Construction Assistance in Housing Micro Finance

A case study of Génesis Empresarial in Guatemala

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Abstract

Housing micro finance can be argued to be a service that is only benefiting the “better off poor”. But as the Nobel Prize winner Amartya Sen has observed “poverty must be seen as the deprivation of basic capabilities rather than merely as low incomes”. Extremely poor people don’t need commercial housing micro finance, they need food, shelter, medicines, skill training and employment for which government and donor subsidies and charitable contributions are appropriate. So if the goal is to eliminate extreme poverty, housing micro finance is not the way. Therefore the goal of the micro finance institution is utterly important for the defining the purpose of the services provided. Construction assistance in the manner supplied at Génesis must be seen as a way of ensuring the fulfilment of the organisations goal; achieve sustained development with a broad outreach, and as a quality assurance of the service provided.

Since construction assistance raises and assures the quality of the home improvement and therefore the home itself it contributes to economic impact by raising the general quality of housing in the target area, but also to socio-political and personal impact by increasing the families’ asset and raising their self esteem. Construction assistance can be seen as an institutional innovation that raises financial sustainability through the employment of cost-reducing systems such as construction and design programs. But it can also reduce the transaction costs that result from information asymmetry and moral hazard for both financial intermediaries and clients through the socio economic study and the actual time that the credit assessor spends with the client. The outreach is improved through the MFIs ability to discover and monitor the clients changing need by the help of construction assistance and it also improves the MFIs targeting mechanism through different marketing and promoting actions.

In the case of micro credits for general purposes or for small enterprises it is the client who has the best knowledge of how to use the money in the most efficient way, they know their business best. But when it comes to improving and constructing a home most of the clients don’t have the knowledge and necessary skills and this is why construction assistance is needed to ensure that the money is used in an efficient way. Therefore it is my conclusion that providing housing microfinance without ensuring a good and sound quality is not helping the poor families but giving them an extra weight to carry. The construction assistance in the form described in this thesis is a very good way of ensuring that sound quality and therefore housing microfinance should not be provided without it.
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1. Introduction

1.1 Background

In 1996 after 36 years of civil war there was peace in Guatemala. But despite of ten years of peace, Guatemala is still a country of grave social and economic injustice. More than half of the population live under the conditions of poverty and most of these belong to the indigenous Mayan population. On top of this, Guatemala, situated just below Mexico in Central America, was greatly affected by the hurricane Stan during the end of 2005 which killed almost a thousand people and destroyed or damaged 35 000 homes. This in a country that already has a housing deficit of over a million units on a population of 12 million. The mayor part of this deficit is qualitative which is defined as housing with poor quality and/or which are overcrowded.

The peace agreement signed in 1996 is the foundation on which the Swedish aid which is organized by Sida, Swedish International Development Cooperation Agency. Included in the Swedish aid is a program for local development using micro credits, which is small loans provided to the poor. The program is implemented in Guatemala by FDLG (Fideicomiso para el Desarrollo Local en Guatemala) which is a temporary government program formed as a trust fund with the purpose to improve the living conditions of low income families through home improvements, infrastructure, basic services and micro enterprise activities. A “Technical Unit” is responsible for the programs implementation, working with micro finance institutions, MFIs, the intermediary organisations’ providing the micro credits to the end users.

Housing micro finance, HMF, is a relatively new service in the micro finance sector. HMF intersects both housing finance and micro finance and encompasses financial services that allow poor and low-income earning people to finance their habitat needs. Non-financial services in the form of construction assistance, CA, are offered as an integral part of the loan package from the MFIs working with funds from FDLG in Guatemala. Construction assistance can include basic construction design, budget verification, guidance on materials and labour procurement, assistance with permits and legal requirements, construction oversight and verification.

1.2 Problem discussion

Not all MFIs offering housing micro finance around the world include construction assistance in their service. The use of construction assistance is discussed upon in the micro finance sector. Many MFIs and their donors argue that MFIs should only provide financial services and that the cost of providing the service is not justified compared to its impact. But since construction assistance is a fairly new service in housing micro finance is it also so, that many of the MFIs don’t know what constructions assistance involves and what the impact is on the MFI and the end client. Therefore it is important to investigate and describe what construction assistance actually involves, what is the impact of construction assistance on the delivered service and can it be done in a financially sustainable way from the MFIs point of view? There are widespread theories on how to perform micro finance in a sustainable way and there

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1 Guatemala; Sida Country Report 2005
2 Lineamientos para la Priorización de Intervenciones, que Permitan Reducir el Dèficit Habitacional, 2005
3 Interview with Per Fröberg, Sida, 2005
are also by now general principles on how to perform housing micro finance in a sustainable way. By combining these theories and general principles and including construction assistance as an additional service provided carrying its own costs, it should be possible to perform this service in a financially sustainable way. Then it should also be possible to explore the effect that construction assistance has on the end product; the home improvement but also the effect on the MFIs outreach and impact.

1.3 Purpose
My purpose is firstly to explore and describe what construction assistance is, what is generating its costs and what those costs are. Secondly I will explore how the introduction of construction assistance in housing micro finance is affecting the outreach, the impact and sustainability of the micro finance institutions providing construction assistance, specifically at Génesis Empresarial but also generally in the micro finance business.

1.4 Delimitations
This is a study made as a Minor Field Study where I spent six weeks in Guatemala during March and April of 2006. There I was fortunate to get the opportunity to work with both the FDLG and a micro finance institution called Fundación Génesis Empresarial, in the following text referred to as Génesis. Therefore the data collected on construction assistance in based on these two organisations view of what construction assistance is.
2. Methodology

In this chapter I will account for the scientific approach and methods used in this thesis and also explain why different methods have been chosen. The chapter also includes sections on how the collection of data was performed as well as sections on the scientific quality of the thesis.

2.1 Scientific approach

“Science is not united by its subject matter but rather by its methodology. What set the scientific approach apart from other modes of acquiring knowledge is the assumptions on which it is based and its methodology.”\(^4\) This means that the scientific approach is an approved way of acquiring knowledge which allows the acquiring to be called science. And in this context there are two mayor approved ways; the positivistic approach and the hermeneutic approach. The positivistic approach has its origin in the natural sciences and is the strive for absolute knowledge. According to those who take on this approach there are only two sources of knowledge; what we can register with our senses and what we can calculate with our logic. This means that the methods of the positivistic approach are usually statistically and quantitative, handling large amounts of data based on surveys with systematic questions. The positivistic researcher tries to be totally objective and free of prejudices.

The hermeneutic approach is a more humanistic approach with the emphasis on interpretation since the approach has its origin in the text interpretations of literature. The methods used by hermeneutic researchers are usually qualitative with in-depth interviews with a selected population. The researchers are not concerned with objectivity but rather see pre-understanding as an important clue to knowledge. My pre-understanding has been an important aspect in my selection of population. Since my friend introduced me to the appropriate people at Sida, the selection process became a natural process in the communication with Sida and the FDLG. The researchers of the hermeneutic approach are sometimes even taking part in the subjects’ actions for a deeper understanding of the studied phenomena. My deeper understanding will be achieved by field research where I will be observing and interviewing people taking part in the construction assistance process. The approach taken in this thesis is therefore the hermeneutic approach since I am observing, describing and trying to understand what construction assistance in housing micro finance really involves and means for those engaged in the process.

2.2 Empirical method

The purpose of this thesis will be accomplished by first describing the different components of housing improvement loans and construction assistance at Génesis through means of a field study. Secondly I will use quantitative methods to calculate the costs of construction assistance and finally use the data collected and calculated for comparison with the theories of financially sustainable micro finance. Finally I will explore the effect of construction assistance on the outreach and impact of the MFIs supplying the service.

\(^4\) Research methods in the social sciences; Frankfort-Nachmias, Nachmias, 1992
2.2.1 Field research

The method I have chosen to accomplish my purpose is a qualitative method called participant observation and is a method where the researcher collects data by observing and actively taking part in the subject’s activities. Participant observation is often used by anthropologists and sociologists and was developed in the beginning of the 19th century. The method is frequently used in field studies and the researcher usually moves freely on a scale between strictly observing to fully participating. This also implies that an important part of the analysis in participant observation takes place while the researcher is collecting data in the field. As the researchers observe they are selective but at the same time able to reflect over their choices and use these reflections in the analysis of the material.

One important aspect of field research is the pre-understanding of the researcher. According to the hermeneutic theory the researcher always have a pre-understanding before beginning the research and this pre-understanding will gradually change during the process of acquiring knowledge. My own pre-understanding is mostly based on the fact that I visited Guatemala on vacation six months before my field study and that a close friend of mine has been working in the country for 15 years. The ideal is to enter the field with an open mind but with enough knowledge to be able to conduct your study in an effective way. It is important to take in not only facts about your topic of research but also about the country and environment in which the field study takes place. The researcher must know enough to be able to ask the right questions, in the right time, with the right words, to the right people in order to get useful and correct information.

Participant observation is often combined with several other methods, both qualitative and quantitative, and this is called triangulation. Commonly document analysis and interviews are used in combination with participant observation and the interviews often range from strictly structured interviews to loosely structured conversations. One often complements the other and its common to work parallel with different methods during field research. I have used semi-structured interviews when interviewing employees and managers at the offices but made more loose conversation when observing and interviewing out in the field with the credit officers and clients. I have also made extensive document analysis, both before going into the field, during my time in Guatemala and when I came home.

2.2.2 Quantitative analyzes

According to Silverman the data collected through participant observation can be quantified and validated in accordance with more quantitative studies. I will use the data collected during my observations and interviews to analyze what is generating the costs of construction assistance and then quantify this data in a cost/income analysis. Cost/income analysis is a collective term used for several techniques used in finance but in this thesis it refers to a product calculation used for calculating the costs and profitability for construction assistance. The aim is that every object shall carry its own costs which is called the causality principle. The analysis is based on the division of the costs in direct and indirect costs and the indirect costs are then allocated with time spent with every client as the allocation principle.

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5 Deltagande observation, Fanger, 2005
6 Deltagande observation, Fanger, 2005
7 Deltagande observation, Fanger, 2005
8 Kalkyler som beslutunderlag, Andersson, 1991
2.3 Collection of data

The selection process in studies with participant observation does not follow the same principles as the selection in a quantitative study. In most cases the selection of geographical place, social entity and informants will come naturally as the researchers relation to the field is evolving. In my case I chose Guatemala because of my friend’s interest in the country and that led me to Sida and the organisations working with them.

When doing field research it is always ideal to go into the field with an open mind, but at the same time be adequately prepared to perform your studies in an appropriate way. You should therefore prepare by reading relevant material on your subject such as research and articles but also information about the political situation in the country, the environment, history etc. This is essential for being able to understand what you see during your time in the field and an important clue to being able to ask the right questions. Before I left for Guatemala I studied information about Guatemala itself but also about the cooperation between Guatemala and Sweden through Sida. I also tried to form myself a picture of the trust fund handling the Sida funds and the intermediary organisations providing the credits. I investigated what is internationally considered financially sustainable in the literature of micro finance generally and housing micro finance and construction assistance specifically. Finally I had a meeting with Per Fröberg, administrative executive for Guatemala at SIDA, Stockholm. He provided me with more general information about the situation in Guatemala, the relationship between SIDA and the FDLG and he also wrote to the FDLG and prepared them for my arrival.

Well in Guatemala I started out by spending a few days at the FDLG. Firstly I made an interview with Teresa Novell who is manager of the Technical Unit at FDLG. From the information she gave me I was able to form a general picture of what technical assistance to the MFIs involves in general and construction assistance specifically. She also helped me to arrange an introduction meeting with the managing director of the FDLG, Maritza Canek Pinelo, and there I introduced myself and my intentions with my thesis. At the meeting with the managing director I asked her to select one MFI that receive loans from the trust fund and that they consider is working most efficiently in the area of contruction assistance. The director suggested Génesis Empresarial and their local office in Escuintla since Génesis has been working with construction assistance for a couple of years now and therefore they have the most experience on this subject.

The managing director of FDLG also suggested that one of the employees of FDLG, architect Edwin Mazariégos, would join me at my visit to Génesis as a guide and help me introduce myself to the managers at Génesis. This arrangement facilitated my visit at Génesis immensely since Edwin both knew what I wanted to know and who could answer my questions at Génesis. At our arrival in Escuintla we had a meeting with the manager, Juan Carlos Orellana, where I introduced myself and my intents. The manager then explained the general functions of a technical officer and showed us some documents and routines that are used in the construction assistance process. Then we where allowed to follow a technical officer, Alexander Regalado Marroquin, in his daily work. Also joining us was a Technical supervisor, Carlos Patzán, who employed by Génesis central office. By following the technical officer in the field I gained a deeper understanding of what construction assistance involves. Who does what and when? Is the construction assistance different for different types

9 Deltagande observation, Fangen, 2005
10 Deltagande observation, Fangen, 2005
of loans? Are there different stages of the construction assistance? All this information was very helpful in the process of estimating what generates the specific costs and incomes of construction assistance. Back at the office of FDLG I later had a meeting with the manager for the Technical unit at Génesis, Edgar Juárez Sepúlveda and he presented me with a very useful estimate of the costs of construction assistance at Génesis. This estimate was then used as the base for my cost/income analysis of construction assistance at Génesis. During my stay in Guatemala I also had meetings and conversations with Eberto de Leon who work as a consultant on housing micro finance and he gave me additional information on the general picture of housing micro finance and construction assistance.

2.4 Reliability and validity
Quantitative and qualitative research methods use different techniques in order to reach their result. For all these techniques it is vital to be able to evaluate how well they measure what you intend to measure. The terms validity and reliability are used to describe how well the data collection process has worked. Both these terms were initially developed and used in quantitative studies but have in later years also been used when evaluating qualitative studies.

Validity indicates if the researcher is measuring the right thing according to the purpose of the study and reliability if it is measured in the right way, if the result is reliable. Participant observation is a method that grants a high degree of validity since the researcher mostly can judge the truthfulness in the informant’s responses, the validity of the observations and interpretations immediately in the field.11 It is also possible to cross control the answers, observations and interpretations with informants and others, during the field period which is called communicative validity. Here it is though important to remember that they might agree or disagree depending on their own involvement in the field. I believe that in the aspect of construction assistance at Génesis the validity of this study is very high since the informants are very open about this service and very proud of their performance of CA. Positivistic validity is achieved by quantifying some of the data collected and testing them with statistical methods. In the cost/income analysis I have been able to use data collected by the manager of technical unit at Génesis and I believe that he has a better knowledge of what generates costs than I will ever get, so the positivistic validity of that analysis should also be high.

Reliability in studies based on participant observations can be defined as the coherence of different observers and different points in time. Should another independent observer that sees and hears the same things come to the same conclusion? This is of course impossible to reach since we are selective by necessity when we observe. Glassner and Loughlin12 argue for a more indirect approach where the researcher account for how he or she reached his/hers interpretations by showing what observations they are based on and how these observations can be understood according to applied theories. The more detailed the process is described the easier it is to evaluate the reliability. I have been trying to account for my doings as much as possible but it is also difficult to remember all said and done when you are out in the field since there is an abundance of impressions and experiences coming at you. The use of multiple methods for collecting the material in participant observation reduces the risk of observer bias and this I have also tried to achieve by talking to different persons in the organisations but also studied different sources of documents on the subject.

11 Deltagande observation, Fanger, 2005
12 Deltagande observation, Fanger, 2005
Generalisation in participant observation is concerned with whether or not the interpretations of the observations can be transferred to and be valid in other similar situations. The ideal is of course that the separate case can contribute to a more general theoretic understanding of a phenomenon. Most important in qualitative studies is the analytic generalisation which is to what extent can the result from one study be used as guidance to what will happen in another situation. It is seldom possible to repeat the same data collection with participant observation a second time since environment and organisations change with time and the reactions can be different with a different researcher. My hope is though that the observations made in this case can aid others trying to understand the concept of construction assistance and housing micro finance.
3. Theoretical framework

In this section I will start out by introducing theories behind microfinance in general and then move on to a specific theory for sustainable microfinance; the financial systems approach. Subsequently I will account for general principles used in housing microfinance and construction assistance and finally I will describe the theory on the microfinance triangle that describes the impact, outreach and sustainability of microfinance.

3.1 Microfinance

“Among the economically active poor of the developing world, there is a strong demand for small-scale commercial financial services”\(^{13}\) This demand is thus rarely met by the formal financial sector. Some poor are in fact served by government- or donor-financed nonbank financial institutions such as NGOs (nongovernmental organisations) and others are served by state-owned formal financial institutions that provide government- and donor-financed subsidized credit. But many of these institutions are capital constrained, have high arrears and large losses, poor outreach and widespread inefficiency and corruption. There is also an ongoing belief that providing small-scale financial services to the poor are too costly for non-subsidized institutions and that the demand is met by the informal market. “Those who hold the power do not understand the demand; those who understand the demand do not hold the power.”\(^{14}\) The poor are excluded from the formal markets and are therefore unable to inform those markets about their demand and creditworthiness.

The word microfinance is used today as a generic term for financial services for the poor. It originally involved small credits and savings for micro and small enterprises but has grown to include for example insurances, money transfers, credit cards, savings accounts and housing microfinance. These services are provided by a range of microfinance institutions, MFIs, ranging from informal local groups through semi formal organisations to formal actors. A MFI can be a non-profit organisation, a foundation, a cooperative, a bank or other any other form of juridical organisation. Many microfinance institutions have over the years developed into profitable enterprises which in turn have created a growing interest from commercial actors for microfinance.

The typical client of a MFI is a person with low income, which for several reasons lacks the access to ordinary banks\(^{15}\). The term economically active poor is often used to describe a person “who have some sort of employment and who are not severely food-deficit or destitute. Commercial microfinance is not appropriate, however, for extremely poor people who are badly malnourished, ill or without skills or employments opportunities. For these people, microfinance is the next step – after they are able to work.”\(^{16}\) Without the MFI the economically active poor client would be left with the option of loan sharks or local businessmen where the interest rates are too high. The microfinance services can provide means for the poor to work its way out of poverty by providing small credits and a way to save money. But microfinance institutions are also helping their clients to be less vulnerable, increasing their incomes and strengthening their positions.

\(^{13}\) The Microfinance Revolution, Robinson, May 2001
\(^{14}\) The Microfinance Revolution, Robinson, May 2001
\(^{15}\) Mikrofinanssskola, Kyrkornas U-fond, 2005
\(^{16}\) The Microfinance Revolution, Robinson, May 2001
During the 1990s two major views emerged in the micro finance industry; the financial systems approach and the poverty lending approach. Both share the same goal of wanting to provide financial services for the poor but the poverty lending approach focuses on reducing poverty through credits, with below market interest rates, funded by donor and government subsidies. Because donors and governments must choose among options to place their funds, the tools of the poverty lending approach are poorly suited for building micro finance on a global scale. Many of the credits are provided to the extremely poor together with complementary services as skills training and teaching of literacy, health, nutrition and family planning. Most of these institutions are not sustainable, primarily because their interest rates on loans are too low for full cost recovery. The financial systems approach on the other hand focuses on commercial financial intermediation among poor clients with emphasis on institutional self-sufficiency. “Thousands of clients can be served through either method. But serving millions of clients on a long-term basis in multiple, competing institutions requires a financial systems approach.”

3.1.1 The financial systems approach

The financial systems approach emphasizes given the enabling macroeconomic, political, legal, regulatory and demographic conditions, commercial institutions can be developed to provide financial intermediation for the economically active poor and can deliver services at the local level profitably, sustainably, without subsidy and with wide coverage. But it also states that commercial micro finance is a complement to government and donor poverty alleviation, not a substitute. The financial systems approach broadly groups five common elements that are shared by self-sufficient micro finance institutions; knowledge of the commercial micro finance business and its clients, characteristics of institutional ownership, priorities in organization and management, development of human resources, and corporate philosophy.

Knowledge of the commercial micro finance business and its clients include knowledge of the economics, politics, legal and social structures and practices, and natural environments of the areas served. It also involves understanding of the operations and dynamics of the local markets, both formal and informal as well as an in-depth understanding of the extent and types of demand for micro finance. Important is also knowledge of the institution’s clients and their households and the ability to treat poor clients consistently as valued, respected customers. Financial expertise such as managing portfolio risk, perform internal supervision, maintain accounting, reporting and management systems is also vital knowledge for the micro finance institutions as well as public relations skills with the ability to sell services in locally appropriate and appealing ways.

Institutional ownership means that despite the fact that owners of micro finance institutions are a strange mix of governments, donors, social investors, banks, business people etc, they share certain characteristics. They have a defined mission, an established effective governance structure with an appointed governance board whose members are committed to profitable micro finance with wide outreach. They act like commercial shareholders that mandate the setting of interest rates and fees that fully cover financial costs, operating costs and risks. The

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17 The Microfinance Revolution, Robinson, May 2001
18 The Microfinance Revolution, Robinson, May 2001
19 The Microfinance Revolution, Robinson, May 2001
owners are active, committed and accountable for the financial health of the organisation and understand the business opportunities of micro finance.

Organization and management in profitable commercial micro finance institutions share a number of features. Their branches are treated as profit centres with everyone connected to the institution are held accountable for their performance and responsibility is decentralized. Staff training, performance based staff incentives and human resource management are given high priority and strong emphasis is placed on effective supervision. Managers are aware of that micro finance is a new industry with substantial new industry risk and that industry standards are at an early stage of development. They must also develop a good working relationship with regulatory and supervisory authorities, who may not understand the goals and methods of commercial micro finance and therefore managers must also be prepared to explain why their institutions are not engaged in charity work. In addition to this the managers must ensure that their institutions have well designed systems of staff recruitment, evaluation and incentives and that service locations and opening hours are convenient for the clients.

Development of human resources is extremely important since the micro finance business is very labour intensive. It is important that there is a developed career track that is desirable and appropriate compensation packages for staff at all levels of the organisation. There should also be an established recruiting method that results in hiring staff that are respectful of, and helpful to, low-income clients. Management and staff training programs shall be specifically designed for micro finance which includes training in assessing creditworthiness, training in talking with poor clients and putting them at ease and preparing profit and loss statements. It is also essential that there is a developed culture of accountability but also attractive staff incentives that are based on performance indicators.

Corporate philosophy will vary somewhat depending on country and culture but the basic philosophy is the same everywhere. “Success in commercial micro finance is based on trust, incentives, commitment, simplicity and standardisation along with service, transparency, flexibility, accountability, profitability, and training of staff and knowledge of the local market.”

The financial systems approach has also identified some common basic operating principles that are present in sustainable institutional micro finance. There are principles regarding both savings mobilization and credit delivery. Since this thesis only deals with credits and not savings, only the operating principles for credit delivery will be accounted for. These principles involve procedures regarding loan products, approval and disbursement, collection policies and procedures and loan portfolio management.

Loan products are standardized but with flexibility to meet the borrowers’ need. The loans are not limited to any sector, commodity or group and are made to individuals or self-formed groups whose members guarantee each others loans. Loans are granted incrementally with new clients starting with small loans and with proven capacity to repay are granted larger loans. Most loans are for working capital with relatively short terms and frequent payment. The loans are only granted to people experienced in their field of business and borrower training is not required to receive a loan.

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20 The Microfinance Revolution, Robinson, May 2001
Loan approval and disbursement means that staffs are trained to do socioeconomic studies of the clients as well as evaluate the capacity to repay their loan. Loan amounts are based on the clients’ current income, not estimated future incomes and the loan application process is simple with most credit decisions made quickly. The borrower transaction costs are thus fairly low because forms and procedures are simple and repeat visits to the institution is often not necessary.

Loan collection policies and procedures involves the institution bearing the full credit risk and are therefore motivated to have an effective loan collection system where the same local staff who approve the loan are responsible for collecting them. Credit officers do not monitor the clients’ use of the loan unless they are in arrears which enable the officer to serve more clients. The clients are informed that good repayment records will enable them to reborrow and clients can be offered incentives for prompt repayments. Clients how don’t repay are informed that they are not permitted to borrow again and late repayments are recorded promptly with the entire outstanding balance recorded delinquent.

Loan portfolio management are characterized by the loan accounting and reporting are simple and transparent and that the management information systems are simple and designed to permit frequent and accurate assessments of performance. The loan loss reserves and provisions are adequate and regularly reviewed with bad debts written off based on standardized criteria. Delinquency measurements and management are given high priority and the same with asset-liability management. The local offices are regularly supervised by specially trained personnel and estimates of demand are done routinely. The loan portfolio is also diversified with regard to enterprise and region.

### 3.2 Housing micro finance

Housing micro finance, HMF, is a relatively new service in the micro finance sector and I will therefore briefly explain in the following section the general practices in the sector. HMF intersects both housing finance and micro finance and encompasses financial services that allow poor and low-income earning people to finance the habitat needs. HMF can be linked to pre-existing credit and savings services or exist as a stand-alone financial service that is independent of other product offerings. The loans offered to the end-client are for relatively small amounts and based on the clients’ capacity to repay. The repayment periods are relatively short compared to standard mortgage loans but longer than standard MFI loans. The loan pricing is expected to cover the real, long-run costs of providing the services. Non-financial services in the form of construction assistance, CA, are sometimes offered as an integral part of the loan package.

#### 3.2.1 Home Improvement Loan Program, HILP

The practices that exist has evolved from the experiences made by some of the leading micro finance institutions and the most commonly referred to is that of the Cooperative Housing Foundation, CHF who has been working in the housing micro finance field since the early 80s. They have developed a Home Improvement Loan Program, HILP, which “provides a systematic approach to understanding the issues a microfinance institution (MFI) must consider before adding a home improvement loan program (HILP) to its product line… HILPs are designed to address the habitat needs of the economically active poor in a manner that is

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21 So, you want to do housing microfinance?, CHF, 2001
incremental, demand-driven, and financially viable in the long run, and does not rely on substantial collateralization. The program describes a stand-alone housing microfinance product that allows the MFIs to respond to the evolving needs of their clients. The program includes seven attributes that are common features in housing microfinance. The attributes are Repayment capacity, Loan purpose, Loan maturity, Loan amounts, Loan security, Technical assistance and supervision and Land Security.

Repayment capacity is based on the clients’ current income since the home improvement loans are designed to increase the client’s assets base rather than to increase the income. The periodic loan payment should therefore not exceed 25% of the clients’ total household monthly income. Since some clients also have other informal or microfinance loans, the clients’ total debt burden, including the home improvement loan should not exceed 40% of the household’s total monthly income.

Loan purpose means that the loan shall be used to improve the conditions of an already existing structure. The loans are usually used for non-movable improvements and should not be used for the purchase of household appliances. The improvement can generally be grouped into major and minor improvements with major improvements being major renovation or addition of bathrooms, kitchens and living space. They also include major repairs or replacement of walls, floors, roofs and sanitary fixtures as well as strengthening of homes with hurricane-resistant technology.

“Loan maturity or repayment period for home improvement loans is a function of the cost of the improvement, the borrower’s repayment capacity, and the interest rate of the program.” The appropriate repayment period for home improvement loans according to CHF is typically between six months to three years. The repayment period is kept short because in CHF’s experience the longer the repayment period the larger the risk of arrears. There is also the risk of inflation affecting the client’s income during the repayment period and decreasing their purchasing power, and then they might be tempted to use the repayment money for other purposes. Since the home improvement loan is a stand-alone product and the MFI may not have any prior history with the client, the shorter loan terms is preferable.

Loan amounts are based on the cost of the improvement and the client’s repayment capacity. Since the client’s is commonly low-income households which will sometimes perform their on improvement, the loan amount in these cases only cover construction material and any necessary skilled labour.

Loan security should help to ensure prompt and full loan repayment with minimal administrative effort and cost since minimization of the administrative costs are crucial due to the loan size and high cost of technical supervision. Though continued access to credits provides a powerful repayment incentive, CHF recommends that the home improvement loans shall be secured since they are relatively larger in size than regular microfinance loans. Co-signers provide the greatest security at the lowest cost and typically one to two co-signers are used. The co-signers shall undergo the same scrutiny as the client in terms of debt burden and repayment capacity. Collateral can also be an option, but not an house, since in many developing countries the clients don’t have legal or formal right to their house and therefore it

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22 So, you want to do housing microfinance?, CHF, 2001
23 So, you want to do housing microfinance?, CHF, 2001
is difficult to ensure the right to seize the house should the client default. CHF does not recommend group-lending methodology in place of collateral because of the longer repayment periods and large amounts.

Technical assistance or construction assistance, and supervision are non-financial services provided to the client by the MFI as an integral component in the HILP. According to CHF not all housing micro finance programs need to include this component but that it is preferable “in contexts where the actual completion of the improvement is the main program objective, and where no dependable outside systems (such as reliable construction permit process) exist to verify the quality of the improvement”. The cost of construction assistance should be factored in the pricing of the loan product which also implies that the value of the service must be sufficient for the client to consider paying for it. This attribute will be described and discussed in more detail in following chapters.

Land security is defined as the right to use the property, the assurance that the user will not be forced to vacate the property and evidence that this assurance is supported by usual and customary local practices. The preferred security is a documented proof of owning ownership but in reality it is more common with some written agreement between seller and buyer, a long term rental agreement, the number of years the client has inhabited the property without due notices or payment by the homeowner of taxes to the government.

3.2.2 Construction Assistance

Construction assistance can include basic construction design to ensure that the proposed intervention complies with basic safety and legal requirements. It can include a budget verification to ensure that the proposed cost estimate for the intervention is appropriate and matches the client’s loan request. Guidance on materials and labour procurement can also be included to help the client make cost effective decisions. The client can also get assistance with permits and legal requirements. Some MFIs also follow up to ensure that the client fulfil the original purpose of the loan. This can include construction oversight to ensure the contractor faithfully executes the work for which he has been hired. Verification that the construction has been completed in accordance with the MFI’s agreement with the client or in compliance with applicable law can also be included in the follow up. The CA is commonly provided either by in-house capacity of the MFI or by outsourcing the work to a specialized institution/individual.

According to CHF the construction assistance can be used in four main ways to accomplish:

- Help determine what materials are required for the proposed improvement, the cost of these materials, and whether the improvement can be completed with the requested loan amount, within the allowable repayment period;
- Provide oversight and risk management through regular client contact, thus increasing the likelihood that the loan will be repaid;
- Ensure that the specific improvement can be completed in a technically sound manner; and,
- Certify that the construction is executed as proposed.

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24 So, you want to do housing microfinance, CHF, 2001
25 So, you want to do housing micro finance, CHF, 2001
The construction assistance is provided through pre-loan meetings with the clients and supervisory visits to the construction site. At least one of the staff members of the MFI should have formal training as an engineer and/or architect and all other staff members shall have practical understanding of the local construction practices. The construction assistance staff should be visiting prospective clients to review proposed home improvements as well as evaluating the technical feasibility of the improvement. They should also be preparing cost estimates with lists of required materials and timetables and be verifying these estimates with the approved loan amount. Included in their duties is also verifying the land security status and provide assistance in design and construction. Finally they will also monitor and supervise the construction, provide oversight to ensure the appropriate use of the loan and authorize any further loan disbursements.

3.4 The micro finance triangle

The triangle of micro finance is a conceptual framework which seeks to give a better understanding of the existing trade-offs and synergies between the overall objectives of the micro finance business; financial sustainability, outreach to the poor and the welfare impact. The three objectives of is illustrated in the triangle of microfinance in the figure below. The inner circle represents the many types of institutional innovations that contribute to improving financial sustainability, impact and outreach. These innovations can be cost-reducing information systems (financial sustainability), designing demand-oriented services and training of clients (impact), and more effective targeting mechanisms or lending methodologies (outreach). The outer circle represents the external socioeconomic environment as well as the macroeconomic and sectoral policies that affect the performance of the financial institutions.

![Figur 1: The triangle of microfinance (Zeller, Meyer, 2002)](image)

26 The triangle of microfinance: Zeller, Meyer, 2002
27 The triangle of microfinance: Zeller, Meyer, 2002
The outreach of the institutions is a heterogeneous population, whose degree of exclusion from financial services may vary and whose distance from the poverty line in their respective countries may differ. Outreach is also the social value of the output of the MFI in terms of depth, worth to users, cost to users, breadth, length, and scope. Depth of outreach is how far down the poverty scale of the target population the institutions are reaching and the breadth of outreach is the number of users. The worth to users is how much the borrowers are willing to pay and depends on the loan contract and the tastes, constraints and opportunities of the user. The cost of outreach to users is the cost of a loan to a borrower and includes both price and transaction costs. The length of outreach is the time frame in which a MFI produces loans and the scope of outreach is the number of financial services offered by the MFI.

Financial sustainability means permanence but sustainability is not necessary or sufficient for social optimality. But in practice sustainable institutions tend to improve welfare the most and unsustainable institutions tend to inflict costs on the poor in the future in excess of the gains enjoyed by the poor at the moment. Therefore sustainability is not an end itself but a means to the end of improved social welfare.

Impact can broadly be defined in three categories; economic, socio-political or cultural, and personal or psychological. Within these categories are different levels of effect and different targets. The economic impact can be at the level of the economy itself with a large MFI reaching thousands of clients with the aim to effect the economic growth in a region or sector. It can also be at the level of an enterprise or a sub sector of the informal economy. Finally the economic impact can be seen at the level of the community or households in terms of aggregate accumulation of wealth or consumption smoothing. The socio-political or cultural impacts can include shifts in the political-economic status of a certain group by enabling the forming of associations or change policy in their favour. In rural areas the impact might be a shift from barter to a monetarized economy. It can also be changes in power and status relationships in the case of minority ethnic groups or the redistribution of assets or changes in children’s nutrition or education as a result of activities aimed at their mothers. The personal or psychological impacts might be empowerment effects in the case of for example women or indigenous people, empowerment both in community and household but also changes in the borrowers’ sense of self.

The objectives of micro finance has changed over the years from initially being improving the outreach of the micro finance institutions to the poor, that is, serving more of the poor (breadth of outreach) and more of the poorest of the poor (depth of outreach). But lately the view has emerged that the building of lasting financial institutions requires that they become financially sustainable. But there appear to be a trade-off between improving outreach and achieving financial sustainability which stems from the fact that MFI transaction costs are high for obtaining information about the creditworthiness of poor clients. There is also the issue of the welfare impact of micro finance. Most MFIs that reach large numbers of clients below the poverty line require state or donor transfer to subsidize their costs. Such public investments are only justified from a public policy perspective if the social benefits outweigh the social costs when scarce government or donor funds are used for financing micro finance.

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28 Paxton and Cuevas in Zeller, Meyer, 2002
29 Navajas et al. In Zeller, Meyer, 2002
30 Navajas et al. in Zeller, Meyer, 2002
31 Microfinance handbook, Ledgerwood, 2000
32 The triangle of microfinance: Zeller, Meyer, 2002
There are as mentioned trade-offs between depth of outreach and financial sustainability but also between impact and sustainability. The impact of microfinance can be enhanced by complementary services such as business or marketing services or training of borrowers that raises the profitability but these services come at a price. There may also be trade-offs between impact and depth of outreach. Expanding financial services to the very poor may improve the welfare by smoothing their consumption but not necessarily lift them out of poverty since they lack the factors to raise their income by expanding their production frontier.

There are also potential synergies from the three objectives of the triangle. Financial sustainability can be perceived by potential clients as an important factor when becoming a client and can therefore improve the outreach of the MFI. This is especially important for institutions approaching potential savers. An institution striving for financial sustainability becomes very sensitive for client demand which means that they tend to improve products and operations. This in turn generates better financial services which generates greater economic benefits for the clients and thus greater impact.
4. Empirical findings

In the following chapter I will account for the empirical finding in this thesis, starting with an introduction to the situation in Guatemala, the Swedish aid to Guatemala and micro finance in Guatemala. The main section of this chapter begins with an introduction to housing micro finance in the country followed by a section on the trust fund and organisation which I studied in detail, describing their approach to housing micro finance and construction assistance. I will conclude the chapter with a report of the cost/income-analysis of the CA made at Génesis Empresarial.

4.1 Guatemala

Guatemala is situated in Central America just below Mexico. It has a population of 12 millions and the capital is Guatemala City with 3 million inhabitants. The country is divided in 21 departments geographically but also divided in more than 20 different language groups. The reason for this is that 50 – 60 % of the population in Guatemala is indigenous and almost all of them are of Mayan decent. The Mayans are spread throughout the country with a concentration in the highlands and most of them still speak a Mayan language. There are approximately 20 separate and often mutually unintelligible Mayan languages spoken in Guatemala. Though many Mayan speak some Spanish, it is always a second language to them and many don’t speak Spanish at all. This makes Guatemala a multiethnic, multicultural and multilingual country.

Guatemala is a country with a severe social injustice. “The historical relationship between the state and the indigenous population has been marked by racism, inequality and exclusion”33. While a small elite dominate the country when it comes to ownership and political influence, the majority of the people live in poverty. The Gini index, which measures the extent to which the distribution of income (or consumption) among individuals or households within a country deviates from a perfectly equal distribution and a value of zero represents perfect equality34, is for Guatemala is 55,8 This is one of the highest values in Latin America and therefore also one of the highest in the world. Guatemala is also one of the few countries which has a HDI, (the UN Human Development Index, which is a comparative measure of poverty, literacy, education, life expectancy, childbirth, and other factors for countries worldwide35), ranking far lower than its GDP ranking which suggest that economic growth has had very limited impact on the general human development in the country. The illiteracy is also one of the highest in the world with an overall of 30% and in the regions were the majority of the population is indigenous the figure rises to over 50%, with a heavy overrepresentation of women.

Guatemalans are a long-suffering people who don’t expect wealth or good government but makes the best of what comes their way. The family are strong and large, and family members are very supportive of each other. Faith is also very important in the lives of Guatemalans, whether it is catholic, Mayan or evangelic protestant. Politeness is another important aspect of life in Guatemala and people are often very helpful and unhurried. Appearance is important in Guatemalan society and no matter how poor they are, they always try to look clean and neat and most every workplace in the country has conservative dress codes.

33 Guatemala, Sida Country Report 2003
34 Human Development Reports 2003
35 Wikipedia, 2006-05-11
4.1.1 Poverty and land issues

Among Latin American countries, Guatemala has the highest percentage of population living in poverty. In 2003, 60% of all Guatemalans lived in poverty and 20% lived in extreme poverty. The definition for poverty is a maximum household income of USD 400 per month and extreme poverty is USD 200 per month. It is mainly the native Maya Indians who lives in social, economical and political deprivation and the poverty figures are even higher among them with 58% of the total number of poor and 72% of the extremely poor. Unfortunately, this has a great influence on the situation of the children with two-thirds of Guatemala’s children living in poverty. Malnutrition among these children is extremely high, one of the highest in the world and infant mortality is the highest in Central America. On top of this is the fertility rate almost 5 children per woman and life expectancy 65 years which is the lowest in Central America.

“The prevailing pattern of land distribution and land use still constitute the axis where most of the main obstacles to progress towards a genuinely democratic and less unequal Guatemala converge. The racism, the social exclusion and the appalling degree of both poverty and inequity...have its origin in the colonial system created to ensure control over the country’s arable lands and over the labour provided by the indigenous people.” In fact there is now a land scarcity in the country due to a population increase and unequal distribution of land.

4.1.2 Housing conditions

In July 2004 la Política Nacional de Vivienda y Asentamientos Humanos (PNVAH); The national policy for housing and human settlements, was published by the Guatemalan government. This policy has as a general goal to favour access to adequate housing for the Guatemalan families. The definition of adequate housing is “the constructed area for permanent living which fulfils the characteristics of legal ownership, access to infrastructure, basic services and closeness to community services”. Included in the goal is a prioritization of families in poverty and extreme poverty, as well as vulnerable and disadvantaged groups. This document concludes that there is a housing deficit in Guatemala of 1,021,592 units and of these 40% is a quantitative deficit and 60% a qualitative deficit.

The quantitative deficit is defined as new houses which need to be built and equipped with basic services and homes which lack the appropriate land, which are divided inadequate housing and housing lacking ownership of land. The inadequate housing is defined as rooms in apartment buildings, provisional homes made of waste material, mobile homes and dwellings in places not intended for housing, such as garages, warehouses and caves. The housing lacking ownership is defined as people who rent their homes but have the wish and capacity to acquire a home of their own. The qualitative deficit is divided in sheds, houses and apartments with poor quality and/or which are overcrowded. It also includes the deficit of water supply, sanitary services, electric supply and homes which use coal or wood to cook food. The sheds are generally made of local materials such as clay, straw, sticks or canes with straw or palm roofs and earth floors. Houses and apartments with poor quality have walls of

36 Specific agreement between Sweden and the Government of Guatemala, Guatemala, September 2005
37 Guatemala, Sida Country Report 2003
38 Guatemala, Sida Country Report 2003
39 Guatemala, Lonely Planet, 2004
40 Guatemala, Sida Country Report 2003
41 Lineamientos para la Priorización de Intervenciones, que Permitan Reducir el Déficit Habitacional, 2005
bricks, blocks, cement, wood, metal, clay, sticks, canes and earth floors. Overcrowded houses are defined as more than three people living in each room, excluding bathroom and kitchen.

### 4.1.3 The Swedish aid

The Sida Country Report, 2003\(^42\), states that “the Peace Accords can be said to constitute an outline for a long needed national development plan for Guatemala, based on social and ethnic inclusion, good governance and an equitable economic growth.” But the implementation of the Peace Accords has been a very hard and slow process and the reason for this is active and so far successful resistance of powerful national groups with a firm interest in maintaining status quo. Therefore the public confidence in the implementation of the Peace Accords has diminished considerably. “Most analysts today maintain that the principal “constituency” for the Peace Agenda, is the international community – reflecting discontent among domestic groups due to the slow implementation of reforms and structural changes within crucial areas.” according to the authors of the Sida Country Report 2003.

Since the peace agreement was signed in December of 1996 the Swedish aid to Guatemala has grown extensively and changed character, from humanitarian aid with focus on human rights to a more long-term aid to secure peace and strengthen democracy. The Swedish aid is organized by SIDA and is concentrated to three main areas\(^43\):

1. Strengthening the judiciary and democracy, especially at local level;
2. Participation and rights of indigenous people and women and;
3. Promote economic structural change in order to achieve growth characterized by more equal distribution of wealth.

One way of implementing this is a program for local development using micro credits to give families and small-scale businesses the opportunities to break out of poverty and improve their lives. The program is implemented in Guatemala by FDLG which is a temporary government program with the purpose to improve the living conditions of low income families through home improvements, infrastructure, basic services and micro enterprise activities. The program was granted 50 million SEK in 1999 and has recently been granted another 48 million SEK until the end of 2009. The target population of the program is defined as households with maximum income of USD 400 (definition of poverty) which is equivalent to 4 minimum salaries and 60 % of the target population shall be households with a maximum income of USD 200 (definition of extreme poverty).\(^44\)

### 4.2 Housing micro finance in Guatemala

When you travel around in Guatemala, both in rural and urban areas, you will see a vast amount of unfinished housing projects. This is according to Carlos Patzán\(^45\), a good example of the qualitative housing deficit in Guatemala. The families or persons who have started this project clearly didn’t have the knowledge or skills necessary to design, construct and finance a new home in an efficient way. For some reason the money didn’t last or the construction failed in some way. Either way these unfinished houses are now standing beside the metal sheds as a crude reminder that it is not just money that is needed when constructing or

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\(^{42}\) Guatemala, Sida Country Report 2003

\(^{43}\) Guatemala, Sida Country Report 2005

\(^{44}\) Specific agreement between Sweden and the Government of Guatemala, September 2005

\(^{45}\) Interview with Carlos Patzán, Technical Supervisor, Génesis Empresarial, 2006
improving your house. These unfinished houses are in fact increasing the qualitative housing deficit and the money used for these could have been used in so many different and better ways, and this especially in such a poor country as Guatemala.

4.2.1 FDLG (Fideicomiso Guatemalteco para el Desarrollo Local)

Fideicomiso Guatemalteco para el Desarrollo Local, which is translated roughly as “Trusteeship for local development in Guatemala”, was established in 1999 as a trust fund housed in the Banco del Café, S.A (Bancafé). The Trust Fund Committee includes one representative from the Guatemalan government, one from the Swedish government, one from Bancafé and 3 professionals from the Guatemalan society. The Committee carries out all of the standard activities of a Board of Directors. A “Technical Unit” is responsible for the programs implementation, working with micro finance institutions, MFIs, and municipal governments. The fundamental goal of FDLG is to improve the quality of life of poor and extremely poor families, and one way of obtaining this goal is to improve the housing conditions for these families. When offering financial services its important not only to develop and deliver a product but to offer a solution to the needs of the clients, according to the FDLG.46

FDLG operates as a second-tier lender, providing capital to MFIs both for housing and micro enterprise loans. During 2005 nine intermediary organisations received funds from FDLG and these were present in 17 of the 21 departments of Guatemala. According to the annual report from FDLG, 72% of the end-clients during 2005 were in the situation of extreme poverty, 84% were women and 62% were indigenous people. FDLG provides both loans and technical assistance to its intermediary organisations. The technical assistance includes institutional strengthening and construction assistance. The technical assistance is provided with the objective of improving institutional efficiency and increasing the organisations ability to expand. With respect to construction assistance, the objective is to institutionalize that component within each MFI in order to ensure quality construction.47

With respect to housing, FDLG’s strategy is to finance the construction of new homes as well as home improvements. New homes constructions are currently on hold but with respect to home improvement. The MFIs in Guatemala arrange home improvement credits in the amounts of 200 – 15 000 Skr. The repayment period is up to 2 years. The FDLG loan agreements with the MFIs require the institutions to provide construction assistance.

During 2005 there were 6 different organisations in Guatemala procuring housing credits with support from the trust fund, FDLG. These include 3 NGOs (Non-governmental organisations); Fundación Génesis Empresarial, la Asociación Hogar y Desarrollo -HODE and la Asociación de Desarrollo Rural Integral –ASDIR and 3 cooperatives; Cooperativa Guayacán, Cooperativa Santiago de Coatepeque and Cooperativa Saleajá. As from May this year one of Guatemala’s largest banks, G&T Continental, will start providing micro credits for enterprises and housing to the target population with funds from FDLG48.

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46 Guía Metodológica de Asistencia Técnica Constructiva para Microcrédito de Vivienda de Interés Social, 2005
47 Housing Microfinance, Policy Recommendations for Sida’s programs, Daphnis, Faulhaber, 2004
48 Interview with Maritza Canek Pinelo, Executive Director, FDLG, mars 2006
4.2.2 Fundación Génesis Empresarial

Génesis Empresarial was founded in 1988 with support from ACCION International. Génesis Empresarial Foundation was then founded in June 1996 when they achieved autonomy from ACCION and is today a non-lucrative private development institution in Guatemala. The institution’s goal is “Provide agile and opportune credit services, along with consultancy and training for Micro-Enterprises, Small Businesses and Rural Communities in order to achieve their sustained development with a broad outreach, hence accelerating Guatemala’s progress”. Génesis offers credits, training, management consultancy and advice on community organization to its clients and has developed a number of programs attending to the needs of the micro enterprises and the rural communities.

The micro-business promotion program involves individual and solidarity group loans together with training and management consultancy in order to strengthen and develop urban and rural micro-businesses. Support to the small business program is designed to support small businesses with management consultancy to improve the administrative activity and increase their productive activity in quality as well as volume. Village banks program has the goal of increasing the participation of women in productive activities and encourage them to start micro-businesses dedicated to raising animals, agriculture, handicrafts, etc. Credit programs for the introduction of community services in the rural area, CISEC, are designed to finance basic needs at community level, such as drinking water and electricity. Technical assistance at an international level involves supporting friend institutions through transfer of know-how and experiences. Finally the credit program for housing has the goal of “Provide complete financing for the enlargement, improvement or construction of basic housing in the rural area, directly impacting the lifestyle of the people with lower income”.

In December of 2005 Génesis Empresarial had a total active portfolio of Q 242.6 million and 55 thousand active clients with a medium credit amount of Q 4,396. They were present in 19 departments of Guatemala at 47 local offices with 350 employees and of these where 162 credit officers. The active housing portfolio amounted to Q 25.6 million with 3,551 active clients. The credit amount for housing varied between Q 1,000- 20,000 and had a repayment period of one to three years with monthly payments and the interest rate where 2 % monthly. The housing portfolio financed by funding from FDLG amounted to Q 8 million with 1,638 active clients.

4.3 Construction assistance in Guatemala

According to Maritza Canek Pinelo, Executive director at FDLG, the micro finance institutions that receive funding from FDLG are the only ones in Guatemala providing construction assistance with their housing credits. Therefore when discussing CA in general I am only referring to the intermediary organisations of FDLG.

The construction assistance that the MFIs provide with the home improvement credits in Guatemala is a way of trying to improve the quality of the MFIs service as perceived by the

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49 www.genesisempresarial.com, 2006-05-17
50 www.genesisempresarial.com, 2006-05-17
51 Quetzal, local currency in Guatemala, exchange rate 2006-05-18 is 1 Skr = 1,086 Q
52 Interview with Edgar Juárez Sepúlveda, Director of the Technical Unit for housing at Génesis, April 2006
53 Interview with Maritza Canek Pinelo, Executive director of FDLG, Guatemala, Mars 2006
client and by that increasing the clients trust for the organisation.\textsuperscript{54} Sida has the experience that the construction assistance together with the micro credits improves the repayment rate which is crucial for the micro organisations survival. Another positive effect of CA is that it produces better and safer houses for the end client. This is extremely important in an area that is greatly affected by natural disasters, such as earthquakes, hurricanes, volcanoes etc. Construction assistance can therefore generate a better standard of the homes which improve the general standard of the country which is another goal of the micro finances institutions. In Spanish construction assistance is called Asistencia Técnica constructiva de Vivienda, ATV.

4.3.1 Guide to construction assistance

The FDLG has with funding from Sida put together a Guide to ATV; Guía metodológica de asistencia técnica constructiva para microcrédito de vivienda de interés social, (Methodological guide to the technical construction assistance for housing micro credits with a social interest) with the purpose to support the finance institutions in implementing the ATV in the credit process. It will also complement those technologies developed for and used by the finance institutions in accordance with their internal work process. All the following in this chapter are taken from the guide mentioned above, not other sources stated, and it is referred to as the ATV-guide in the text.

The ATV-guide, as will be shown more explicitly later in this section, includes much more than just a technical guide to construction assistance. The guide has a very holistic approach to housing micro finance. There is no coincidence that the Guía metodológica de asistencia técnica constructiva para microcrédito de vivienda de interés social has at the end of its title, social interest. This is much stressed upon in the entire layout of the guide. All personal working with the target population, poor and extremely poor, needs to have a deep understanding of the situation and the conditions these people are living under. It is also stressed upon how important it is to understand the different cultures and living conditions that are present in Guatemala. This holistic approach to working with poverty is possible to trace back to the demands laid out by Sida and is also very clear in the basic principles of the ATV-model.

The basic principles for the ATV-model are;

- The home is a project for the family
- The eligible poor family might have non-traditional guarantees.
- The difference in culture must be taken into account and be respected since there are diverse lifestyles.
- With existing different climates, the poor family needs a comfortable home.
- With existing different ethnic origins the clients shall be able to agree to financing in their own language.
- A poor family can’t afford an architect but needs technical support

The Guide to ATV is divided in three phases; Pre-credit, Credit and execution, and Evaluation. All these three phases are explained in detail below.

The pre-credit phase includes all activities which are performed before the approval of the actual credit. This phase is considered to be very important since when done properly it can

\textsuperscript{54} Integrerade bostadsprogram i Centralamerika, Sida, 2002
create the conditions which guarantee an effective investment. The activities in this phase are divided in three parts which includes: Identification of demand, Design of the incremental construction process and Estimation of costs.

The identification of demand involves the analyzes of the local housing deficit in the geographical area where the MFI is working, the development of a promotion strategy in the same area, a guide for the credit assessors and how to prioritize the needs of the clients. Since the main goal of FDLG is to improve the quality of life of poor and extremely poor families through home improvements it is essential that the executive organisations is well aware of the housing situation in their geographical area so they can meet the families demands. This is accomplished by standardized forms where the quantitative and qualitative housing deficits are estimated in both rural and urban areas and on the target population level. This information then gives the organisation a base for promotion activities. These activities can be direct such as the client arriving at the office to collect information or when the technical officer is visiting the clients in their homes. The indirect promotion activities includes when the client are informed about the product through a company, institution or organisation. The technical officer may visit schools, private companies, factories, government organisations, religious organisations, hospitals and hold public information meetings and distribute information flyers. The guide for the credit assessors involves the selection of potential clients, start preparing the credit process by handing out the necessary documents to the client and there after confirm the information which the clients have stated in the documents.

The last part of the identification of demand is when the assessor visits the clients in their home find to out what the client wants but also establishing what he needs, because the two are not always the same thing. The client can want different things than what the credit assessor considers he needs. Therefore does this phase not only include asking the client what he wants but also identifying what he really needs? For example, the client might want to have the same new windows that the neighbour has installed but the need might be a wall dividing the single bedroom of the house or improved sanitary conditions. In this process the credit assessor documents carefully the state of the home including sanitary conditions, materials used, type of construction, the state of the property on which the house is situated and so forth. The credit assessor also performs a socio economic study and investigates the moral of the client by interviewing neighbours and relatives. This is one of the reasons why ATV is so important in the process of procuring housing improvement credits and also why the understanding for different cultures and living conditions is crucial. The credit advisor will together with the client work out what type of improvement that shall be done and it is possible that the client will be granted credits for improvements that the credit advisor might not consider prioritized, but this is dependent on what kind of need the client is expressing. In the end it is, according to the basic principles, a project of the family, not the company granting credits.

The design of the incremental construction process involves localisation and selection of the proper building ground, control of the climate, planning of property, design of the basic modules, planning of the house and design of the indoor environment. The localisation and selection of the proper building ground includes legal aspects of the property (ownership, rental agreements), the accessibility from public roads (direct access or not), the shape of the property (preferably regular, measurements), where it is localized (riverside, hill, valley) and the access to basic services (electricity, drainage, sewers). All these considerations are illustrated in much detail in the guide with designs and pictures showing “do’s and don’ts” and also with a detailed but simple text explaining the designs and pictures. This theme is kept
through the entire guide in almost all the other stages of the construction assistance process. Since Guatemala is a country of multiple climates it is important to assure that the home improvement made is suitable in the existing type of climate. Therefore the guide has several optional designs for warm and humid climate, warm and dry climate, and cold climate. The guide also points out the importance of considering the effect of existing vegetation and trees, with considerations taken to winds as well as the location of the house itself in the aspect of the cardinal points including windows and doors, both in height and size. The planning of the property includes the actual location of the house on the property with aspect to the sanitary services, the topographic of the property, the location of roads and paths to the house and property, and the location of vegetation and trees on the property. The design of the basic module of the house means considering the size, shape, ventilation, light, recreation areas, kitchen and aisles. In this stage of the process it is utterly important to design incrementally so that the basic module can be extended easily and adequately in future time. Most of the clients start of with a basic module of two bedrooms and a kitchen with an eating area, with the intention to expand this when they can afford. This is also why the process includes a planning of the house where the credit assessor and the client plans for the final design of the house if all the clients needs and wishes can be fulfilled. This means that already when the client take their first credit for a house improvement the assessor make a total plan for the improvement wanted which makes it a lot simpler to extend the clients credits in the future. The design of the indoor environment takes into account the number of people residing in the house and includes designing location of aisles, doors, kitchen etc.

The estimation of costs includes a database of costs of material and labour, the calculation of estimated labour work, calculation of basic materials and the total costs and the integration of the costs in a final budget. The part making this process much easier than expected is the database of material and labour costs that the MFI keeps and frequently updates. This means that the assessor simple states the amounts of material and labour hour necessary to fulfil the project and a computer program (in most cases) calculates the entire budget. The FDLG is working on providing all the MFIs working with their funding, access to computerized calculation programs but in the end also CAD-programs with automated construction designs. It is also the FDLG goal to provide all credit assessors with PALM pilots so that most of the planning process can be done in the field.55

The Credit and execution phase involves all the activities when the credit is approved and when the actual work is planned and performed. It’s divided in the two following parts; Construction process and Supervision.

The construction process includes all the necessary technical details for constructing the home in a correct and secure way. In this part of the guide there a numerous construction designs showing in detail how to construct the ground of the house, the roof, the walls, the cementation and installations of electricity, water and drainage. There is of course, like in many other parts of the guide, also explanations how you shall not do in constructing this type of building. The guide also stresses the importance of following the outlined sequence of the construction process in order to build a secure and adequate house. One noticeable item in the number of construction designs is the explanation of making your own building blocks from earth, straws and leaves. This is almost certainly an adaptation of building for the poor who are not able to buy the expensive pre-made building blocks but also a way of including local

55 Interview with Maritza Canek Pinelo, Executive director, FDLG, March 2006
skills in the construction knowledge since most people building on their own use these sun-dried, home-made building blocks.

The supervision involves the technical supervision of the home improvement process in order to guarantee the quality of the improvement. The general goal of the supervision according to the guide is to emphasize on the most relevant aspects to improve the quality of the improvement, including the key points in the construction work process and all other points that needs to be taken into account during the construction process. In this part the work of the construction process is supervised by a technical supervisor to ensure that the design are followed, the sequence of the construction process is maintained, that the quality and type of material stated in the designs is used but also the progress of the construction process. Once again the guide has very explicit and detailed designs and an explaining text of what to supervise and how. There is also a quick-guide with important aspects to investigate during the visit on the construction site. The supervisor visits the construction site two or three times during the construction process and every visit is carefully documented.

In the evaluation phase are all activities included that are accomplished after the execution of the project and have as their purpose to give feedback back to the project and verify the affects, both positive and negative, that it has had on the intended population. These activities are summarized in one part; Monitoring and follow-up.

The monitoring and follow-up process is a process which involves following up with the end clients that their home fulfills their need for the duration of their entire life. The process general goal is to contribute to the measurement of the outreach of the entire home improvement process but also to contribute to the efforts of FDLG of achieving sustainability of the home improvements by achieving optimal quality of the work and constantly improving the quality process in the home improvement program. More specifically goals are to detect weaknesses in the formulation and design of the project that affects the functionality of the home and to carry out the appropriate corrections. The intent is also to contribute to quantitative measures through the entire cycle of the project and evaluation data for FDLG and the appropriate financial intermediaries. Finally the process is also intended to facilitate the understanding of the management of the projects, including finding and developing the weak points in order to improve the different stages in the process and stimulate the continuous improvement of the management both at the intermediaries but also at FDLG. At this stage it is hopefully obvious for the client why the process includes so many aspects and that the clients can see the actual impact of some of these aspects in the finished product. In this way this stage serves as a feedback process that allows the improvement of the outreach and depth of the home improvement program.

4.3.2 Construction assistance at Génesis Empresarial

At Génesis the guide developed by FDLG has been used for a couple of years, not in its existing form, but with the same general content and goal. The use and performance of construction assistance at Génesis has actually been the model for the now existing guide. Génesis is therefore also the institution that has reached the farthest with aspects to the implementation of the guide. It can therefore be claimed that construction assistance at Génesis is performed according to the guide. I will also in this section stress some aspects which I and people I interviewed, believe is important when performing construction assistance but that may not be stressed upon or mentioned in the guide.
The credit assessor, Alexander Regalado Marroquin, who I followed in the field, was a very good example of the profile which is laid out in the ATV-guide from FDLG. This profile includes not only academic requirements but also social and personal requirements. Among the academic requirements is some sort of graduate in construction or architecture, or a student in one of the two. The social and personal requirements are among others; verbal, creative, social and persuasive and between the age of 18 – 30. It is also required that the credit assessor speaks the Mayan language of the region which he or she is supposed to work in. Alexander was a student in construction and social and verbal but in a very humble way. You could tell that the clients really liked him and he was Alex with all of them which proves the confidence the clients have in him. The people of Guatemala are very formal, using titles when speaking to people with higher status. Therefore when clients used his nickname when they spoke to him, they really exposed their trust in him.

Construction assistance in Guatemala is very much about trust since the credit assessors are making decisions for their clients about their most valuable asset, their home. Alex was also very careful about explaining why we where there and that he didn’t want to disturb and take up there time. All of these things are very important when working in a country where trust and respect is so important. Therefore it is also important that the credit assessors can speak the local language, not only for reasons of understanding but out of respect for their different culture and way of living. Since there is a strict dresscode in Guatemala at most workplaces, Génesis always supply there personnel with shirts, caps and other accessories that clearly states which company they are working for. The uniform is important so the client easily can identify who the assessor is working for but also gives the credit assessors a formal status which is important when adressing people in poor areas.

4.3.3 Cost/income analysis of construction assistance at Génesis

The cost/income analysis is based on direct and indirect costs associated with the performance of construction assistance. Included in the direct costs are personnel costs such as salaries for the credit officers and their bonuses and employment benefits. Other direct costs are transport to and from the clients which include depreciation and fuel. Finally there is the cost of stationary used in the credit process which includes print outs of documents and photographs. The direct costs calculated per client according to the estimated time each credit officer spends with each client. The direct costs per client are presented in the table below: (All figures are stated in Quetzal, Q, which roughly equals 1, 1 Skr)

<table>
<thead>
<tr>
<th>Total direct costs</th>
<th>Per client</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel costs</td>
<td>98,61</td>
</tr>
<tr>
<td>Transport</td>
<td>105,00</td>
</tr>
<tr>
<td>Stationary</td>
<td>20,78</td>
</tr>
<tr>
<td>TOTAL</td>
<td>224,39</td>
</tr>
</tbody>
</table>

The full calculation of personnel costs, transport, stationary and the time estimate can be viewed in Appendix A.
The indirect costs are listed in the table below and are allocated according to the time spent with the client. A full calculation of the indirect costs can also be viewed in Appendix A.

<table>
<thead>
<tr>
<th>Indirect costs</th>
<th>Per client</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clerks and employees</td>
<td>0,93</td>
</tr>
<tr>
<td>Municipal decisions</td>
<td>0,00</td>
</tr>
<tr>
<td>Technical assistance fees</td>
<td>0,05</td>
</tr>
<tr>
<td>Other fees</td>
<td>0,01</td>
</tr>
<tr>
<td>Office rent</td>
<td>0,13</td>
</tr>
<tr>
<td>Repair and maintenance of property</td>
<td>0,04</td>
</tr>
<tr>
<td>Office equipment and repair</td>
<td>0,01</td>
</tr>
<tr>
<td>Repair of information systems</td>
<td>0,03</td>
</tr>
<tr>
<td>Other repairs and maintenance</td>
<td>0,00</td>
</tr>
<tr>
<td>Office security</td>
<td>0,01</td>
</tr>
<tr>
<td>Publicity and promotion</td>
<td>0,04</td>
</tr>
<tr>
<td>Prints and publications</td>
<td>0,02</td>
</tr>
<tr>
<td>Other marketing costs</td>
<td>0,01</td>
</tr>
<tr>
<td>Security of office personnel</td>
<td>0,02</td>
</tr>
<tr>
<td>Stationary and utilities</td>
<td>0,10</td>
</tr>
<tr>
<td>Light and water</td>
<td>0,01</td>
</tr>
<tr>
<td>Gas and lubricants</td>
<td>0,02</td>
</tr>
<tr>
<td>General expenses</td>
<td>0,01</td>
</tr>
<tr>
<td>Payment remarks</td>
<td>0,00</td>
</tr>
<tr>
<td>Office telephones</td>
<td>0,07</td>
</tr>
<tr>
<td>Fax and telegrams</td>
<td>0,00</td>
</tr>
<tr>
<td>Mobil phones</td>
<td>0,00</td>
</tr>
<tr>
<td>Mail</td>
<td>0,03</td>
</tr>
<tr>
<td>Depreciation</td>
<td>0,08</td>
</tr>
<tr>
<td>Loan-loss reserv</td>
<td>0,04</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,66</td>
</tr>
</tbody>
</table>

The interest rate paid to FDLG should also be included in the costs of the construction assistance and has also been allocated with time spent with the clients which therefore give the following total cost:

<table>
<thead>
<tr>
<th>TOTAL COSTS CA</th>
<th>Per client</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct costs</td>
<td>224,39</td>
</tr>
<tr>
<td>Indirect costs</td>
<td>1,66</td>
</tr>
<tr>
<td>Interest FDLG</td>
<td>1,04</td>
</tr>
<tr>
<td>TOTAL COST CA</td>
<td>227,09</td>
</tr>
</tbody>
</table>

The construction assistance is paid by the clients with an amount of 3 % of the credit amount which is added to there repayment amount during the first six payments. For example; is a client is granted a credit of 10 000 Q this means they will be paying 300 Q for the
constructions assistance. This gives an extra amount of 50 Q the first six monthly payments. For credit amount below 5000 Q the fee for CA is only 150 Q. The average credit amount during 2004 was 10 500 Q according to Edgar Juárez Sepúlveda, manager of the technical unit for housing. The credit amount necessary for the fee to be covering the total cost of CA is 7570 Q.
5. Analysis

In this chapter I will analyze the empirical findings in accordance with the theories stated in previous chapters. I will start out by giving some comments to whether our not housing microfinance and construction assistance should be provided at all since its effect on poverty reduction is discussed upon. Subsequently I will be analyzing the cost/income analysis and finally I will investigate how the introduction of construction assistance affects the microfinance triangle.

5.1 Housing microfinance

Housing microfinance can be argued to be a service that is only benefiting the “better off poor”. But as the Nobel Prize winner Amartya Sen has observed “poverty must be seen as the deprivation of basic capabilities rather than merely as low incomes”\(^{56}\). Poverty comes in so many shapes and forms and it is depending on culture, society, economy etc. There are people poor in Sweden as well, but in Guatemalan terms they would be quite well off. The term poor must be viewed in its wider context. Just because some people are less poor than others doesn’t mean that they should be overlooked in the poverty alleviation process. But different degrees of poverty need different ways of helping. Extremely poor people don’t need commercial housing microfinance, they need food, shelter, medicines, skill training and employment for which government and donor subsidies and charitable contributions are appropriate. So if the goal is to eliminate extreme poverty, housing microfinance is not the way. Therefore the goal of the microfinance institution is utterly important for the defining the purpose of the services provided. This means that different institutions have different goals all depending on their defined goal and their defined target group.

“Experience has shown that house building, home improvement, infrastructure and enterprise credits are all relevant areas of poverty. But they are not fighting poverty by definition”.\(^{57}\) Therefore it is crucial that the programs are distinctively focused on targeting poor people. This can be achieved setting a maximum income level for clients eligible for loans or focusing on geographical areas where poverty is high. Sida typically establishes targeting criteria on the bases of income levels, geographic location, occupation and gender.\(^{58}\)

5.1.1 Construction assistance

Tilock states that “from a strictly financial perspective, many microenterprises lenders argue that construction assistance is not essential to client eligibility or repayment performance on the loan; thus they tend to see such assistance as superfluous and outside their scope and expertise”\(^{59}\). It could well be outside their scope since the scope is set by the MFI itself and if they only have the scope to provide home improvement credits, construction assistance is outside of their scope. The same applies for the lack of expertise. If you don’t have the intention to provide a service you don’t train your personnel in that service. The client could well be eligible for the home improvement credit included in this type of MFI and have excellent repayment performance. But the question is then what was the money used for and with what result? Why provide home improvement credits if the home is not in the end improved? Construction assistance in the manner supplied at Génesis must be seen as a way

\(^{56}\) The microfinance revolution, Robinson, 2001
\(^{57}\) Integrerade bostadsprogram i Centralamerika, Sida, nov 2003
\(^{58}\) Housing Microfinance, Policy Recommendations for Sida’s programs, Daphnis, Faulhaber, 2004
\(^{59}\) Construction Assistance and Housing Microfinance, Tilock, in Housing Microfinance, Kumarian, 2004
of ensuring the fulfilment of the organisations goal; achieve sustained development with a broad outreach, and as a quality assurance of the service provided.

Tilock also describes the idea that some MFIs have the presumption that they know what is best for the client and that the construction assistance subjects the MFI to unnecessary liability in case of unsound construction for instance.\(^{60}\) If a MFI is providing construction assistance and the construction turns out unsound, the construction assistance service isn’t very good and is only a cost for the MFI. This is exactly why it is very important to be very careful before introducing construction assistance in the organisation. It is a new area for most MFIs and they should be made aware of the meaning of providing such a service. Many MFIs also perceive monitoring the loan use as costly and indeterminate, according to Tilock. The supervision of the construction is again a way of ensuring that the loan is spent on the intended purpose and a way of ensuring that the client get what they are paying for; a home improvement not a loan!

According to Eberto de Leon\(^{61}\) it is essential to remember that there are important differences between housing micro finance, micro finance and housing finance. In regular housing finance the client are granted a large sum for a long period of time for building or buying a new home. The clients of the target population don’t afford the large sums and don’t have the security for the long periods of time. The housing micro credit fills this gap by procuring smaller amounts for shorter periods of time for incremental building and/or improving of the client’s home. In the case of micro credits for general purposes or for small enterprises it is the client who has the best knowledge of how to use the money in the most efficient way, they know their business best. But when it comes to improving and constructing a home most of the clients don’t have the knowledge and necessary skills and this is why construction assistance is needed to ensure that the money is used in an efficient way. This fact is also pointed out by Ferguson and Haider\(^{62}\) “Because housing credits funds self-help home improvement and expansion as well as new or progressive construction of basic core units, it may require additional technical assistance. …Without this support, borrowers may exacerbate already precarious living conditions by failing to meet technical specifications or finish their project.” And there are a lot of unfinished building projects in Guatemala, where according to Carlos Patzán\(^{63}\) someone have started building without having knowledge of the cost of construction or how to build incrementally.

5.2 Construction assistance and sustainable micro finance

In this chapter I will compare the empirical findings of construction assistance at Génesis with the theories of sustainable micro finance. First I will look at the financial systems approach and compare this with the principles of construction assistance at Génesis and thereafter I will briefly compare my empirical findings with the common practices evolved at CHF, known as the HILP, Home Improvement Loan Program.

5.2.1 Financial systems approach

The financial systems approach broadly groups five common elements that are shared by self-sufficient microfinance institutions; Knowledge of the commercial microfinance business and

\(^{60}\) Construction Assistance and Housing Microfinance, Tilock, in Housing Microfinance, Kumarian, 2004

\(^{61}\) Interview with Eberto de Leon, Guatemala, March 2006

\(^{62}\) Mainstreaming microfinance of housing; Ferguson, Haider, 2000

\(^{63}\) Interview with Carlos Patzán, Guatemala, April 2006
its clients, characteristics of institutional ownership, priorities in organization and management, development of human resources, and corporate philosophy. The construction assistance at Génesis as presented in the ATV guide correlates well with these common elements, as shall be shown below.

Knowledge of the commercial microfinance business and its clients includes knowledge of the natural environment of the area served. During the second phase of the ATV-guide the assessor controls localisation of the property to be used, the accessibility to public services such as water and electricity and the climate in the area. Through the principal of only hiring people with knowledge of local languages, and situating the offices in the vicinity of local supermarkets, Génesis achieve personnel with good knowledge of its clients and the market in which the work. By using the standardized forms for estimating the housing deficit in the pre-credit phase of the ATV-guide the personnel also acquires an in-depth understanding of the demand for micro finance. It is also highly stressed in the guide that it is important to treat clients as valued and respected customers, all according to the financial systems approach. The guide also has explicit instruction on how to promote and sell the services of the institution in a locally appropriate and appealing way which could be by visiting potential clients in their house or holding meetings at workplaces or public institutions.

The microfinance institution shall have a well defined mission and an established governance structure which both exists at Génesis which is clearly shown at the homepage. The basic principles of the ATV-guide are also good examples of the clearly defined mission for housing micro finance at Génesis. When analyzing the costs of the construction assistance it is clear that the goal is for every service provided to cover its own costs which is also essential in the element of institutional ownership of the financial systems approach.

The local branches at Génesis are treated as profit centres with strict defined responsibilities; all according to the element of organization and management, and everyone at Génesis are held accountable for their performances through individual evaluation. Staff training and performance based staff incentives are given high priority both from Génesis but also from FDLG. Strong emphasis is also placed on effective supervision which Carlos Patzán is a good example of since he is exclusively hired for supervision of construction assistance. The entire last phase in the ATV-guide is concerned with the monitoring and follow-up of the home improvement process in order to facilitate for the management to understand and improve all the stages of the process. The ATV-guide also clearly defines how staff shall be recruited and the importance of staff incentives.

The corporate philosophy shall be based on trust as stated in the financial systems approach and this is also highly stressed in the ATV-guide in the basic principles as well in the following chapters of the guide; the importance of building a committed and trusted relationship with the client. The philosophy shall also be based on service and flexibility which the very presence of a construction assistance officer achieves since they plan and perform the construction assistance together with the client. The standardisation is achieved through the use of standardized forms and documents throughout the entire ATV-process and at the same time this also adds to the transparency of the institution.

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64 The Microfinance Revolution, Robinson, May 2001
In the financial systems approach is also stated some basic operating principles that are present in sustainable financial institutions. These principles involve procedures regarding loan products, approval and disbursement, collection policies and procedures, and loan portfolio management.65

Loan products shall be standardized but with flexibility to meet borrowers needs which is shown by the fact that construction assistance is always included in the housing loan but adjusted to the need of the client. It is also possible according to the first phase in the ATV-guide that the client can be granted loans for improvements that they want but the assessor don’t prioritize since the improvement is a project for the family, not for the MFI. The loans are also granted incrementally and with proven capacity to repay the client can be granted large loans. This is all according to the principles stated in the financial systems approach. A main difference though when comparing housing microfinance to this approach is that in the financial systems approach is stated that the loan should be on relatively short term and only granted to people experience in their field of business. In housing microfinance the loans are relatively long term and very few clients are experienced in construction. But this is exactly why construction assistance is needed and essential! By providing construction assistance the institution are still acting according to the general principle of the financial systems approach by securing the competence and quality of the work performed with the granted loan.

Loan approval and disbursement means that the staff shall be trained to do socioeconomic studies as well as evaluate the clients’ capacity to repay. This is one of the main tasks of the construction assistance assessor and is therefore all according to the principle of the financial systems approach. The entire last part of the first phase in the ATV-guide is devoted how to perform a socio economic study and investigate the clients moral. The loan amount shall be based on current income and the loan application process shall be simple with a low transaction cost for the client. This is achieved by the fact that the client and the assessor together fills out the application in the home of the client during one of the visits of the officer.

The loan collection policies and procedures states that in order to motivate the institution to have an effective loan collection system the same staff who approve the loan are responsible for collecting them. This is achieved by the construction assistance assessor also being the one approving and collecting the loans and therefore having full control over the entire loan process. Included in this principle is stated that the credit assessor do not monitor the clients use of the loan in order to serve more clients. At Génesis this is achieved by the function of the separate supervisor controlling the use of the money in order for the CA officer to handle more clients. All according to the principles of the financial systems approach, the clients are informed that good repayment records will enable them to re-borrow and that late repayments are recorded promptly.

The principle of loan portfolio management includes that the local offices are regularly supervised by specially trained personnel which again Carlos Patzán is a good example of since is his employed by the central office at Génesis. Estimates of demand shall be done routinely according to the principle and this is also stressed upon in the ATV guide. The loan portfolio shall also be diversified with regard to enterprise and region and housing

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65 The Microfinance Revolution, Robinson, May 2001
microfinance is an excellent way of diversifying the portfolio since it is mainly serving the better off of the poor. The diversification with regard to region is achieved through the many local offices held by Génesis in almost every region of Guatemala.

5.2.2 Home Improvement Loan Program, HILP

The Home Improvement Loan Program is designed to address the habitat needs of the economically active poor in a manner that is incremental, demand-driven, financially viable in the long run and does not rely on substantial collateralization. The program includes seven attributes which are repayment capacity, loan purpose, loan maturity, loan amounts, loan security, technical assistance and supervision, and land security.

Repayment capacity should be based on the clients’ current income since the improvement is an increase in the client’s assets, not income. This is all according to the principles of both Génesis and the ATV-guide. The purpose of the loan should be to improve an already existing structure and include minor or major repairs and replacement. The improvements made through loans at Génesis are all on existing structures and all vary in size and form. The loan maturity should be a function of the cost of the improvement, the client’s repayment capacity and the interest rate. At Génesis the construction assistance officer and the client will together calculate the loan maturity according to the factors mentioned above and the same goes for the loan amount which shall be based on the cost of the improvement and the repayment capacity. The loan security should preferable be a co-signer which is always used at Génesis and these undergo the same socioeconomic studies as the clients. Land security is defined as the right to use the property and are in most cases the number of years the client has inhabited the property without due notice since most of the clients don’t have any proof of ownership.

Technical assistance (construction assistance) and supervision shall be provided as an integral component of the housing product, which is very much true for the CA provided at Génesis. The ATV-guide has a holistic approach to construction assistance and look upon it more as fulfilling the need of the family of a safer and better home. According to the HILP, CA shall be provided where no dependable outside system exist that can verify the quality of the improvement and that is exactly what construction assistance is all about in Guatemala; verifying the quality of the home improvement. The HILP also stresses that the cost of CA should be factored into the price of the credit and this is also done at Génesis by adding the extra fee for the construction assistance.

5.3 Costs of construction assistance

By describing in this thesis what construction assistance involves, what costs it generates and how these cost can be covered in a financially sustainable way, it would be possible for other organisations interested in introducing construction assistance to understand the concept and by using the same methods as described in the ATV-guide be able to provide construction assistance in a sustainable way. It also seems that the costs are accepted by the clients and therefore the cost of construction assistance is justified.

The largest post in the cost/income analysis of construction assistance is transport with almost 47% of the direct cost. But this cost is also one of the most important factors in construction assistance. Without the visits to the clients’ home for the socio economic study and the visits

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66 The triangle of microfinance; Zeller, Mayer, 2002
67 So, you want to do housing microfinance?, CHF, 2001
to the construction site for the supervision most of the effect of CA would be lost. It is during the socio economic study that the trust is built between the credit assessor representing the MFI and the client. This trust between the two actors is crucial for repayment rate and creditworthiness evaluation. When visiting the construction site the supervision of the building process is made and this is essential for the quality assurance of the home improvement. The same goes for the second largest post; the personnel cost which amounts to 44% of the direct cost. Without the personnel spending time with the client no trust is achieved and no supervision is possible.

5.4 Construction assistance and the micro finance triangle

In this section I will investigate the effect that construction assistance has had on the three corners of the micro finance triangle; sustainability, impact and outreach.

5.4.1 Sustainability

According to CHF, Cooperative Housing Foundation, housing micro finance is a respond to an evolving need of the MFIs clients. Its is “bridging a important gap between housing finance and microfinance… and is designed to reach a wide spectrum of the economically active poor: people who already build incrementally, have the required capacity to pay and who do not enjoy the widespread access to formal sources of financing for their habitat needs”.68 Striving for financial sustainability forces the MFIs to be sensitive to client demand and induces them to improve products, operations, and outreach.69 This is much more easily achieved with the approach taken in the ATV-guide with the socio-economic study and the evaluation process.

High transaction costs and risks, which partly results from information asymmetries and moral hazard for both financial intermediaries and clients70, can be reduced by introducing construction assistance since it improves the access of information and facilitates the risk assessment of the client. This is achieved by the socioeconomic study but also through the greater amount of time the credit assessor is spending with the client on the visits to the clients’ homes. The transaction cost for the client is greatly reduced by the use of construction assistance since the credit assessor is visiting them in their own houses and therefore saving them the time and money for the trip to the office of the MFI.

Sharma and Buchenrieder71 suggest that the impact of finance can be enhanced through complementary services- such as business or marketing services or training of borrowers- that raises the profitability of the loan-financed project. Construction assistance can be seen as such a complementary service that through marketing and training of borrowers is raising the profitability of the loan product.

Institutional innovations that improve the financial sustainability can be the employment of cost-reducing systems such as the construction and design program used at Génesis to calculate the cost of material and design the improvement. Another example is the database with updated costs of all materials and the use of Palm-pilots reducing the time of entering the information gathered about the client.

68 So, you want to do housing micro finance, CHF, 2001
69 The triangle of microfinance; Zeller, Mayer, 2002
70 The triangle of microfinance; Zeller, Mayer, 2002
71 The triangle of microfinance; Zeller, Mayer, 2002
5.4.2 Impact

Sidas housing programs in Central America are focusing on the housing environment of poor people. The goal is to improve poor people’s living standards and one important aspect of poverty is inadequate housing conditions. The political situation in Central America the last years has involved a dismantling of the social system which has affected the housing conditions for the poor negatively. On top of this Central America has had a long history of internal conflicts and natural disasters that have worsened the situation for the poor even further. Inferior housing conditions are at the same time affecting the poverty of people. “Inadequate housing and living in overcrowded conditions are deteriorating to human health and are a breeding ground for violence. The conditions for children’s development and learning are affected negatively”.72 The right to a home is also mentioned in the UN Human Rights and therefore can an improvement of peoples housing conditions and the opportunity to support them be seen as a question of human rights.

CHF has also concluded that the working poor consider physical improvement to their homes a high priority and many of the micro enterprise loans are in fact used by the clients for improving housing conditions. Therefore the housing loans are a way for the poor to improve their homes under more appropriate financing terms. By including construction assistance in the loan the quality of the improvement is assured and the general level of housing conditions is raised. This could be seen as an economic impact affecting a larger proportion of the people in the target area.

An adequate housing situation with the quality assurance of construction assistance can also improve the habitants interest for the society and the environment around them which can result in improvement in schools, water supplies etc which is a way of improving the socio-political impact.

The home can also be the base of some form of business that provides an income for the family and inadequate housing will then mean less opportunity for making an income. The home improvement also enhances the working poor asset base and has a direct impact on the security and self-esteem of the homeowners and their families. This can be seen as both an economic impact for the household but also a personal impact for the target families. According to Daphnis “In many cases, however, housing microfinance loans help clients improve the condition of a personal asset, without necessarily improving short-term income prospects.”73 By increasing the value of their home the owners can become eligible to formal subsidies or mortgage loans. This is again an improvement of the economic impact of housing microfinance. The improvement can include sanitation solutions, sewer and water hook-ups which is essential to maintaining a healthy environment in the home, which is related to personal impact. It can involve hurricane and earthquake resistant modifications as well as security bars which are of high importance in many undeveloped countries, which is also a form of improving personal impact for the target family. There are energy efficiency improvements like installing insulation or double-paned glass which in the long run can save costs for the house owners, which makes it an improvement on economic impact on a household level. But all these improvements mentioned above are not by definition

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72 Integrerade bostadsprogram i Centralamerika, Erfarenheter och riktlinjer, 2003
73 Elements of product design for housing micro finance, Daphnis in Housing Microfinance, Kumarian 2004
improvements if the quality can’t be guaranteed and this is done by including construction assistance in the housing improvement loan product.

An institutional innovation effecting impact can be designing more demand oriented services which is easily done with the socio-economic study included in the ATV-guide as well as the evaluation performed after the improvement is completed. The training of clients can also improve impact and since the credit assessor is working closely together with the client designing the improvements to be made the client will get an understanding of how to build sound houses.

5.4.3 Outreach

Including home improvement loans in their portfolio also offers several benefits to the MFI according to CHF. In meeting the changing needs of their clients by adding home improvements the MFI is improving client satisfaction and increase the clients’ retention rate. The MFI is also expanding its client base and therefore improving the stability of the portfolio through diversification. According to Zeller and Mayer74 “clearly, to improve the prospect for achieving financial sustainability, MFIs must wish to target clients other than the very poor” By expanding their services to clients in other parts of the poor spectrum, the MFI can achieve improved breadth of outreach. What the construction assistance contributes with in this aspect is the ability for the MFI to discover and monitor the changing needs of the client through both the initial pre-credit phase where the needs and wishes are investigated by the assessor and the client together, but the most important contribution exists in the last phase of evaluation and supervision where the client get the ability to evaluate the worth of the service supplied.

Since construction assistance in the form laid out in the ATV-guide is improving the access of information concerning the clients’ creditworthiness and moral, the trade-off said to exist between improving outreach and achieving financial sustainability can be less influential. The trade-off is said to stem from the fact the MFIs transaction costs are high for obtaining information about the creditworthiness of poor clients75 and with a carefully done socioeconomic study the creditworthiness can be established and this study can also be used for future loans or services that the client can be eligible for, thus saving time and reducing transaction costs.

Housing micro finance can also be seen as a way of holding on the less poor clients in order to still be able to serve the poorest clients. But this is only true if the less poor is offered a product with good quality and worth paying for. This quality assurance is the main task of the construction assistance and is therefore helping to maintain and improve the breadth outreach for the MFI. When considering serving less poor clients it is utterly important to assure that the clients served is still in the defined target group according to the goal of the MFI otherwise the MFI might loose track of its main task in order to improve sustainability, that of poverty reduction.76

Construction assistance can also be seen as an institutional innovation that improves the target mechanism of the MFI. The ATV-guide includes several chapters explaining how to market

74 The triangle of microfinance, Zeller, Meyer, 2002
75 The triangle of microfinance, Zeller, Meyer, 2002
76 Integrerade bostadsprogram i Centralamerika, Sida, 2003
and promote the service through visits in the homes of potential customers but also arranging meetings at public places and workplaces in the area served.
6. Final discussion and conclusions

Since construction assistance raises and assures the quality of the home improvement and therefore the home itself it contributes to economic impact by raising the general quality of housing in the target area, but also to socio-political and personal impact by increasing the families’ asset and raising their self esteem. Construction assistance can be seen as an institutional innovation that raises financial sustainability through the employment of cost-reducing systems such as construction and design programs. But it can also reduce the transaction costs that result from information asymmetry and moral hazard for both financial intermediaries and clients through the socio economic study and the actual time that the credit assessor spends with the client. The outreach is improved through the MFIs ability to discover and monitor the clients changing need by the help of construction assistance and it also improves the MFIs targeting mechanism through different marketing and promoting actions.

Since the housing deficit in Guatemala is mainly qualitative construction assistance is a good way of raising the quality of the living conditions and therefore raising the general standard of the country. It can also be a way of more effectively controlling corruption by supervising the use of the loan which is essential in a country like Guatemala. Finally construction assistance provides a holistic approach to housing micro finance and poverty reduction which is important for understanding the situation of the poor.

In a world where resources are scarce it is utterly important to manage these resources in a useful and sustainable manner. In the world of foreign aid to underdeveloped countries this is more than true. On top of this, most of the beneficiary countries of foreign aid are countries with sometimes long history of civil war and internal conflicts. Many of these countries are repeatedly affected by natural disasters such as hurricanes, mudslides and earthquakes. Most of the countries are also located in areas with difficult or variating climates. All these factors mentioned above have a profound impact on the standard of living in these countries and the people affected the most by these factors are the poor. Research has also stated that inadequate housing and living in overcrowded conditions are deteriorating to human health and are a breeding ground for violence77 which adds an extra load to the already heavy burden the poor families are carrying. Therefore it is my conclusion that providing housing microfinance without ensuring a good and sound quality is not helping the poor families but giving them an extra weight to carry. The construction assistance in the form described in this thesis is a very good way of ensuring that sound quality and therefore housing microfinance should not be provided without it.

6.1 Future research

In any future research it might be interesting to study the financial performance of different MFIs who supply CA and those who don’t supply CA. Is there any differences and can the differences be connected to construction assistance. At the same time it might be possible to compare the outreach and impact of these different institutions and in the same manner investigate if the differences have any relations to the provision of construction assistance.

Another interesting aspect for future research could be to conduct in-depth interviews with the clients of the MFIs, both those supplying CA and those who don’t in order to compare the actual perceived effect of CA at the client level. Do the clients perceive the effect of

77 Integrerade bostadsprogram i Centralamerika, Erfarenheter och riktlinjer, 2003
construction assistance as something helpful or do they perceive it as an insult on their intelligence or an intrusion of privacy? Do the clients believe that CA is worth paying for and are they able to distinguish what they are paying for?

An important question for the MFI planning to provide construction assistance is whether or not this service should be supplied by in-house capacity of the MFI or should this service be purchased externally? What are the issues that should be considered before deciding in this matter apart from the obvious cost and accessibility issues? The person or persons performing the CA, should they have basic training in engineering or loan management or both?

A final important question for future research could be to study if providing CA has any effect on the performance of the housing portfolio? If CA, according to my research, is a way of improving quality of the housing microfinance service, shouldn’t this improvement in quality be seen in the quality of the entire housing portfolio?
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The triangle of microfinance; Financial Sustainability, Outreach, and Impact; Edited by Manfred Zeller & Richard L. Meyer, The Johns Hopkins University Press, 2002

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Per Fröberg, Administrative Executive for Guatemala at Sida, Stockholm, March 2006

Teresa Nowell Maldonado, Coordinadora de Hábitat Popular, FDLG, Guatemala, March 2006

Maritza Canek Pinelo, Directora Ejecutiva, FDLG, Guatemala, March 2006

Edgar Juárez Sepúlveda, Arq. MSc, Jefe de Unidad Técnica de Vivienda, Génesis Empresarial, Guatemala, April 2006

Edwin Mazariegos, Arq, FDLG, Guatemala, April 2006

Juan Carlos Orellana, Jefe de Agencia de Escuintla, Génesis Empresarial, Guatemala, April 2006

Carlos Patzán, Supervisor Tecnico, Génesis Empresarial, Guatemala, April 2006

Alexander Regalado Marroquín, Asesor Expesarial, Génesis Empresarial, Escuintla, Guatemala, April 2006

Eberto de Leon, Boman & Peck Konsult AB, Guatemala, March 2006

7.3 Internet
www.genesisempresarial.com

www.wikipedia.se
Appendix A: Cost/income analysis CA

### Personnel costs

<table>
<thead>
<tr>
<th>Description</th>
<th>Month</th>
<th>Day</th>
<th>Client</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary credit officer</td>
<td>1500.00</td>
<td>50.00</td>
<td>61.46</td>
</tr>
<tr>
<td>Employment benefits (1)</td>
<td>43.78%</td>
<td>656.70</td>
<td>21.89</td>
</tr>
<tr>
<td>Bonus</td>
<td>250.00</td>
<td>8.33</td>
<td>10.24</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>2406.70</td>
<td>80.22</td>
<td>98.61</td>
</tr>
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</table>

### Time with client

<table>
<thead>
<tr>
<th>Description</th>
<th>Estimate in minutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport to client</td>
<td>40.00</td>
</tr>
<tr>
<td>Diagnosis Technical housing unit (UTV) (2)</td>
<td>60.00</td>
</tr>
<tr>
<td>Transport to office</td>
<td>40.00</td>
</tr>
<tr>
<td>Design (4)</td>
<td>20.00</td>
</tr>
<tr>
<td>Planification and specification (4)</td>
<td>20.00</td>
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<tr>
<td>Quantification and budget (4)</td>
<td>20.00</td>
</tr>
<tr>
<td>Time plan (4)</td>
<td>20.00</td>
</tr>
<tr>
<td>Confirmation of files</td>
<td>10.00</td>
</tr>
<tr>
<td>First visit (3)</td>
<td>120.00</td>
</tr>
<tr>
<td>Second visit (3)</td>
<td>120.00</td>
</tr>
<tr>
<td>Third visit - settlement (3)</td>
<td>120.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>590.00</td>
</tr>
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</table>

**Hours**: 9.83

**Days**: 1.23

### Transport

<table>
<thead>
<tr>
<th>Description</th>
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<tbody>
<tr>
<td>Depreciation per km</td>
<td>0.4</td>
</tr>
<tr>
<td>Fuel km/gallon (5)</td>
<td>80</td>
</tr>
<tr>
<td><strong>SUBTOTAL</strong></td>
<td>35</td>
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</table>

**TOTAL 3 VISITS**: 105

### Stationary

<table>
<thead>
<tr>
<th>Description</th>
<th>Units</th>
<th>Cost</th>
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<tbody>
<tr>
<td>UTV-1</td>
<td>1</td>
<td>0.26</td>
</tr>
<tr>
<td>UTV-2</td>
<td>1</td>
<td>0.26</td>
</tr>
<tr>
<td>UTV-3</td>
<td>1</td>
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</tr>
<tr>
<td>Document folder</td>
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<td>1.00</td>
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<tr>
<td>Print outs (6)</td>
<td>16</td>
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<tr>
<td>Print outs of photographs</td>
<td>2</td>
<td>3.50</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>20.78</td>
</tr>
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</table>

### Total direct costs

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost per client</th>
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</thead>
<tbody>
<tr>
<td>Personnel costs</td>
<td>98.61</td>
</tr>
<tr>
<td>Transport</td>
<td>105.00</td>
</tr>
<tr>
<td>Stationary</td>
<td>20.78</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>224.39</td>
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<tr>
<td>Indirect costs</td>
<td>2004</td>
</tr>
<tr>
<td>----------------------------------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>Clerks and employees</td>
<td>437690.67</td>
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<tr>
<td>Municipal decisions</td>
<td>25.85</td>
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<td>Technical assistance fees</td>
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<tr>
<td>Other fees</td>
<td>4201.50</td>
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<tr>
<td>Office rent</td>
<td>58720.00</td>
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<tr>
<td>Repair and maintenance of property</td>
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</tr>
<tr>
<td>Office equipment and repair</td>
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<tr>
<td>Repair of information systems</td>
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<td>Other repairs and maintenance</td>
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<td>Office security</td>
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<tr>
<td>Publicity and promotion</td>
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<tr>
<td>Prints and publications</td>
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<tr>
<td>Other marketing costs</td>
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<tr>
<td>Security of office personnel</td>
<td>7095.03</td>
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<tr>
<td>Stationary and utilities</td>
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<tr>
<td>Light and water</td>
<td>5523.03</td>
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<tr>
<td>Gas and lubricants</td>
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<td>General expenses</td>
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<td>Payment remarks</td>
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<td>Office telephones</td>
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<td>Fax and telegrams</td>
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<tr>
<td>Mobil phones</td>
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<tr>
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<tr>
<td>Deprevation</td>
<td>38429.68</td>
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<tr>
<td>Loan-loss reserv</td>
<td>16701.82</td>
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<tr>
<td>TOTAL</td>
<td>780351.63</td>
</tr>
<tr>
<td>Interest FDLG</td>
<td>486 842.61</td>
</tr>
</tbody>
</table>

Number of clients 2004 2218

TOTAL COSTS CA Per client

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Direct costs</td>
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<tr>
<td>Personnel costs</td>
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<tr>
<td>Transport</td>
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<td>Interest FDLG</td>
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<td>TOTAL</td>
<td>227.09</td>
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(1) vacation, bonds, Christmas bonus, compensation, IGSS patrono
(2) Filling out forms, initial measurements, photo document
(3) Incl. Transport, supervision of work, photo documentation and constructor consultancy
(4) Filling out forms, enter info in program, prepare and print out
(5) 24 Q per gallon fuel
(6) Planification, Specifications, budget