on 15th January 2003, but which,

34. Paredes, Lucio (May, 2002), Programa de Apoyo al Sector Vivienda, Impacto Económico del Sistema de Incentivos para la Vivienda en el Ecuador, informe de consultoría para MIDUVI, unpublished, pages 8, 9 and 21.

35. See reference 14, page 11.

36. See reference 34, pages 8, 9 and 21.

37. Rourk, Philip (2002), Informe Final: Programa de Apoyo al Sector Vivienda, préstamos BID 1078-0C-EC and 1002 SF-EF, evaluación del impacto, unpublished, Quito, page 11.

38. See reference 37, page 11.

39. See reference 34, page 8.

40. See reference 37, page 11.

since then, has been affected by a breakdown in the original coalition and changes in a number of political positions in ministries. Despite the success of SIV, its continued financing will always depend on policy makers. Although some people within MIDUVI are committed to trying to secure continued government funding for SIV, since the new government was elected, MIDUVI has had three ministers, the most recent since December 2003. The focus of MIDUVI at this point is less on SIV than on a new upgrading project in five settlements in different cities, which is financed by the same IDB loan. It is uncertain whether the government will continue to provide funds for the SIV subsidy once international funding ends, and generally the future of the programme remains insecure.

### **b. Institutional sustainability – the public sector**

The programme is directed by the UCP, a MIDUVI department. Personnel are currently paid by the IDB. Salaries are higher than the average incomes of public officials and this has probably contributed substantially to the motivation of personnel and the continuation of the programme.

This is important for institutional sustainability. If and when the IDB's credit ends, it will not be possible to finance salaries with government funds over a long-term period. Even though this is well known to the UCP, the ministry and the IDB, a concrete process has not been established that guarantees a sustainable insertion of the UCP department within the "regular" administrative structure of MIDUVI. It should be pointed out that the takeover of the programme from MIDUVI has also been mentioned as a condition for the latest approved IDB loan.<sup>(41)</sup>

### **c. Institutional sustainability – the private sector – ANET**

ANET, the national ET organization, is not yet on a secure enough footing to fulfil its objectives. It has no funding of its own and is dependent on regular payments by the ETs. A goal for the future should be to employ staff who are able to dedicate their time exclusively to the responsibilities of the organization. This work is currently unpaid. It is also increasingly clear that a decentralized organization of the regional or provincial associations of ANET (regional ANETs) would be more appropriate than a single national association,<sup>(42)</sup> and this should lead to a reconsideration of the current organizational structure.

## **VIII. CONCLUSIONS AND OUTLOOK**

IN GENERAL, THE programme for housing improvement has been a success. The target group is interested and responds to the incentives, and the private construction sector and financial institutions are actively involved in the system. Together, these constitute the prerequisites for the continuation of the programme. The system, with the cooperation of various actors, has been designed in a sustainable fashion, with a strong emphasis on market principles.

The SIV programme incorporates all the important components that enable it to assist low-income families to improve their housing situation. The programme is characterized by the following principles:

- families make their own contribution in the form of savings;
- building vouchers are awarded as direct subsidies to low-income fami-

41. See reference 4, Banco Interamericano de Desarrollo – BID (2002), page 9.

42. See final section in this paper for more on decentralization.

lies; these subsidy awards are transparent, since the names of the beneficiaries are published;

- the project-executing agency is a national, public institution, with the state functioning as a facilitator not as direct executor;
- the system is attractive to the private sector; participating companies, the ETs, work according to market principles and can finance themselves through the programme; financial institutions, such as private banks and credit unions, are also involved in the process; and
- the programme has nationwide coverage; it is not a pilot initiative.

The principles of this programme could, with some adjustments, be applied in other countries and circumstances. However, there is room for improvement.

Permanent monitoring of the programme is required and it is necessary to make sure that the desired target group is actually reached. Decisions need to be taken as to how the value of the subsidy and the conditions for family selection can be adjusted in the face of rising poverty and increasing construction costs.

A quantitative evaluation of the programme's success, assessing the contribution that the SIV programme makes to a reduction in the qualitative housing deficit, has yet to be carried out. Based on the number of houses that currently have defects, 25 years and at least US\$ 112.5 million would be needed to provide sufficient assistance at the programme's current rate of activity, without taking into account future population and urban growth. Building on the experience, capacities and skills of the current participants, it should be possible to increase the amount of subsidies. It has already been shown that up to four tender cycles per year are possible. With a routine minimum of 12,000 subsidies per year, the current demand could therefore be reduced in half the time.

The banks' credit system should be reformed so that low-income families have greater access to microcredit, with favourable interest rates and guarantee conditions. A watchful eye should be kept on the extra expenses incurred, such as banks' administration costs. These can easily amount to 20–40 per cent of the sum deposited.

The programme operates with every family individually and, in this context, it should be noted that Ecuador is one of only a few countries where experience with communal credit systems, such as rotating savings and credit associations (ROSCAs), has not existed in the past.<sup>43</sup> A decade

43. See Wai, U Tun (1992), "What have we learned about informal finance in three decades", in Adams, Dale W and Delbert A Fitchett (editors), *Informal Finance in Low-income Countries*, Westview Press, Boulder, Colorado, pages 337–348.

| Demand   |  | Offer                                |  |                                       |
|--|--|--------------------------------------|--|---------------------------------------|
| Overall number of houses with defects in urban areas | Number of low-income families with houses with defects | Subsidies for housing improvement    | Time needed to satisfy current demand    | Investment needed for subsidies       |
|  | 70% live below the poverty line                        | 25,000 subsidies provided in 4 years | 150,000 houses/ 6,000 subsidies per year | 6,000 subsidies x 25 years x US\$ 750 |
| 210,000 houses with defects                          | 150,000 houses with defects                            | 6,000 subsidies provided per year    | 25 years needed                          | US\$ 112.5 million needed             |

ago, NGOs began to organize microcredits of between US\$ 30 and US\$ 1,200 with communal banks, mostly for trade and business enterprises.<sup>(44)</sup> A few of these loans are also oriented towards housing investments. These experiences could serve as a model for providing loan incentives within the SIV programme.

The time taken to process the applications is also an important factor. For many families, one year is excessive. The lengthy procedures currently involved could be designed to be faster and more efficient, with the number of required documents reduced. A closer and more trusting cooperation between the various actors and with local governments could be crucial in reducing bureaucracy and costs.

While the programme is characterized by a high degree of decentralization, with most procedures taking place at a local level (involving low-income families, ETs, regional MIDUVIs, and regional financial institutions), other tasks should also be decentralized. Currently, the minister himself (central ministry) must sign the voucher for each individual family. Such tasks could be delegated to the provincial level.

In the long term, the state should take on fewer, and the financial institutions more, responsibilities in the process. Similar projects should examine carefully the possibilities of setting up such a system with more participation from municipalities and provincial governments. Decentralization of the programme could take into account local climate zones, available building materials and different plot sizes, in order to adapt responses most effectively. A regionally distributed subsidy could support those regions with high proportions of low-income families.

The SIV programme demonstrates that the private building sector, financial institutions and the government can successfully cooperate on a profitable market basis in the improvement of housing for low-income families. Because of the important incentives involved, each participant agency is committed to a critical and sustainable implementation of its role.

In 2003, a new left-wing government was elected in Ecuador. Since then, the housing policy has remained unclear, as has the financing of the current SIV programme from 2005 onwards. A strong political commitment is required, regardless of party. It is to be hoped that the programme's remarkable results will lead to further support.

44. See *El Comercio* (newspaper) (9 November 2003), *Las Mujeres de la Costa y de la Sierra son el Motor de los Bancos Comunales*, Quito.