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PO Box 117
221 00 Lund
+46 46-222 00 00



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Housing Development & Management
Architecture & Built Environment
Faculty of Engineering
Lund University, Sweden

Urban poverty, social exclusion and social housing finance

The case of PRODEL in Nicaragua



Alfredo Stein Heinemann

THESIS

7

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- Housing segregation,
- Risk management for buildings in regions with natural disasters,
- Influence of urban design on microclimate and thermal comfort around buildings,
- Building design with consideration for climate, comfort and energy consumption,
- Users' participation in the housing process,
- Environmentally-aware and cost efficient construction.

Urban poverty, social exclusion and social housing finance

The case of PRODEL in Nicaragua

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This Thesis can be ordered from
Housing Development & Management

Lund University
Box 118
SE-221 00 Lund
Sweden

Telephone +46 64 222 97 61
Telefax +46 46 222 81 81
E-mail hdm@lth.se
Homepage <http://www.hdm.lth.se>

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Table of Content

List of Acronyms and Abbreviations	7
Executive Summary	11
Acknowledgments	17
Chapter 1 Introduction	19
Background	19
Problem statement	22
Purpose, relevance and main research questions	26
Research methodology	27
Limitations	29
Structure of thesis	30
Chapter 2 Conceptual Framework	33
Urban poverty, social exclusion and asset accumulation	33
The multi-dimensions of housing as an asset	39
Housing finance and asset accumulation	43
Housing microfinance	44
Housing microfinance and international development aid	54
Conclusions	60
Chapter 3 Research methodology	61
Research approach	61
Research strategy	65
Research methods	69
Conclusions	77
Chapter 4 PRODEL: context and origins	81
Population dynamics in Nicaragua	81
The transition process in Nicaragua	85
Increasing levels of poverty	87
International aid with Nicaragua	90
Swedish cooperation in Nicaragua	92
The origins of PRODEL	97
Conclusions	105

Chapter 5	PRODEL's institutional evolution	107
	PRODEL: rationale and components	107
	Institutional evolution	116
	The debate on financial sustainability	122
	Conclusions	126
Chapter 6	PRODEL: main outcomes	127
	Urban poverty and social inclusion	127
	Strengthening the assets of the urban poor	129
	PRODEL and the urban poor in Nicaragua	147
	Conclusions	155
Chapter 7	Findings from Estelí, Somoto and Ocotal	157
	Social inclusion and co-finance for infrastructure	157
	Asset accumulation and housing improvement loans	177
	Asset accumulation and financial inclusion: case studies	187
	Conclusions	204
Chapter 8	The limits of PRODEL's model	205
	Poverty reduction and financial inclusion	205
	Financial sustainability and financial inclusion	210
	The limits of PRODEL's model	214
	Conclusions	217
Chapter 9	Conclusions and recommendations	219
	Main findings and conclusions	219
	Further research	227
References		229
Appendices		243
	Appendix A Guide for interviews	243
	Appendix B Institutions and places visited	255
	Appendix C Maps of Estelí, Somoto and Ocotal	Back cover

List of Acronyms and Abbreviations

ACODEP	Asociación de Consultores para el Desarrollo de la Pequeña, Mediana y Microempresa [Association of Consultants for the Development of Small, Medium and Microenterprises]
BCIE	Banco Centroamericano de Integración Económica [Central American Bank for Economic Integration – CABEI]
BCP	Banco de Crédito Popular [Popular Credit Bank]
CBOs	Community-Based Organizations
CEPAL	Comisión Económica para América Latina y el Caribe [Economic Commission for Latin America and the Caribbean]
CGAP	Consultative Group to Assist the Poor
CPC	Consejos de Poder Ciudadano [Citizen Power Councils]
DFID	UK Department for International Development
FDLG	Fideicomiso para el Desarrollo Local en Guatemala [Trust Fund for Local Development in Guatemala]
FJN	Fundación José Nieborowski [Foundation José Nieborowski]
FIDEG	Fundación Internacional para el Desafío Económico Global [International Foundation for Global Economic Challenge]
FINDESA	Financiera Nicaragüense de Desarrollo S.A. [Nicaraguan Development Financier]
FISE	Fondo de Inversión Social de Emergencia [Nicaraguan Social Emergency Investment Fund]
FODEM	Fundación para el Desarrollo de la Mujer [Foundation for Women’s Development]
FSLN	Frente Sandinista de Liberación Nacional [Sandinista National Liberation Front]

FUNDASAL	Fundación Salvadoreña de Desarrollo y Vivienda Mínima [Salvadoran Foundation for Development and Low-Income Housing]
FUNDEVI	Fundación de Desarrollo para la Vivienda Social Urbana y Rural [Urban and Rural Social Housing Foundation]
FUPROVI	Fundación Promotora de Vivienda [Housing Promotion Foundation]
FUSAI	Fundación Salvadoreña de Apoyo Integral [Salvadoran Integral Support Foundation]
GTZ	German Technical Cooperation Agency
HDM	Housing Development & Management, Lund University
IADB	Inter American Development Bank
IIED	International Institute for Environment and Development
IMF	International Monetary Fund
INEC	Sida's Department of Infrastructure and Economic Cooperation
INIDE	Instituto Nacional de Información de Desarrollo [National Institute of Information for Development]
INIFOM	Instituto Nicaragüense de Fomento Municipal [Nicaraguan Institute for Municipal Development]
KfW	Kreditanstalt für Wiederaufbau [German Development Cooperation Bank]
LFA	Logical Framework Analysis
MAS	Ministerio de Acción Social [Social Action Ministry]
MDGs	Millennium Development Goals
MFIs	Microfinance Institutions
NGOs	Non-Governmental Organizations
N-AERUS	Network Association of European Researchers on Urbanisation in the South
OECD	Organisation for Economic Cooperation and Development
OIM	Organización Internacional para las Migraciones [International Organization for Migrations]
PNUD	Programa de las Naciones Unidas para el Desarrollo [United Nations Development Programme]

PRIMHUR	Programa Integral de Mejoramiento Habitacional Urbano [Integral Urban Housing Improvement Programme]
PRODEL	Fundación para la Promoción del Desarrollo Local [Foundation for the Promotion of Local Development]
PROMESHA	Programa para el Mejoramiento Socio-Habitacional [Capacity Building Programme for Social Housing Improvement]
PRS	Poverty Reduction Strategy
PVMR	Programa de Vivienda Mínima Rural [Rural Low-Income Housing Programme]
RAAN	Región Autónoma del Atlántico Norte [Autonomous Region of the North Atlantic Coast]
RAAS	Región Autónoma del Atlántico Sur [Autonomous Region of the South Atlantic Coast]
RELA	Sida's Latin America's Regional Department
Sida	Swedish International Development Cooperation Agency
SPSS	Statistical Package for the Social Science
UNB	Unsatisfied Basic Needs
UNDP	United Nations Development Programme
UNICEF	United Nations Children Fund
UN-HABITAT	United Nations Human Settlements Programme
UNO	Unión Nacional Opositora [National Opposition Union]
US-AID	United States Agency for International Development

Executive Summary

Background and problem definition

As the world's population becomes more urban and the "urbanisation of poverty is taking place" (Ravallion, Chen and Sangraula, 2007) finding ways to address the challenges that spatial expansion, inequality and exclusion pose for the future economic growth, social stability and management of cities in the global South is critical. A renewed interest in the links between poverty reduction, local urban governance and the creation of sustainable, inclusive and democratic cities has emerged (Herrle and Walther eds., 2005; Tannerfeldt and Ljung, 2006). Within the analytical and operational frameworks that might contribute to the reduction of poverty and social exclusion (Sen, 2000), an examination of the concept of assets and how assets are accumulated by the poor over long-term periods is being made (Moser and Dani eds., 2008). In her longitudinal study in Guayaquil, Moser (2009) demonstrates that housing was a precondition for the accumulation of other assets, and the possibility for households to move out of poverty.

Gaining access to housing has become increasingly dependent on structural conditions by which housing finance systems, including those aimed at the urban poor, link to local and global financial markets (Malpezzi, 1999). Yet, not all housing finance systems, or every form of social housing finance, are suitable for improving access by the urban poor (Mitlin, 2007). The problem is that the policy debates in developing countries have considered housing finance as a means either to accessing shelter or to accessing an asset (Rust 2007). While the first looks into the government's role in designing housing policies and the financial mechanisms to make housing accessible to the poor, the second focuses on the functioning of land markets and on the role of lender institutions in enhancing the asset value of housing as a means to move the poor out of poverty (ibid.). This unavoidably has led to a debate on mortgage lending as the main tool to facilitate low-income groups' access to housing (ibid.), and a discussion on the role around land tenure regularisation (see de Soto, 2000); and the allocation of demand-driven state subsidies to stimulate mortgage finance (see Renaud, 1993, 2003). However, recent studies have demonstrated that neither did land tenure regularisation always lead to mortgage lending (Calderon Cockburn, 2002), nor has mortgage lending necessarily been affordable to the urban poor (Ferguson, 2008). A way to overcome this problem is to further understand the social, economic and financial dimensions of what housing as an asset represents for the urban poor, and to explore which forms of social housing finance strengthen these dimensions (Rust, 2008b). The problem is that beyond mortgage lending and land titling, other forms are less well-known. Recent literature shows

that micro-finance for housing improvement (Ferguson, 2008) and co-financing for basic services and infrastructure (Stein and Vance, 2008) are two forms of social housing finance that might open new opportunities for the urban poor to consolidate the multi dimensions of housing as an asset while offering viable financial mechanisms (Vance, 2008).

Purpose and research questions

Analysing the context in which microfinance for housing improvement and co-financing for basic services and infrastructure might open new opportunities to the urban poor is therefore challenging from a social policy perspective that aims to reduce urban poverty and social exclusion. The purpose of this thesis is to further understand key conceptual and operational challenges that international aid donors, and public and private institutions, face while designing and implementing alternative forms of social housing finance, which aim to be inclusive for the urban poor. To achieve this, the thesis tries to answer three questions: What are the constraints the urban poor face in financing the incremental way they build their individual housing and collective assets? Why does housing microfinance not always enhance inclusion of the urban poor? How does the tension between the goal of achieving financial sustainability and increasing financial inclusion affect the policy of international donors and governments, and the practice of local financial institutions?

Research methodology

To answer the main research questions the thesis critically examines relevant theoretical debates and policy literature on the existing links between urban poverty and social exclusion; and also on asset accumulation, housing and social housing finance. It also explores the discourses of international aid donors and practitioners on housing microfinance, and its centrality in reducing urban poverty and being a financially inclusive tool. In addition, the thesis draws from different epistemological traditions to understand the relationship between social theory and social research: the 'realist approach' (Sayer, 1999); the 'critical reasoning method' (Hinkelammert, 1984, 1987; Serrano, 2006); and the 'adaptive theory' (Layder, 2005). It uses critical case study methods as applied in political science and history (George and Bennett, 2005; Flyvbjerg 2006) to explain the trends and complexities of the social phenomena investigated.

The research selected the experience of the Foundation for the Promotion of Local Development (PRODEL) in Nicaragua, one of the five low-income housing programmes supported by the Swedish International Development Cooperation Agency (Sida) in Central America, as a critical case study for various reasons. PRODEL's origin and evolution developed in an unusual context characterised by extreme inequalities, poverty, and exclusion, and the vulnerabilities associated with political fragility, civil wars, economic crises, and natural disasters. Since its inception, PRODEL addressed three unmet basic needs linked to urban poverty using three different finan-

cial instruments: the lack of adequate employment and income through microfinance for income generating activities; the lack of adequate services through a co-financing mechanism for the introduction of infrastructure; and the lack of adequate shelter through micro-lending and technical assistance for housing improvements. PRODEL financed these components through Microfinance Institutions (MFIs) and local governments. Thus, the case benefited from the valuable diversity of forms of social housing finance that are the focus of this research. As PRODEL was an institution that had been operating for more than 15 years, it was possible to identify tendencies and trends regarding its potential and limitations. To transform PRODEL into a critical case-study, the thesis formulated an argument in the form of a proposition as this lets particular relationships between events, agencies and structures be investigated, without complying with all the logical sequences of verification required by a hypothesis (see Walliman, 2005). The proposition was: if financial exclusion occurs here, it might also occur elsewhere.

To explore this proposition the research combined qualitative and quantitative methods including multiple sources of evidence gathering, validation, and verification through triangulation (Yin, 2003). Parallel to reviewing documents and archival records, field visits to three cities where PRODEL operated since 1994 took place in 2006, 2007, and 2009. These cities were Estelí, Ocotal and Somoto, which in the late 1980s and 1990s experienced high levels of urbanisation and increased levels of poverty. To assess the perceptions of stakeholders regarding PRODEL the study used transect walks through communities, direct observations, semi-structured and open-ended interviews, snowball, and focus-group discussion techniques.

Based on Meyer, Nagarajan and Dunn's (2000) method, the research built indicators containing socio-economic, housing conditions, basic services, and status of land tenure variables. The characteristics of PRODEL's clients that accessed housing improvement loans and infrastructure could therefore be compared with the characteristics of the population of Nicaragua overall and of the three selected cities. The aim of the exercise was to measure the depth of outreach of the households that participated in PRODEL's components with those of the urban poor in Nicaragua; and to establish indicators that in future years could be replicated using the same panel data. Data from the Nicaraguan 1995 and 2005 national censuses, and the National Surveys on Household Living Conditions for 2000 and 2005 available on-line, were used. To compare PRODEL's clients with the data of the national censuses and household surveys, the database from a random sample survey of 542 households that participated in PRODEL's components was used. The survey, commissioned by PRODEL and Sida to the Foundation for Global Economic Integration (FIDEG), took place in May 2005 and contained information from households that participated in PRODEL's components, and socio-economic information for each member of the household.

PRODEL also provided historical data on the outcomes of its three components for the period 1994–2008. Part of this information served

to map the investments in infrastructure in different neighbourhoods of the cities of Somoto, Ocotal and Estelí.

Main findings and conclusions

The thesis shows significant improvements in the living conditions of the urban poor as a result of PRODEL's investments. During the period 1994–2008, the MFIs disbursed about 100,000 micro credits totalling US\$ 44 million for economic activities benefiting 25,000 households. Approximately 76 per cent of the borrowers were women, and 54 per cent of the businesses were home-based enterprises, which explains the importance of micro-credits for the financial inclusion of women-headed households. The MFIs disbursed (using PRODEL resources) 43,500 loans for housing improvement, totalling US\$ 42.6 million. Approximately 34,760 households improved their homes, which represented six per cent of the total urban population in Nicaragua. In Estelí and Ocotal, more than 20 per cent of the housing stock improved, while in Somoto it was 45 per cent. Approximately 52 per cent of the housing improvements loan borrowers were women, and of these 43 per cent were household heads. Finally, during this period, PRODEL co-financed with local governments and urban poor communities, 659 infrastructure and basic services projects. In Estelí, 95 projects reached 69 per cent of the total population; in Ocotal 95 projects reached 70 per cent; and 82 projects in Somoto reached 90 per cent of the population. The investment totalled US\$ 17.8 million of which: PRODEL provided 50 per cent of the funds; local governments 34 per cent; urban poor communities 14 per cent; and other sources, the remaining two per cent. About 20 per cent of the projects were potable water and sewerage systems; 35 per cent drainage and storm water; six per cent schools, 10 per cent electricity; 20 per cent, street improvement; and nine per cent community centres and land management.

About 57 per cent of the microenterprise clients considered themselves 'poor'; while 68 per cent of housing improvement clients saw themselves as 'poor'; and 81 per cent of the participants in infrastructure projects perceived themselves as 'poor'. When these perceptions were compared with the vision of their future, 77 per cent of the micro-entrepreneurs that perceived themselves as poor, considered themselves as 'winners'; while in housing 72 per cent of those that saw themselves as poor, saw themselves as 'winners'; and only 66 per cent in the infrastructure component that saw themselves as poor, saw themselves as 'winners'.

The in-depth interviews clarified the gap between the perceptions households had of their present and future conditions. Interviewees considered that their poverty related more to the conditions prevailing in their neighbourhood and city than to their household income levels. Family breakdown; lack of education; insecurity; family members migrating to other countries in search of a better future given the lack of opportunities in the city; or a permanent sense of helplessness given the recurrent political and economic crises were more important than their monetary consumption levels. Increased self-esteem, from being included in financial schemes that improved

their homes and neighbourhoods, was equally important. Interviewees said that it was not the lack of income that pre-empted their participation in housing loan schemes, but the lack of reliable information, their fear of the unknown, and their lack of knowledge on how MFIs operated.

The thesis also shows that formal land titles did not constitute an impediment to the inclusion of urban poor households in housing improvement loans, even during a period when the legal problems of land ownership were a contentious issue in Nicaragua. Paradoxically, populist public policies generated a fertile ground for a debtors' non-payment movement, and this led to the reappearance of the issue of formal land titles as collateral for accessing housing improvement loans.

Finally, the thesis demonstrates that the concept of financial sustainability limited the possibility of analysing the processes by which the urban poor build, strengthen, and accumulate their individual and collective assets over long-term periods. It shows that under certain circumstances PRODEL's co-finance mechanism for infrastructure strengthened the capacities of urban poor households, and opened new opportunities for their inclusion into micro-lending programmes. Yet, the mechanism for infrastructure required resources, on a sustained basis, that by nature were grants that were not 'recoverable', even if the practice during 15 years showed that half of the costs of these projects were financed locally by municipal governments and participating communities. Contrary to the loan schemes, the long-term viability and sustainability of the infrastructure component was not secure. Thus, the mechanism by which PRODEL reached the poor did not have enough resources and the difficulties of accessing fiscal or international resources for this purpose was increasingly complicated. This situation represented a serious challenge for the entire rationality of PRODEL's urban poverty reduction and social inclusion model. The paradox was that the only possible way that PRODEL could generate additional resources to finance and sustain its co-sharing mechanism for infrastructure and basic services, was by accepting that the segment of the market that the MFIs were serving through the small and repetitive loans for housing improvement was drifting towards higher income level households. This was not the consequence of 'mission drift' by PRODEL, but more the result of a combination of external and internal conditions which included among others the way fiscal resources were manipulated on a partisan basis by the Nicaraguan government; the constraints that international development aid imposed on these types of non-reimbursable operation; and how the criteria of financial sustainability narrowed the understanding of the social and financial model of PRODEL's operation.

Future research

The thesis shows the importance of performing longitudinal studies to increase the reliability of information to guide the ways to address urban poverty and exclusion. In this sense, it is important to track and revisit in coming years, the same households, communities, and

cities studied during this research. This will allow further understanding on how social exclusion and asset accumulation evolved from an inter-generational perspective (Moser, 2009), and to assess what new vulnerabilities and risks, as well as opportunities and possibilities, these households and communities face in overcoming their poverty.

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Manchester, May 2010.

Introduction

This chapter explains the personal reasons, as well as the specific contextual problems, that led to identifying and defining urban poverty, social exclusion, social housing finance, and the experience of the Local Development Foundation (PRODEL) in Nicaragua, as the core objects of study of this research. It also presents what the purpose, goals and relevance of the PhD thesis are; and the key research questions, as well as the methods and techniques used during the study, their scope and limitations. Finally, it describes the structure and content of different subsequent chapters.

Background

The origin of this PhD thesis is closely linked to my professional career and to the long-standing and fruitful working relationship that I had with the Swedish International Development Co-operation Agency (Sida). Since 1984, I have been involved in the design, implementation, supervision and evaluation of policies and projects in the fields of low-income housing, local development and post-emergency reconstruction in different countries of Latin America, Africa and Asia. My engagement with these initiatives covered diverse professional roles: from being an executive of an NGO (Non-Government Organisation), to an external consultant and also a programme officer on behalf of bilateral and multilateral agencies; from providing training, technical assistance, and advice to national and local governments, to researching these experiences.

From 1992 to 1998, I assisted the low-income housing programmes supported by Sida in Central America during a period of changing expectations and opportunities generated by peace agreements reached in a region engulfed in deep internal political and armed conflicts. In the aftermath of hurricane Mitch, I worked as Sida's programme officer in Honduras, responsible for reconstruction projects, whose aim was to rehabilitate the damaged infrastructure, and more importantly, to transform the institutional frameworks in order to develop more coherent land, social housing, and basic services policies.

These experiences provided first-hand insight into core issues affecting the urban poor in different countries and cities in the world, and to acknowledge and admire the resilience of households and communities to generate through their seemingly inconsequential daily routines, small, but significant political and social changes, which, in turn, gradually improved their living conditions.

The idea of writing a PhD thesis originated in early 2004 during a dialogue I had with Sida officers who suggested that it would be important to systematise the low-income housing and local develop-

ment initiatives in which I had been involved. Sida's Urban Division was particularly supportive of this initiative. For more than 15 years, the national institutions responsible for the low-income housing programmes supported by Sida (FUPROVI in Costa Rica, FUSAI in El Salvador, FUNDEVI in Honduras, PRODEL in Nicaragua and FDLG in Guatemala) dedicated important financial and technical resources to ensure that the programmes would continue once the external cooperation diminished. Yet, a deeper understanding of their developmental outcomes, and especially their long-term social impacts had received less attention.

The Housing Development & Management Department (HDM), Lund University, expressed its interest in materialising this study. Since 1996, HDM had been engaged in a capacity-building programme for low-income housing in Latin America (PROMESHA). In discussions between Sida's Urban Division and HDM about a new phase of support to PROMESHA, the possibility of an in-depth study of the Central American low-income housing programmes emerged as an opportunity to strengthen this programme. When deciding on the purpose of the study, Sida and HDM agreed that having someone with direct knowledge of the origins and evolution of these housing programmes would be particularly favourable for the research, and that an applied perspective could provide additional analytical insights to the academic research effort. Thus, the research that forms the basis of this PhD thesis began in September 2004.

With the risk that my proximity to these programmes might entail for objective scientific inquiry, both Sida and HDM's aim was to support research that reviewed these housing programmes in the context of the changing paradigms that globalisation, urbanisation and increased poverty were generating in developing countries. Yet, as an external examiner pointed out after reviewing a first draft of this thesis in 2009, "these motivations are not sufficient to identify a research problem; and while systematising and critically evaluating these low-income housing experiences may be vital from an international donor agency's perspective, it does not necessarily amount to scientific research".

Looking back at the origins of this research, I do not negate that there was an important story that Sida's Urban Division and I wanted to convey. By showing the tangible and positive outcomes of the low-income housing programmes in Central America, the thesis might contribute to the internal debates within international donors, including Sida on urban development policies, especially those linked to social housing finance and urban poverty eradication. The fact that I was closely involved in the design, implementation, and monitoring of these experiences will, probably, reinforce this assumption to an external reader. However, in spite the fact that the geographic context and the case studies were broadly predefined before the study started, the historical evolution of these social housing programmes and their implementing institutions, posed significant challenges that permitted the identification of issues which justified the need for research, but more importantly, which required scientific inquiry.

As studies on social housing programmes in middle-low and low-income countries supported by donors regularly showed, their increased dependence on external aid made them ultimately vulnerable, especially when there was insufficient ownership and political commitment among national stakeholders, and even within external donor agencies. A common issue emerging from the Central American low-income housing programmes when this research started was the fact that, over time, and in spite of the rapid changing and adverse contexts in which some of them operated, the programmes were consolidating, and the implementing institutions were becoming increasingly self-sufficient and self-reliant. Gaining knowledge on how increased ownership happened became, therefore, an important study issue; as such an understanding might shed light on ways by which international development aid schemes contributed towards urban poverty reduction in societies, such as the ones in Central America. The fact that I had knowledge of these programmes since their inception in 1987, and that on a periodic basis I continued to exchange information on their evolution, facilitated a more detailed understanding of the external and internal factors that might have contributed to this outcome. From a methodological research approach, based on longitudinal case studies, this type of knowledge cannot be underestimated.

When this research started, there were insufficient documentation and concrete studies on how the tension between achieving financial sustainability and increasing financial inclusion in social housing programmes was affecting not only the policies of international donors and national governments, but also the practice of institutions in Central America working in poverty reduction through housing microfinance, and other forms of social housing finance. This topic became particularly contentious during Sida's internal debates about whether or not to support the Foundation for the Promotion of Local Development (PRODEL), and other low-income housing programmes in the region. These debates reflected a global trend that was reshaping the approach, policies and practices of many international aid agencies towards social and economic development, increasingly influenced by the paradigms of the neo-liberal agenda.

Finally, from a long-term perspective, the conceptual and operational 'limits' of these housing programmes – in terms of social inclusion and poverty reduction – were not properly understood; although the positive financial and social outcomes were recognised. The experience of these programmes showed that even well conceptualised and structured development projects had their contextual and internal institutional 'limits'. These empirical 'limits' could not be simply reduced to the difficulties that projects inevitably encountered in their planning and subsequent implementation stages, especially in the face of complex political, social and economic contexts. More importantly, these obstacles, were also linked to other types of 'limits'; those intrinsically contained, either explicitly or implicitly, within the logic of the social and economic theories and the conceptual frameworks and discourses that underpinned these policies and practices.

Why did PRODEL become such a critical case for this thesis? Since 1994, PRODEL had used three components aimed to include the urban poor through different financial instruments, each with its own rationality. The micro-credits for income-generating activities aimed at microenterprises, including those home-based enterprises located in informal settlements. The small and repetitive loans for housing improvements targeted households that, although poor, could afford to repay the loans. The participatory and co-financing mechanism for the introduction and maintenance of basic services and infrastructure worked in poor neighbourhoods where households that could or could not afford to pay back a loan for housing improvement or for income generating activities lived. Micro Finance Institutions (MFIs) that provided financial services for the urban poor, acted as intermediaries to convert PRODEL resources into micro-credits for income-generating activities as well as small and repetitive loans for housing improvements. PRODEL, local governments, and urban poor communities co-financed the infrastructure projects. As the thesis shows, the combination of these components in the cities in which PRODEL operated reached and benefited hundreds of thousands of urban poor, and mobilised substantive amounts of local resources, on a sustained basis.

It is precisely this combination of public and private institutions, and the mixture of diverse forms of social housing finance and micro credits for economic activities, designed to achieve inclusion of the urban poor in the cities in which it operated, that made the work of PRODEL in Nicaragua such an atypical case. Moreover, the volatile context in which it was designed and developed, as well as the debates surrounding PRODEL's long-term institutional and financial sustainability, also revealed the theoretical, contextual and institutional limits of up-scaling housing improvement schemes as part of wider and more socially inclusive urban poverty reduction strategies.

Paradoxically, out of the five Sida-supported low-income housing programmes in Central American, PRODEL offered a unique opportunity to learn why and how even the most inclusive forms of social housing finance and participatory methods, might exclude the urban poor. Thus, the experience posed a fundamental challenge that was formulated as a research proposition, which justified selecting PRODEL as an atypical case study: if financial exclusion occurs here, it might also occur elsewhere. To understand the causal relations, as well as the external and internal contradictions that might lead to its positive results and to its unexpected non-inclusive outcomes was, therefore, critical from a knowledge production, as well as from a social development policy, perspective. In this sense, the thesis aims to contribute to the theoretical and policy debates on possible, feasible and alternative ways to eradicate urban poverty in countries such as Nicaragua.

Problem statement

As the world's population becomes more urban (National Research Council, 2003) and the urbanisation of poverty is taking place (Ravallion, Chen and Sangraula, 2007), the need to identify alternative

ways to address the challenges that urban spatial expansion (Angel et al., 2005) and inequality and exclusion (Sposati, 2000) pose for the future economic growth, social stability and management of towns and cities in countries of Asia, Africa and Latin America is essential (Tannerfeldt and Ljung, 2006). Recent studies (Ávalos Trigueros and Trigueros Argüello, 2005; Beall, 2002; Carbo et al., 2005; Glaeser, 2005; Sen, 2000; United Nations, 2006) show the reinforcing dynamics between poverty, social exclusion, financial exclusion, inequality, spatial stratification, and the diverse ways in which these phenomena manifest themselves in the cities of both the North and the South¹. A renewed debate on the linkages between poverty reduction, local urban governance and the creation of sustainable, inclusive and democratic cities becomes crucial (see Acioly et al., 2006; Cheema and Rondinelli eds., 2007; DPU, 2001; Freire and Stren eds., 2001; Garland et al. eds., 2007; Westendorff ed., 2004).

Within the debates on different analytical and operational frameworks that might contribute to reduce urban poverty and exclusion, a renewed examination of the concept of assets, and more importantly of the processes by which assets are built and accumulated by the poor over long periods of time, is emerging (see Bernal Lara, 2007; Moser and Dani eds., 2008). Based on a longitudinal research of an urban poor community in Guayaquil, Ecuador, Moser (2009) demonstrated that not all assets are symmetrically or equally important. "Housing is a primary asset that the urban poor seek to accumulate" and although "it does not always get households out of poverty", it is "a necessary precondition for the accumulation of other assets" (Moser and Felton, 2007:25), especially in rapidly changing and highly vulnerable urban environments.

Indeed, during the last four decades, international cooperation aid agencies and national governments of middle- and low-income countries, as well as of transition economies, have considered investments in the housing sector an important developmental factor, given the social effects it had in terms of economic growth and employment creation (see Harris and Arku, 2007; Majale, 2008; Malpezzi, 1999). Moreover, affordable and adequate urban land, basic services and shelter have been highlighted as key strategic elements for improving the living conditions of hundreds of millions of slum and informal settlement dwellers in the cities of the South, and for preventing the formation of new slums, contributing towards achieving the Millennium Development Goals (MDGs) (see UN Millennium Development Project, 2005a).

Yet, incongruence between the discourse and practice of international development aid agencies (De Ponte, 2002), and of national governments still prevailed. While the language of promoting more equitable and sustainable cities formed part of the development lit-

1 In this thesis 'South' (with capital letter), does not refer to the geographic areas that constitute the 'south' (not capitalised) of Europe, North America (the United States and Canada), Japan or even Australia or New Zealand. By South, the focus is on a range of regional and country-specific contexts including the growing economies of countries such as Brazil, India and China, and more importantly, the majority of middle- and low-income countries in Asia, Africa and Latin America with smaller economies, larger scale poverty, experiencing unprecedented levels of urbanisation and urban growth.

erature, as well as the agendas of international donors and governments around the world, its impact on improving the living conditions of hundreds of millions of urban poor people was still insignificant (Hamdi, 2006). A review by Mitlin (2004) of 23 Poverty Reduction Strategies (PRS) elaborated by highly indebted countries with the assistance of international donors, found that critical factors affecting the possibility of urban poverty reduction, including access to affordable and adequate land, basic services and shelter, were marginally mentioned, or inadequately addressed.

Today, gaining access to adequate shelter has become increasingly dependent on a series of structural conditions by which different housing finance systems, including those aiming to reach the urban poor, link to the overall financial system of each country, and to global financial markets (see IADB, 2006, 2007; Malpezzi, 1999; Renaud, 1999). However, not all housing finance systems nor every form of social housing finance (ie the different forms of finance existing within a housing finance system targeted towards low-income households²) are suitable for improving access to housing by the urban poor (see Mitlin, 2007; Mukhija, 2004).

A study by the World Bank of its 30 years' lending experience in housing established that, in spite of positive steps taken in increasing its financial and technical support to developing countries in dealing with their housing problem, "serious and often long-standing obstacles are impeding and in some places preventing progress" (Buckley and Kalarickal eds., 2006:x–xi). The study concluded that the

...Bank's wider sector approach in supporting policies aimed at enabling housing markets in developing countries was producing mixed results: on the one hand, it was making market-based housing finance more available to most middle-income people in the world, but on the other hand, it was probably affecting the Bank's focus of reaching lower-income countries and urban poor sectors, therefore hindering its contribution in achieving the MDGs (ibid.: xii).

Other multilateral and bilateral agencies highlighted similar findings on the effectiveness of public housing policies aiming to restructure housing financing systems in ways that enable the urban poor improved access to affordable housing (see AfDB, 2007; IADB, 2007).

A central problem has been that the theoretical and policy debates on housing finance in middle- and low-income countries have focused "either on considering housing finance as a means for accessing shelter or on housing finance as a means for accessing housing as an asset" (Rust, 2007:42). While the first highlights "the government's role in housing and in structuring and enabling housing policies and financial mechanisms to make housing accessible for the poor", the second concentrates: "on the functioning of land markets and on the role of lender institutions and governments in enhancing the asset value of housing as a means for extracting the urban poor out of poverty" (ibid.). Rust (ibid.) argues that this debate

2 For the meaning of 'social housing' in capitalist countries and in regions like Latin America see Balchin and Stewart (2001). For the term 'forms of social housing finance' see Renaud (1999, 2003).

“inevitably leads to a discussion on mortgage lending as a means to facilitate lower-income groups” access to new housing units. This is one of the reasons why the literature on social housing finance has centred around two types of social housing finance that emerge as the preferred instruments of the ‘enabling housing policies’ promoted by international aid agencies: the management of land markets, including regularisation of land tenure (see de Soto, 2000), and the allocation of demand-driven state subsidies to stimulate mortgage finance (see Renaud, 2003). However, as other studies³ have suggested, “these mortgaged loans are not affordable to the majority of the urban poor of the world given their low income levels” (Rust, 2007). Even in countries where up-front, demand-driven and targeted state subsidies were used as the preferred policy instrument to complement mortgage financing in order to better facilitate lower-income families’ access to new housing, fiscal resources were sometimes not only limited, but they only reached middle income groups. Moreover, even in cities where there were massive land tenure regularisation processes, access to formal housing markets, and to mortgage lending by the urban poor proved to be more complicated than originally thought (for a critical review on the impact of land regularisation programmes see Bromely, 2005; Calderon Cockburn, 2002; Mitchell, 2004; Morris Guerinoni et al., 2004; Von Benda-Beckman, 2003).

A way of overcoming these constraints is to understand the social, economic and financial dimensions of what housing, as an asset, represents for the urban poor (Rust, 2008a, 2008b), and to explore which forms of social housing finance are more adequate to meet the needs of each one of these dimensions. The problem is that other forms of social housing finance that go beyond mortgage lending and land titling and which might address the multi dimensional issue of housing as an asset for the urban poor are less well known. A closer review of the literature showed that even if microfinance is considered a promising tool for poverty reduction and social inclusion, the majority of studies concentrated on analysing the impact of micro-lending on economic activities (see Helms, 2006), and, more recently, on the benefits of micro-insurance as an assistance tool in the case of unforeseen natural and man-made disasters (see Cohen and Young, 2007; Morduch, 2004; Wamsler, 2007), but to a lesser extent, on microfinance for housing improvements (see for example Center for Urban Development Studies, 2000; Daphnis and Ferguson eds., 2004; Stein and Castillo, 2005).

Since institutionalised micro-lending for housing improvement is a relatively new development tool for urban poverty reduction, the first studies on housing microfinance were limited to demonstrating that it was either a new, effective, finance tool for accessing shelter, or a new, viable, self-sufficient and financially sustainable instrument

3 For a better understanding of changes in housing policies and the role of mortgage lending and demand driven subsidies in reaching and including the urban poor, see Angel (2001a; 2001b); Angel and Jacobs (2006); Brakarz, Rojas and Greene (2002); Castillo (2006); Gilbert (2004); Greene and Rojas (2008); Hoek-Smit (2006); IADB (2004); Mitlin (2007); Renaud (2003); Robert and Portes (2006); Rust (2007); Solo (2008); Stein and Vance (2008); UN-Habitat (2005a).

that complied with the norms and procedures of sound financial practices (see for example, Daphnis and Faulhaber, 2004; Daphnis and Ferguson eds., 2004). Recently, however, Ferguson (2008) and Vance (2008) argued that housing microfinance is a tool for poverty reduction with sound financial mechanisms. Similar circumstances arose with the literature reviewing the social impacts of using action planning (see Hamdi, 2006; Hamdi and Goethert, 1997), and co-financing mechanisms for the introduction and maintenance of basic services and infrastructure (see Stein and Vance, 2008) as a means of supporting the urban poor to accumulate their collective assets (see Moser, 2009), and also to generate socially inclusive cities (see Acioly et al., 2006; Herrle and Walther eds., 2005). Analysing contextual circumstances, as well as institutional and operational mechanisms by which microfinance for housing improvement and co-financing for basic services and infrastructure, might open new opportunities for the urban poor, and contribute to the transformation of housing into a social, economic, and financial asset, is, therefore, extremely challenging from a social policy perspective which has as its ultimate aim to reduce urban poverty and social exclusion.

Purpose, relevance and main research questions

The purpose of the thesis is to try to explain and further understand key conceptual and operational challenges that international aid donors, as well as public and private institutions, face while designing and implementing alternative forms of social housing finance, which aim to be inclusive for the urban poor. To achieve this, the research attempts to answer the following questions: What are the constraints the urban poor face in financing the incremental way they build their individual housing and collective assets? Why does housing microfinance not always enhance inclusion of the urban poor? How does the tension between the goal of achieving financial sustainability and increasing financial inclusion affect the policy of international donors and governments, and the practice of local financial institutions?

The findings of the thesis are expected to contribute to the debates on the design of more effective policies and programme interventions aimed at addressing urban poverty and social exclusion, while providing recommendations on ways in which microfinance institutions (MFIs), local governments, and international aid agencies might increase the opportunities of urban poor groups to gain access to adequate and affordable land, basic services and shelter. These findings are particularly relevant in countries like Nicaragua in which poverty reduction strategies form the basis of the national development plans that central and local governments are implementing with the support of the international donor community and with civil society participation (SETEC, 2001; Vos and Cabezas, 2006).

Research methodology

Defining the main topic, problem and research questions, as well as a coherent theoretical approach, a research strategy and the adequate techniques to address the PRODEL case was not an easy task. It required a process that was not linear or predictable at all, but circular, sometimes erratic, and occasionally, plagued by inconsistency, confusion, incoherence and temporary failures. Thus, even if the research methodology presented in this thesis appears as logical and sequential, the intellectual pathway production of the 'real' research faced numerous trials and errors, and at times, serious difficulties, and setbacks in presenting adequate logical arguments as well as the factual data to substantiate its main line of reasoning.

Initially, the research critically reviewed relevant theoretical and policy debate literature on the links existing between urban poverty and social exclusion, as well as on asset accumulation, housing and social housing finance. The literature analysis also explored the discourses of international donors and practitioners on microfinance in general, and on housing microfinance in particular, and its centrality as a developmental and urban poverty reduction tool.

Second, the research reviewed different approaches used in social sciences to understand the links between social theory and social research. It identified several epistemological approaches useful to draw upon to help explain the tendencies and complexities of the phenomena investigated: the 'realist approach' (see Sayer, 1999), the 'critical reasoning method' (see Hinkelammert, 1984, 1987; Serano, 2006) and the 'adaptive theory' (see Layder, 2005). Methods of case study as applied in political science and history (see George and Bennett, 2005; Yin, 2003) complemented these epistemological approaches, as they helped to reconstruct the origins and evolution of the Foundation for the Promotion of Local Development (PRODEL) in Nicaragua.

As mentioned in this Chapter, the proposition that guided this research was: if financial exclusion occurs in PRODEL, it might also occur elsewhere. The underlying reason for using PRODEL as a 'critical case' study method as proposed by Flyvbjerg (2004, 2006), was to better understand its limits, and to test whether or not the case contributed to social theory development through analytical generalisations.

Third, the study designed quantitative and qualitative research methods, including multiple sources of evidence gathering, validation and cross-checking through triangulation (Yin, 2003), to describe the short, medium and long-term social impacts of the forms of social housing finance used by PRODEL. The quantitative methods included a statistical analysis comparing the degree, and the intensity of the changes in the socio-economic and living conditions of the urban poor in Nicaragua, and those households that participated in PRODEL's main components in three cities in which it started operations in 1994. Partially following Meyer, Nagarajan and Dunn's (2000) methodological proposal, the statistical analysis attempted to measure the depth of outreach, or how far do the clients of PRODEL's three main components compared with Nicaragua's urban

population in terms of income and consumption levels, as well as other indicators of well-being, including housing material conditions, provision of basic services, and levels of education.

The statistical analysis used the databases from the Nicaraguan National Censuses for 1995 and 2005; and from the National Surveys on Household Living Conditions for 2000 and 2005, conducted by the Nicaraguan Institute for Statistics (currently known as INIDE). The databases for the Censuses and the National Surveys are available on-line (see <http://inide.gob.ni/>). For comparison purposes, the database, in SPSS format, taken from a random sample survey of 542 households that participated in PRODEL's three main components, was used. The survey, conducted in May of 2005, formed the basis of an external impact evaluation commissioned by PRODEL and Sida to the Foundation for Global Economic Integration (FIDEG) and was used in this thesis with Sida's and PRODEL's permission.

As inputs to this thesis, PRODEL generated historical data on a series of financial and social indicators of its three main components for the period 1994–2008. This information served to map the investments of the infrastructure component in the different neighbourhoods of three of the five cities in which PRODEL started operations in 1994: Somoto, Ocotal and Estelí. The maps form part of the appendices of this thesis.

Parallel to the quantitative analysis, secondary sources (including project proposals and evaluative documents; internal memos, as well as technical and financial reports present on personal archival records, and in those from PRODEL in Nicaragua, and Sida in Stockholm) were reviewed (see References).

Additionally, in July 2006 and February 2007, fieldwork visits to the Nicaraguan cities of Managua, Estelí, Somoto and Ocotal were made. In preparation for, and during, these visits part of the research's qualitative methodology was developed. Following some of Moser and McIlwaine's (2000) proposed participatory urban appraisal techniques, a series of tools, including transect walks through communities, direct observations, semi-structured and open ended interviews, and interest focal group discussions identified through snowball techniques, were used. These tools helped to assess the perceptions that different stakeholders, including members of MFIs, municipal authorities, and loan clients and other participants in, or users of PRODEL's components had regarding the small and repetitive loans for housing improvements, as well as the co-financing mechanism for infrastructure and basic services.

In January 2009, during the final PhD seminar, a first draft of this thesis was presented. The external examiner, as well as other participants, provided critical observations on the scope, the research questions, and the methodology used. The seminar's main recommendation was that further fieldwork and evidence gathering, as well as a narrowing of the focus of the thesis was required to substantiate the main findings. As a result, the research questions were reformulated and, in March 2009, a new field visit to Nicaragua took place. This time, open-ended interviews with members of households living in different neighbourhoods in the city of Estelí took place (see Appendix A). The objective of this visit was to obtain in-

depth details about the opportunities and constraints in respect of asset accumulation and inclusion that the households experienced before, during, and after they participated in one or more of PRODEL's forms of social housing finance.

To understand PRODEL's experience in the context of other similar forms of lending and finance for housing improvements, visits to the low-income housing programmes supported by Sida in Costa Rica, El Salvador, Guatemala, and Honduras were made in July 2006 and February 2007. Direct observations of housing improvements, and non-structured interviews with key stakeholders and clients of these programmes, were undertaken (see Appendix B). The visits ensured that key issues incorporated in the case study of PRODEL were taken into consideration.

Limitations

This thesis faced various limitations of which it is important to highlight three critical methodological problems. The first related to the feasibility of having suitable data to reconstruct the process by which urban poor households accumulated assets and were included in PRODEL's financial schemes, over a 15-year period. The second linked to the validity of using quantitative indicators such as poverty lines as reference points from which to measure if poverty reduction and inclusion took place. The third obstacle linked to the difficulties of drawing generalisations while focusing on a particular critical case study, such as PRODEL.

With the first problem, the methodology used in research on the links between poverty reduction and asset accumulation has demonstrated that longitudinal studies are more robust if over time data on the same communities, households and individuals are available (see Moser and Felton, 2007). The lack of a base line study for PRODEL constituted a serious limitation for replicating this type of longitudinal research (see Moser ed., 2003). Nevertheless, the research attempted to overcome this methodological obstacle by providing a long-term perspective that focused on the role played by public and private lending institutions in opening new spaces and opportunities for the accumulation of assets, and how urban poor households perceived these changes.

The continuous knowledge and information from PRODEL's development between 1993 and 2009; the regular visits made to the cities of Estelí, Somoto and Ocotal during the period 1993–1999, while being Sida's senior consultant to PRODEL and the further visits to these cities during the period 2006–2009 while conducting this research, provided the opportunity to develop a longitudinal perspective of the changes that had taken place in the cities and barrios in which PRODEL's components had worked, as well as the opportunity to assess the changes in approach that the local governments as well as the microfinance institutions (MFIs) had experienced during this period. Additionally, the interviews recorded in these cities in 2007 and 2009 provided further details and information on the way households perceived the contextual and institutional changes both in the case of the co-financing mechanism for the introduction of in-

frastructure and services, as well as in the provision of small and repetitive loans for housing improvements.

The second limitation refers to the conceptual and methodological problem of using poverty lines as well as census and household survey data as benchmarks to measure poverty reduction and financial inclusion. The conceptual debates in Chapter 2 of this thesis demonstrate the limitations of using poverty lines as a means to define, and more importantly to measure poverty. Nevertheless, during the analysis of PRODEL's outcomes (see Chapters 6, 7 and 8) as well as in the conclusions of this research (see Chapter 9), indicators based on poverty lines and data from the census are used. This contradiction has implications in confirming or refuting the main proposition that guided this research. Yet, the levels of income and consumption measured in monetary terms as well as the socio-demographic and housing conditions in census and household surveys data, were a useful point of departure to identify trends, and to compare, analyse and classify the thousands of households that participated in PRODEL's components during this period. The data also revealed the limits of PRODEL's inclusion model in terms of the forms of social housing finance used over a period of 15 years.

With regard to the third concern, it is important to bear in mind that the PRODEL case is context-dependent, and in its design and execution, specific, structural, cultural and political, as well as historical factors, intervened. Therefore, not all the findings from this particular case study can be generalised, or be valid to other contexts and experiences. Nonetheless, there are valuable lessons to learn from the trends that emerge from its evolution during these years. Hence, reconstructing the changing context, the causal mechanisms, and the inflection points that led to PRODEL's origin and evolution, as well as describing in considerable detail the roles played by the local governments and MFIs during these phases, and the one played by an international aid donor such as Sida were important.

Structure of the thesis

The thesis contains nine chapters and an appendix section. This introductory chapter provides the background, the relevance, and the main research problems and questions that guided the study. It also summarises the research strategy and methods used, and the content of each chapter of the thesis.

The second chapter explains the conceptual background of the thesis by examining the debate on urban poverty and social exclusion through the asset accumulation analytical framework. It reviews the concepts of 'financial exclusion' and 'forms of social housing finance' including microfinance for housing improvement. It also discusses the concept of 'spaces of negotiation' to explain how the collective assets of the urban poor are consolidated.

The third chapter describes the research approach, strategy and methods used during the investigation. It clarifies the reasons for using a 'critical case study' and it recounts the qualitative and quantitative techniques used for data collection, and the methodological

problems confronted by data analysis, and through the reconstruction of the context, origins and evolution of PRODEL's case study.

The fourth chapter explains the origin and design of PRODEL in Nicaragua in the context of the end of the civil wars, the peace agreements, and the reconstruction processes taking place in Central America at the time.

The fifth chapter describes PRODEL's main components and its institutional evolution during the last 15 years. It shows how the goal of achieving financial sustainability and the goal of reducing financial exclusion in microfinance affected the policies of an international aid donor, in this case, Sida, and the practice of an institution such as PRODEL.

The sixth chapter presents the main quantitative outcomes in term of financial inclusion and asset accumulation of PRODEL's interventions. It then makes the comparison between the national benchmarks and the proxies for the clients of both microfinance lending components and the co-financing mechanism for the introduction and maintenance of basic services and infrastructure.

The seventh chapter reconceptualises PRODEL's main components in the light of the debates on urban poverty, asset accumulation and social exclusion, and explains in detail the technical, financial and social mechanisms by which the poor were included and participated in identifying their problems and solutions at the neighbourhood and household level, especially in the cities of Estelí, Somoto and Ocotal.

The eighth chapter discusses the institutional and operational limits of PRODEL in terms of financial inclusion, asset accumulation and urban poverty reduction in the context of the political and economic changes that occurred in Nicaragua in the period 1994–2009.

The last chapter extracts the conclusions of PRODEL's case in terms of the theoretical debates on urban poverty and social exclusion. It also presents a reinterpretation of the contribution of social housing finance to poverty reduction and social inclusion policies. Finally, the chapter identifies potential issues that require further research.

The appendix section contains the guidelines for the semi-structured interviews used with different stakeholders; the list of institutions and people interviewed, the places and projects visited, and the maps of PRODEL's infrastructure investments in the cities of Ocotal, Somoto, and Estelí.

Conceptual framework

This chapter addresses the main research questions of the thesis from a theoretical and policy debate perspective. To achieve this, it examines the links between poverty and social exclusion in cities of the global South. It then explains why social inclusion is attained, not only through poverty reduction due to income (see Rakodi and Lloyd Jones eds., 2002; Sen, 2000), but also by means of the sustainable accumulation of assets by the urban poor (see Moser, 2009). Afterwards, it elucidates the role played by what Renaud (1999, 2003) defines as ‘forms of social housing finance’, in either opening, or preventing, the opportunities of urban poor households to consolidate their physical assets (see Rust, 2008b). By analysing the discourses of international donors on microfinance, the chapter also clarifies the role of housing improvement microloans as a tool for financial inclusion (e.g. Affleck and Mellor, 2006; CGAP, 2004; Daphnis and Ferguson eds., 2004; Ferguson, 2008; Helms, 2006; Rust, 2007, 2008b; Stein and Vance, 2008; Vance, 2008). In addition, it examines the tensions faced by microfinance institutions (MFIs) while they try to achieve financial sustainability, and increase their social performance (see Brau and Woller, 2004; Copestake, 2007; Woller, 2007), and alleviate poverty (Stenbäck, 2005). By using the concept of ‘spaces of negotiation’ (see Hamdi, 2006), the chapter explains why co-financing mechanisms for the introduction of basic services and infrastructure (Stein and Vance, 2008) increase social inclusion among the urban poor.

Urban poverty, social exclusion and asset accumulation

The definition of poverty has theoretical and strategic policy implications (Hulme and Mosley, 1996). As Chambers (see International Poverty Centre, 2006) contends, its meaning depends not only on “who formulates the questions to define what poverty is, and how it is understood, but also who responds to these issues”. Usually, poverty is linked to a discussion on ‘material lacks’ or the existence of basic unmet physical needs. Increasingly, the specialised literature on the matter agrees that poverty should not simply be linked to material deprivation and inequality. The lack of access to a broader series of needs which encourage a feeling of well being, and to the ways in which poverty is defined by the poor themselves, is equally important (see Hulme and Mosley, 1996; International Poverty Centre, 2006; World Bank, 2000).

Defining and measuring urban poverty

Defining urban poverty requires an understanding of its multidimensional nature. Equally significant is how its 'urban' characteristics are defined and measured; and how they manifest spatially and over time (see Baker and Schuler, 2004; Mitlin, 2005; Moser eds., 2003; Rakodi and Lloyd-Jones eds., 2002; Rojas, 2008; Satterthwaite, 2004). More importantly it also requires exploring the dynamics and the causes whereby individuals and households move into or move out of a state of poverty, as well as how different urban poor groups experience, perceive, define and express the level of their own poverty (International Poverty Centre, 2006).

Poverty lines

The idea of identifying poor groups according to poverty lines began in the 1880s when "schools in England and Wales were devising poverty lines according to income levels...and the number of family members, (in order) to distinguish the non-poor from the poor and destitute, and use it as a criterion to identify parents that could or could not pay for their children's school fees" (Gillie, 2008:302). With a greater degree of statistical sophistication this practice continues today as poverty lines are still the main parameter used by international donor agencies, especially the World Bank and national governments, to define who is poor and who is not poor (World Bank, 2000:17). Indeed, under this approach, poverty is measured by determining if the levels of consumption that individuals and households have, at a given point in time, "fallen under pre-defined national poverty thresholds, which are measured in monetary terms and which take into account the differences both in consumption patterns between countries in the South, and between rural and urban areas in a given country" (Ravallion, Chen and Sangraula, 2007).

Critiques of this method argue that neither income nor consumption accurately reflects the capacity of the poor to access the means of meeting their material and non-material needs required to achieve a minimum standard of living, even when food and non-food spending are also taken into account (see Moser, 1998; Rakodi and Lloyd-Jones eds., 2002; Wratten, 1995). According to Satterthwaite (2004), one of the characteristics of the urban poor is "their dependency on a periodic income cash flow for their survival that, in many cases, is not only inadequate, but also unstable and uneven". Moreover, in an increasing number of cities of the South, the sources for a regular income only come from wages which are dramatically vanishing and only found "in export-oriented production and service niches that are able to hire only a minority fraction of the total labour force existing in urban areas" (González de la Rocha, 2006:88). Additionally, the urban poor use money to purchase the majority of basic products and services in urban areas. Thus, land and housing, and even "a cheap shack built of scrap materials, located in an informal settlement, are expensive in the majority of urban settings" (Satterthwaite, 2004). The monetary cost of living is, therefore, "higher for urban than for rural households, and using poverty lines based on assumptions such as the one or two US dollars per capita a day as parameters to define and measure absolute poverty, tends to underestimate

the economic and financial realities of the urban poor” (ibid.). However, even if every member of a poor household received, as a cash transfer, two USA dollars a day, it is still difficult to conceive that urban poverty in cities of the South would diminish substantially (Canudas, 2005:15).

Defining what is a household

Another obstacle to defining the poor is the difficulty of having a singular definition for a ‘household’ both for rural and urban areas. Although identifying certain common characteristics of households is critical for public social policies, the definition used in ‘household surveys’ stems from a neo-classical economic analysis that perceives the household as an ‘undifferentiated utility optimising unit’, while “ignoring individual actions over time within the household, including gender relations, and their connections with the broader power structures of society” at both local and national levels (see Beall and Kanji, 1999; Cloke, 2002; Moser, 1998). Equally, these definitions are unable to capture how the participation of different household members in the labour market results in differential income levels within the household (Gonzalez de la Rocha, 2006:70), and how this in itself generates inequalities within the household in terms of income and gender issues (see González de la Rocha, 2006:72; Kanbur, 2007). Although household surveys capture, “the value of market goods and services, and the value of non-market activities like production for home consumption” they are not able “to capture the value of public services like health, education, water, sanitation and other services”, and there is “no integration of these values into the income/expenditure measure of well-being from which the poverty rates are calculated” (Kanbur, 2007).

Indeed, income-based definitions of absolute poverty do not allow capturing “the dimensions and multiplicity of factors, which affect the capacities of individuals to function properly in their environment, and achieve a degree of well-being over time” (see Kakawani and Silber, 2008; Rojas, 2008), or the processes identified by the poor themselves as increasingly affecting their possibilities of moving into, or moving out of an adverse situation towards a situation of well-being (see International Poverty Centre, 2006; Rakodi and Lloyd-Jones eds., 2002), nor the social relations that generate poverty (Harriss, 2007). Therefore, poverty defined and measured through household income and consumption levels in monetary terms represents a limited way of analysing, understanding and identifying what urban poverty is; who the poor are; and how to address urban poverty.

Social exclusion and asset accumulation

Among the theoretical concepts that go beyond the definition and measurement of poverty according to income and consumption levels, two are significantly important as they attempt to broaden the knowledge of other dimensions that explain why the poor are vulnerable and which capacities and opportunities might help households to break away from poverty (Moser, 1998). These concepts are social exclusion (see Kakawani and Silber, 2008; Sen, 2000) and sus-

tainable asset accumulation (see Moser, 2007; Moser and Dani eds., 2008; Moser, 2009).

Social exclusion and urban poverty

The work of Amartya Sen (2000) on vulnerabilities and capabilities, as well as the establishment of the Human Development Index (HDI) have been “influential and instrumental in placing the concept of social exclusion on the development agenda” (Canudas, 2005:15). For Canudas (2005) the HDI constitutes an “alternative set of indicators increasingly used by the United Nations to assess the variables that affect, and reflect, more accurately, the living conditions of the rural and urban poor beyond the more conventional household income-and-expenditure poverty lines”. Nonetheless, the difficulty with the concept of social exclusion is that a diversity of social problems are associated with this notion and, although it is a distinctive way of re-naming poverty or even inequality, “while closely linked, it cannot be synonymous with either of them” (see Atkinson, 1970 paraphrased by Chakravarty and D’Ambrosio, 2003; Beall, 2002; Braeckman, 2006). As seen in this Chapter, a definition of poverty needs to go beyond the shortage of income to cover the minimum consumption required. Therefore, the significance of the concept of social exclusion is that it allows a clearer understanding of the “nature” and the “causes of poverty”, as well as the “actions” required to overcoming poverty (Sen, 2000:2). According to Sen (2000) poverty relates to a “capability failure” in which multiple dimensions (“including the shortage of income”) contribute to a generation of “impoorished lives” (ibid.). Social exclusion can be “constitutively a part of capability deprivation as well as instrumentally a cause of diverse capability failures” (Sen, 2000: 5); and should be understood in the context of the “role of relational features in the deprivation of capability and thus in the experience of poverty” (ibid.: 6), as well as in the process that “leads to deprivation” (ibid.:12).

In this sense, the understanding of how these causalities, capabilities and opportunities are reproduced is fundamental, as poverty is linked not only to “what people do not have but rather have” (Moser, 1998:1), and equally importantly, to what people “can or cannot achieve” (Martínez, 2004) but also “... [to] the life that one wants to lead rather than of the resources and means that one has to lead a life” (Krishnakumar and Ballon, 2008:993). In other words, the possibilities of opting and choosing among individuals and households can lead to an “increased awareness of other existing opportunities, although the achievement of better results or outcomes depends on the social and institutional environments in which one lives” (ibid.: 994). Moreover, these household opportunities and capabilities are “highly sensitive to broader societal factors, especially broader economic changes” (González de la Rocha, 2006:69).

Social exclusion in urban areas

According to Sen (2000) “there is nothing wrong if someone does not necessarily want to get a loan from the credit market”, but there is something intrinsically wrong if “not having access to the credit market can, through causal linkages, lead to other deprivations such as income poverty” (ibid.:13). This type of “causally significant finan-

cial exclusion is instrumentally significant” because, “they may not be impoverishing in themselves, but they can lead to impoverishment of human life through their causal consequences” (ibid.).

Moreover, for Pouliquen (2000:2–3), the impact of an inadequate infrastructure for the urban poor, “may be less the result of lack of infrastructure *per se* but more the lack of access to that infrastructure”. Exclusion occurs if the poor “cannot access this infrastructure because physically they are located too far away from this infrastructure” (ibid.), or they cannot afford to pay for it (both in terms of their current available financial resources and over time), or it can be simply a question of “not having the social and political power to ensure that the infrastructure is available and provided when and where they most need it” (ibid.).

Lastly, social exclusion relates to “the denial of equal access to opportunities imposed by certain groups of society upon others” (Behrman et al., 2003:11). Focusing on Latin America, their study (ibid.) demonstrates that efforts to deny access to opportunities are not “the unexpected consequences”, but the clear “effects of articulated policies and measures aimed and planned to exclude certain social and ethnical groups”; for example, “homeowners enacting zoning regulations to restrict access to their privileged and guarded neighbourhoods even in public streets; bank officials denying access to loans by discriminating against individuals on the basis of race or income levels; high cost of housing, and even the prevention of disadvantaged groups from moving to better-served and better-equipped neighbourhoods” (ibid.).

Social exclusion in the North and in the South

Conceptually and operationally, social exclusion has its particularities in different geographic and socio-economic contexts and in both the rural and urban areas of countries in the North and in the South (see Beall, 2002; Camara et al., 2000; Canudas, 2005; Halleröd and Larsson, 2008; O’Brien and Penna, 2008; Sen, 2000). In the North (mainly in western and north European countries, Canada and the USA), social exclusion associates with social groups that probably lost a certain standard of living by being marginalised from changing labour markets, financial and credit markets (Simon and Buckland, 2009), or from social welfare state benefits. It is also linked with gendered or minority groups (including transnational migrants) who lack adequate access to resources, or have been marginalised in some way, and therefore, not integrated nor been included as participants in the major social institutions of society nor in the dominant cultural and political spheres given their socio-economic conditions, or their ethnic and cultural backgrounds and identities. In the South however, the population that is typified as ‘excluded’ probably never had acceptable living conditions, or never was part of the formal labour market and never had access to formal social benefits, or to the formal financial systems and, therefore, never had access to credit or, as in the case of various indigenous population groups, have been historically marginalised and excluded. González de la Rocha (2006) also considers that under the logic of the current capital expansion model, however, social exclusion in emerging economies

like México, not only refers to “would-be workers” but also to “the social and structural process characterised by the constant deterioration of labour opportunities and social security conditions for former workers” (ibid.:83).

The challenge, therefore, consists in providing explanations as to the causes and consequences of social exclusion, that incorporate the causal dimensions of poverty, as well as offering the possibility and opportunities to overcome it, and which are operationally applicable in specific and concrete geographic contexts (see Krishnakumar and Ballon, 2008). It is at this level that the concepts of capabilities and opportunities, but especially assets, become analytically relevant (Canudas, 2005).

Asset accumulation and urban poverty

Poor households in cities of the South have access to, possess, and manage a considerable amount of “material means, as well as non-material means” and resources that, when intentionally (or even unintentionally) “mobilised and articulated” can: “improve their well-being and sustain their livelihoods; impede the erosion of their living conditions; diminish their vulnerability against different types of external economic shocks and insecurities” (see Katzman, 1999, 2005; Moser, ed. 2007). These material means can even increase their capacity to cope with, and adapt to, natural disasters (see Moser and Satterthwaite, 2009; Wamsler, 2007). Yet, not all resources and means become assets in such a way as to increase the capabilities of the urban poor to take advantage of the different institutional structures and opportunities that society, in general, through “the market, the state and the community offers” (Katzman, 1999, 2005). Assets are, therefore, those tangible and intangible resources and means that give poor people “the capability to be and act” (Bebbington, 1999 cited by Moser, 2007) and also the “power to reproduce, challenge, or change the rules that govern the control, use and transformation of resources” (Sen, 1997 paraphrased by Moser, 2007).

The theoretical and policy-based literature on assets identifies and classifies these tangible and intangible assets into, “physical, financial, human, social and natural” (Moser, 2008); and, as recent studies show, they can also be “aspirational, productive and political” (ibid.). Friedmann (2007:987) proposes grouping assets according to functional areas where public and private investments take place in order to pursue development in the different urbanising regions of the world. He (ibid.: 987) clusters these assets into “basic human needs; organised civil society; the heritage of the built environment and popular culture; intellectual and creative assets; the region’s endowment; the quality of its environment; and urban infrastructure”. Whatever definition or method of identification used, the building and accumulation of these tangible and intangible assets by the poor are key concepts that permit the rethinking of social policies, which aim to reduce urban poverty, inequality and social exclusion (Moser, 2008).

For Moser (2008:58–64) the major contribution of the asset accumulation framework, stemming from the empirical evidence from her longitudinal research in Ecuador, consists in demonstrating that

the capacities “of urban poor households to face risk and vulnerability is linked to the type and diversity of the asset portfolio they manage”. Second, that the critical “difference between those households that become poor as a result of ... economic or natural disaster shocks, from those chronic poor trapped in permanent poverty is ... closely associated to the type and nature of the assets they manage over long periods of time”. Third, that “...the poor save and accumulate assets and that this process has positive and important social and psychological effects over different household members”. Fourth, that “if poor people gain ...control and ownership over assets, they become more independent, can face short-term adversities and move out of poverty, and are also capable of resisting oppression, injustice and inequalities”. And finally, that the “opportunities that enhance and the barriers that impede long-term asset accumulation by poor communities, households and individuals are ... reinforced by broader institutional environments, the policies and programmatic measures that international financial institutions and national governments adopt, as well as the effects of broader global and national macroeconomic processes and macropolitical contexts”. These issues are definitively relevant for the case study of PRODEL.

The multi-dimensions of housing as an asset

Conceptualising housing as an asset is not a new approach, although the emphasis has usually been on its financial dimension. As with social exclusion, the concept of housing as an asset has different connotations in countries and cities in the North and in the South. In the North, the neo-classical economic approach assumes that, “housing is always financed” either by repaying a loan over a long period of time, or by the future financial opportunity benefits it represents to the owner (see Malpezzi, 1999:1817). In this sense, housing is seen as the “largest asset owned by most households” (ibid.) since they can also use a small proportion of the financial value of the asset to leverage other resources if required. Yet, even in these countries there are “...differences in the composition of asset holding among families at different net worth deciles...While the rich tend to concentrate their resources not only in housing but mainly in business equity and investment assets – stocks, bonds, and commercial real estate...” (Spilerman, 2000), housing is the only possible vehicle by which low-income households perceive they can accumulate substantial wealth (Belsky and Retsinas, 2005). As people “who buy homes are buying not just shelter, but an asset, one in which they will build equity”; and given that home equity is the main source of wealth, ‘owning a home’ can be a path to “wealth accumulation but also to cheaper borrowing” (ibid.:1–2).

The financial and social complexities of this approach surfaced in the extraordinary financial and economic events unfolded in the USA and Europe that captured the world’s attention in respect of the so-called housing ‘credit crunch’ crisis (The Economist, 2007). Amid

this crisis, the established mortgage lending and borrowing practices and norms to low-income and middle-low income households for housing ownership in these countries were questioned. The “sub-prime mortgage market credit crunch” generated unforeseen negative effects, not only in the concept of mortgage lending for these types of household, but also in the global financial system and this led the world into a period of economic recession. It is still premature to assess the overall dimension that this crisis will have for low-income households in the cities of the South. It is suffice to say that by the end of 2008, hundreds of thousands of households in the USA and in Europe faced foreclosure, as they were incapable of paying their mortgage loans as interest rates increased and global financial institutions collapsed. Although this thesis does not deal with this crisis, it is possible to anticipate that the concepts of ‘cheap lending’, ‘home ownership’ and housing as a financial asset for low-income families in the North will be reviewed (see the 2008 Nobel Prize in Economic Sciences winner Paul Krugman’s Opinion Editorial in the *New York Times*, 26 June 2008).

For Malpezzi (1999:1817–21) in countries in the South, however, the financial opportunity of housing as an asset diminishes for two reasons. First, for those that can afford it, almost the entire value of the asset stands in a mortgage or other formal sector finance form, given the regulatory, institutional and systemic market failures, and the way mortgage has been designed amid ‘volatile macro-economic environments’ that affect the way in which housing is financed. Second, in some cases, the urban poor cannot use the land they occupy as collateral to access a mortgage in order to carry out improvements on their houses due to the lack of clear ownership property rights to the land and the absence of a legal titling deed system (see de Soto, 2000; Hoek-Smit, 2006:3; Malpezzi, 1999; Rust, 2007:44).

Land as an asset and mortgage lending

In the last three decades, the work of the Peruvian economist Hernando de Soto (2000) has been instrumental in advancing the importance of the informal economy and land property rights, as a means of reducing poverty in countries in the South, on the agenda of many governments and international developing agencies. According to Rust (2007; 2008b), “de Soto’s notion that, in the long term, housing value grows through the appreciation of the property market and therefore can become a powerful instrument for poverty reduction is probably correct”. The problem however is more complex even under de Soto’s axiomatic premise of converting land from being, ‘dead capital’ into a ‘live asset’. For Rust (2008b) “low-income households do not have regular and long-term income capacity to sustain the repayment on the debt that their housing helps them to leverage, and therefore the cost of a typical mortgage loan based on real interest rates cannot be afforded”. Moreover, banking institutions in the South are not ready to risk their own capital for this type of housing project. The sources required for financing a housing mortgage loan that is generally large and also risks the possibility that the borrower defaults, given the irregularity and ‘informality’ of

the borrower's income over the long period of repayment, are relatively scarce (see Daphnis, 2004:2; Smets, 2006:600). Finally, formal banking institutions are seldom structured, nor are their staff even trained, to serve the urban poor (see Smets, 2006; Stein and Vance, 2008). Thus, "even if legal land titles can serve as collateral, the housing market is not necessarily working and geared for the urban poor; the financial value of housing becomes irrelevant as there are no resale markets and therefore the asset housing does not become a realisable asset" (Rust, 2008b). Rust stressed that:

In South Africa 86 per cent of households could not afford a mortgage loan and that while properties in certain affluent areas were going through a dramatic appreciation of land value and housing wealth was improving, the property market was dysfunctional for the majority of urban poor black households living in townships and other racially segregated areas, and the sense of seeing their house as a financial asset to trade was marginal (telephone interview with Kecia Rust, 6 June 2008).

The findings of the study in South Africa coincided with data and figures from studies in other emerging market economies and other countries in the South. These studies showed that, not more than 10 to 20 percent of housing transactions use mortgage finance (Hoek-Smit, 2006 citing Angel, 2000). While in countries such as Denmark, the percentage of the Gross Domestic Product (GDP) as house mortgages reached a figure of more than 90 per cent in 2006, in Korea it was 14 per cent; in Thailand 18 per cent, and in India only 4 per cent (Saravanan, 2007:45). In Latin America, for example, mortgage finance as a share of the GDP in 2001 reached 4 per cent in Argentina; 8.6 per cent in Bolivia; 10.8 per cent in Chile; 7.0 per cent in Colombia; 2 per cent in México; and 2.9 per cent in Peru; and a high 24.4 per cent in Panamá for 2002 (Ferguson, 2008:11). Moreover, Rust's (2007; 2008b) conclusions coincided with previous findings (see Bromely, 2005; Calderon Cockburn, 2002; Mitchell, 2004; Von Benda-Beckman, 2003) that showed that high-profile programmes operating on the premise that dysfunctional or non-existent property rights on land were one of the main reasons why the poor could not access the formal housing market, proved to be more complicated than originally thought.

The case of land regularisation in Peru

In spite of the million title deeds conferred from 1995 to 2000, officially registered titled households that gained access to mortgage lending by private banking in Peru were in a minority (see Calderon Cockburn, 2002; Ferguson, 2008). Among other factors, private banks feared mortgaging loans to low-income households, and low-income households feared mortgaging their houses and land. While the number of loans from private banks decreased, the use of household resources to improve their houses increased in regularised settlements (Calderon Cockburn, 2002). Private Banks did not provide mortgages to low-income groups as loans were relatively small given the household income levels. However, a positive aspect of regularising land property was that "the mere existence of a land title im-

proved the risk profile of the client, since it facilitated the loan recovery given that the borrower now had proof of an existing physical address" (Morris Guerinoni, 2004:141). Yet, the existence of formalised property rights did not automatically facilitate investment in the infrastructure and services in these areas. Serious information gaps between formalised property owners, and public and private investments for the provision of services were also identified (Morris Guerinoni, 2004:163). Thus, the availability of mortgaged loans and the investments for infrastructure and basic services in these urban poor neighbourhoods required the adoption of a series of measures that went beyond the mere issue of legalising and formalising property rights (*ibid.*).

These studies in South Africa, Peru and other places confirmed that the eligibility criteria used by private banks for screening potential clients for mortgage lending in developing countries generally depend on job stability, and fixed, high-level, and regular monthly income; type, location and the social characteristics of the neighbourhood where the borrower lives; as well as the race and class of the applicants; rather than on the existence, or not, of sound land tenancy property rights. In other words, and following Sen's (2000) logic, by applying these probably tacit and unwritten selection criteria, the formal banking institutions were not only impeding the consolidation of housing as a financial asset, they were also excluding financially. More importantly, the banking institutions were limiting the opportunities of the urban poor to make tangible improvements in their houses, and also in their levels of economic activities and, consequently, possibly generating further impoverishment as well as higher levels of inequality in society. The limits of mortgage lending, therefore, show the importance of exploring other forms of social housing finance, especially housing microfinance, and then analysing whether it opens new opportunities for the urban poor.

The multi-dimensions of housing as an asset

Rust (2008a; 2008b) proposes reconceptualising housing as an asset by examining its social and economic dimensions. She shows that in South Africa – where high unemployment, a dysfunctional housing credit market, and segregated urban poor neighbourhoods prevail – urban poor households use their houses as a social asset. They use their shelter for safety and protection, and better living spaces where children can study. They also use it as a means to contribute to neighbourhood and community consolidation, and as a better health environment. Finally, they use it as a productive asset for renting by using a spare room, or by building a small shack on the plot, or through the establishment of a small enterprise for income-generating activities.

These findings coincide with results from other Latin American studies which show that in countries where there are no effective housing policies, nor public safety nets, or in which the credit market is inefficient, and not working for the urban poor, housing constitutes the main asset available to a household for improving its living con-

ditions (see Angel, 2000, 2001a, 2001b; Daphnis, 2004; Gilbert, 2001, 2004; Torche and Spilerman, 2004).

This is precisely what Moser's (2009) longitudinal research in a slum community in Guayaquil, Ecuador, demonstrates. By tracking the evolution of income and asset accumulation by urban poor households and how these contributed to poverty reduction for over three decades, Moser (2007) provides evidence that the "slow appreciation of the entire asset portfolio rather than one asset in particular ensured the upward mobility of many households". Nevertheless, "housing is the first-priority asset, and while it does not necessarily get households out of poverty, adequate housing is generally a necessary precondition for the accumulation of other assets" (*ibid.*: 35–41).

From a poverty-reduction policy perspective, which aims to financially include the urban poor and to strengthen their asset accumulation (see Moser, 2007:95), the implications that these three dimensions of housing as an asset have, are crucial. First, the range of the institutional and financial mechanisms – by which access to shelter is upscaled in a way that meets the increasing demand for land, basic services and housing not only through mortgage finance (Rust, 2007) – can be reviewed. Second, it means re-examining the ways in which the urban poor build their houses over long periods of time, and then identifying adequate financial mechanisms and the institutional support structures that will open new opportunities to accelerate and consolidate this incremental process. Third, it highlights the importance of finding the appropriate finance incentives to promote the generation of income streams when the urban poor are using their house as a productive asset (*ibid.*). Finally, it implies that housing markets and financial institutions have to rethink ways, beyond the narrow perspective of securing land property rights, by which housing transforms into a financial asset for the poor.

Housing finance and asset accumulation

According to the neo-classical economic approach, current world trends in demand for housing finance in emerging markets and in countries in the South link to the possibilities of developing efficient models of mortgage finance systems (Renaud, 2003). During the last three decades, multilateral regional banks such as the Inter-American Development Bank (IADB) have been aware of the need for parallel housing finance systems that cater for the majority of urban low-income households. However, they propose as the main housing market model, mortgage finance complemented by demand-driven state housing subsidies, and a greater role for private commercial banks and private developers in financing and implementing housing projects (see IADB, 2004, 2006). Yet, different studies demonstrated that housing mortgage lending to urban low income households was neither accessible nor affordable by the majority of the urban poor even when land property rights were in place, or even when it was complemented with demand-driven state subsidies. Studies also show that mortgage lending has still not been institutionalised and mainstreamed into the lending approaches, rou-

tines and procedures of formal banking institutions in developing countries (see Greene and Rojas, 2008; Rust, 2007; 2008b; UN Habitat, 2005a).

As seen in this Chapter, housing finance can become an effective tool for poverty reduction if it is able to address the financial, social and economic dimensions of housing as an asset. The analysis of housing as an economic, financial and social asset, therefore, leads to a re-examination of other housing finance forms for the urban poor that go beyond traditional mortgage lending with, or without, demand-driven state housing subsidies.

Alternative forms of social housing finance

Increasingly, other forms of social housing finance are emerging to address the housing needs of the urban poor (see Hammond et al., 2008; Nahoum, 2003). In the past decade there has been an increasing interest in community-based micro-savings and credit schemes that serve as a financial tool to leverage other public, private and international resources in the negotiations that national slum-dweller federations are conducting with local and central governments in 25 developing countries in Asia, Africa and Latin America (see the work of these federations at <http://www.sdinet.co.za/>). These saving and credit schemes are used as a means of organising the communities and of negotiating resources for land tenure regularisation, for the introduction of basic services, and for access to housing (see Mitlin, 2007; Mitlin and Satterthwaite eds., 2004; UN Millennium Development Project, 2005a). Another form of social housing finance used to address the housing needs of the urban poor is that of microfinance for housing improvements (e.g. Center for Urban Development Studies, 2000; Daphnis and Ferguson, 2004; Ferguson, 2008; Stein and Castillo, 2005; Rust, 2007; 2008; US-AID, 2008; Vance, 2008). The following section illustrates how micro-lending for housing improvements is a financial product increasingly mainstreamed within formal and non-traditional finance institutions in countries in the South.

Housing microfinance

To understand what housing microfinance is, this section describes the global microfinance phenomenon. It outlines the conceptual approaches existing within the 'microfinance industry' in respect of its role in poverty reduction, and the dilemma between reaching poorer groups and becoming a financially sustainable sector.

What is microfinance?

Microfinance is a generic term describing a mixture of informal and formal arrangements, which offer financial services to low-income people, who are usually excluded from accessing formal financial services offered by mainstream banks and financial institutions (for definitions of the concept see Brau and Woller, 2004:3; CGAP, 2004; Cloke, 2002:79; Holcombe, 1995; Khandker, 1998; Pinglé, 2008:280-281; Robinson, 2001; Yunus, 2008). Although the nature and type of

financial arrangements characterising microfinance are not new, in the last decade or so they received important attention. From the mid 1990s, this notion expanded to a comprehensive concept of microfinance in different regions of the world that included a range of financial services for the poor: micro-credits, savings, money transfers, and micro-insurance (see Berger, 2006; Helms 2006:2). Largely, the products and services provided by the MFIs are similar to those of formal banking. What differs is the low-income levels of the target population, the scale and methods of finance product delivery, including the acceptance of alternative collaterals, and the use of non-financial services, such as training and technical assistance (see Brau and Woller, 2004:10–15).

Several factors concurred to make microfinance an important subject in the discussions on poverty reduction policies of central governments in countries in the North and South, as well as for international aid agencies, community based organisations, NGOs and, more recently, the academic and business community (*ibid.*).

In 2004, the Consultative Group to Assist the Poor (CGAP), a consortium of 30 international development agencies supporting microfinance, estimated that there were 665,000 institutions and organisations (mainly microfinance institutions; cooperatives and credit unions; rural banks; state and agricultural development banks; and postal banks) working with microfinance in the world, with more than 700 million clients of whom 500 million had active savings accounts (CGAP 2004). For Helms (2006:6–20), the majority of these clients “were moderate poor and vulnerable non-poor, and a minority were the extreme poor”, according to poverty line measurements. In Central America alone, in 2005 there were 89 consolidated MFIs working in Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica, managing an active portfolio of US\$ 1.1 billion and about 1.1 million clients. By the middle of that same year, the big MFIs in Nicaragua had an outstanding loan portfolio of US\$ 216 million (Navajas and Tejerina, 2006).

In 2006, the scale of this achievement was recognised when the Grameen Bank in Bangladesh and Muhammad Yunus, one of its founders, were awarded the Nobel Peace Prize “for their efforts to create, through microcredit, grass-root economic and social development” (Nobel Peace Prize Committee, 2006).

According to Helms (2006:59–74), the microfinance ‘business’ is not only formed by MFIs providing financial services to poor clients, and managing hundreds of billions of dollars in their loan and savings portfolios. In addition, there is a range of institutions and professionals supplying technical and financial services and support in order to mainstream and transform these MFIs into a profitable business, and a mainstream player in the financing mechanisms of the global economy. These services include the provision of internal controls and management systems; performance and ratings according to international financial parameters; and conformation of regional associations and networks of MFIs that lobby for their interests.

Furthermore, since the mid 1990s, microfinance has become an important topic for academic research and publications, and it is

slowly entering into the priority discussions of high-profile private philanthropic organisations and private investors, as well as finance journals (see Brau and Woller, 2004). In recent years, the Melinda and Bill Gates Foundation, the Open Society Institute, as well as other philanthropic organisations such as the Ford, the McArthur and the Rockefeller Foundations have focused on the role that micro-finance plays in poverty reduction. This provides an intellectual and policy legitimacy to a sector that appears to be not only market oriented and working within an entrepreneurial culture and adopting into its practice the majority of the concepts of the formal finance system, but is doing so also, presumably, without being dependent on state support (see Affleck and Mellor, 2006). “What began as a grass-root movement, motivated and animated by a development paradigm to reduce poverty, is evolving into a global industry informed increasingly by a commercial/finance paradigm” (Brau and Woller, 2004:3).

Microfinance: poverty reduction and financial self-sufficiency

The transformation of microfinance, from being a tool for poverty reduction to becoming a financial and business orientated development sector had significant theoretical, policy and programmatic implications for the sector. According to Morduch (2000) and Brau and Woller (2004:6), the pursuit of ‘institutional sustainability’ and ‘financial self-sufficiency’, a pathway encouraged by many international donors supporting the microfinance sector on the one hand (CGAP, 2004; Helms, 2006), and the search for deeper social impacts in terms of poverty reduction and financial inclusion on the other, generated tensions in the work and discourses of the MFIs. Robinson (2001:43) stresses that “[F]ull sustainability or self-sufficiency means that revenues cover all non-financial costs, all financial costs without subsidy, and risk, and that the institution returns a profit”. For Hishig-suren (2004) and Copestake (2007:21) the commercialisation of microfinance is leading to a preference of “profitability at the expense of poverty reduction and other development goals [and] mission drift is an ever-present possibility for MFIs and often irreversible”.

At times, this contradiction reveals the levels of incongruence between what the MFIs generally indicate are the main reasons and motivations for their existence, and what they really have become according to the evolution of their institutional and operational frameworks, as well as their social and financial outcomes. Judging by the tendencies of their institutional evolution, the global context in which they operate, and their expressed intentions, it also reflects the inconsistencies between what they want to be, and more importantly, what they will potentially become in the future.

Depth and breadth of outreach

These inconsistencies are summarised in the microfinance debate between those that favour the ‘depth of outreach’ and those that prioritise the ‘breadth of outreach’ (Copestake, 2007). Although the

conceptualisation and measurement of 'outreach' is still not well developed (Meyer, Nagarajan and Dunn, 2000), the 'depth of outreach' approach proposes, as its main concern, the poverty level of those clients that a microfinance programme serves (see Peck Christen, 1997), in other words, servicing the poorest of clients as a way of maximising the impacts and social returns of MFIs as social investors. The 'breadth of outreach' approach contends that servicing large numbers of clients, even if they are only marginally poor or non-poor, is a way of securing economies of sufficient scale to cover the operation and financing costs and, therefore, achieve the financial self-sufficiency of the MFIs (see Morduch, 2000 in Brau and Woller, 2004:7–22).

The underlying causes for the debate between depth and breadth of outreach are, nevertheless, found in the deeper structural transformations occurring in the globalised economy. According to Chen (2004), today, the informal economy in developing countries does not constitute a specific sector, or a provisional and transitional stage for the majority of the labour force searching for permanent and stable jobs, but a continuum and an indivisible part of the formal economy with strong market linkages. Moreover, the formal wage labour opportunities for the urban poor are diminishing, employment in the public sector is declining, the formalisation of the private economy in many African countries for example, is still very much underdeveloped (Simone, 2004), and unemployment and underemployment are becoming the structural and permanent conditions of the neo-liberal model of capital accumulation (González de la Rocha, 2006). Additionally, all forms of assets, including natural, human, physical and social capital are not only becoming monetised, and commercialised, but also dominated by finance capital (Mahajan, 2007: 198–199). According to Marcelo Zavalaga⁴:

Microfinance reflects today the effects of the forces of privatisation and globalisation in developing countries, but also the consequences of the retreat within the international aid cooperation community of those development approaches that it once advocated and aimed to increase not only the income per capita but mainly the assets of the poor and the wealth of the developing nations. Today, as the absolute number of poor increases and unemployment also grows, microcredit has become a 'natural' financial instrument that aims to reduce the pace of impoverishment that the poor are experiencing but is not necessarily preventing this impoverishment process (Intervention in a panel organised during the 6th N-AERUS Conference in Lund University, September 2005, to clarify the scope of this research).

Some studies, like Cloke's (2002), see microfinance in general, and especially microcredit, as powerful financial and political tools as

⁴ Zabalaga worked, until 2006, as a financial consultant for different development agencies, including KfW and Sida, in their low-income housing programmes in Central America. He was President of PRODEL's Board of Directors from 2005 to 2007.

they demonstrate that capitalism can still work for both the poor and for business, and even within a gender perspective, by empowering women both financially and socially (Brau and Woller, 2004:21), without necessarily and substantially questioning the nature, dynamic and social consequences of the global economic system. This is probably one of the reasons for the endorsement by the main representatives of the economic superpowers of the world at the G-8 summit on June 2004 in Georgia, USA, of CGAP's microfinance principles (Helms, 2006).

Housing microfinance

By tracing the shifts in housing policies and practice that occurred between the 1970s and 1990s this section provides an historical perspective on how the concept of housing microfinance gradually became part of the terminology of international aid donors. The section contends that the self-help housing debates and, thereafter, the questioning of the role that the state and the private sector play in financing housing for the urban poor, compounded with the microfinance revolution, were instrumental in paving the way to the development of the term 'housing microfinance'.

Housing microfinance in perspective

In Robinson's work (2001:9) *The Microfinance Revolution*, considered by the World Bank as a seminal work in this field, and which provides a clear definition of microfinance, the references to microfinance and housing are virtually absent. Except for a passage when it refers to the ways of accumulating informal savings, "people may save for housing construction by stockpiling construction materials...often as the only available option for housing construction or renovation" (ibid.: 235–235), the rest of the document does not mention any micro-lending institutions providing financial services to the urban poor for housing improvements, including the purchase of affordable land.

According to Ferguson (2004:23), it was probably only in the late 1990s that the term housing microfinance became "clearly recognised in the development literature" as micro-lending for productive activities consolidated into a financially sustainable phenomenon reaching a significant number of poor households in different countries and regions of the world. However, it is a mistake to think that housing microfinance is simply synonymous with the term of micro-lending for housing improvements. A quick historical perspective on how international aid donors, governments and social scientists perceive the way by which the urban poor finance and build their houses helps to clarify this issue.

The self-help housing debate

An increasing awareness of the processes by which low-income households produced and financed their homes through incremental methods goes back to the findings of John Turner's research in the poor neighbourhoods of Lima, Peru, in the 1960s. According to Hamdi (1991:38–40), Turner's contribution was to challenge the conventional ways of structuring private and public housing delivery sys-

tems, including access to land and monetary resources. He showed that these schemes were unaffordable to the poor, and that only when households participated in the decisions regarding housing inputs, including financial resources, would “supply and demand be properly matched” (Hamdi, 1991).

The ‘self-help housing debate’ that followed in the 1970s and 1980s, allowed the emergence of new thinking in the field of low-income housing, and this influenced the approach taken by international donors and some governments in the South to support the housing sector in their respective countries.

In the 1980s, amid the economic structural adjustment policies, the concept of ‘unblocking’ the constraints that previously impeded the participation of the private sector in the development of more efficient housing markets emerged (Stein, 1991). A redefinition of the role of the state in housing, from provider to enabler, took place. This new policy suggested that housing was ‘a productive capital good, and that the housing sector could make a significant contribution to both economic growth and improved housing conditions’ if they were based not on the housing needs of the population, but on the ‘people’s willingness and ability to pay’ (Urban Edge, 1988 in Stein, 1991). According to this approach, a level of subsidy was necessary to stimulate the demand for housing and as an incentive for private developers in supplying better and affordable housing according to the paying capacity of different socio-economic sectors, including the urban poor. Under this logic, recovering the costs of housing projects was critical, as well as using market interest rates as the basis of a housing pricing policy (Mayo et al., 1986 in Stein, 1991).

Self-help projects and enabling housing policies in Central America

In Central America, this paradigm shift gradually influenced the design of several low-income housing programmes. It is worthwhile mentioning these, as they pioneered new approaches towards the delivery and financing of affordable housing for the urban poor in the region (Stein and Vance, 2008). The first case is the site and services projects, and later the squatter upgrading programmes, in El Salvador supported by the World Bank and other bilateral agencies, implemented by FUNDASAL in the 1970s and 1980s. These projects showed that it was feasible for a private NGO to achieve a certain level of cost-recovery with loans for the construction of basic core housing units or, in some cases, for the improvement of existing housing units through self-help methods (Bamberger et al., 1982). Yet, during those years, market interest rates to borrowers were never charged, and explicitly there was not a full-cost recovery policy. To subsidise its social promotion activities and direct project costs of operation FUNDASAL used core grants provided by international NGOs such as CEBEMO from the Netherlands, and MISEREOR from Germany (Stein, 1991:30). The loans were substantially smaller in size than the average mortgage loans offered by the formal banking system, and the affordability analysis for screening participant

families, included an assessment of the labour contributions (through sweat equity) provided by participant families (Stein, 1991).

Costa Rica was the first country in Central America to establish a housing policy based on demand-driven and focalised state subsidies complemented by self-help efforts from participating families and mortgage loans from formal regulated banks. The scheme followed the Chilean model promoted since the late 1970s, in which the state was responsible for setting the regulatory framework and allocating substantial resources for housing, while private building companies were responsible for the delivery of new housing units (Stein and Vance, 2008). With support from Sida, FUPROVI, an NGO working in Costa Rica, started a new housing and housing improvement programme in 1987. FUPROVI established from the outset the mechanisms that aimed for the financial sustainability of both the housing programme and of the implementing agency, while at the same time targeting and including poorer urban sectors through self-help methods (Sevilla, 1993). Explicitly, FUPROVI combined demand-driven state subsidies with the self-help efforts and housing loans at market interest rates to urban poor households not covered by the formal financial system, using Sida resources for that purpose.

A similar housing policy followed in El Salvador, as it deregulated its economy and privatised the banking system. In 1992, the National Fund for Popular Housing (FONAVIPO) mobilised state resources towards authorised financial intermediaries to address the shelter credit demand from low-income families in the informal sector (Acevedo and Pleitéz, 2003). FONAVIPO structured a demand subsidy scheme that financed the equivalent of 10 minimum wages (US\$ 2,000 per new housing solution) in one instalment. Savings equivalent of a month's wages over a period of one year were a precondition for accessing a state subsidy and a loan by the formal financial system. By the end of 1998, only 5,300 families had savings, and the average sum was US\$ 38 (Sorto, 1999). Since a significant number of applicants came from very poor neighbourhoods and contributed with their labour to building their homes in new organised settlements (NAOs), compulsory savings were not required. FUSAI, an NGO established in 1992, played an important role in these NAO schemes when it started combining state demand-driven housing subsidies, with loans and sweat equity to finance new housing in both rural and urban areas (Stein, 1997). In FUSAI's case, Diakonia of Sweden provided the resources to form FUSAI's housing revolving loan fund as part of the reconstruction efforts that began in El Salvador after the signing of the peace agreements that ended the civil war in the country.

Finally, in 1992, a governmental programme (PRIMHUR) started providing loans for housing improvements to families living in squatter areas and informal settlements in the main cities of Honduras. With resources from the German Development Bank KfW PRIMHUR used similar methods to the ones of FUNDASAL (Stein and Castillo, 1998). Although interest rates were also lower than market rates, PRIMHUR's major shift was twofold. It focused on housing improvements and not on the provision of new housing units and although, in the majority of cases, it required land titles as collateral to secure

the loans, it also used at the beginning of its operations other alternative forms of guarantee to include the urban poor in its loan scheme (ibid.).

The experiences of FUNDASAL, FUPROVI, and FUSAI served as background to the small and repetitive loans for housing improvement that PRODEL started in 1994 in Nicaragua (see Chapters 4, 5, 6 and 7). It was, however, in PRODEL that 'micro-lending' for housing improvement became one of the most relevant issues.

Micro-lending for housing improvements

This section summarises what recent academic and practice literature characterises as micro-lending for housing improvements. It clarifies the distinction between microcredit for housing improvements and microcredit for economic and income-generating activities. It also aims to understand Daphnis and Ferguson's (2004) assumption that housing microfinance is a relatively new development of the microfinance industry, and as such, "elements of both housing finance and microfinance intersect".

Destiny and use of the loans

Occasionally, the literature reviewed defines these financial products as micro-credits for housing improvement, or small and repetitive loans for housing improvements (Stein and Vance, 2008), or simply as loans for housing improvements (Mesarina and Stickney, 2007). In spite of the subtle differences, the following characteristics permit generating an idea of the basic elements of micro-lending for housing improvement.

Housing improvement loans are usually complemented by the efforts, savings and resources of the borrower, other household members, and their extended families (Mitlin, 2007; UN-Habitat, 2005a). These contributions are in kind (building materials and tools), monetary resources (for purchasing building materials or hiring a specialised labour force), and a labour force. As the size of the loan is insufficient to cover all the improvement costs, these complementary labour and in-kind efforts and monetary resources make it feasible (Canek, 2005; Stein and Vance, 2008).

The loans are used to purchase building materials and to hire a specialised or a non-specialised labour force to assist households in the construction process, as well as to complete the finance on the purchase of a plot of land. Usually, borrowers receive the loans in cash so they can purchase building materials directly, and hire the labour force they need. In some cases, instead of cash, they receive purchase orders or other alternative purchasing mechanisms by which the borrower goes to identified hardware building material stores to acquire the materials they need (UN-Habitat, 2005a).

The improvements made through these small and repetitive loans and the households' resources vary. For example, PRODEL and other Central American experiences show (see Chapters 6 and 7) that these improvements often include the changing of existing roofs, external and internal walls, and house floors (Stein, 1998). They also consist in the introduction or expansion within the house of basic services such as electricity, water and sewerage systems.

Additionally, perimeter walls are built to improve safety and security measures. An extra living room or bedroom may be added to reduce overcrowding, or for renting to generate additional household income or even a small workshop for economic activities. Improvements may be made to the kitchen (both the structure as well as the internal storage shelves and drawers) (Stein and Vance, 2008), or by building or reinforcing contention walls and other risk-mitigating measures against natural disasters, to improve the topographic and soil conditions of the plot of land on which the house stands (Wamsler, 2007). In some cases, the loans serve to purchase partially, or in its totality, the plot of land; and with few exceptions, for the acquisition of a new plot of land, or a new house in another location (Mesarina and Stickney, 2007).

Financial conditions

Financially speaking, the housing improvement loans try to meet the needs and preferences of urban poor households, as well as their capacity to repay the loan (Daphnis and Ferguson eds., 2004). Lending institutions use various forms and methods to assess this capacity usually taking into account either the current level of the periodic income of the borrower, or a proportion of the aggregate sum of the income of the different members of the borrower's household unit (ibid.). Moreover, this payment capacity in the case of PRODEL was assessed by taking into account the borrower's individual expenditures and those periodic consumption expenditures of the borrower's household, specially those related to food, housing, transport, medicines, school, clothing, and other financial commitments (Stein, 1998). FUNDEVI adopted similar methods in its housing improvement schemes (Becerra, 2003; FUNDEVI, 2002, 2006).

The repayment period of the loan and the amount paid periodically on a monthly basis are much shorter and smaller than mortgage loans (Daphnis and Ferguson, 2004). The guarantees for the housing improvement loans also differ from the collateral and securities used in mortgage lending (Rust, 2007). The type of collateral varies from country to country and even from city to city. These can be non-registered but customary and traditionally-recognised documents showing the right to individual or collective land possession or ownership. Fiduciary signatures and public and private formal workers with stable wages can sign an agreement between the lender and the individual's workplace for regular payments to be deducted from his or her monthly salary (Mitlin, 2007; UN-Habitat, 2005a). The collateral can also be pawns, and communal guarantees, and in some cases, even the purchased building materials. The use of this collateral depends on the rules and norms, and their acceptance by the lending institutions and the willingness of the borrowers to use them as securities. Usually, lending institutions expect to recover their real financial and operative costs by charging market rate interests and other fees to the borrowers of these housing improvement loans (Daphnis and Ferguson, 2004). In some cases, as in PRODEL, the MFIs provided technical assistance and construction supervision, either directly or through hired professionals, or third party institutions, to ensure the proper use of the loan and to prevent the possi-

bility of the loan being diverted for other non-approved purposes, and to maximise the use of the scarce resources lent to the household (Stein and Vance, 2008).

Microcredit for productive activities and housing improvements⁵

Although the financial procedures seem similar (e.g. Daphnis and Ferguson, 2004), there are differences between these two types of microcredit. PRODEL as well as FUNDEVI's experiences showed that the affordability analysis of business micro-credits (whether for commercial, productive or service activities) took into account the cash flow between income and expenditure of the microenterprise. However, in a housing improvement loan, the cash flow between the borrower's income, and in some cases, from other members of the household, was assessed along with the monthly expenditure of the household. While the capacity of payment for a microenterprise was a function of the remaining monetary resources once the expected expenditure from the future income of the business was deducted, in housing complex individual livelihood strategies and household assets were taken into account (see Chapter 5).

Conceptually, the first difference focuses on the rationality of the existence and growth of the micro-business, while the latter focuses on the basic needs and growth of the household. MFIs interviewed during this research argued that there were only a few cases where the cash flows of the microenterprise and the household coincided. This happened when the income from the microenterprise went entirely to cover household costs, and there was no possibility to expand its economic activities. This was rarely the case although in home-based microenterprises, there was a higher level of household expenditure covered by resources from the business. The experience of the low-income housing lending programmes in Central America showed that it was a mistake to think that the majority of micro-entrepreneurs would take out both credits for productive activities as well as loans for housing improvement. This happened in only a few cases where the business was well consolidated (interviews with FDLG, FUNDEVI and PRODEL staff).

The second difference relates to the financial conditions of the loans. Usually, micro-credits for economic activities have shorter repayment periods than those of housing improvement loans. While the periodicity of repayments of productive activities was sometimes on a daily, weekly, monthly or even bimonthly basis, housing improvement loans usually tended to be repaid monthly. The interest rates also tended to be higher on loans for productive activities than on those for housing improvements. Finally, the purpose and use of microcredit finance for productive activities tended to be clearer from the outset to both the borrower and the lender than were those for housing improvement loans. According to Ismael Rodríguez, re-

5 This section draws from interviews with PRODEL officers as well as MFIs credit officers in the city of Estelí and Managua in the framework of this research, as well as field visits to FUNDEVI in Honduras, FUSAI/Integral in El Salvador, and FDLG in Guatemala.

sponsible for the credit components managed by PRODEL in Nicaragua:

The experience of PRODEL during the last 15 years in Nicaragua tells us that people who borrow resources for micro-enterprises are more aware and have a clearer picture in their minds of what they want the credit for, while with housing improvement loans, people hesitate more about what they want to do with the credit. Moreover, with housing improvement loans, people tend to think that what they invest they will probably not be able to recover, while in microcredit for productive activities, people expect and probably know beforehand that they will recover the investment in the very near and not distant future (interview, 25 March 2009).

As Chapter 7 shows, this was a direct consequence of the understanding that individual borrowers had, in respect of productive or housing improvement finance, and the way in which they measured and assessed the inputs, outputs and expected outcomes of the loans in terms of their well-being, including their strategies for asset accumulation, and for diversification of their sources of revenue.

Housing microfinance and international development aid

One of the challenges for international aid agencies supporting the microfinance industry is how it becomes a development tool that addresses the totality of assets that urban poor households build over time, and not simply the household economy that usually is measured through the narrow parameter of income per capita. For Zabalaga (intervention in the N-AERUS Conference, September 2005), this is the main reason why certain housing programmes that use small loans for housing improvements are so important, as their outcomes are greater than the investment originally made in monetary terms. By generating an added-value closely linked to a set of public social policies – mainly land management, the provision of water and sanitation, and health, education, and even citizen security services – housing microfinance brings to the forefront of the international aid debates, the role of the State in development. Indeed, to Rust (2008b), by analysing the impact it has on individual households, as well as on the possibilities of reproducing and maintaining sustainable human settlements that integrate the basic services, and the communication and transportation networks and systems of a city and of a country, a broader understanding of what housing microfinance is, emerges. This is the importance of understanding housing microfinance from the broader perspective of asset accumulation and social inclusion, and not just from an approach which tends to analyse housing microfinance as a mere “subset of microfinance” with some salient characteristics, which make it different from micro-credits for economic activities.

As the case of PRODEL illustrates, the axioms and prescriptions of self-sufficiency and financial sustainability in housing microfinance are relevant, as long as they allow the financial inclusion of the urban poor (see Chapters 5 and 8). This renewed understanding of housing microfinance, however, does not prove to be a simple task, as this approach can influence the policy of donors and governments, and the practice of lending institutions. More importantly, in the case of Sida, it even questioned, under certain circumstances, whether or not PRODEL's small and repetitive loan component for housing improvements was actually 'housing microfinance' irrespective of its contributions to urban poverty reduction, social inclusion and asset accumulation (see Chapter 5 of this thesis).

The limits of housing microfinance

This section critically explains the logical coherence and the theoretical limits of what this thesis calls the 'neo-liberal microfinance paradigm' which, according to Robinson (2001), explicitly or implicitly embraces several of the basic principles of the neo-classical economic analysis of demand and supply.

In order to judge if a social science model, especially an economic model, is logically coherent Hinkelammert (1984) contends that "...we also have to ask if it is feasible". So, the first and most important criterion of analysis refers to the model being materially feasible. As the urban poor are not only rational consumers with preferences and tastes, but also human beings that have a number of basic material needs (food, health, clothing, and housing, among others) the economic rationality of the supply and demand neo-classical economic model has to establish where the model becomes materially feasible or unfeasible. For Hinkelammert (1984:86), "this is not an arbitrary, and *a priori*, judgement on the model, but a condition of possibility for the microeconomic model. If it fails to establish where this limit is, it creates a feasibility problem that has to be addressed." Certainly, the specification of which basic material needs have to be satisfied first, in what order, and in what proportion, is a process in which different elements intervene: personal interests, priorities, tastes, as well as preferences and other psychological, historical, cultural, and contextual elements (*ibid.*). Nevertheless, according to Hinkelammert (1987:29–30), "these factors cannot substitute the material need as the underlying root-cause behind the formation of the basket of the different consumer goods that the urban poor require to satisfy their needs". For Hinkelammert (1984), the neo-classical model of equilibrium does not discuss this issue as a problem of "material needs" and, therefore, is not able to establish at what theoretical point the model becomes materially unfeasible.

In the case of micro-lending for housing improvement this feasibility problem is sometimes expressed as a problem of affordability of the borrower, and is understood as a combination of the projected cost of the housing solution; the loan terms (interest rates, length of the repayment period, and the collateral used); and finally, the repayment capacity of the borrower. The capacity of repayment becomes a function of the borrower's income, and is expressed as a

percentage of the periodic disposable income that the client is able to pay for the loan:

...the percentage of disposable income that clients can earmark for housing loans should be inversely related to their poverty level. Everything else being equal, a very poor person will spend a higher proportion of her take-home income on basic necessities, compared with what a middle-income earning person will spend (Daphnis, 2004:89).

Nevertheless, this income proportion generates an optimisation problem for which, apparently, there are two simultaneous solutions: one, which favours the lending institution, and the other, the client or the borrower. However, a clear definition of which variable is independent, and which one is dependent on the other is unclear:

The challenge for the MFI is to determine the percentage of income that maximises the periodic amount a client can repay while also maximising the likelihood that the client will be able to provide for his/her basic needs (Daphnis, 2004:90).

The neo-classical argument offers the following possible solution to the dilemma generated by the aim of achieving financial sustainability for the MFIs while simultaneously aiming to satisfy the basic needs of the clients:

Not all poor people can take on a loan and repay it in a manner that is consistent with the expectation that housing microfinance will be financially viable for the provider. Invariably, some households will be too poor to have the minimum required capacity for repayment. Housing microfinance will not be able to provide successfully for the habitat needs of these households, and ... [MFIs]... should not be encouraged to take on these households as clients (Daphnis and Faulhaber, 2004:11).

At first sight, the solution seems comprehensible and equally economically reasonable for both the client and the lending institution: the borrower is too poor to pay, and therefore should not be included in the financial lending scheme as the loan will generate for him or her insurmountable financial problems. From the lender's perspective, it is rational not to lend to poor people who will be unable to pay and this, therefore, might preclude the possibility of recovering the costs of lending. Universally speaking, this seems to be what any lending institution should be doing. A closer analysis, however, shows that the rationale of the financial sustainability of the lender is economically more important than the satisfaction of the basic needs of the household. Therefore, the solution is that MFIs should not be encouraged to include those households, even if it generates the financial exclusion of certain urban poor households as the optimised solution. The second issue that emerges from this solution is that housing microfinance is now equated with micro-lending, subsuming a whole set of other possibilities of microfinance for housing improvement into a narrower concept of micro-lending.

The inability of the microfinance industry (including micro-lending for housing improvement) to include poorer sectors from their lending schemes is an issue that CGAP has started to acknowledge as a serious matter. In its strategic guidelines for the period 2008–2013, titled *Building Local Financial Systems that Work for the Poor: Equity and Efficiency*, CGAP (2007:30) recognised:

Most MFIs claim to serve the poor and even the poorest. Yet very little rigorous empirical evidence exists to substantiate these claims. The few detailed studies that have been done have found that even among the more poverty-focused institutions, many clients are situated above the poverty line, and that progress out of poverty from micro-finance alone is far from automatic.

It is important to note that CGAP, was for many years setting the rules and norms of what can and cannot be defined as microfinance and institutions were rated first and foremost according to their capacity to achieve financial self-sufficiency. The struggle in moving MFIs to being regulated financial institutions now meant that broader inclusionary practices were as equally fundamental for the micro-finance industry as financial sustainability:

Anecdotal evidence and some studies suggest that micro-finance has the potential to increase household economic activities, reduce vulnerability, build assets, and even improve economic and social conditions. However, these outcomes are not automatic; they may depend on the characteristics of the financial institution and its products and services, as well as the context in which it operates. Proactive and sustained efforts are required to reach the very poor, develop products relevant to them, and create institutional cultures that allow clients to benefit from financial services... (CGAP, 2007:30).

At the end of the day, following Sen's (2000) logic, financial exclusion, intentionally or unintentionally provoked by the rationale of prioritising financial sustainability, might impede the consolidation of housing as an asset for those urban poor households that cannot access the housing micro-lending schemes. More importantly, it might also limit their opportunities to make tangible improvements in their physical living conditions as well as in their levels of economic activity. The challenge is, therefore, to explore whether there are other forms of housing microfinance that can be more inclusive, and which can complement what mortgage lending, and more importantly micro-lending for housing improvement, is already achieving; and if they exist, to understand their potential and limitations in terms of asset accumulation and urban poverty reduction.

Asset accumulation, financial inclusion and development aid

Drawing on her longitudinal study of an urban poor community in Guayaquil, Ecuador, Moser (2009) attempts to define the basic characteristics of what an asset accumulation policy should be. Moser

(ibid.) proposes that such a policy is not “a set of top-down interventions” to strengthen individual assets, but a framework that addresses structural, institutional and operational factors, which provide an enabling environment for individual households and poor communities, to identify and take advantage of existing opportunities and incentives to accumulate assets, as well as the constraints that can hamper this process. Understanding how macro and micro structural elements, as well as public and private institutional and operational factors, interrelate and affect the opportunities of urban poor households and communities to consolidate the multi dimensions of their housing asset, helps therefore to identify possible forms of social housing finance that are more inclusive than mortgage lending, and micro-lending schemes for housing improvements.

The role of international development aid in asset building and social inclusion

An important element in this asset accumulation framework, especially in cities of the South, is the role that international development aid plays in opening or constraining opportunities for urban poverty reduction. Here an asset accumulation policy confronts two problems. First, within multilateral and bilateral aid donors, the interest in urban development and urban poverty reduction is diminishing (see Stren, 2007), and second, according to Hamdi and Goethert (1997: 20), the gap between discourse and practice is also growing, despite the fact that important notions such as ‘enablement’, ‘sustainability’, ‘participation’, ‘empowerment’, and ‘capacity building’ have long been incorporated in the daily jargon of almost all development aid agencies. For Hamdi and Goethert (1997), the mismatch between, “policy makers and field staff, government institutions and community organisations, expert knowledge and local knowledge, and between development objectives and development realities” is becoming more difficult to bridge. Practices that can modify the living conditions of the urban poor amid the complex and rapid changing processes and realities of the cities of the South only seldom feature in development aid programmes and projects (ibid.).

Indeed, the arrangements by which development aid reaches recipient countries is currently a major factor in the debates about its effectiveness. From a typical approach of project support at the micro level, bilateral and multilateral aid agencies are now engaging in support at the macro level which includes funds not tied to individual projects but which is given to finance “expenditures contained in poverty reduction strategies” either as “general budgetary support or sector programme budget support” (Brobäck and Sjölander, 2001: 11). According to Irene Vance (interview, July 2009)⁶, this shift gives less emphasis to measuring the tangible results of asset-building strategies at the local level, and more to broad national policies. Building public administration institutions in partner countries and developing their competencies seems, therefore, to be the new instruments by which donors expect that the living conditions of the poor at the local level will eventually change. Yet, as Vance (inter-

⁶ Vance has served as Sida’s senior consultant to PRODEL and to the Sida-supported Central American housing programmes since June 1999.

view, July 2009) contends, at least in the case of Nicaragua these effects are not sufficiently clear at the local level. The problem according to Hamdi (2006) is that international aid ‘keeps the belief of development alive but does little for development itself’, and to a large extent, it might perpetuate what Easterly (2006) calls the *status quo* that generates poverty.

Hamdi (2006) proposes an alternative way of optimising the opportunities and resources of the urban poor by “inverting the logic and dynamics of international development aid practice”. For Hamdi (ibid.), “practice builds on the collective knowledge of people and organisations on the ground”. By “thinking locally and acting locally, practice is then rationalised in ways that can translate into good development practice, scale up significantly, and then help to change national policies and even global approaches” (ibid.). The ‘top-down approach’ used by multilateral finance institutions such as the World Bank, as well as by other regional banks, that seeks policy changes first, and then expects things to happen on the ground, is simply not working any longer (ibid.). For Hamdi and Goethert (1997), “urban poor communities do not lack knowledge about their main problems”; there is “no lack of capacity to confront these problems”; and “there is no lack of resources to solve these problems”. Moreover, as Moser (2007) shows, there is no lack of accumulated assets either; what is missing are the ‘spaces’ that allow the articulation and identification of common problems between institutions and organisations that have the power of decision and command resources, and those that do not have them (Hamdi and Goethert, 1997). These are ‘spaces of negotiation’ which allow defining and structuring solutions, reaching consensus, and negotiating collaboration; a mediation between the requirements of public authorities, and the demands of the urban poor for land, shelter and services; a way of articulating functional relation between diverse groups of demands, diverse groups of people and diverse scales of organisation (ibid.).

Co-financing mechanisms for infrastructure and basic services

Finding more-inclusive social housing finance forms requires, therefore, looking for local practices that open new opportunities by structuring ‘spaces of negotiation’ in which local demands are articulated alongside the needs of local public authorities (Denaldi, 2003). As local organisations, when they are scaled-up significantly, they need to be able to change policy frameworks. According to Stein and Vance (2008) this is what the co-financing mechanism for the introduction of basic services in urban poor communities is trying to achieve in several Nicaraguan cities through the work of the Foundation for the Promotion of Local Development (PRODEL), and supported by Sida. Through this co-financing mechanism, public institutions, and private individuals and civil society organisations co-operate and collaborate in the introduction and the improvement of infrastructure and basic services in different parts of a city. Local governments and communities contribute their own resources to partially cover the costs of the different phases of the work of the project (i.e. the definition, design and planning, execution, management and supervi-

sion and maintenance) which has been jointly agreed. An in-depth analysis of this practice in the case of PRODEL might shed some light, therefore, on how this form of social housing finance opens new opportunities for asset accumulation and the inclusion of different urban poor sub-groups. (see Chapter 6 and 7).

Conclusions

The literature review revealed the limitations of understanding urban poverty through the narrow notion of poverty lines, and illustrated the importance of the concepts of social exclusion and asset accumulation in order to comprehend the processes by which the poor move in, or out, of poverty. The review highlighted the significance of housing as an asset for the urban poor, and that access to registered land titles or mortgage lending is an inadequate pre-condition for the consolidation of the financial, economic and social dimensions of housing. Housing microfinance is an alternative form of social housing finance for the poor, and indeed it has increased the number of households that now can access finance for their housing improvements that previously could not access a mortgage loan. Yet, because institutions logically seek financial sustainability, micro-lending for housing improvement also ends up excluding important urban poor households from financial schemes. The literature review also showed that the way to create more inclusive housing finance schemes requires changing the logic behind which international development aid agencies promote housing policies. An in-depth analysis of the structural, institutional and operational factors that might affect micro-lending for housing improvements as well as co-financing mechanisms for the introduction of basic services might shed light on understanding ways to open new opportunities through which urban poor households and communities can consolidate the multi dimensions of their housing asset.

Research methodology

This chapter lays out the research approach and strategy adopted during the investigation. It discusses the reasons for drawing elements from four theoretical and methodological frameworks to conceptualise the ‘object of study’, and to reconstruct and analyse the origins, evolution, as well as the social outcomes of the work of PRO-DEL in Nicaragua. These frameworks are the ‘realist approach’ (see Sayer, 1999); the ‘critical reasoning method’ (see Hinkelammert, 1984, 1987; Serrano, 1999, 2006)⁷; ‘adaptive theory’ (see Layder, 2005); and the ‘critical case study method’ (see Flyvbjerg 2004, 2006; George and Bennett, 2005; Yin, 2003). The chapter provides a summary of the methodological challenges faced during the different phases of the study (literature review, design of research techniques, fieldwork visits, data gathering and analysis, document writing and seminar presentations). It also describes the process by which the conceptual and the methodology debates address the main questions and proposition of this research. Finally, the chapter assesses the qualitative and quantitative research techniques used and discusses the validity and reliability of the data collected.

Research approach

During the different phases of this study, the thesis had to be positioned within the debates on the relationship between social theory and empirical research. Understanding the link between ontological and epistemological questions in social science disciplines such as history, sociology, geography, political science, anthropology and political economy helped to clarify this matter. As Layder (2005:7–23) explains “the nature of social reality (ontology) and the forms of representation and explanation”, or how we come to have knowledge of this reality (epistemology), are inseparable. This has “implications for the research problems we pose, the questions we ask, and the way we conduct research and the analysis of the empirical data it draws upon” (ibid.).

Thought and real objects

Key in this positioning was identifying the object of study (the ‘thing’ being studied), or in Serrano’s (2006) words, “the scientific rationale upon which a critical judgement can be made and the form according to which its potential is displayed”. For Sayer (1999:151), “the nature of the object of study, and the methods by which it is studied and the type of knowledge required to understand it, are interdependent”. Sayer argues (ibid.: 47–49) that the way to think about ‘real

⁷ Hinkelammert and Serrano’s works are written in Spanish and their citations in this document are free translations by the author of this thesis.

objects' is through 'thought objects', yet these 'thought objects' are not 'real objects'. Social sciences produce "interpretations of objects, but do not produce the objects themselves", and in spite of the quantitative or qualitative data gathered by the researcher, it still "requires a (pre)conceptualisation of the object it wants to gather information from" (ibid.: 52). In this sense, "the distinction between the observable and the unobservable results from the concepts that mediate between the perception and the interpretation of the object" (ibid.: 53).

Serrano (2006) adds that many of these mediating concepts cannot occur, and although there are 'thought objects' that can, "their occurrence might not be feasible at a given time and space". Ontologically speaking, therefore, "being and existence are not necessarily the same" (Cocchiarella, 2007). According to Hinkelammert (1987), these 'thought objects', whether possible or impossible, feasible or unfeasible, constitute 'ideal models' that form the basis of social science theories, and the role of the social scientist consists in exploring the logical limits of their internal coherence. For Serrano (2006), "it is only through these ideal models that we can interpret reality". However, given their level of abstraction, social theories built from 'thought objects' need to build ladders 'down' to the 'real objects', their original concrete points of departure, and "this is where verification, contrast and validation, as well as other empirical methods are required" (ibid.). It is by contrasting this empirical data with these ideal models that the data start to make sense, and in social science, it becomes more significant if this reality is analysed from an historical perspective (Serrano, 2006). Yet, for Sayer (1999:88) "the relation between the theoretical and the empirical in knowledge production is not equivalent to the relation between the mental and the real"; and neither of them is equivalent "to the existing relation between the unobservable and the observable nor the three of them to the relation between the abstract and the concrete" (ibid.).

As the 'objects of study' in the social sciences vary (individuals; historical situations; agencies, social structures; spatial development, etc.) they become dependent on the relations they establish with other objects of study (Serrano, 2006). Thus, their possibilities depend on the possibilities of being of the others, and the more dependent and unpredictable they are, the more they require a scientific method to decode and critically interpret why these things are as they are; why they are not something else; and who establishes that things have to be as they are (Serrano, 2006). Layed's (2007: 34–35), however, alerts that "using general theories (Marxism, post-modernism and others), to explain empirical data by forcing them into preconceived categories does not necessarily comply with the need of verification". On the other hand, "it is tempting to employ a package of concepts and underlying assumptions to provide explanation of the findings without due regard for the findings themselves" (ibid.). This may result in "an exercise in self-justification" or "a way to formulate hypotheses so that data collection becomes a form of testing against evidence without necessarily looking into the broader categories that help explain reality" (ibid.).

The implications of this theoretical debate for this research are threefold. First, it needs to define precisely what the ‘object of study’ is. Second, it needs to identify within the social sciences “which discipline or disciplines, allow an adequate understanding of the object (or objects of study), their relationship, and how they developed into what they are today, and what they might potentially become in the future, according to their current recognisable trends, tendencies, and internal contradictions” (Serrano, 2006). In this sense, it needs a research strategy consistent with the discipline or disciplines, and research techniques that allows a high degree of validation, contrast and verification. Finally, it requires identifying and interpreting the intentional levels, including the discourses of the different social, political and economic forces, institutions, individuals and collective groups involved, as they motivate, influence and determine “how the object of study evolves in time, and how it relates and reinforces the structure in which they emerge” (Sayer, 1999).

Defining the object of study

Chapters 1 and 2 identified ‘poverty’ as the main object of study of this thesis, and more concretely, ‘urban poverty’, and recognised that poverty is multidimensional, and following Sen (2000) that the concept of ‘social exclusion’ allowed a better explanation of its relational causes and consequences. The chapters also explained that ‘poverty’ and ‘social exclusion’ related to the different opportunities, possibilities and capabilities that poor individuals, households and communities have to ‘accumulate assets’ and that in the context of the cities in the South, ‘housing’ played a key a role in this process. It was also acknowledged that the possibility of consolidating housing as a multidimensional asset depended on the social forms of housing finance available to the urban poor. Figure 3.1 shows the overlapping relationship between the objects of study of this thesis. Finally, at the beginning of this Chapter it was established that these ‘objects of study’ are ‘mediating concepts’ that rely on general theories to interpret the phenomenon under analysis.

Locating the object of study within social science disciplines

These ‘objects of study’ were then framed within the theoretical debates of different social science disciplines, which explained what ‘urban poverty’, ‘social exclusion’, ‘asset accumulation’ and ‘forms of social housing finance’ are. The analysis of the term ‘urban poverty’ showed that it embodies two different concepts: ‘urban’ and ‘poverty’. From the literature review, it was possible to comprehend that there is not a single cognitive ‘theory of the city’ or a ‘science of the city’, but that the ‘city’, or the ‘urban’, is present in various scientific disciplines. As Gerosa (2001:103) contends, ‘urban’ can “belong to applied and practical disciplines such as architecture, engineering, geography and planning, as well as to philosophy and other ‘reflexive and critical disciplines’ like history, sociology, psychology and political economy”. For Gerosa (ibid.) this is so because “the city belongs to diverse modes of being and exists in various modes” and as the “city participates in diverse modes of being, it can also be interpreted within diverse sectors of knowledge and diverse epistemological fields” (ibid.). In this sense, “each discipline has a fragmen-

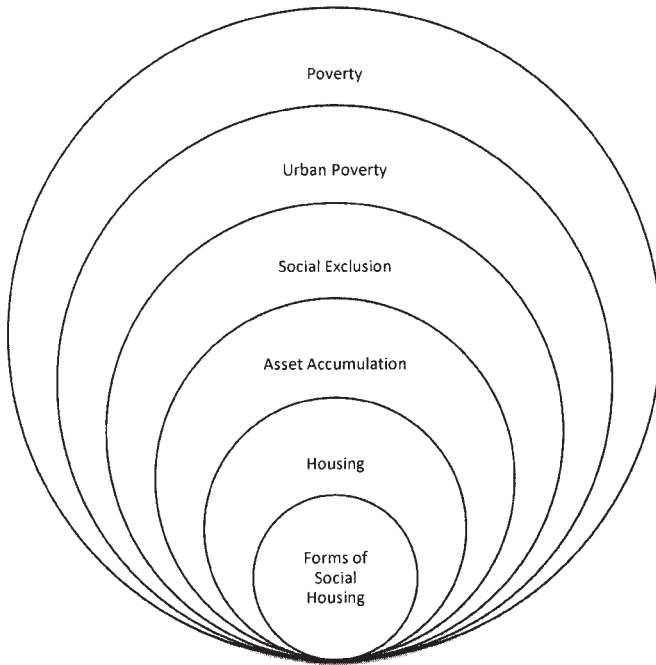


Figure 3.1: The main 'objects of study' of this thesis.

tary character and requires of the other to explain the totality of the concept of 'city'" (ibid.).

The same logic applies to the concept of 'poverty', as disciplines like sociology, anthropology, psychology and economics interpret the phenomenon differently. Assuming its 'fragmentary character', and the absence of a unique discipline from which 'urban poverty' can be defined, the literature review in Chapter 2 examined several disciplines linked to international development studies, in order to establish what the reinforcing dynamics between urban poverty and social exclusion were. Analytically, it was possible to understand that 'poverty' defined and measured through the proxies of income and consumption levels is a positivist neo-classical economic concept (see Harrod, 1942 and Domar, 1957 cited by Bernal Lara, 2007) that considers households as homogenous economic units without critically understanding their internal gender, social and economic power structures and contradictions (see Kanbur, 2007; Moser, 1998). The chapter also established that these proxies misrepresent and underestimate what the 'real' levels of consumption and income the urban poor require to satisfy their basic needs (see Satterthwaite, 2004; Bapat, 2009; Sabry, 2009). These findings led to an examination of the concept of 'social exclusion' influenced by Sen's (2000) 'capability deprivation' approach, and the 'asset accumulation' framework (Moser, 2007), which combines a neo-positivist econometric regression with a longitudinal anthropological fieldwork-based narrative (ibid.). Both approaches allowed a better comprehension of the nature and causes of poverty, and the existing capabilities and opportu-

nities to overcome it. Although Sen invokes his “policy-related science as fundamentally based in neoclassical welfare economic theorems”, Gasper (2008) contends that “[Sen’s] action-related social science of entitlements from which the capability approach originates, is probably more based in humanist values rather than on mainstream economic concepts”. Finally, the thesis analysed the ‘forms of social housing finance’ (Renaud, 2003) and how it strengthens the “multi-dimensions of the asset housing” (Rust, 2007), and explored the discourses of international aid donors on ‘housing microfinance’ and its centrality as an instrument for urban poverty reduction. It is possible therefore to recognise that these concepts, including the debates on ‘financial sustainability’ (CGAP, 2004), are based on neoclassical economic theories concerned with ways of optimising scarce resources and their optimal growth over time, and the role that the market plays in this process (Contreras, 2008).

Following Johansson (2004), the adopted research approach in this thesis is “explicative; it contains logical argumentations; and attempts to be interpretive of historical events”. It also “analyses contemporary events following various disciplines and research level traditions, such as phenomenology.” (ibid.). It tries to interpret the phenomena by “asking what happened, why it occurred, how it was experienced, how this was achieved, and tries to develop an overall description of the experience. In this sense, it attempts to cross the boundaries of ethnography and grounded theory” (ibid.).

Finally, the research approach combined the phenomenology moment with a critical moment. For Serrano (2006) the phenomenology moment requires building the case study and collecting data: “Whatever social structures, processes as well as indicators we choose, it is important to trace as much as possible how they evolved in time.” (ibid.). For this reason, it is important to position the problem within a discipline (or disciplines) and to frame it within the past and current theoretical debates about the particular object of study. The theoretical dialogue and the data collected allow “constructing the object of study upon which later on a critical judgement will be made” (ibid.). In this moment of critique, the research needs to answer some crucial questions. “What would happen if things continue the same way as they are; what happens if circumstances do not change, and what are the limits if nothing changes?” (ibid.). It is here that the limits and possibilities of the object of study arise. What would happen if certain things do change? In other words, to construct possible scenarios that answer the main research questions and the proposition of this thesis requires a solid theoretical and empirical foundation (ibid.).

Research strategy

This section explains the reasons for choosing a critical case study method to understand the linkages between urban poverty, social exclusion, forms of social housing finance, and the case of PRODEL in Nicaragua. It starts by clarifying why transforming the research approach into a workable research strategy required opting among various research methods and techniques, at different phases of the

study. It then examines what a critical case method is, and how it contributes to social science theory building. Finally, the section shows the relevance of this method for studying PRODEL. Table 3.3 at the end of the section summarises in chronological order, the variations this strategy experienced during the different phases and activities of the research.

Predefined case studies

Chapter 1 highlighted that Sida's supported low-income housing programmes in Central America were the predetermined case studies when this research started. Although the broad purpose was to understand their potential and limitations in reducing urban poverty, it was unclear what exactly the research focus should be. Although the research expected to achieve robust findings on the social impact of these programmes by transcending the periodical exercises that international donors, including Sida, undertake to evaluate their projects⁸, it was uncertain which scientific research approach was appropriate for this purpose. It was also an unresolved issue whether one or several of these housing programmes were suitable to achieve this broad goal.

Given the complexity of the contexts in which these housing programmes originated, and the issues they were addressing, the research required a strategy that was able to describe and explain the multiple factors that influenced their design and evolution over time. Moreover, the idea of taking the forms of social housing finance tested in these programmes to their imaginable limit, to envisage their possibilities and limitations in opening opportunities for poverty reduction and social inclusion, was not only suitable, but precisely what the research aimed to do. This meant that the qualitative and quantitative methods and data collection techniques were critical in order to have a sense of what happened in the past; and to obtain a reasonable idea of what the future tendencies and contradictions of these low-income housing programmes vis-à-vis the urban poor might be. As the research had to deal with five countries and programmes in different cities, the task became too broad, and therefore the object of study needed to be narrowed.

The case study method

During the literature review, case study methods applied in social sciences such as political science and history were analysed. George and Bennett's argument (2005) that even with a science like economics there is awareness of the importance of using "historical research methods and the logic of historical explanations" as a way of reconstructing "the political economy of events that cannot be explained solely by statistical analysis or econometric regression", so seemed adequate for the purposes of this research. The fact that

8 These exercises compare project outcomes with the Logical Framework Approach (LFA) contained in the project document proposals. For Örtengren (2004), the LFA helps to improve the quality, the relevance, the feasibility and sustainability of international development cooperation and is an instrument for logical analysis.

case study methodology allowed, under certain circumstances, analytical generalisations that contributed to the development of social science theories by accommodating diverse forms of complex causality, was also appealing (see Flyvbjerg, 2004, 2006; George and Bennett, 2005; Stake, 1998; Yin, 2003).

The critical case study method

According to Gerring (2007), the crucial case study follows a tradition set up by Eckstein (1975) by which the single case is “explained by a theory”, and “no other theory can explain” the facts of that case:

A case is crucial in a somewhat weaker sense when it is most or least likely to fulfil a theoretical prediction. A most-likely case is one that on all dimensions except the dimension of theoretical interest is predicted to achieve a certain outcome and yet does not.... A least likely case is one that on all dimensions except the dimension of theoretical interest is predicted not to achieve a certain outcome and yet does so... In all formulations, the crucial case is a most difficult test for an argument and hence provides what is, arguably, the strongest sort of evidence possible in a non-experimental, single case setting (Gerring 2007:231).

The method is controversial, and there are those that argue that it is difficult to develop general propositions and theories based on a single specific case study (see Peattie, 2001). Yet, a critical case study method represents an innovative way of understanding and learning about real phenomena from an ‘action-oriented’ perspective, as it clarifies “the deeper causes behind a given problem and its consequences rather than to describe the symptoms of the problem and how frequently they occur” (Flyvbjerg, 2006:229). In addition, given the proximity of the researcher to reality, they constitute adequate forms for learning and understanding the phenomena as they offer adequate and appropriate supportive narratives in terms of approaching the complexities and contradictions of real life (ibid.: 236). Finally, Flyvbjerg (2006:238) points out the method’s significance in terms of allowing more openness to the diversity of disciplines involved:

I tell the story in its diversity...from the many-sided, complex, and sometimes conflicting stories that the actors in the case have told me. Second, I avoid linking the case with the theories of any academic specialisation. Instead, I relate the case to broader philosophical positions that cut across specialisations. In this way, I try to leave scope for different backgrounds to make different interpretations and draw diverse conclusions of what the case is a case of. The goal is not to make the case study be all things to all people. The goal is to allow the study to be different things to different people. I try to achieve this by describing the case with so many facets – like life itself – that different readers may be attracted, or repelled by different things in the case (ibid.:238).

The possibility of using a most-likely case, in which a dimension is predicted to achieve a certain outcome and yet does not, became an interesting methodological issue. Moreover, extracting lessons from a least-likely case that serves as a comparison with other experiences, although probably less useful for making generalisations, and the possibility of learning about real phenomena from an action-oriented perspective to clarify the deeper roots of a problem, were crucial for this research. Finally, because it was feasible for the researcher to get close knowledge of the reality being investigated, as well as having access to a case which was open to different interpretations and not an interpretation by merely a single discipline, were attractive for answering the main research's questions.

Selecting PRODEL as a critical case study

By rethinking which of the Central American low-income housing programmes might be a most or least likely case, and in which the critical case study characteristics were possible to apply, the research focused on the experience of the Foundation for the Promotion of Local Development (PRODEL) in Nicaragua. As Sayer (1999) argues, in some cases, "unusual, unrepresentative conjunctures reveal more about general processes and structures than normal ones, and rare conjunctures reveal structures and mechanisms, normally hidden". Largely, this was the 'unusual context' in which international, national and local agencies interacted and activated the causal mechanisms that explain the origins and evolution of PRODEL during a period of 15 years.

As described in Chapter 4, PRODEL started operations in the early 1990s, amid a convulsed period of Central American and Nicaraguan history characterised by extreme inequalities, poverty, and exclusion, as well as the vulnerabilities associated with political fragility, civil wars, economic crises, and natural disasters. In such an atypical context, PRODEL designed interventions that addressed three unmet basic needs associated with urban poverty and social exclusion: the lack of adequate employment and income; the lack of adequate basic infrastructure and services; and the lack of adequate housing. These interventions aimed to be inclusive for all urban poor in the cities in which it would operate through three components: micro-finance for employment and income-generating activities; co-financing for the introduction of infrastructure and basic services; and micro-lending and technical assistance for housing improvements. With small variations, the three components continued to be the core instruments used by PRODEL in the municipalities where it operated years later. Thus, the case contained a comprehensive experience on the forms of social housing finance that are the focus of this research. Moreover, as PRODEL was no longer a pilot programme, but a well-functioning institution with over 15 years' experience, this period allowed possible tendencies and trends to be identified relating to its potential and limitations. Likewise, as PRODEL is one of Sida's supported Central American low-income housing programmes, understanding its expected and unforeseen developmental results from a long-term perspective also contributed to the theoretical and practical debates on the effectiveness of international aid

in reducing urban poverty and financial exclusion. Finally, the first-hand knowledge of the region and of Sida's supported programmes in Central America developed over the a period of 23 years allowed the main researcher having a deeper understanding of the contextual conditions, the internal agency processes and causes that led to their origin; and their evolution over time. If this knowledge is framed within the current theoretical and policy debates on urban poverty and social exclusion, and complemented with research methods that facilitate more robust findings, then this can be an invaluable source to understanding the limits of the critical case study.

Research methods

This section explains how the critical case of PRODEL was developed. It describes why the research questions and the proposition that guided the study were chosen, as well as the mix of techniques of inquiry and data collection used. The section explains the criteria used to select interviewees; the cities and sites visited; the international, national and local institutions contacted; the types of archival record and documentation reviewed. Finally, it assesses the modes of enquiry used and, following Evans (2000), "the means of achieving the narrative of the case", as well as "the reasons for writing about the case as it is".

Research proposition

Chapter 1 justified why the thesis formulated an argument in the form of a proposition and not as a hypothesis to transform PRODEL into a critical case study. The idea of using a proposition followed Walliman's (2005:218) contention that it allowed "the study to deepen on particular relationships between events" agencies and structures, "without having to comply with all the characteristics and logical sequences of verification required by a hypothesis" (ibid.). As Yin (2003:22) argues, "propositions are important components in designing case study strategies" as they guide attention "to key elements that should be examined within the scope of the research". In this thesis the proposition does not claim that the conditions that originated PRODEL and in which it developed during a period of 15 years, were representative of what occurs in all countries and cities of the South undergoing uncharacteristic similar transformations. The study is aware that the case is context-dependent (Sayer, 1999), and in this sense it is not possible to generalise to similar experiences in other parts of the world. Nevertheless, there are valuable lessons to learn, and as Evans (2000) argues "there will probably be readers that will find that they have experienced or could experience similar situations". More importantly, the thesis tries to shed light on the forms of interconnection existing between social agency and social structures in a complex given situation (see Layder, 2005:143).

Qualitative research methods used

To deepen the understanding of the relationship between structures and institutions, communities, households and individuals, the research used qualitative and quantitative methods including multiple sources of evidence gathering, validation, and corroboration through triangulation. The aim of employing these methods was twofold: first, as Perlesz and Lindsay (2003) suggest, to enhance “the trustworthiness of the analysis through building a more rounded credible and coherent narrative” that explains the regional and national context, as well as the probable processes and events that led to the origins of PRODEL and its subsequent evolution over the last 15 years; second, to identify indicators that permit a longitudinal perspective of the opportunities for financial inclusion that the forms of social housing finance used by PRODEL generated.

Reconstructing the origins of PRODEL

To reconstruct the historical background, and the socio-economic, political and institutional context in which the case study is embedded, including possible turning points in the causal chain of relationships (see George and Bennett, 2005:90–93; Yin, 2003:34) that directly or indirectly led to the design and approval of PRODEL various sources were used.

To comprehend the conditions prevailing in Nicaragua between the 1970s and early 1990s, a review of published academic papers and books, editorials and news from international magazines and local newspapers, and internal documents and reports from different international development agencies, was undertaken (see References). To explain the role of Swedish cooperation in Central America since the late 1970s and their support for low-income housing programmes in the region (including PRODEL in the early 1990s) the following documents were reviewed: the project proposal presented by the Nicaraguan Institute for Municipal Development (INIFOM) to Sida for approval for the first phase of Swedish support to PRODEL; Sida’s internal papers assessing this proposal; reports from external consultants who participated in the design stage; minutes of meetings and *aide de memoirs* between Sida and INIFOM; and evaluations of the different programmes supported by Sida in the region. In addition, open-ended interviews with key staff members, who worked, or were still employed, by Sida in relation to Swedish involvement in Central America, and to the process of the design and approval of the different low-income housing programmes in the region that were carried out (see Appendix B). The broad issues addressed with the interviewees were their role within the Swedish organisation in the design and approval of the programmes. In particular, interviewees were asked about salient features of the regional and national context they considered important for the programmes; their view on the role of Sida’s co-operation in terms of the regional and national context, and in the programme; and how these low-income housing programmes contributed to Sida’s development cooperation goals in terms of poverty reduction, social exclusion, and in strengthening local democracy. Finally, documents from personal archives and personal recollections of events relevant to these pro-

grammes complemented the information regarding the origins of PRODEL.

Understanding PRODEL's components

To understand PRODEL's components and their evolution in time, documents and archival records from Sida and PRODEL were revised. These documents included external evaluations and monitoring reports; external studies, and financial and operational audits; project proposals, as well as internal memos and progress reports; electronic and paper archival records from PRODEL, the micro-finance institutions (MFIs) and the municipalities where PRODEL works.

Field visits to three cities where PRODEL has operated since its inception were made. As the researcher had previous knowledge of the five cities where PRODEL initiated operations in 1994, and visited these cities periodically between 1994–1998 as Sida's senior consultant, it was logical to select from these cities to analyse in-depth what had happened to PRODEL in general, and how the small and repetitive loans for housing improvements and the co-financing mechanisms for the introduction and expansion of basic services, had evolved. The three cities selected were Estelí, which in Nicaragua is considered a middle-sized city, and two small cities (Ocotal and Somoto). The three cities are located in the northern part of Nicaragua, relatively close to each other (see map of Nicaragua in Chapter 4). In the late 1980s and the beginning of the 1990s these cities experienced high levels of urban growth and increased levels of poverty (see Chapter 4). As part of the fieldwork for this research these cities were revisited during the months of July 2006, January and February 2007, and in March and April 2009.

In preparation for, and during these field visits, the qualitative methodology of the research was developed. Partly following Moser and McIlwaine's (2000) participatory urban appraisal techniques, the study identified a series of tools including transect walks through communities, direct observations, semi-structured and open-ended interviews, and focus-group discussions. These tools helped to assess the perceptions that different stakeholders had regarding PRODEL's components.

Together with PRODEL staff, and before the field study visits, criteria for identifying the households, the community leaders, and the personnel of the MFIs and of the municipalities to interview was agreed. PRODEL assisted in making the logistic arrangements for the interviews. However, once in the field and to avoid any possible bias, snowball techniques (see Yin, 2003) to identify additional households who had received a housing improvement loan or who had participated in the infrastructure component were used. The same technique helped to identify and interview additional personnel from the municipalities and the MFIs. Thus, although PRODEL made the original arrangements, it was possible, once in the field, to select other projects and to visit other households in the communities. PRODEL identified and contacted two thirds of the interviewees using the criteria previously agreed, and the rest was identified once in the field through this technique (see Table 3.1).

Table 3.1 Number of research techniques and interviews in the three cities studied.

Techniques used	Estelí	Somoto	Ocotal	Total
Barrios visited	7	4	5	16
Transect walks	3	3	3	9
Focus groups (number of persons)	0 (0)	3 (10)	3 (12)	6 (22)
Households identified from FIDEG's database (actually interviewed)	60 (8)	10 (0)	10 (2)	80 (10)
Total households actually interviewed	20	2	4	26
Municipal authorities & technicians interviewed	5	4	5	14
Members of MFI interviewed	4	1	1	6

A total of 130 open-ended and unstructured interviews (including the focus groups) were carried out with PRODEL staff; external consultants from Sida, who worked with and monitored PRODEL as well as other low-income housing programmes in Central America; members of the financial institutions (MFIs) responsible for intermediating the credit components with resources from PRODEL; mayors and ex-mayors of the three cities; as well as technical and social staff from the municipal units responsible for the implementation of PRODEL's infrastructure component; and with community leaders, and household members, who had participated in the components in different stages over the last 15 years. Table 3.2 summarizes the issues looked in the five low-income housing programmes in Central America. Appendix B provides a list of stakeholders, the institutions and organisations they represent, and the cities where they lived.

Table 3.2 Themes analysed per country during the research.

Issues analysed by country	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
New housing solutions	X	X		X	
Housing improvement solutions	X	X	X	X	X
Micro-credits for housing improvement			X		X
Basic services in existing settlements					X
Basic services in new settlements	X	X		X	
Land tenure in existing settlements	X	X	X	X	X
Land tenure for new settlements	X	X		X	
Comparison between poor and non-poor families					X
Urban knowledge acquired via programmes	X	X	X	X	X
Impact of economic crises on households	X	X	X	X	X
In-depth study of selected participant families					X
Participation and community building	X	X		X	X

Understanding the opportunities for the urban poor

In March 2009, in-depth open-ended interviews with 20 household members living in seven different barrios of the city of Estelí took place. The aim of the interviews was to obtain detailed household information about the opportunities and constraints in respect of asset accumulation that they had experienced before, during, and after they participated in one or more of PRODEL's components. The criteria for selecting the households included having had housing improvement loans or having taken part in the infrastructure component, preferably when PRODEL originally started operations in Estelí. This permitted anecdotal evidence of the asset accumulation process they experienced over a long-term period; and the opportunity to put into perspective the role that the loan and the infrastructure components played in this process, as well as to voice their perceptions on how the lending for housing improvement evolved over time. Additionally, the chosen households should have different income levels in order to understand the role their income and expenditure played in accessing housing improvement loans. Moreover, some of them were selected as households that were interviewed during the survey conducted by FIDEG in 2005 to assess, to what extent, their household situation had improved or deteriorated during the previous four years. Finally, it would be important for PRODEL's staff who provided technical assistance in Estelí to have some knowledge of the cases, in order to triangulate part of the information given by the households.

Each interview addressed a number of issues including reconstructing the process that led each household to settle in the barrio in which they were living; how they obtained the plot of land they occupied; and what was its current legal status; what access to land meant in terms of other asset accumulation processes; what elements had contributed to neighbourhood consolidation, and what were the main priorities of the community in terms of basic services and shelter (see Appendix A). Additionally, questions related to the housing improvement loans and/or to the improvement of basic services and facilities, including their relationship with the MFIs and the municipal authorities, as well as with their neighbours and the rest of the community. They were asked what they felt were the main achievements and obstacles faced during and after the construction process and during the repayment of the loan; and what the improvements had meant to the well-being of the household. Finally, households were asked to identify what policies and practices of the MFIs and municipality they thought could, or should, be modified to increase access to the housing improvement loans and to the co-finance mechanism for the development of infrastructure and basic services.

Understanding PRODEL in the context of similar low-income housing lending experiences in Central America

To understand PRODEL's experience in the context of other forms of lending and finance for housing improvements supported by Sida in the region, visits to Costa Rica, El Salvador, Guatemala, and Honduras were made in July 2006 and February 2007. The visits were use-

ful as part of the process of selection of PRODEL as the main case study of the thesis. Direct observations of housing improvements, and non-structured interviews with key stakeholders and clients of these programmes, took place (see Appendix B for a list of these stakeholders and clients). The issues analysed are shown in Table 3.2, and part of the information gathered was systematised in various articles that appeared in specialised journals and as chapters in books (see Stein, 2008; Stein and Castillo, 2006; Stein and Vance, 2008; UN Millennium Project, 2005a).

Quantitative evaluation methods

In recent years CGAP, started to promote a series of studies and publications to try and assess if microfinance was reaching the poor. However, the majority of studies concentrate on institutions that are lending for micro-enterprise activities (these studies are accessible in <http://www.cgap.org/publications.html>). Since 2007, efforts have been made to broaden CGAP's perspective to include housing micro-finance. For example, Acción Internacional, an international NGO supporting MFIs seeking to achieve financial sustainability, launched a series of impact studies in some of the micro-lending institutions it supports, including an analysis of the target population of Apoyo Integral, the financial institution created by FUSAI in El Salvador (see Dewez et al., 2006). For similar studies see: http://www.accion.org/micro_pubs_list.asp

According to Meyer, Nagarajan and Dunn (2000), one of the problems facing this type of study is that MFIs have not sufficiently developed the concept and measurement of 'depth of outreach'. Moreover, MFIs have problems addressing the issue of how their criteria of targeting the poor relate to existing national poverty measures (including poverty lines and other social indexes). To overcome this limitation, Meyer, Nagarajan and Dunn (2000) propose a series of proxies that compare MFI clients with the benchmarks periodically generated by national household surveys (mainly through the poverty lines). Some of the proxy indicators relate to household income and the level of per capita consumption expenditure; as well as the characteristics of household demographics (age, gender, education and size); the characteristics of the housing conditions (roofs, walls, floors and status of land tenure); and access to public infrastructure and services (water, sanitation and others).

Chapter 2 explained the limitations of defining and measuring urban poverty exclusively on poverty lines based on the levels of income and consumption measured in monetary terms. Still, for this research purposes, Meyer, Nagarajan and Dunn's quantitative approach seems appropriate and justified for two reasons. Although their approach uses a poverty line index, they added other socio-demographic and housing condition parameters that are critically important for understanding the multi-dimensions of poverty. Moreover, if repeated periodically with the same panel data, their quantitative method becomes a similar tool to the econometric part of the longitudinal asset accumulation study that Moser did in Guayaquil, Ecuador (see Moser, 2009).

Quantifying PRODEL's impact

Based on Meyer, Narajan and Dunn's (2000) method, complemented with insights of Alarcon's (2004) well-being index, the research built similar proxies (monthly income and expenditure per household and per capita, education levels, demographic composition, and housing conditions such as walls, floors, roofs, access to basic services, and land tenure status) for the case of PRODEL. The exercise compared the characteristics of PRODEL's household client base that accessed housing improvement loans with the characteristics of the total population of Nicaragua; the total population of the cities and regions where PRODEL worked; the total population of the three selected case cities of this study (Estelí, Somoto and Ocotal), and to households categorised as poor in these cities. The exercise was repeated with households that participated in the co-finance mechanism for infrastructure and basic services, and with those that participated in the microfinance for economic activities component. The aim of the exercise was twofold. It tried to compare the depth of outreach of those households that participated in PRODEL's micro-enterprise, housing improvement and infrastructure components with those of the urban poor in Nicaragua and in the municipalities where PRODEL worked. On the other hand, it aimed to build an asset index for PRODEL's households that in future years could be replicated with the same panel data.

The period 1995–2005 was analysed by using data from the Nicaraguan National Censuses of 1995 and 2005, and from the National Surveys on Household Living Conditions for 2000 and 2005, the four of them conducted by the Nicaraguan Institute for Statistics (currently known as National Institute for Development Information INIDE). The databases for the Censuses and the National Surveys were available on-line in the webpage of INIDE (www.inide.gob.ni/). To compare PRODEL's household population with the data of the national censuses and household surveys, the database from a random sample survey of 542 households that participated in PRODEL's three main components was utilised. The survey, conducted in May of 2005, forms the basis of an impact evaluation commissioned by PRODEL and Sida to the Foundation for Global Economic Integration (FIDEG). FIDEG's database is stored in two Statistical Package for the Social Sciences (SPSS) files. The first contains information from the household and its participation in the different components, and the second contains socio-economic information of each member of the household⁹.

FIDEG's evaluation assessed the social impact of PRODEL's operation during the period 1994–2003, and it was the first systematic effort to quantify and compare the social characteristics of the beneficiary families of PRODEL with the rest of the Nicaraguan population. Much of the invaluable information gathered in the SPSS database was not fully utilised by PRODEL or Sida, as the findings of the evaluation were used to make an accessible report for a different audience. As the survey questionnaire was constructed by FIDEG to resemble the questionnaire used during the National Household Sur-

9 The FIDEG database was used with the explicit consent and permission from Sida and PRODEL.

vey for 2005, and the national population and housing census took place in 2005, comparing the characteristics of the target population with the rest of the population at the same point in time became more plausible.

As inputs to this thesis, PRODEL provided historical data on a series of financial and social indicators of its three main components for the period 1994–2008. Part of this information served to map the investments of the infrastructure component in the different neighbourhoods of three of the cities where PRODEL started operations in 1994: Somoto, Ocotol and Estelí (see Appendix C). The review of other documents containing performance indicators on PRODEL's loan portfolio helped to quantitatively assess PRODEL's impact (see for example Alvarado, Boman and Echarte, 2007; Becerra et al., 2002; Morales and Herrera, 1997; Paniagua López et al., 1998; PRODEL, 2006b; Stein, 2001; Vance and Vargas, 1996).

Validity and reliability of the quantitative data

This section analyses the validity and reliability of the quantitative data produced by three external sources used in this research: INIDE's census and household surveys, FIDEG's May 2005 survey, and PRODEL's historical data.

National and international sources consulted during this research, considered that Nicaragua's 2005 national census as well as the national household survey for the same year complied with international norms and standards. One of the reasons for this was that international experts provided by development cooperation agencies monitored and supervised INIDE during the design and implementation phases. Nevertheless, the sources considered that the data should be treated with a moderate level of confidence as INIDE had suffered recurrent managerial crises and technical and material weaknesses that affected its capacities to produce timely and reliable statistics to feed public policy for the design and evaluation of poverty reduction programmes. This was in spite of the massive technical assistance and institutional strengthening programmes supported by the international community since 1998 (see UNDP 2007). It was well known in international development agencies, as well as in academic circles in Nicaragua, that the data processing of the 2005 census took longer than anticipated, as a significant number of questionnaires 'disappeared' for several months until INIDE's staff salaries were paid. Members of INIDE also cautioned about the compatibility between the census tracts per municipality defined and used for the 2005 census, which differed spatially from the ones adopted during the 1995 census. Thus, making disaggregate comparisons at the city level was possible but not at the neighbourhood level. This had significant implications for the purposes of this research. For example, the census of 2005 contains disaggregated socio-demographic data for each barrio in Estelí, Somoto and Ocotol, however, the 1995 census tracts do not coincide with these barrios. Therefore, it was less plausible to have compatible indicators that show how housing conditions, including the status of land tenure for example, evolved in these barrios during a 10-year period.

In spite of these limitations, the national census and the national household surveys constitute to date the only source of data in Nicaragua that can provide reasonable socio-economic and housing condition snapshots and their evolution over time. In addition, national government, international agencies, academic institutions, and local governments (for example in Estelí, Ocotal, and Somoto), rely on the national census data, as a reference point for designing their development and poverty reduction policies and programmes.

The statistical sampling methodology used by FIDEG in the May 2005 survey to identify the universe of PRODEL's households interviewed ($n=542$), as well as per component, per MFI, and per city was revised. Although the method seemed to be statistically valid, three procedural aspects of the survey were worrying. The first related to the quality of FIDEG's fieldwork supervision. On several occasions, FIDEG's directors were asked if they could reconstruct the procedures used in the field to identify the households interviewed in each component and in each barrio. A definitive answer on this procedure was not given as FIDEG had subcontracted this phase of the survey to external consultants. On various occasions, the person responsible for supervising the fieldwork was contacted but did not reply to the methodological questions. This does not mean that the survey did not take place in the cities and with participants of PRODEL's components. However, it introduces an element of uncertainty on the procedures followed in the field to meet the terms of the guidelines devised by FIDEG and to comply with the statistical procedures required by random sampling. Moreover, in some of the cities that this thesis uses, the sample was too small to allow comparison between the data from the census and the household surveys. Finally, it was evident that the database had not been carefully filtered and analysed to identify outliers, or those cases that clearly deviated from the rest of the sample. At least 10 of these outliers were identified through variance in key variables related to individual income and expenditures as well as in the description of their housing conditions.

Chapter 6 of this thesis analyses the validity and reliability of PRODEL's quantitative historical data; and it shows some inconsistencies and ways to solve them.

Conclusions

This chapter demonstrates the rationale behind the research approach, the research strategy and the fieldwork techniques and methods followed during the investigation. Based on the critical reasoning method approach, it explains why a diversity of disciplines for understanding the multi-dimensions of urban poverty and social exclusion were required. The chapter justifies the logic for adopting a critical case study as a proper strategy to carry out the in-depth research of PRODEL's experience in Nicaragua. Furthermore, it explains the importance of using a proposition instead of a hypothesis to guide the critical case, as well as identifying the causal mechanisms and the critical points in time that are instrumental in understanding the links between the forms of social housing finance and

financial exclusion in the context of Nicaragua. Finally, it describes the different qualitative research methods and sources of evidence used in reconstructing the origins, and evolution of PRODEL, and how the combination of data from census, national household surveys and an impact evaluation, allowed quantitative comparisons between the living conditions of the urban poor in Nicaragua, and those households that had participated in PRODEL's different components. (Table 3.3 below offers a brief summary of the process followed during the research and the thesis writing).

Table 3.3 Research process followed (2004–2010).

Period	Activities	Outcomes
September 2004	Start of research: pre-defined cases: Sida's supported low-income programmes in Central America.	Presentation of Sida's supported low income housing programmes at World Urban Forum 2, Barcelona.
October 2004 – May 2005	Literature review on globalisation, urbanisation, poverty and social exclusion; Comparison exercise of the costs of new housing and housing improvement solutions in Central America.	Main contributor to Chapter 8, 'Investing in improving the lives of slum dwellers', <i>A home in the City</i> , Report of the UN Millennium Task Force on Improving the Lives of Slum Dwellers.
September – November 2005	First review on the broad purpose and main objectives of research. Discussions on post-emergency reconstruction in Central America.	Paper presented at N-AERUS conference, Lund University. Discussions at DPU, University College London on scope of thesis.
March – June 2006	Literature review on urban poverty and preparations for first field visit to Central America.	Presentation at World Urban Forum 3, Vancouver on the role of low-income housing in poverty reduction. Article on the Central American Experiences in 'Environment and Urbanization'.
June – July 2006	Field visits to cities in Nicaragua (Managua, Estelí, Somoto and Ocotal), and Guatemala (Guatemala, Jutiapa, Guastatoya and Escuintla) – interviews with programmes, MFIs, Municipalities, external consultants, and programmes' archival review.	Better understanding of the processes followed by programmes and MFIs in terms of housing improvements.
August – November 2006	Preliminary analysis of data collected in Central America on main issues programmes were working.	Publication of article on the reconstruction experience of hurricane Mitch in Central America, 'Dialogue'.
December 2006	Background, aims, justification, main research questions, methods, preliminary findings, and challenges.	Presentation of paper at first PhD seminar, Lund University.
January – April 2007	Redefinition and narrowing of thesis scope, object of study, selection of case studies.	Preliminary ideas on longitudinal research perspective.
February 2007	Second field visit to Honduras, El Salvador and Costa Rica.	Conference on microfinance to international students in San José, Costa Rica.
April – June 2007	Comparison of Central American low-income housing experiences	Journal articles and papers in international conferences (Rotterdam and Rome).
June 2007	Introduction of concepts of 'forms of social housing finance and asset accumulation to address financial exclusion and urban poverty as key objects of study.	Paper at PhD students seminar, Lund University.
June – November 2007	Statistical analysis of FIDEG's data base. Comparison of PRODEL's households with rest of Nicaragua's urban population.	PRODEL as the main case study.
May – October 2008	Thesis writing, new literature review on housing finance, urban poverty, social exclusion and critical case study methodology.	First draft of thesis.

Table 3.3 Research process followed (2004–2010). Continuation.

<i>Period</i>	<i>Activities</i>	<i>Outcomes</i>
November – December 2008	Exchange of ideas with external examiner on title, scope, objective, research questions, and main focus of thesis.	Two papers.
January 2009	Presentation of overall thesis, comments and observations by external examiner, redefining next steps of research.	PhD final seminar.
January – February 2009	Redefining objective, research questions and focus of thesis, and new plan, including preparations for new field visit.	Paper for supervisors.
March 2009	Third field visit in-depth interviews with households in Estelí to assess financial inclusion and asset building.	Transcription and analysis of in-depth interviews.
May – October 2009	Thesis writing with focus on limits of PRODEL's model, new research questions and incorporation of data analysis from field visit.	Second draft of thesis.
January – March 2010	Comments by supervisors and clarifications on the limitations of quantitative data (from primary and secondary sources), methodology and rewriting of thesis.	Third draft of thesis.
April – May 2010	Preparation of thesis for printing.	Thesis printing and distribution.

PRODEL: context and origins

The aim of this chapter is to understand the dynamics and underlying causes, which led to the design of PRODEL. The chapter concentrates on five interlinked processes that took place in Nicaragua during the late 1980s and beginning of the 1990s: the demographic changes; the political transition; the increasing levels of urban poverty and social exclusion; the rising role played by international co-operation agencies in strengthening democracy and the peace agreements; and finally, Sida's role in supporting various low-income housing programmes in the Central American region.

Population dynamics in Nicaragua

Nicaragua is located in Central America bordering with Honduras in the North, Costa Rica in the South, the Atlantic Ocean in the East, and the Pacific Ocean in the West (see Figure 4.1). Its population is unevenly spread across three geographic regions: the Pacific Region, where most of the urban population is concentrated; the Central and Northern Region, with a predominantly rural population, although in recent years, showing increasing levels of urbanisation; and finally the Atlantic Region, the least populated region, although in the last decade, also experiencing high rates of both rural and urban population growth (UNDP, 2007). These geographic regions differ from the administrative regions defined by the Sandinista Regime in the 1980s and by the National Institute of Statistics and Census (INEC known today as INIDE) for national household survey and census purposes.

Administratively, Nicaragua is divided into 15 departments ('departamentos') and 153 municipalities; and two autonomous regions on the Atlantic Coast, known as the Northern and Southern Autonomous Atlantic Regions (RAAN and RAAS). The capital city is Managua. The country's area is 130,373 square kilometres and, according to the 2005 National Population and Housing Census, its population totalled 5.14 million with a population density of about 43 persons per square kilometre (INIDE, 2007). Nonetheless, this figure does not reflect the disparity of population densities between departments, municipalities, and autonomous regions.

Urbanisation and urban growth

Nicaragua was the first country in Central America to undergo rapid urbanisation. In 1950, about 35 per cent of its population lived in urban areas. This figure increased to 48 per cent in 1971 and by 1995 to more than 53 per cent. In 2005, about 56 per cent of its population



Figure 4.1 Map of Nicaragua.

Source: Own elaboration based on Google maps 2010.

lived in urban areas (INIDE 2007).¹⁰ While the country's total population increased by almost five times, and the rural population by only three times between 1950 and 2005, the urban population increased almost eight times (see Table 4.1). The urbanisation process was more dynamic in the Pacific Region where the urban population increased from 48 per cent in 1950, to 57 per cent in 1963 and to 64 per cent in 1971, with an average urban population annual growth rate of 4.6 per cent between 1950 and 1963, and 4.4 per cent between 1963 and 1971 (see Table 4.1). This sustained urban growth was linked to the import substitution process that began in the late 1950s and 1960s, which generated high economic growth rates, and consequently attracted labour in large numbers from rural areas to the

¹⁰ According to the 2005 Census, urban means "those localities which are the administrative seat of the departments, the municipalities and the autonomous regions". It also considers as 'urban' those "localities with 1,000 or more inhabitants and that have characteristics such as: street layouts, electricity service, commercial and/or industrial sites, etc." (INIDE 2007:8).

Table 4.1 Nicaragua: Total, urban and rural population (1950–2005).

Geographic region and Census year	Total, Urban and Rural Population			% Urban Rural Distribution			Population of regions as % of total population			Population growth between Censuses (%)			Average annual population growth rate between Censuses (%)			Population increase 1950–2005 (times)		
	Total	Urban	Rural	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	
Nicaragua																		
1950	1,049,611	369,028	680,583	35%	65%													
1963	1,535,588	627,292	908,296	41%	59%													
1971	1,877,952	896,378	981,574	48%	52%													
1995	4,357,099	2,330,809	1,986,290	53%	46%													
2005	5,142,098	2,875,550	2,266,548	56%	44%													
Pacific Region																		
1950	585,593	283,259	302,334	48%	52%	56%	77%	44%										
1963	869,973	493,447	376,526	57%	43%	57%	79%	41%	49%	74%	25%	31%	4.4%	1.7%				
1971	1,116,473	709,080	407,393	64%	36%	59%	79%	42%	28%	44%	8%	3.2%	4.6%	1.0%				
1995	2,467,742	1,731,293	736,449	70%	30%	57%	74%	37%	121%	144%	81%	3.4%	3.8%	2.5%				
2005	2,778,257	2,023,082	755,175	73%	27%	54%	70%	33%	13%	17%	3%	1.2%	1.6%	0.3%	4.7	7.1	2.5	
Central and North																		
1950	387,202	64,018	323,184	17%	83%	37%	17%	47%										
1963	560,976	103,274	457,702	18%	82%	37%	16%	50%	45%	61%	42%	2.9%	3.7%	2.7%				
1971	595,139	148,978	446,161	25%	75%	32%	17%	45%	6%	44%	-3%	0.7%	4.7%	-0.3%				
1995	1,354,246	469,965	884,281	35%	65%	31%	20%	45%	128%	215%	98%	3.5%	4.9%	2.9%				
2005	1,647,605	628,001	1,019,604	38%	62%	32%	22%	45%	22%	34%	15%	2.0%	2.9%	1.4%	4.3	9.8	3.2	
Atlantic Region																		
1950	76,816	21,751	55,065	28%	72%	7%	6%	8%										
1963	104,639	30,571	74,068	29%	71%	7%	5%	8%	36%	41%	35%	2.4%	2.7%	2.3%				
1971	166,340	38,320	128,020	23%	77%	9%	4%	13%	59%	25%	73%	6.0%	2.9%	7.1%				
1995	535,111	169,551	365,560	32%	68%	12%	7%	18%	222%	342%	186%	5.0%	6.4%	4.5%				
2005	716,236	224,467	491,769	31%	69%	14%	8%	22%	34%	32%	35%	3.0%	2.8%	3.0%	9.3	10.3	8.9	

Source: Own elaboration according to the Nicaragua's 2005 Census (INIDE, 2006).

capital city Managua and to other cities located in the Pacific Region (Eguizabal et al., 1993).

In 1971, the Pacific Region contained 59 per cent of the total population, and more than 79 per cent of the total urban population of the country. During this 21-year period, the urban population in the Central and Northern Region increased from 17 per cent in 1950, to 25 per cent in 1971 with an average annual urban population growth rate of 4.1 per cent. In 1971, this region, which comprised 28 per cent of the country's total territory, contained about 17 per cent of the total urban population (see Table 4.1).

The 1972 earthquake that hit Managua; the Sandinista's popular insurrection that toppled the Somoza regime in 1979; the civil war during the 1980s; and the economic structural adjustment reforms in the 1990s – all generated massive internal population displacements that changed the demographic composition of the country, and the rate of spatial expansion of its capital city, the main secondary cities and other small cities.

The Pacific Region had an average annual urban population growth rate of 3.8 per cent for the period 1971-1995 (see Table 4.1). During this period, the Central and Northern Region had an average annual urban growth rate of 4.9 per cent. By the year 2005, about 70 per cent of the total urban population concentrated in the Pacific Region. Between 1995 and 2005, Nicaragua had a 1.7 per cent average annual population growth rate, while in urban areas it reached 2.1 per cent. The Pacific region had urban annual growth rates of 1.6 per cent, while the Central and North region had 2.9 per cent, and the Atlantic 2.8 per cent (see Table 4.1). This explains the importance of the urban issue for Nicaragua and PRODEL.

Migration

The political and economic conditions in Nicaragua generated important external migration fluxes, especially to Costa Rica that still continued in 2006. During the war that toppled Somoza approximately 280,000 people fled Nicaragua, of whom 80,000 migrated to Costa Rica (Cortes Ramos, 2006). During the civil war that followed in the 1980s, another 100,000 people sought refuge in Costa Rica (ibid.). In the early 1990s, as a consequence of the peace process, a large number of these migrants returned to Nicaragua; however, the subsequent economic crisis forced many families back to Costa Rica. In 2001, the Costa Rican national census identified approximately 191,000 Nicaraguans living in that country, without counting those that were undocumented, or those that had not been living in Costa Rica for more than six months before the census took place. Although exact data does not exist, studies estimated that more than 400,000 Nicaraguans (ibid.), representing about 8 per cent of the total population of Nicaragua, probably lived in Costa Rica. Another sizable number of Nicaraguans, almost a quarter of a million, migrated to the USA (Mahler and Ugrina, 2006).

The transition process in Nicaragua

During the 1980s, Central America became one of the ‘hot’ spots of the ‘Cold War’ between the USA and the Union of Soviet Socialist Republics (USSR). This confrontational situation began to change in the context of the international relations that followed the fall of the Berlin Wall and the structural transformations in Eastern European socialist countries at the end of the 1980s. From a “spheres of influence approach” towards Central America, the USSR sought “negotiated agreements to end the military conflicts in the region” (Bustamante, 1990).

The 1990 national elections

The political transition in Nicaragua in early 1990 reflected world-wide political shifts. The Sandinista regime that came to power through a revolutionary process in July 1979 and governed the country for 10 years lost the national presidential elections in February 1990 to a coalition of opposition forces known as UNO (Unión Nacional Opositora) led by Violeta Barrios de Chamorro.¹¹ To the Sandinista’s credit, the new government that took office in April 1990 became the first peaceful and democratic transfer of power in the history of Nicaragua (UNDP, 2007).

Structural reforms

The new government tried to end a decade of military conflict and to change the strategic economic and political orientation of the country from a centralised planned economy governed by one political party, to a market oriented economy with a multi-party democratic system, and a more decentralised and modern public administration (del Castillo 2004). It adopted various structural economic reforms aimed to reorganise the Nicaraguan economy, which had been shattered by years of military conflict and by a failed centralised planning regime. The measures reversed the Sandinista’s mixed economy model, which had nationalised the banking system and international trade; and redistributed land as well as other productive assets that belonged to the Somoza family and its close collaborators. Although these reforms had begun during the last year of the Sandinista regime, it was the government of Barrios de Chamorro that speeded the process of liberalisation and deregulation of the economy (Rodríguez Alas, 2002). The reforms also aimed to curb inflation, and to modernise the state apparatus, by substantially reducing the num-

11 Barrios de Chamorro was the widow of Pedro Joaquín Chamorro, editor and owner of the newspaper *La Prensa*, the major opposition media to the dictatorship of the Somoza family that ruled the country for more than 50 years. The assassination of Chamorro in 1978 led to massive protests against the regime and eventually to the triumph of the Sandinista Insurrection. Barrios de Chamorro was part of the first national reconstruction government in July 1979 but became disillusioned by the path the Sandinista regime took, and resigned. She became the leader of the political opposition forces to the Sandinista regime that participated and won the 1990 presidential elections (see Chamorro, 1997).

ber of governmental institutions and state employees, including army personnel.

The results of these reforms, in terms of social exclusion, were dramatic. In December 1988 inflation in Nicaragua reached an accumulated 30,000 per cent per annum but by the end of 1995 it was reduced to 12 per cent; the GDP per capita, which in 1979 was equivalent to that of 1970, had fallen from US\$ 850 in 1979 to US\$ 400 in 1990 (World Bank, 1995). Although government expenditure in health and education increased during the first five years of the Sandinista revolution, they started falling in 1986 and by 1991 they equalled the 1970 levels (*ibid*). Between 1990 and 1995, the government reduced the number of public employees. Different estimates put this cutback from about 285,000 to 290,000 public employees to about 95,000 to 107,000 including a decrease of 68,000 to 84,000 of Armed Forces personnel. Additionally, 350 state-owned industries were privatised, or devolved to their previous owners, or closed down (see Rodríguez Alas, 2002:58; Stein, 2001). By 1993, the level of open unemployment reached about 25 per cent in the main cities of Nicaragua, and the job loss rate (the relation between the number of unemployed people and the overall labour force) grew from 16.6 per cent in 1992 to 17.7 per cent in 1993 (FIDEG, 1993: 28–29). Government subsidies to the production and trade of a number of basic services and goods ceased, and credit lines to dozens of nationalised industries that were, in the majority of cases, financially unviable were frozen. Government assets were auctioned and part of confiscated property and assets by the Sandinista regime were returned to their previous owners. The exchange rate of the national currency to the US Dollar was liberalised; and wages which had little purchasing power were frozen.

The measures taken by the Nicaraguan government aligned with the policies promoted by the so-called ‘Washington Consensus’ – the approach adopted since the early 1980s by international multilateral financial institutions – to foster economic growth and stability in the Latin American region (Stiglitz, n.d.). The assumption was that market forces instead of state interventions would be the main vehicle to promote development. If a government was to intervene, it should be with the specific goal of making markets work more efficiently. In other words, the means to achieve development, i.e. “market forces, became the end of development in itself” (Fine, 2001:134–135). This was the reason why financial institutions such as the International Monetary Fund (IMF) and the World Bank made their loans conditional upon the acceptance and adoption by central governments of developing countries, of a series of measures to help overcome the ‘imperfections of the markets’.

The complexities of the political and economic transition

One of the problems in the political and economic transition in Nicaragua was that a systematic discussion of the social consequences and the possible negative impacts that this particular market model of development could generate, did not fully take place. The consoli-

dation of the structural adjustment depended on the nature and degree of agreements reached between the conflicting forces before and after the elections of 1990, and to what degree the new model was compatible with the prevailing “ideologies of important economic and social groups” (Yee, 1996:91). The parties involved in the negotiations found it difficult to “accept the rules of the game as fair and impartial” and to address key issues in a constructive manner (Nuzzi O’Shaughnessy and Dodson, 1999) so the economic transition from one system to another became extremely complex. Two conditions that could have ensured a successful political pact did not take place: first, the logic of the Cold War and not the “domestic political logic” prevailed during the “bargaining stage” of the negotiations in the early 1990s; and second, “key participants in the bargaining process did not practise restraint” and opted for confrontational methods (Nuzzi O’Shaughnessy and Dodson, 1999:111). Thus, the reforms weakened the fragile political relations and exacerbated ideological tensions.

During its first five years in power, the government led by Barrios de Chamorro faced a number of national strikes organised by workers and peasants’ unions closely linked to the Sandinista party (FSLN) some of which paralysed the country. According to official figures, between March 1990 and April 1995, about 36 strikes took place in the agriculture sector; 86 strikes in the industry sector; 15 strikes in the construction sector; 187 strikes in the public and basic services sector and 6 strikes in the transport sector (data from the Nicaraguan Labour Ministry cited by Martí i Puig, 1997:178). Moreover, from 1991 to 1994, the number of military clashes between the Nicaraguan Army and demobilised army personnel as well as irregular counter-revolution troops (known as ‘contras’) reached 1,500 (UNDP, 1995).

In spite of these political, social and military conflicts, during the administration of Barrios de Chamorro, various “horizontal and vertical mechanisms of accountability of the Executive power”, as well as a precarious system of checks and balances between the different State powers were strengthened (Anderson, 2006). National institutions such as the legislative body, the judiciary system and the Electoral National Council (horizontal accountability) became more active and significant than in the previous Sandinista period. Meanwhile, press opposition to the government together with popular mobilisations continued to play a key role in slowing down, but not impeding, the pace of economic reform (vertical accountability) (*ibid.*).

Increasing levels of poverty

At the beginning of the 1990s it was difficult to assess the incidence, depth and severity of poverty in Nicaragua. An indicator of the social consequences of years of civil war and the structural adjustment policies was the abrupt increase in the proportion of the informal sector of the economy in urban areas (see Table 4.2). While in 1985, the formal sector represented 54 per cent of the labour force working in urban areas, in 1993 this proportion had decreased to 36 per cent, yet the proportion of people self-employed, or working as domestics,

Table 4.2 Proportion of formal and informal sectors in urban areas in Nicaragua

Year	Men		Women		Total	
	Formal	Informal	Formal	Informal	Formal	Informal
1985	61.5%	38.5%	43.5%	56.5%	54.1%	45.9%
1993	39.6%	60.4%	31.7%	68.3%	36.2%	63.8%

Source: Constructed from Funkhouser (1996:1739).

or in micro-enterprises of the informal sector, increased from almost 46 per cent in 1985 to 65 per cent in 1993 (Funkhouser, 1996). The increased levels of informality according to gender: 57 per cent among men and 21 per cent among women for the same period reflected the massive reduction of public servants including Armed Force personnel.

This high level of informality in Nicaragua bore characteristics that differed from other countries in Central America. Pérez Sáinz (1998) contends that the distinction between formal (regulated) economic activities as opposed to informal (unregulated) economic activities did not make any sense in a country like Nicaragua where the structural adjustment reforms aimed precisely, among other things, to 'deregulate' the labour markets. Given the constriction of economic activity in the country at the beginning of the 1990s, informality became more an 'economy of subsistence' rather than an integrated part of other formal productive processes. Moreover, the majority of informal economic activities took place within the household unit usually in trading activities, and to a lesser extent in services and production. Family members working in the micro-enterprise were usually not paid and business expenditures were usually not separated from household expenses (Pérez Sáinz, 1998:177). As in other places in Latin America, which experienced similar structural adjustment economic reforms, 'displaced public sector professionals or laid-off skilled workers' became, at the beginning of the 1990s, Nicaragua's new micro-entrepreneurs (Davis, 2004).

Deteriorating living conditions

In 1993, a household living conditions survey was carried out in urban and rural areas for all geographic regions of Nicaragua with the aim of constructing a poverty line (World Bank, 1995). The survey defined the poverty line as 'the level of total per capita monthly (corresponding to 30 days) expenditure at which an individual attains the minimum daily caloric requirement.' (ibid.:vi). Individual level expenditure was equal to the total household expenditure divided by the number of people in the household. Although the poverty line took into consideration non-food expenditures, which were vital to determine poverty lines in urban areas, the model did not make any assumptions about the level of these expenditures. The poverty line was determined to be C\$ 214.47 per month (approximately US\$ 36 according to the exchange rate prevailing between the Nicaraguan Cordoba and the US\$ for that year). This was equivalent to C\$ 2,573.64 (almost US\$ 429) annually. The extreme poverty line (i.e.,

the monetary value under which an individual cannot obtain the minimum daily caloric requirements even if all expenditures go to food) equalled to C\$ 101.32 per month (US\$ 16.89). Annually, the extreme poverty line equalled to C\$ 1,254.84 (or US\$ 202.64) (*ibid.*:vii).

According to these poverty lines, in 1993, about 50 per cent of the total population were poor and 19.4 per cent lived in extreme poverty (see Table 4.3). While 76 per cent of the rural population were poor, about 32 per cent of the urban population were poor. The percentage of the population that were poor in urban areas varied from region to region: in the areas and regions where PRODEL started operations (see Chapter 5) it varied from 28 per cent in the Pacific Region (in the departments of León and Chinandega), to 49 per cent in the Central Region (mainly in the departments of Madriz, Nueva Segovia and Estelí) (see Table 4.3).

In spite of the theoretical and methodological difficulties of defining and measuring poverty according to poverty lines (discussed in Chapter 2 of this thesis), and sometimes unreliable results, the data provided by the household survey allowed a relatively fair characterisation of who the poor in Nicaragua were according to their income and expenditure levels. Based on this survey, a further study characterised poverty in Nicaragua according to the Unsatisfied Basic Needs (UBN) method (MAS/PNUD/UNICEF, 1994).

Table 4.3 Evolution of the percentage incidence of poverty according to geographic area 1993–2005.

Geographic Area	Poor				Extreme Poor			
	1993	1998	2001	2005	1993	1998	2001	2005
National	50.3	47.8	45.8	48.3	19.4	17.3	15.1	17.2
Urban	31.9	30.5	30.1	30.9	7.3	7.6	6.2	6.7
Rural	76.1	68.5	67.8	70.3	36.3	28.9	27.4	30.5
Managua	29.9	18.5	20.2	21.2	5.1	3.1	2.5	3.6
Pacific Urban	28.1	39.6	37.2	37.7	6.4	9.8	5.9	6.4
Pacific Rural	70.7	67.1	56.8	61.5	31.6	24.1	16.3	20.8
Central Urban	49.1	39.4	37.6	39.3	15.3	12.2	11.1	12.8
Central Rural	84.7	74.0	75.1	76.8	47.6	32.7	38.4	37.1
Atlantic Urban	35.5	44.0	43.0	37.8	7.9	17.0	13.1	9.8
Atlantic Rural	83.6	79.3	76.7	76.6	30.3	41.4	26.9	34.2

	Poor				Extreme Poor			
	Change 1993–1998	Change 1998–2001	Change 2001–2005	Change 1993–2005	Change 1993–1998	Change 1998–2001	Change 2001–2005	Change 1993–2005
National	-2.5	-2.0	2.5	-2.0	-2.1	-2.2	2.1	-2.2
Urban	-1.4	-0.4	0.8	-1.0	0.3	-1.4	0.5	-0.6
Rural	-7.6	-0.7	2.5	-5.8	-7.4	-1.5	3.1	-5.8
Managua	-11.4	1.7	1.0	-8.7	-2.0	-0.6	1.1	-1.5
Pacific Urban	11.5	-2.4	0.5	9.6	3.4	-3.9	0.5	0.0
Pacific Rural	-3.6	-10.3	4.7	-9.2	-7.5	-7.8	4.5	-10.8
Central Urban	-9.7	-1.8	1.7	-9.8	-3.1	-1.1	1.7	-2.5
Central Rural	-10.7	1.1	1.7	-7.9	-14.9	5.7	-1.3	-10.5
Atlantic Urban	8.5	-1.0	-5.2	2.3	9.1	-3.9	-3.3	1.9
Atlantic Rural	-4.3	-2.6	-0.1	-7.0	11.1	-14.5	7.3	3.9

Source: Own elaboration according to Table 4 INIDE (2007:11).

The indicators used by the UBN for urban areas were the following: *overcrowding* – was defined as those households with four or more persons per room exclusively used for sleeping; *insufficient services* – those households without toilet or latrine, or a water connection to a public network system (within or out of the house); *high economic dependency* – those households with more than two persons depending on one person in work, and with the head of the household not in possession of any school education or incomplete primary education; and *low education*, – those households in which at least one child aged between seven and 14 years had never attended school or was not attending school at the time of the interview (ibid.:10–16). The study classified households as *non-poor* if they met all four basic needs; households as *poor* if they had one of these basic needs unmet; and *extreme poor* if the household had two or more unsatisfied basic needs (ibid.:10–16). *Inadequate housing* was defined as those houses constructed with the use of inadequate building materials for roofs, walls and floors. This category, however, was not used in the UBN study (ibid.:16).

Increasing levels of urban poverty

The findings of the UBN study suggested the urbanisation of poverty in Nicaragua. Although 78 per cent of the non-poor households lived in urban areas, 61 per cent of poor and 40 per cent of extreme poor households lived in urban areas. More than half of the households that lived in overcrowded conditions; about 30 per cent with insufficient basic services; 31 per cent with low levels of education; and 47 per cent with strong economic dependency – were located in urban areas (see Table 4.4). The study highlighted that 32 per cent of the total households in the country, with three or more unsatisfied basic needs lived in the two geographic areas where PRODEL started operations (Estelí, Somoto, Ocotal, León and Chinandega).

Table 4.4 Nicaragua: 1993 Levels of poverty according to Unsatisfied Basic Needs method

Levels of Poverty	Urban	Rural	Total
Non Poor	77.8	22.2	100
Poor	61.1	38.9	100
Extreme Poor	39.9	60.1	100
Indicators of Unsatisfied Basic Needs	Urban	Rural	Total
Overcrowding	51.4	48.6	100
Insufficient services	29.5	70.5	100
Low levels of education	31.1	68.9	100
High economic dependency	46.9	53.1	100

Source: Elaborated according to Tables 2 (p23) and Table 4 (p25) MAS/PNUD/UNICEF 1993

International aid with Nicaragua

For differing ideological reasons and geopolitical interests, the Nicaraguan transition of the 1990s generated a renewed focus by international aid agencies on the changing environment in the country. Multilateral financial agencies like the IMF, the World Bank and the Inter

American Development Bank (IADB) were encouraged by the USA administration to assist the Nicaraguan government in its efforts to achieve structural and political reforms aimed at strengthening the market oriented economy. Other multilateral agencies like the United Nations Development Programme (UNDP) and the Organisation of American States (OAS) played an important role in the peace negotiations between the conflicting parties and in the demobilisation and reinsertion of regular and irregular military forces into civilian life. Bilateral agencies from Western European countries that had backed the revolution but, thereafter, became critical of the political path taken by the Sandinista regime, were eager to support the transition as a way of strengthening both democracy in Nicaragua and the overall peace efforts in Central America. At the beginning of the 1990s, the Bush administration reassessed the role of USA bilateral aid in Nicaragua (Nilsson, 1991). However, this reassessment faced the opposition of conservative members of the USA Congress as they perceived the negotiations between the Nicaraguan government and the Sandinistas as a power-sharing strategy that impeded an efficient resolution to the confiscated land property problem (Nuzzi O'Shaughnessy and Dodson, 1999).

Volumes of international co-operation

The level and volume of co-operation resources that Nicaragua received during the Sandinista Regime between 1979 and 1990 remains unclear.¹² During the period 1990–2006, Nicaragua became one of the biggest recipients of international co-operation aid per capita in the entire developing world (see UNDP, 2007). According to official data provided by the Central Bank of Nicaragua, from 1990 to 1999 the country received about US\$ 6 billion of official external co-operation aid, of which 45.2 per cent were loans and 54.8 per cent were grants (BCN, 2000). The term, 'official cooperation' is understood here as the fluxes of resources coming from bilateral agencies of donor countries and multilateral agencies both in the form of grants or loans. While bilateral agencies provided 79.4 per cent of the grants, the rest was provided by multilateral agencies; 41 per cent of the loans came from bilateral agencies and 59 per cent from multilateral agencies. Official development aid to Nicaragua for the period 1990–1999 was about US\$ 108 per capita per annum (Sogge, 2004:264 based on Organisation for Economic Cooperation and Development – OECD figures. UNDP (2007:9) estimated an average US\$ 525 million of multilateral and bilateral aid disbursed per annum between 1998 and 2005 (without taking into consideration the overall committed amount of resources of both multilateral and bilateral agencies), which represented about US\$ 229 per capita just for the year 2004. This volume represented more than one fourth of Nicara-

¹² Bustamante (1990:59–62) estimated that in 1987 alone, the USSR provided record levels of weapons to Nicaragua plus a package of US\$ 350 million in civilian aid. For that same year, 80 per cent of the total foreign aid to the country came from other members of the Soviet block, totalling about US\$ 300 million. Other sources estimate a total of \$ 1 billion of military and economic assistance from the Soviet Union to Nicaragua each year between 1980 and 1990 (see Time Magazine, 1990).

gua's Gross National Product (GNP) for the same year and its effectiveness has also been questioned (UNDP 2007).

Swedish cooperation in Nicaragua

Political events in Nicaragua in the late 1970s and early 1980s strongly influenced Sweden's involvement in this country. Before the triumph of the Sandinista revolution, the Swedish government censured the Somoza regime for its reiterated violations of human rights (Frühling 2000:6). In preparation for an eventual change of regime, Sida, through the Committee for Humanitarian Assistance, provided support to a coalition of opposition forces to the Somoza regime based in Costa Rica (interview with Per Fröberg, 18 June 2008).¹³ When the Somoza regime was toppled in July 1979, Sweden approved the first official bilateral assistance to Nicaragua in the form of humanitarian relief assistance to the health sector, and later on in support of reconstruction and economic development, including co-operation with the forestry and mining sectors (Frühling, 2006:6; and Per Fröberg interview, June 2008).

Sweden's position towards Central America and Nicaragua

The interference of the USA administration in Central America's internal affairs increased the solidarity of the movement within Sweden with the Nicaraguan revolution (Nilsson, 1991). Sweden's official position in this matter was that the main problems of Central America were linked to social and economic inequalities and poverty, and to a lesser extent, to the influence of foreign ideas, or the support provided by socialist countries for the revolutionary movements. So the best way to oppose the growing influence of both the USA and the USSR and its allies was to improve the living conditions of the poor and to strengthen the democratic processes in these countries (Nilsson, 1991). In this sense, Swedish aid to Nicaragua aimed to assist economic and social development and to "help Nicaraguans to preserve and defend their national independence" (Nilsson, 1991: 187–188) in "a world of cold war and super-power domination" (Frühling, 2000:32).

Nilsson (1991) and Gunnarsson et al. (2004) stress the role played by Sweden's Social Democrats in securing a commitment from Swedish society to Nicaragua in terms of development aid and international support. However, the principle of self-determination of Sweden's foreign policy, first established by Social Democratic governments, was also sustained by the successive non Social Democratic governments in power from 1976 until 1982, exactly the years before and after the triumph of the Sandinista Revolution (Frühling,

13 From 1978 to 1981 Fröberg worked as Programme Officer in the Committee for Humanitarian Assistance. Afterwards he was desk officer for Costa Rica and Nicaragua in Sida, and from 1984 to 1986 he worked for Sida in Nicaragua. Later on he was desk officer for Nicaragua in Sida's Latin American Department (RELA) and since 1996 has worked in the Urban Division supervising Sida's supported low-income housing programmes in Central America.

2000:32). In fact, high-ranking officials like Ola Ullsten, who was Swedish Minister for Foreign Affairs from October 1978 until October 1982, Anders Forsse, who was Director General of Sida from 1979 until 1986, and Carl Tham, who succeeded Forsse, were instrumental in deciding, and increasing, Swedish aid to Nicaragua. Carl Tham's first visit to a Swedish aid recipient country as Sida's Director General, was to Nicaragua, and highlighted the importance that country had for Swedish co-operation at that time (interview with Eivor Halkjaer, May 2008).¹⁴

Sweden's official aid to Nicaragua

The approach of the Swedish non-social democratic parties towards Nicaragua was not a surprise. Since the early 1960s, there had been a rather broad consensus in Swedish society that 'growth, redistribution and democracy', which to a greater degree reflected the Swedish model of development, became an element that had to be shared with poor people in the world through international cooperation (Anell, 1986:235). Forsse, although critical of state planning in the newly independent countries, was also sceptical that economic growth per se could automatically produce improvements in the material conditions for the majority of the poor (Forsse 1986:255) From the mid 1970s until the beginning of the 1980s, Swedish cooperation aid drove its own development agenda "based on a philosophy of self-help" (Danielson and Wohlgemuth, 2003:4). From this perspective, countries with socialist visions such as Tanzania, Mozambique, Nicaragua, Vietnam, Cuba and the liberation movements in Southern Africa and Indochina, received important sums of aid (ibid.).

One of the political consequences and downsides of the increased levels of aid was the growing opposition among Sweden's more right-wing parties to Swedish cooperation with Nicaragua, Vietnam and the ex-Portuguese colonies in Africa (Halkjaer interview, May 2008). While the more centre-oriented parties opted for using development cooperation aid as a means of strengthening democracy in these countries, the more right-wing Swedish parties were concerned about the revolutions' outcomes and adopted a 'wait and see' position on what types of democratic government would emerge from these liberation movements (Fröberg interview, June 2008). However, the difference between the aid provided by Sweden to Africa, and the one provided to Nicaragua in the 1980s was that, in the first case, support was given to national liberation movements to achieve independence from colonial regimes, while in Nicaragua, both before and after the revolution, aid was given to promote the social and democratic development of the country (Palmlund, 1986:122).

¹⁴ In 1986, Halkjaer became responsible for the bilateral Swedish cooperation with Nicaragua. Following this she became the Head of the Latin American Department (RELA) at Sida, and from 1994 to 1996, she was Sweden's Ambassador to Nicaragua. She returned to be head of RELA and played an important role in securing Sida's cooperation with the reconstruction and transformation process in Central America after hurricane Mitch.

Nicaragua: a programme country

According to Pierre Frühling¹⁵, it was never the intention of Sweden's government to have a long term commitment of cooperation with Nicaragua (interview, August 2008). However, in the early 1980s, as the volume of resources of official Swedish cooperation increased and the government of Sweden realised that its development assistance was going to continue for a longer period than originally planned, Nicaragua became a 'programme country'. The decision taken by the Swedish Parliament had vast support within different sectors of Swedish society (Frühling 2000:32; and Fröberg interview, June 2008). Within this framework, the Swedish aid commitment was planned for periods of several years, during which time the donor and recipient country could "propose and reject projects according to a certain limit of funds" in annual meetings (Edgren, 1986:49). Significantly, this mechanism was a predecessor of the efforts promoted by the Paris Declaration on donor harmonisation and alignment, according to the priorities of the recipient country (interview with Frühling, April 2008).

By the end of the 1980s, the majority of western European countries were disillusioned with the Sandinista regime's political and economic orientation, partially due to pressures from the USA, but also on account of the country's internal social dynamic. Yet, Sweden continued its support, sometimes without being critical about the outcomes of its development assistance. This was especially true in the mining and forestry sectors (Frühling, 2000:33). The probable exception was the economy since, in the late 1980s, Sida funded various independent consultants to assist the Nicaraguan government in its structural adjustment programme (*ibid.*).

It is estimated that from 1979 to 1989 Sweden's official cooperation with Nicaragua totalled more than SEK 1 billion (about US\$ 160 million) (Nilsson, 1991:187: corroborated by Frühling in a telephone interview, April 2008). Just in the forestry sector alone, for 1980 to 1998, about SEK 400 million were granted (Frühling, 2000:51), and in the energy sector, between 1981 and 1999, about SEK 252.4 million were granted (ORGUT consulting AB, 2000:3).

Sweden's role in negotiating peace agreements

Sweden played a key role in seeking a negotiated solution to the conflicts in the region, and particularly to the one in Nicaragua. According to Frühling (2000:33) the Social Democratic government back in power in Sweden in October 1982 considered that a substantive volume in development assistance allowed Sweden to be perceived as a genuine friend and therefore enhanced its possibilities of political dialogue with the Sandinista regime. At the time, Nicaragua was the only country in Latin America to have the status of a 'country programme' although after 1985 Sweden increased its support to other democratic processes in Central America through humanitar-

¹⁵ Frühling served in the 1990s as Sida's Senior Programme Officer for natural resources and the environment, and later as First Secretary of the Swedish Embassy in Nicaragua.

ian assistance. In 1986, Sweden solidified a regional programme for development co-operation to promote “joint efforts and exchange of ideas across borders, thus contributing to peace and development in the region” (see Gunnarsson, et al. 2004:61).

Rethinking Swedish Cooperation with Nicaragua

By the late 1980s and the beginning of the 1990s, there were clear signs that the Swedish co-operation model with Nicaragua had to be reviewed. As a result of the civil war, and also the consequences of serious macroeconomic policy failures, the country’s economic situation had deteriorated and this was affecting not only the forestry, electricity and mining sectors supported by Sweden, but it was also having severe social impacts on the population (Frühling, 2000; Halkjaer interview, May 2008; Fröberg interview, June 2008). Although there were positive results from investments in the mining sector, there was a sense of ‘fatigue’ within Sida, due to the lack of tangible impacts, and also implementation problems that both the forestry and mining sectors were facing after almost nine years of uninterrupted Swedish support. It was also evident that the social and living conditions of the mining communities had not improved but deteriorated, despite this continuous assistance (Fröberg, interview June 2008).

In 1989, Sida decided through a Swedish NGO NICARAGUAC that was working in collaboration with the National Institute of Mining of Nicaragua (INMINE) to financially and technically support the building of social housing and the rehabilitation of a school and health clinic in these mining communities as a way of improving the living conditions of the miners and their families. This was the first direct involvement of Sida in Nicaragua in activities related to human settlement development (Fröberg interview, June 2008).

Swedish support to social sectors and decentralisation

The results of the general elections in February 1990, and the change of government in April 1990 had a significant impact on the entire Swedish official co-operation aid with Nicaragua because the main premise for its assistance, linked with Sweden’s foreign policy principles, was no longer valid in the new international context, and with the end of the Cold War (Frühling 2000:34). In July 1990, Sida started redefining and reorienting its main lines of cooperation with Nicaragua. As the complexities and social costs of the Nicaraguan political, military and economical transition became evident, poverty and other social issues started gaining space and attention within the Swedish cooperation agenda. However, with the exception of a small fund for mainstreaming gender in economic projects, and the NICARAGUAC social infrastructure project, it was not clear in which social sectors the Swedish cooperation agenda should focus its attention and how to move forward (interview with Mary Ellsberg, 4 June 2008).

In late 1990, Sida was seeking projects that could be scaled-up to make a significant impact in the context of a growing social crisis, as

well as projects that contributed to reduce the ideological polarisation the country was experiencing, (interview Ellsberg, 2008)¹⁶. Between 1990 and 1991, the Nicaraguan government adopted a series of decentralisation policies with the explicit aim of transforming the role of central government from a supplier to a facilitator in terms of the delivery of public services and social investment. The decentralisation process was part of a series of reform policies that aimed to modernise the state apparatus amid the structural adjustment policies undertaken (see Morales and Stein, 1997). Within these decentralisation initiatives, Sweden among others donors, started exploring the possibility of supporting a health project executed by the Nicaraguan Health Ministry using its intermediate structures, known as the integrated local health care systems SILAIS. Sida decided to support the SILAIS initiative, on the assumption that decentralisation needed to go beyond the logic of privatisation of the social infrastructure, in a way that enabled local governments and poor communities to be included (interview, Ellsberg, 2008).

In March 1991, a team of external consultants visited Nicaragua to assess the possibilities of the Nordic countries assisting the newly elected government, and to identify options in the social sectors and the geographical region on which this cooperation could focus. The mission concluded that, in spite of the contextual difficulties given the polarisation that the country was going through, it was still feasible to engage in social development projects including housing and infrastructure (Ellsberg interview, 2008). The consultants' appraisal, therefore, strengthened the decision to continue preparations in support of the SILAIS programme, and more importantly, it also opened up the possibilities of engaging in other types of social project, including possible interventions in low-income housing and infrastructure in urban areas (Medina et al., 1999; Ellsberg interview, June 2008). The PROSILAIS agreement established that Sweden would provide its support in specific geographic areas: Estelí, León, Madriz, Nueva Segovia and the Atlantic Autonomous Region of the South (RAAS) (Medina et al., 1999). According to Ellsberg (interview, 2008), these regions had a strong tradition of community participation. Sweden also started supporting PROSERBI, a programme focused on rural municipalities of the departments of Estelí, Madriz and Nueva Segovia; León, and Matagalpa to address issues of poverty and post-conflict resolution. Sida's contribution included support of health, water and sanitation, education, women's development and economic activities, and community organisation (Lewin et al., 1999:8).

According to Ellsberg, a feature of both PROSILAIS and PROSERBI was the sort of 'Balkanisation' of the external cooperation in Nicaragua, as bilateral and multilateral donors, sometimes with open governmental support and sometimes with its tacit consent, started dividing their sector support according to preferred geographical regions. This explains why, during the design stages of PRODEL, certain geographic areas were preferred to others. As PROSERBI and

16 From 1990 until 1994, Ellsberg worked as social programme officer at the Swedish Embassy in Managua, Nicaragua and was the Embassy's responsible person during the design stage of PRODEL.

PROSILAIS were decentralised and required the involvement of local governments, Sida officials and the consultants responsible for drafting the first ideas of a possible low-income housing project in urban areas, approached the Nicaraguan Institute for Municipal Promotion – INIFOM (Ellsberg interview, June 2008). Within the modernisation process adopted by the new government, INIFOM was a pivotal reference point within the internal politics of Nicaragua as it was the main body responsible for promoting decentralisation, municipal development, and strengthening the capacities of local governments (see Morales and Stein, 1997).

The origins of PRODEL

The design of PRODEL as a viable development model went through a complex conceptualisation, consultation and approval process. The fragility and uncertainty of the political, institutional and economic context, exacerbated by the ideological tensions, as well as the social consequences of the structural reforms, and the increasing levels of external cooperation with Nicaragua, had an important influence on the conceptual and operational approaches that the different stakeholders involved in the design of the future programme had. PRODEL's design process also indirectly reflected an increasing internal debate within Swedish society and in Sida regarding the need to reassess its official development assistance programmes in terms of measuring the outcomes and the methods used in order to achieve higher levels of effectiveness in Nicaragua (Fröling, 2000). It also reflected a tension found, not only in Sida, but also in other international aid agencies, in relation to the roles that the central headquarters and the field offices play in the design and the decision-making processes of development projects.

The design stage

During the period 1991–1992, Sida's office in Managua commissioned a number of studies to appraise the feasibility of engaging in various social programmes including an urban programme. During this period, Sweden signed a number of agreements with the Government of Nicaragua in support of the health sector and community development projects in three regions, and in support of national social policies aimed at the poorer rural sectors. Sida's staff in Managua, and the consultants involved in the first drafts of the programme in urban areas, considered that intervention in urban areas should preferably complement what was being done with Swedish support in the health sector and with the integrated rural development programme, and to locate this initiative in the same regions, thereby increasing the impacts of the Swedish cooperation. They also considered that municipal governments and INIFOM had a key role to play in the design and implementation of such a programme. At the time, INIFOM had support from UNDP through a programme aimed to strengthen the government's approach to human settlements' development. That was the main reason Sida approached INIFOM (Ellsberg interview, June 2008).

In conversations with INIFOM, initial ideas of supporting municipal governments in their planning and development of human settlements with the participation of the communities were discussed. The idea of working in housing, not by donating 'new' houses but more in line with those self-help participatory methods in which people have to pay back a certain amount of the resources given, was analysed. Some of the external consultants proposed adding a component in support of micro-enterprises as a way of securing income-generating activities, given the problems of unemployment, especially in urban areas, the country was experiencing (Ellsberg interview, June 2008). The executing mechanisms and institutional and operational arrangements, however, were still undefined and insufficiently developed.

Sida's decision to support PRODEL

Although Sida's Urban Division (known at that time as INFRA-Bygg for Infrastructure and Building) had accumulated significant experiences in designing low-income housing programmes in other parts of Latin America, it became involved in the programme's preparation process at only a later stage. In June 1992, INFRA-Bygg and the Sida office in Managua agreed that the Managua team would finalise a project proposal and that only then would it be appraised by INFRA-Bygg (Göran Tannerfeldt, interview July 2008)¹⁷. The project proposal was presented to Sida in October 1992 by INIFOM and it was appraised by a mission of external consultants in January 1993.

The launching phase of PRODEL

In June 1993, Sweden and Nicaragua signed the formal agreement totalling SEK 48 million for the implementation of PRODEL for a period of three and a half years. Sida and INIFOM also decided that between June and December 1993, the programme would have a launching phase during which, the final financial, administrative and operational conditions and technical procedures of the programme would be designed and decided (Stein, 1993); and the local personnel for the programme were hired. Between November 1993 and February 1994 the design of the new project proposal was drawn up. During the preparations of the project proposal, the main strategic and operational challenges, as well as the risks that such a programme had to face in the new Nicaraguan context, were addressed. These challenges reflected the complexities in designing new models of local development that could be simultaneously inclusive for all social sectors, while at the same time, be institutionally viable and financially sustainable in a context that was extremely vulnerable to the economic shocks and political changes taking place.

Different issues were addressed: should the main beneficiaries or clients of the programme be the extreme poor and destitute, or

17 Tannerfeldt initiated Sida's urban programme and was Head of the Urban Division until the year 2002. He was instrumental in introducing new approaches and securing Sida's support to low-income housing programmes in Latin America, Asia and Africa.

households and communities that, although poor, had enough capabilities, resources and assets to be in a position to contribute to a development process. Another issue was to clarify if the programme should include a variety of social and economic components, which 'mix' is, actually, required for a more integrated local development, or should it restrict itself to three pre-defined components (infrastructure, housing improvement and support to income-generating activities). It was also a topic of contention whether or not the programme should operate in already specified and predetermined regions and cities, or whether it should be a national programme, which could start gradually, gaining experience in selected cities, and which complied with a number of technical and social criteria. Moreover, it was not clear how the programme would articulate with other social sector components, such as preventive health or how components that were more linked to human settlement development, such as possible cadastral system management, new housing construction and housing improvements, and the introduction of infrastructure and basic services, could articulate with economic components such as income and employment-generating activities.

A critical issue was how to manage the programme components, especially those that required a certain level of cost recovery. Although an identified Bank (the Banco de Crédito Popular BCP) was to intermediate the funds of the programme, it was still unclear if the bank would lend directly to clients or would operate as a second tier institution opening lines of credit through independent microfinance institutions or non-governmental organisations. Should the programme, with its loan components, target the extreme poor, the moderate poor, or, the poor in general, or only those that could afford to repay back the loans? Subsidies from the state for low-income housing, would be unlikely, as was the case in both Costa Rica and Chile, where Sida had conditioned its support to the available state subsidies for housing, which were to be used as financial counterparts to the Swedish grant. Furthermore, should the programme as a whole, or just some of its components, be made to be financially sustainable, given the recent history of Nicaragua, in which a cost-recovery track-record was almost impossible with the high inflation rates that prevailed during the 1980s and the massive state subsidies allocated at that time severely distorting the lending mechanisms, including housing.

This definition-making process was also taking place amid the confrontational climate which prevailed in Nicaragua, which was also affecting the possibilities of implementing the programme. In August of 1993, an internal memo to the Swedish Embassy and the Urban Division in Stockholm written by Sida's external consultant expressed concerns about the levels of uncertainty provoked by military clashes in the city of Estelí, and in the nearby cities of Somoto and Ocotal. Moreover, the deterioration of the living conditions in the cities where the programme was supposed to start could provoke still further polarisation that would probably render the programme difficult to 'sell'. The climate of political polarisation was making the programme vulnerable and possibly affecting the possibilities of

working with municipalities of different political leanings (Stein, 1993).

Retrospectively and as paradoxical as it might seem, this process was advantageous in terms of achieving clarity regarding the definition of the core ideas, concepts and strategic guidelines, as well as for the subsequent decisions regarding the design of the components, operational manuals, and institutional frameworks, and all the other functional arrangements that were necessary to permit the implementation of the programme.

Swedish support to low-income housing in Central America

It is difficult to have a clear picture of the origins of PRODEL without looking retrospectively into the process by which Sweden started its support to low-income housing in Central America. To some extent, the lessons from these experiences were instrumental in the conceptual definitions used in the design of PRODEL.

In the mid 1980s, Sida took the political decision to support internal social and political forces and organisations within Central American countries living under authoritarian and repressive regimes, and not necessarily to exiled organisations. The target group of this decision was NGOs working with displaced persons and refugees of the internal conflicts in El Salvador, Guatemala, and, to a lesser extent, Honduras. The aim was to strengthen participative and organisational processes so that eventually these and other underprivileged social groups could become a stronger democratic force, during the peace negotiating processes and post-war reconstruction phases (Hans Magnusson interview, 25 October 2006).¹⁸

Post-Disaster Reconstruction in El Salvador

Within the framework of this decision, between 1985 and 1986, several Swedish non-governmental, church and trade union organisations (among others Diakonia, the Church of Sweden Mission, and the Workers Movement, 'Olof Palme' International Centre-AIC) began supporting projects implemented by different Salvadoran NGOs working with displaced families and human rights issues. One of these initiatives was a reconstruction project for displaced families of Tenancingo, a small town partially destroyed in 1983 and whose population abandoned the village as result of the fighting during the civil war (Gunnarsson et al., 2004). The reconstruction of Tenancingo captured international attention as it was the first experience of negotiating an agreement by which the conflicting parties allowed displaced families not only to return to their place of origin amid the civil war, but also to transform and modify the pre-existing economic and social relations in the village through local participation and community organisation (Wood, 1988).

¹⁸ Magnusson worked as a volunteer in El Salvador from 1986 to 1989; afterwards for the United Nations High Commissioner for Refugees (UNHCR); and from 1990 to 1997 in Diakonia Sweden and in the Swedish Ministry of Foreign Affairs. From 2000 to 2006 he was responsible for the Swedish cooperation in Guatemala and in 2006 became the Head of Sida's Latin American Department.

FUNDASAL, the organisation that implemented the Tenancingo project had been working in low-income housing projects in El Salvador since 1968, and in the 1970s it became well-known as the first NGO to receive a loan from the World Bank for implementing site and services projects in the main cities of the country through incremental housing, self-help methods and community participation (Hart Deneke and Silva, 1982). An issue that attracted the attention of the Swedish NGOs was the assisted self-help methods used by FUNDASAL to promote the participation of low-income families and communities in accessing affordable and adequate land, basic services and housing. Representatives of these NGOs expressed that FUNDASAL's approach resembled similar concepts used in the first half of the 1930s until the early 1950s by a municipal organisation in Stockholm, which supported thousands of families by providing technical and material assistance through self-help methods.¹⁹ The positive results of the Tenancingo experience motivated AIC to secure Sida's support to FUNDASAL during the emergency period following the earthquake of 10 October 1986, in which thousands of poor families lost their homes in San Salvador, the capital city of El Salvador (conversation with Margareta Grape, Director of AIC during the 1980s, 4 February 2006).

Support to the social housing sector in Costa Rica

Having the Salvadoran reconstruction projects in mind, Sweden sponsored a series of exchange visits from high ranking officials of the Ministry of Housing in Costa Rica to El Salvador and from FUNDASAL's staff to Costa Rica in 1986 and 1987. The objective of the visits was to share and exchange ideas on a housing programme for low-income families launched by the newly elected government of Costa Rica. Although Costa Rica had not been affected by the civil wars taking place in the rest of Central America, and it also had higher living standards when compared with the other countries, Sweden was eager to support Oscar Arias, who became Costa Rica's President in 1986, in the key role he was playing of seeking a peaceful and negotiated solution to the military conflicts in the region.²⁰

In the second half of 1987, the Costa Rican Ministry of Housing presented a proposal to Sweden to support its social housing sector. In dialogue with the Housing Ministry, Sida transformed it from a conventional programme of completed housing units developed by private companies in newly acquired land, to an unconventional low-income housing programme involving settlement upgrading *in situ* with strong community participation and with novel cost-recovery methods to be implemented by a newly-created Costa Rican

¹⁹ Personal recollection of conversations with Lars Franklin, who at the time was Diakonia's representative to Central America; and Göran Tannerfeldt's written inputs to this thesis, in January 2009.

²⁰ For his contribution to this peace process, President Arias received the Nobel Peace Prize in 1987. Pierre Schori, at the time Sweden's Permanent Under-Secretary of State in the Ministry of Foreign Affairs, and Anders Kompass, working in the Latin American Department of the Swedish Foreign Ministry and a close advisor to Schori and familiar with FUNDASAL's work, were both instrumental in getting Sweden's cooperation support to Costa Rica, including support to the housing sector (interview with Eivor Halkjaer, May 2008).

NGO, the Housing Promotion Foundation FUPROVI (Rodríguez and Åstrand, 1996; Sevilla 1993). Although the self-help model resembled vaguely some of FUNDASAL's incremental low-income housing experiences, the model designed and developed in Costa Rica by FUPROVI with Sida's support, was able to define from the outset, the approach and the corresponding operational mechanisms that aimed to establish both the financial sustainability of the programme and of the implementing agency (FUPROVI), while, at the same time, targeting and including poorer urban households. A critical factor in this process was the use of the resources provided by Sida as bridging finance linked to the subsidy system of the new government housing policy, in order to generate a sustainable and viable revolving fund (interview with Goran Tannerfeldt, April 2007). This linkage showed that international development aid resources, together with national and local resources, could combine to generate an inclusive and financially viable model for finance housing for the urban poor.

Through a bilateral agreement, signed between Sweden and Costa Rica in June 1988, Sweden provided technical and financial assistance totalling US\$ 6 million to FUPROVI for the implementation of the programme (Sevilla, 1993). During the first phase of support, FUPROVI with the participation of urban poor communities built more than 1,100 housing units through assisted self-help methods; additionally, 70 houses were upgraded; 2,166 infrastructure works and services were upgraded, and 2,166 households received technical assistance (ibid.:116). This positive experience led to a second phase of Sida's support to FUPROVI. From 1988 to December 1993 Sweden provided more than SEK 84 million to FUPROVI for the first and second phases of support to the social housing sector including additional resources for assisting reconstruction efforts by families affected by natural disasters (two consecutive earthquakes). By December 1993, FUPROVI had assisted building 2,338 new housing solutions, 817 housing improvements, 317 housing repairs, 2,535 infrastructure works (including introduction of potable water, sewerage, storm water, paths and electricity systems) and helped legalise 5,139 land titles (FUPROVI, 1993). According to FUPROVI (ibid.) more than 50 per cent of participating families earned one minimum wage per month (or up to US\$ 140 at the existing exchange rate at the time); 15 per cent of the household heads worked in the informal sector, and 27 per cent of participant families were headed by a woman. Sida provided an additional SEK 40 million for a third phase for the period from 1994 to 1996, in which, approximately 3,000 urban low-income families, also benefited (Sida, Urban Development Division, 1997).

Changing approaches to human settlement development

The beginning of Sida's support to FUPROVI in Costa Rica coincided with the publication of the Global Shelter Strategy, an outcome of the International Year for the Homeless Shelter adopted by UN General Assembly (UNCHS, 1988). The strategy provided a deeper understanding of the self-help processes by which the urban poor were building their housing and communities amid failed national housing policies. It also coincided with changes within Sida on how to ap-

proach the issue of its aid to urban areas in different regions of the world from a theoretical and operational perspective (interview with Tannerfeldt, April 2007).

Reappraisal of Swedish cooperation with Latin America

The changing approaches towards low-income settlement development at an international level, and the achievements of FUPROVI in terms of community participation and the efficient use of external resources allowed Sida to test new working methods to address urban poverty, and also to make acceptable within the aid agency the idea of supporting urban development through low-income housing programmes. This was part of a broader effort in terms of redistributing resources in order to achieve more equity, as well as to strengthen democratic and peace negotiating processes, and coincided with the growing importance that Latin America was gaining within Sida. This reflected in the conformation of the Latin American Department (RELA) within Sida; a substantive allocation of resources in support of the peace negotiation processes; and support of democracy, and social programmes, including low-income housing in Central America (Eivor Halkjaer interview, May 2008).

The Latin America Project

In 1990, the Department for International Cooperation of the Swedish Ministry for Foreign Affairs launched a reappraisal initiative involving Swedish aid agencies that provided development cooperation assistance in Latin America. Known as the *The Latin America Project: Sweden's development assistance programme in the 90s*, it aimed to redefine the content and type of development cooperation assistance programmes within the region, given the political and socio-economic changes that had occurred in Central and South America during the 1980s and the beginning of the 1990s (Utrikesdepartementet, 1990). The project identified relevant issues potentially considered as priorities in a future increased assistance flow to the region, including: human rights and democracy; urbanisation and poverty reduction; natural resources and the environment; and the role of the state (ibid.). In September 1990, a panel of Latin American experts met in Sweden with members from Swedish cooperation agencies. In the invitation to the Seminar, the Swedish Under-Secretary of State for International Development Cooperation wrote:

During the last 10 years, an important share of Swedish assistance to Latin America was oriented to diverse humanitarian projects that addressed the negative effects of the existence of authoritarian regimes and to strengthen transition processes towards democracy... Today we face a different situation: Latin America is in its majority ruled by democratic regimes, although severely affected by the social consequences of economic stagnation and the problem of external debt... These profound changes... require revisions and reorientations of the Swedish cooperation policy... to the region (Ministry for Foreign Affairs, 1990).

The Seminar highlighted the challenges that urbanisation processes represented for Latin America and the increasing gap between the

problems created by rapid urban growth and the capacity, or even willingness, of governments to provide adequate solutions, especially for the urban poor. Municipal and metropolitan governments were failing to provide the planning services, facilities and infrastructure on which urban residents depended for a minimum living standard, and on which to build a prosperous urban economy. It recognised the role of small and intermediate urban centres in regional and national development; urban land markets and the way their operation affects housing markets; the role of local government in improving the housing conditions of the poor and issues related to household incomes, employment and environmental problems (Utrikesdepartementet, 1990).

Knowledge transfer from urban experiences in Latin American

The FUPROVI experience, the 'Latin American' initiative, and the increasing understanding within Sida of the importance of urban development issues, as well as the conformation of the Latin American Division generated a positive environment for supporting other low-income housing and local government and municipal strengthening projects. These projects were seen as a means of promoting and consolidating democratic processes in Latin America.

Sida's support to low-income housing projects in Chile in 1991 and in Bolivia in 1993 followed Costa Rica's FUPROVI experience (Sida, Urban Development Division, 1997). In El Salvador, in 1992, Sida supported FUSAI as part of the peace agreements; in 1999, support to PRIMHUR, a governmental urban low-income programme (later transformed into what is now FUNDEVI), within the framework of a package of Sweden assistance for the reconstruction of Honduras after hurricane Mitch (PRIMHUR, 1998); and to FDLG in Guatemala in 2000, as support to the peace agreements. Sida also provided resources through HDM for a Latin American regional training programme in the field of human settlement development (Ramírez and Wakely, 2000).

Institutional arrangements

The institutional arrangements in the case of PRODEL differed from the ones utilised in other countries where Sida supported low-income housing programmes (Stein and Vance, 2008). In Costa Rica, and in El Salvador, Sida provided support through NGOs, (FUPROVI and FUSAI) that were the main implementing agencies, including responsibility over the lending process. Although in a later stage, FUSAI created a separate entity, Integral, to carry out this lending activity (see Castillo, 2005). PRODEL differed from the Chilean experience where the main counterpart for Sida was a central ministry (the Housing Ministry) although the implementing agencies were NGOs. In the case of Honduras, it was a governmental programme implementing a lending scheme, which later on transformed into a non-profit foundation of public interest. In Guatemala, a trust fund, FDLG, was established, and provided MFIs intermediate resources for income-generating activities and for housing improvements. During the first nine years of operation, Sida's main counterpart for PRODEL was a relatively autonomous governmental institution, INIFOM, while the implementing agencies were local governments and MFIs.

Conclusions

Some of the intervening causal mechanisms and social processes that led to PRODEL's origins, to a large extent, reflected the tensions, uncertainties and risks, as well as the possibilities and opportunities provoked by the rapid and dramatic political, economic and social transformations happening in the world, particularly in the Central American region, and in Nicaragua at the end of the 1980s and early 1990s. Undoubtedly the structural adjustment reforms and regime changes in Eastern Europe; the consolidation of the neoliberal model of globalisation as the dominant mode of capital accumulation in the world; the beginning of the end of the military conflicts in Central America; and the peace agreements, and the radical change of the economic, political and social model of development in Nicaragua, were all factors that profoundly affected the visions, the policy frameworks, the internal dynamics as well as the operational practices of the different institutions and individuals involved in PRODEL's design and decision-making process. These transformations also coincided with a slow but steady shift in approaches taking place within the international donor community, and especially within Sida, in terms of finding the most suitable and effective ways of dealing with the emerging problems of urbanisation and urban poverty in the developing world. A renovated focus on the role of local governments and decentralisation policies, as well as on good governance (Freire and Stren eds., 2001) and the role that capital markets and non-traditional lending institutions supporting micro-finance in addressing the needs for access to land, services and housing, was also taking place, and PRODEL's different components and institutional arrangements reflected clearly these processes. Finally, as the next chapter will show, the evolution of PRODEL also links to a renewed focus on the role that alternative forms of social housing finance (small and repetitive housing improvement loans and co-finance mechanisms for the introduction of basic services and infrastructure) play to fill a gap in countries such as Nicaragua, in terms of financial inclusion, urban poverty reduction and the strengthening of democracy.

PRODEL's institutional evolution

Chapter 4 highlighted the regional and national events that led to the design and approval of PRODEL. This chapter analyses the rationale of PRODEL's components and their evolution over time. It also examines how the goal of increasing financial inclusion and attaining the financial sustainability of PRODEL's components affected the policy of Sida and the practice of PRODEL as a financial second tier institution.

PRODEL: rationale and components²¹

According to the project proposal approved by Sida in 1994, two reasons justified PRODEL's existence: first, the efforts that the government of Nicaragua and the international community, including Sweden, were doing to reverse the negative effects that structural adjustment policies had on the living conditions of vulnerable groups including the urban poor. Second, that amid the complex transition, a decentralised, participative and financially viable local development programme could contribute to national reconciliation, democratisation and strengthening of civil society (INIFOM, 1994).

Goals and components

The project document established that PRODEL's main goals were to improve the living conditions of the urban poor through the generation of a participative model that would be financially sustainable over time, and also to strengthen the capacities of local governments and urban poor communities to execute decentralised activities thereby increasing their sense of appropriation and ownership of the

²¹ The following sections draw on various sources: a memo from Sida's external consultants that assisted INIFOM in preparations for the project proposal presented to Sida in December 1993 (Sida's consultancy team memo, 21 November 1993); the project document for PRODEL's first phase (INIFOM, 1994); the project proposal presented by INIFOM for the second phase (INIFOM, 1998); Sida's external evaluations of PRODEL's first and second phases (Vance and Vargas, 1996; Becerra et al., 2002); a document systematising PRODEL's experience in urban poverty reduction commissioned by IIED (Stein, 2001); a paper presented by PRODEL's Executive Director to the World Urban Forum 3 (Olivas, 2006b); an article for planners in participatory planning (Stein, 2008); Sida's minutes approving the third phase (Sida, 2003); Sida's internal assessment memo for the conversion of a conditional loan to equity for PRODEL (Ström and Fröberg, 2008); personal notes on PRODEL's first and second phases; and interviews with stakeholders in the framework of this research.

programme. The contradictory character of the social and financial goals was acknowledged in the proposal: on the one hand it aimed to establish long-term viable, efficient and financially sustainable credit schemes for the urban poor, while, on the other hand, it sought to improve the living conditions of vulnerable urban poor groups, and within these groups, households that could not afford, given their levels of income, to access credit schemes, even if these were unconventional non-mortgaged loans (INIFOM, 1994:3).

To minimise this tension, the project structured two strategic areas: one to promote human settlement development, and the other to encourage local economic recovery. Within these areas, three investment components were devised: income generation through micro-credits to existing urban micro-enterprises; housing improvements through technical and financial assistance in the form of small and repetitive loans; and finally, improvement of basic services and infrastructure in poor urban neighbourhoods through a non-reimbursable co-financing fund. Cutting across these components there were four strategic themes: community participation, local government strengthening, gender equal opportunities, and financial sustainability. To ensure implementation, a fourth component of technical assistance and institutional strengthening was built into the overall programme.

INIFOM, the counterpart institution for PRODEL was responsible for the design, promotion, and supervision and monitoring of the components and the overall administration of the resources provided as a grant by Sida. However, the local governments of the cities in which PRODEL worked were the implementing agencies of the infrastructure component; and the credit components were implemented by specialised lending institutions. The reason for this was to avoid setting up temporary or parallel structures for implementation, which were unlikely to be financially sustainable over time (PRODEL, 2005:4).

Two types of fund were devised: for infrastructure, an incentive, non-reimbursable and decentralised co-financing fund, which would allocate resources to local governments. For the loan components, revolving funds would be managed through specialised financial institutions, which would provide loans to micro-entrepreneurs, and to individual households wishing to improve their houses and also capable of paying back the loans. For the infrastructure component, INIFOM signed special agreements with the municipalities in which the programme started operations. The municipal council, the highest decision-making authority in each municipality, approved and ratified this agreement, since it had the authority to stipulate the contributions that the local government had to make as a condition for accessing PRODEL's resources. Each municipality established a technical executing unit paid with municipal resources. This unit was responsible for managing the infrastructure component, as well as the technical assistance for housing improvements. PRODEL and the municipalities shared the cost of this assistance.

The financial institution responsible for intermediating PRODEL's resources for the loan components was the Popular Credit Bank – BCP which at that time was one of Nicaragua's public banks. At the

beginning of the 1990s BCP had undergone a restructuring process, and specialised in channelling loans to small and medium sized entrepreneurs. INIFOM signed a trust fund agreement with the BCP for the administration and custody of PRODEL resources. The BCP acted as fiduciary, managed PRODEL's liquid assets, and was responsible for the "screening, approval, and follow up of the clients of the two loan components, collecting repayments, and reinvesting these resources in new loans for the same target population; for these services, PRODEL paid a commission to the BCP" (see Vance and Vargas, 1996).

The selected cities

INIFOM and Sida agreed that PRODEL would start gradually in five municipalities, with three medium-sized cities: León, Chinandega and Estelí, and two smaller cities: Ocotal and Somoto; and a pilot period of three years, in which the procedures, as well as the financial and operational frameworks would be tested and the outcomes evaluated, before expanding activities to other municipalities. The reasons for choosing these cities linked to the prevailing trend by which bilateral cooperation agencies organised their assistance according to preferred geographical areas in the early 1990s. In addition, these cities had experienced high rates of population growth resulting from the internal displacements caused by the civil war during the 1980s, the return of refugees from neighbouring countries immediately after the signing of the peace agreements in early 1990; the increased levels of unemployment and under-employment, and poverty produced by structural adjustment; and the increasing lack of basic services and infrastructure. In 1991, about 38 per cent of the houses in the five cities required wall repairs; 44 per cent roof repairs; 57 per cent required extensions; 39 per cent lacked electricity, and 43 per cent did not have sanitary installations (INIFOM, 1994).

According to Marlon Olivas²², Executive Director of PRODEL, in 1990, the city of Ocotal had 11 barrios and by the year 1993 there were already 23. The majority of the new barrios were formed with returning refugees from Honduras or displaced families living in other parts of Nicaragua that could not return to their places of origin because of the military conflict. Given Ocotal's proximity to Honduras an important portion of the Nicaraguans living there returned and settled in this city (interview, 17 July 2007).

There were also sensitive political reasons involved in this decision. As a result of the 1990 national elections, three of the municipalities in which PRODEL started its operations were governed by the leftist Sandinista National Liberation Front – FSLN (León, Estelí

22 From 1994 to 1996, Olivas was responsible on behalf of the Municipality of Ocotal, for the implementation of PRODEL's components. In 1996, he became PRODEL's local coordinator in Ocotal and later for Somoto. In 1997 he was responsible for setting up PRODEL in the cities of Jinotega and Matagalpa. In 1999, he worked as interim coordinator of the infrastructure component, supervising the eight municipalities where PRODEL worked. Afterwards he supervised the loan components, and in June 2001 became PRODEL's provisional National Coordinator. In 2003, he became the interim director of the newly established non-profit local development foundation PRODEL, and in July 2005, the Executive Director.

and Ocotal) while the other two (Chinandega and Somoto) were ruled by UNO coalitions led by the right-wing Liberal Party (PL). Thus, the decision by INIFOM and Sida to choose these five cities tried to convey the message that a decentralised governmental programme could help to overcome the political polarisation of the past, and could also work, through participative processes, with different types of municipality irrespective of the political affiliation of their ruling municipal council, and their size or technical and administrative capacities.

Olivas remembers that during 1993 INIFOM convened the mayors of Somoto, Ocotal, Estelí, León and Chinandega to meetings in which the mayors, with the assistance of their technical units and together with INIFOM's staff discussed and analysed certain mechanisms by which international donors could assist the municipalities in reactivating their local economies and in resolving some of the problems associated with the lack of basic services and increasing demand for infrastructure. During these consultations important ideas that later materialised in PRODEL's working methodology emerged (Olivas interview 17 July 2007).

In order to have an idea of the political and ideological difficulties the programme faced, a workshop was organised during the first quarter of 1994, in which PRODEL's central team explained its strategic and operational guidelines to the mayors and their technical units, and to staff of the BCP. During the seminar, participants made a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis for their respective cities. The SWOT for Estelí still considered the USA blockade during the Sandinista Regime (which *de facto* ended with the change of government in February 1990) as the main external threat to the local government led by the Sandinistas, while the SWOT for Chinandega still considered the Sandinista regime a threat to the stability of the municipality led by the centre-right coalition (based on personal notes from this workshop).

Rationale of PRODEL's components

This section explains the financial and social rationale of each of PRODEL's components in concrete cities.

Income-generating activities

Given the importance of the informal sector in Nicaragua at the time, and the fact that women constituted 70 per cent of the labour force in the urban informal sector (earning 40 per cent less than those working in the formal sector), the micro-lending component for income generation had the objective of contributing to local economic recovery with a gender perspective (INIFOM 1994).

Since its inception, the rationale for this component was to generate a financially sustainable credit scheme managed by a financial intermediary with the operational capacity to work with micro-loans and with this section of the credit market. The component did not entail explicit or hidden subsidies, neither in the conditions that PRODEL established with the BCP nor in the loan conditions that the bank established with the micro-credit clients, as the financing of micro-enterprises was becoming a widespread practice, and various

MFIs were already competing for some of the same clients in the cities where PRODEL operated (Vance and Vargas, 1996: 31). During this phase, the entity responsible for intermediating PRODEL's resources was the BCP which channelled short term micro-credits, mainly as working capital to informal and formal home-, market- or street-based microenterprises. These were largely, but not exclusively, headed by women in the selected poor neighbourhoods, where the programme operated. Market interest rates were charged, different types of guarantee were accepted and clients repaid the loans on a weekly or fortnightly basis (*ibid.*). Individual savings were also required as collateral to guarantee the small loans.

In addition to individual lending and savings, Sida's aspired to promote the formation of solidarity groups and communal banks with similar financial methodologies as those used by the Grameen Bank in Bangladesh. Sida suggested it as a way to reduce the transaction costs for the bank and to allow lower interest rates for clients (Göran Tannerfeldt's written comments to this thesis in January 2009). In addition, it would offer a channel for savings, which was important for poor people. However, the BCP did not introduce these schemes as the relationship with the BCP ended during the implementation of the second phase of Sida's support to PRODEL, when the bank closed operations. One of the reasons it never materialised was that the BCP preferred individual savings to community savings. Similarly, the MFIs that began intermediating PRODEL resources in 1998 and still continued, could not capture savings in Nicaragua, which made savings a more complex issue (Irene Vance written comments, June 2009).

To a lesser extent the component aimed to create new microenterprises by offering technical assistance to unemployed, but relatively highly skilled, women with the possibility that they would have access to relatively larger loans for purchasing working capital and fixed assets (INIFOM 1994). This proved to be difficult given the discrepancies that emerged between INATEC, the governmental institution responsible for providing the technical assistance on the one hand, and PRODEL and the BCP on the other. The differences related to the strategic orientation and the content of training courses: INATEC prioritised gender and empowerment issues as a precondition for accessing a loan as a means to promote self-esteem among unemployed women, while PRODEL and the Bank argued that empowerment and gender issues, including self-esteem, would be the outcome of training in technical and financial issues.

Infrastructure and basic services

This component aimed to assist in solving a critical problem that Nicaragua was facing in the early 1990s: the increasing demand for infrastructure and basic services resulting from the high levels of urban growth experienced as a consequence of natural population growth and the expansion of the urban sprawl beyond the traditional boundaries of the cities, as well as from the economic crisis, and the massive displacement of persons resulting from the war and the peace agreements. At the time, public resources to meet this demand were scarce. The Nicaraguan Social Emergency Investment Fund (FISE)

one of the instruments of social compensation created at the beginning of the 1990s to cope with structural adjustment, and funded by multilateral and bilateral aid agencies, was the main source of funds, and responsible for rebuilding schools, primary health clinics, and secondary roads, mainly in locations distant from urban centres or in extremely poor rural areas. Yet, the projects implemented through FISE in both rural and urban areas at the time, did not have effective participation mechanisms in place, and the engagement of local governments and the communities in decision-making, and in implementation, administration and post-project maintenance was weak (INIFOM 1994).

The lack of effective decentralisation policies and of tangible processes by which poor communities would engage with their local authorities to solve their infrastructure and basic services problems, was not a new phenomenon in Nicaragua. Although the municipal system existed during the Spanish colonial period, in 1937 the Somoza regime abolished the municipal autonomy, and the President appointed mayors directly without any election process. The Sandinista regime promoted municipal development but under a strong centralised policy. The creation of geographical and administrative regions in 1982 led to a de-concentration process by which central government offices opened in different cities, but there was no real decentralisation process in terms of the transfer of resources and responsibilities (see Morales and Stein, 1997). Until 1990, the municipalities depended on the regional governments. It was only after that year's elections that municipal council representatives were elected and they then chose the mayor. Before, the technical units at the municipalities had little to do with local development. They were spectators to what was going on. It was through PRODEL that the technicians were taken seriously for the first time to discuss the problems of the municipality and the city, and they felt that finally the 'term' decentralisation had a concrete and tangible meaning (interview with Marlon Olivas, July 2007).

In June 1988, the new Municipal Law established that the municipality was the basic administrative and political territorial unit of the country, and within a municipality the urban territory was subdivided into 'barrios' and into some municipality sectors or zones (PNUD/CNUAH-Habitat/INIFOM, 1994:46–47). Reaching out to extreme poor households living in the barrios in urban areas through a participative and an inclusive financial scheme constituted the core social rationale of this infrastructure component. Its financial rationale was based on a non-reimbursable decentralised incentive co-financing mechanism, by which the resources allocated from a central agency (i.e., INIFOM through its central unit PRODEL with resources provided by a donor agency, in this case Sida) would be matched with in-kind, labour and monetary resources both from local governments and identified urban poor neighbourhoods, irrespective of their levels of income. Local governments would be responsible for implementation with strong involvement of the community in the different stages of the project cycle: from needs identification through to the planning, administration, implementation and post-project maintenance financed by PRODEL resources. The aim was to enable local

governments to focus their limited resources on the poorest areas of their cities and, through participatory micro-planning methods, to engage poor communities in the identification, prioritisation and negotiation of their main problems. The objective was also to find affordable and technically feasible solutions to their collective needs (especially for the introduction, expansion or improvement of social and economic infrastructure, and basic services and communal equipment). The social rationale of this component was to reach all urban households irrespective of their levels of income, but especially those that could not afford access to a credit for housing improvement. The funds would be used for the introduction of basic services such as water, sanitation and rainwater systems, electricity, latrines, small bridges and risk-mitigation works, community centres, health clinics, schools, parks, trash and solid waste treatment, and to repair primary health and educational centres.

Housing improvements

This component was aimed especially, but not exclusively, at improving the housing conditions of urban poor households living in neighbourhoods where there had been investment and improvement in the infrastructure. The premise for this component was that without the existence of state subsidies there was no way for a poor household to finance the building or purchase of a new house. However, even if the house were in poor condition, incrementally it could be improved over time and, in this way, a small and affordable loan could help to speed this process. In this sense, PRODEL considered from the outset that the so-called 'housing deficit' in Nicaragua was mainly a qualitative problem and not a quantitative one.

Its financial rationale consisted in demonstrating that it was possible to set up a viable low-income housing credit scheme even in a context so adverse that there was no national housing policy framework; there were no public housing subsidy schemes; and mortgage lending for new housing or lending for housing improvements was practically non-existent. In fact, as a result of the constraints provoked by lack of land property rights in the early 1990s as well as the instability of the financial system during the Sandinista regime, mortgage lending only became legally possible again in Nicaragua in 1997, and then it could be afforded by only a reduced number of households in the higher income brackets (IADB, 2002). In addition to their low-income levels, the urban and rural population were not in a position to formalise a mortgage loan as these households could not cover legal costs and the financial commissions and fees required. Moreover, it was necessary to work in the formal sector of the economy to qualify for a mortgage loan through the institutionalised banking system and it was also necessary to be in possession of a fully registered land title deed, something that in 1994 was difficult to obtain.

The lack of clarity in land property titling was generated by the urban and rural land reforms pursued by the Sandinista regime during the 1980s, in which vast plots of land were confiscated from private owners, especially those pertaining to the Somoza family and its close collaborators, and redistributed to rural peasants and urban

poor households. The problem was that the Sandinista regime did not legally register many of these land plots in favour of their new owners, thereby creating a legal vacuum. With the change of government in 1990, the majority of the original owners reclaimed their land rights based on the only legal land titles existing at the time, and of which they were in possession (see COHRE, WCCN and CENIDH, 2003; UN-Habitat, 2005b). Moreover, during the first months of the Barrios de Chamorro government the number of spontaneous settlements increased significantly through illegal occupation of land promoted by community-based organisations linked to the FSLN (Landaeta, 1994).

In 1991, about 58 per cent of all urban houses in Nicaragua had a land tenure or ownership problem: 29 per cent of the urban land plots had a precarious tenancy ownership; 11 per cent of the plots had legal disputes, lawsuits or the occupants were on the brink of being evicted; and 18 per cent of the families were facing incapacity of payment problems for the houses or land they were occupying or renting (INIFOM 1994:10).

In 1991, the Nicaraguan government created the Office for Territorial Ordering (Oficina de Ordenamiento Territorial – OOT) as the key legal instrument in charge of reviewing the status of all informal and spontaneous settlements. The OOT was responsible for issuing a certificate expressing that there was no dispute over any piece of land. From 1991 up to 2005, the measures taken by successive Nicaraguan governments compensated property owners affected by the Sandinista reforms or returned confiscated land to their original owners. Yet the legal consequences of conflicting and, in some cases, contradictory measures led to property titling disputes that remain unresolved (UN-Habitat, 2005b).

Nobody expected that the revolving fund for this PRODEL component, given its innovative character amid such a volatile political context in which land tenure could also become an obstacle, would become financially sustainable in the short term. Yet, Sida and INIFOM agreed that the social objectives of the component had to combine the application of strict credit discipline in its operation in order to succeed in an environment which, during the past decade, had not developed a degree of efficiency in managing housing loan portfolios. In other words, “servicing the poor would affect the design in terms of low input of capital, administration and professionals involved, relatively small credit amounts on comparatively short repayment periods, but there would be no compromise with the basic concept of recovering the resources given as a credit” (Sida’s external consultants’ memo, 21 November 1993).

During the first phase, the BCP was responsible for the implementation of the component targeting households living in consolidated poor neighbourhoods, or recently formed settlements, or even in spontaneous informal settlements. Preferably, the component would work in settlements that had a relative degree of certainty over land tenure rights, although it never asked for full land titles from households as a precondition for accessing the credit (INIFOM, 1994). PRODEL and the BCP agreed that the OOT’s solvencies were acceptable as collateral to back up the loan. In fact, “during the first phase,

the BCP and PRODEL did not insist upon land registration, only documents authorised by a public institution testifying the land use rights of the household over the plot" (Vance and Vargas, 1996:19). PRODEL also intended to assist settlements undergoing land litigation to resolve their tenure rights.

The credit would be used for improving, expanding and repairing floors, external and internal walls and roofs; basic service systems (water, sanitation and electricity) as well as risk mitigation works on the plot (contention walls, or perimeter walls as a protection against robberies and perceived insecurities linked to common violence). The loan granted was for purchasing building materials and associated transport costs of these materials to the plot, and an amount for hiring specialised labour to assist in the construction process (initially, this amount was calculated as no more than 15 per cent of the total loan).

An innovative aspect of this housing improvement loan consisted in providing, together with the financial resources, technical assistance to facilitate the identification of the needs, priorities and types of improvement that the household could achieve with its own resources and the loan, and to supervise the construction process. In the first phase, technical staff of the municipalities and also external professionals hired for this purpose provided this technical assistance.

Institutional development and administrative costs

Implementing the infrastructure component simultaneously with the two loan components implied facing a series of financial, institutional, administrative and operational complexities. Each component had a different logic and financial rationale, and combining and coordinating them in the same geographic territory, and simultaneously in five different cities, and through three different types of agency (a bank, local governments with dissimilar internal capacities, and urban poor communities each with its own internal complexity given the ideological polarised political climate) in order to generate its expected outcomes and achieve its developmental goals, was particularly challenging in such a politically, economically and socially fragile environment.

The technical assistance and institutional development component aimed to address these challenges, and to offer help to overcome some of the operational obstacles that the programme would inevitably face. Important resources and efforts were allocated to strengthen the capacities of the different implementing agencies involved so that they could assume their supervision and administrative functions and responsibilities of designing the operational frameworks that made the activities of the infrastructure component feasible. This included training staff from the municipalities in using participatory methods with urban poor communities; developing financial, organisational and administrative methods, norms and procedures for introducing the housing improvement loans into the overall operations of the BCP, and in later phases within other MFIs that intermediated resources from PRODEL; developing the concept and the methods of providing technical assistance to households that ac-

cessed the housing improvement loans; and training PRODEL's team to assume its responsibilities and functions as a second tier institution.

In this phase, Sida allocated resources to cover the administration costs linked to the operation of PRODEL's central team and the local coordinators in each of the five municipalities where the programme started operations, mainly for paying salaries, transport and office equipment, and other running costs.

Institutional evolution

The principles and approaches of PRODEL's model remained similar during its evolution over the 15-years period analysed. However, there were significant institutional, financial, legal and operational framework transformations. This section highlights these changes and the reasons behind these transformations.

First phase of Swedish support: 1994–1997

During the first phase PRODEL was, legally, an autonomous governmental programme operating under the institutional umbrella of INIFOM, the central government entity responsible for the overall administration and supervision of the programme.²³ Within INIFOM a small autonomous Central Unit of PRODEL was established. A National Coordinator headed the unit and, *de facto*, was responsible for the implementation and administration of the programme, although for legal purposes the Executive Director of INIFOM was also PRODEL's Executive Director. PRODEL established a Consultative Council (reflecting the spirit of INIFOM's Directive Council) formed by the mayors of the five municipalities in which it worked, the Executive Director of INIFOM, who acted as chairman of the Council, the National Coordinator of PRODEL, and a representative of Sida. The Consultative Council's key functions were to define PRODEL's broad policy guidelines, and to review and provide suggestions regarding external evaluations and audits, and annual operative plans. Additionally, PRODEL's Central Unit had two coordinators, one responsible for the infrastructure component and the technical assistance for the housing improvements, and another for the loan components. In each municipality PRODEL assigned a local coordinator to supervise the actions of the three components at the local level (see Vance and Vargas, 1996).

The programme operated in five cities (León, Estelí, Chinandega, Ocotal and Somoto) and the main implementing agencies were the municipalities (infrastructure and technical assistance for housing improvement); and the BCP to intermediate the funds for the micro credits for income-generating activities and for housing improvements.

²³ Created in 1990, INIFOM played a key role during Nicaragua's political transition. Its President had the rank of Minister and its Directive Council, formed by the 17 mayors of the principal cities of the 17 departments and autonomous regions and by six other members designated by the Executive branch elected the President and the Executive Director of INIFOM. Thus, INIFOM's Minister was appointed directly by the mayors (see INIFOM, 1994:15).

During this phase Sweden allocated SEK 48 million of which SEK 3.5 million were managed directly by Sida for external consultancies, monitoring and evaluations; SEK 1 million was used for the launch phase and SEK 43.5 million for the implementation of the three components, the institutional strengthening component, and to cover the administration costs of PRODEL's national team.

Second phase: 1998–2001

The positive outcomes of the first phase (see Chapter 6 of this thesis) and the growing importance of urban poverty reduction in Sweden's development cooperation strategy in Central America (see Chapter 4) led Sida to take the decision to support the design of a second phase and, subsequently, the approval of a project proposal. On 9 March 1998, Sweden and Nicaragua signed an agreement in support of a second phase. Sweden allocated SEK 54.4 million of which SEK 3.4 million Sida managed directly for consultancies, monitoring and evaluations, and SEK 51 million for the implementation of PRODEL's four components and administration costs of its national team.

During this phase PRODEL continued activities in the five cities in which it worked and expanded operations to three additional cities, Matagalpa and Jinotega located in the departments of the same name, and Chichigalpa, located in the department of Chinandega. These three cities had similar socio-economic characteristics to the previous ones in terms of poverty levels, political plurality (Matagalpa and Jinotega were governed by the Liberal Party, while Chichigalpa by the FSLN), and finally, they had the potential for economic reactivation (INIFOM, 1998). Implemented under the same logic and with similar methods and operative procedures, the infrastructure component made efforts to increase the levels of post-project maintenance identified as deficient during the first phase. The most significant changes occurred in the way the loan components were intermediated.

Working through microfinance institutions (MFIs)

At the end of October 1998, hurricane Mitch hit Central America, particularly Honduras and Nicaragua, leaving a trail of death and material destruction (Ministerio de Asuntos Exteriores, 2001). The presence of PRODEL in the eight cities helped the local governments to confront the emergency situation generated by this natural disaster. As the majority of access roads and bridges to the cities were severely damaged local governments, together with their citizens, relied entirely upon their own resources to face this situation. Three days after the disaster, Sida approved a proposal presented by INIFOM to re-allocate part of the resources earmarked for the infrastructure component so that each municipality could use it to purchase gasoline, corrugated iron roofs, food and other basic items (Sida's response to the Executive Director of INIFOM, 4 November 1998). According to the mayors of these cities, PRODEL's local coordinators and the municipal technical units were instrumental in

helping the municipal councils and the communities to face this emergency situation (INIFOM, 1998).

As a response to the natural disaster that affected thousands of families in the cities where PRODEL worked, who required post-emergency assistance and access to financial resources to rebuild their homes, as well as to reactivate the local economy, and partially because there were reasonable doubts about whether or not the BCP, the main financial intermediary until then, would continue its operations, PRODEL decided to channel resources through other microfinance institutions (MFIs).

Based on a diagnosis made by an international firm (IPC) that rated the microfinance industry in Nicaragua, PRODEL invited four MFIs to present proposals for the managing of resources for housing loans for post-emergency reconstruction and also credits for small businesses to reactivate the economy in the cities it was working. Three MFIs presented bids and PRODEL's reconstruction resources were allocated to the Asociación de Consultores para la Pequeña, Mediana y Microempresa (ACODEP), the Fondo de Desarrollo Local (FDL) and Fundación Chispa.

As the closure of the BCP drew closer in early 1999, a new bidding and tender process to award part of PRODEL's loan portfolio, managed by the BCP, and also to intermediate fresh funds for both loan components, was organised. Private Banks and MFIs were invited to participate, and although two banks expressed an interest in managing PRODEL's portfolio, their internal financial situation was insufficiently solid and therefore the committee formed by Sida, INIFOM and PRODEL decided to exclude them (internal document of the Comité de Selección Abril, 1999). In April 1999, the committee decided to transfer the loan portfolio not at risk and managed by the BCP to ACODEP and FDL, while BCP continued recovering the loans at risk (see Becerra et al., 2002; Comité de Selección, Abril 1999).

In late 1999, under pressure from the IMF and the World Bank, the Nicaraguan government finally closed the BCP. The transfer of PRODEL's remaining loan portfolio administrated by the BCP to the two MFIs already managing PRODEL's loan portfolio was arranged. However, ACODEP's performance was below expectation, in terms of not only the investments and cost recovery of the loans, but also in its capacity to provide accurate, timely and accounting information on the real situation of PRODEL's loan portfolio (Becerra et al, 2002; Sida's consultants to PRODEL internal memos). In the year 2000 PRODEL ceased its contract to intermediate funds with ACODEP. PRODEL continued working through FDL which performed as planned and expanded the housing improvement loans, using its own resources, to other cities not included in PRODEL's second phase.

PRODEL's institutional transformation: 2001–2003

The effects of hurricane Mitch, the closure of the BCP, and the fact that several government programmes, supported by international donors, were increasingly facing obstacles generated by the political in-

terference that Nicaragua's President, Arnoldo Alemán, was having in their internal affairs, affected the implementation of PRODEL's second phase. In June 2001, PRODEL suffered an institutional crisis that reflected the lack of management capacity by PRODEL's national team to overcome the problems faced during the implementation of the second phase. The lack of supervision and discipline required to deal with the weak performance that ACODEP was demonstrating, and other flaws in the daily management of the infrastructure component, led INIFOM and Sida to take the decision to sack the majority of PRODEL's national team members.

The array of external and internal factors that affected PRODEL's outcomes during the second phase showed the importance of having a long-term commitment by an external aid agency to support a proven urban poverty reduction programme, even if that required suggesting to the recipient country of this aid, to carry out unpopular administrative measures. It also proved the value of having international consultants providing external advisory and supervisory services to national agencies, but not being involved in the actual daily management of PRODEL. Finally, it demonstrated that PRODEL's institutional model, of being a governmental programme, which had been relatively effective during the first two phases, required fundamental changes in order to survive and to expand its operations.

From a governmental to a non-governmental programme²⁴

Amid the recurrent political, economic, and institutional crises the country as well as PRODEL were experiencing, the governments of Sweden and Nicaragua jointly decided to intensify the feasibility studies leading to the legal and institutional transformation of PRODEL from a governmental programme into an independent, more stable and long-term financially sustainable and institutionally viable non-profit foundation. However, the process of convincing INIFOM to accept this institutional transformation was not straightforward. INIFOM felt it was losing the political leverage it had with those local governments working with PRODEL. Finally, Sida and INIFOM agreed that the institutional transformation into a non-profit institution would coincide with the end of the second phase and the beginning of a third phase of Swedish support to PRODEL. Thus, while the transition from the first to the second phase was linked to the geographical expansion of PRODEL's model and activities to three new municipalities, and eventually to the incorporation of two new financial intermediaries, the transition from the second to the third phase implied transferring the responsibility of the overall management of the programme from one type of institution to a completely new type of institution and new legal arrangements. As INIFOM would no longer be the recipient of, or responsible for, the administration of the Swedish grant, but a non-government and non-profit foundation, this in itself represented a different set of financial and institutional challenges which entailed new risks related to both the management of the credit portfolio and the possibility of increasing the scale of oper-

24 This section draws extensively from an interview with Irene Vance in March 2009 and Sida internal documents.

ations of the new foundation beyond the eight municipalities in which PRODEL worked during the first and second phases.

Another reason for a new institutional arrangement, especially for the loan portfolio management, was that the modality of administration contracts with the MFIs meant that, in the case of severe mismanagement of the portfolio (as was the case with ACODEP), INIFOM, did not have, within its legal mandate, the recourse to carry out loan recovery and given its political and governmental profile, it was not the appropriate entity to manage credit, hence the portfolio held considerable risks in terms of its legal and institutional arrangements.

At the end of 2003, PRODEL transformed from a government programme into a private non-profit foundation using, as its legal basis, Nicaragua's General Law 147 which normalises the creation and functioning of non-profit juridical entities. The programme's assets were transferred to the newly created foundation and the governing bodies became a General Assembly, a Board of Directors and the Director of the Foundation. The General Assembly and the Board were comprised of professionals of various nationalities, with experience in these types of programme and institution (PRODEL, 2005:5).

A complex element of the negotiations between Sida and the Nicaraguan parties on the creation of the foundation revolved around the profile and composition of the General Assembly and Board of Directors. As INIFOM retained a seat on the Board this did not fully protect the foundation from government interference. Ensuring that the Board members were drawn from civil society and, therefore, capable of preventing any possible manipulation of the institution by the central government, or that the politicised and polarised environment of the country would not affect its operations, was a key concern expressed by Sida. In subsequent years, INIFOM relinquished its seat on the Board, although it still is a member of the General Assembly, hence PRODEL is now operating more as a non-governmental private, non-profit entity.

Third phase of Swedish support: 2004–2008

On 9 February 2004, an Agreement for the execution of the third phase of the Swedish cooperation was signed between Sida and PRODEL (Sida Agreement, 2004). According to the Agreement the contribution for the third phase, which was to be implemented over a four-year period, from 2004 to 2008, was SEK 85 million of which SEK 3 million was retained by Sida for follow-up and evaluation of the programme, and for studies, workshops and similar activities to support the development of the housing sector in Nicaragua (*ibid.*). SEK 25 million was allocated for the implementation of the infrastructure projects along with SEK 2 million for the institutional development of PRODEL; SEK 54.5 million was allocated in the form of a conditional loan (SEK 33 million for housing credits and SEK 21.5 million for micro-enterprise credits) (*ibid.*) with a repayment period of the principal in 10 equal six-monthly instalments starting in June 2011 and ending in December 2015. The established interest of the

loan was a non-variable fixed rate of one per cent per annum on the balance of the remainder owed on the loan (*ibid.*).

The agreement stated that Sida “may decide to waive the loan repayment provided that PRODEL was successful in fulfilling the obligations of the agreement, and whether it was able to demonstrate operational and financial sustainability through the consolidation of its revolving funds, as well as efficiency in the administration of the funds and the management of the liquid assets of the foundation” (Ström and Fröberg, 2008). The transfer of the conditional loan is in the form of equity to enable PRODEL to improve access to longer term financing from other commercial sources (*ibid.*).

The implementation of the third phase began within the new institutional framework of a non-profit foundation for the promotion of local development (Fundación para la Promoción del Desarrollo Local – PRODEL). During this phase, PRODEL expanded operations of the infrastructure component to two new cities (Juigalpa and Rivas) and it ceased operations in the city of León (Alvarado, Boman and Echarte, 2007). This phase also emphasised the preventive maintenance of infrastructure projects.

Although before the formal beginning of the third phase, PRODEL had already expanded its credits operations to new geographic areas through two new financial intermediaries: Fundación José Nebrowski (FJN) and Financiera Nicaragüense de Desarrollo (FINDESA), and had continued working with the Fondo de Desarrollo Local (FDL) (PRODEL 2004), during this phase it expanded its loan operations even more by channelling resources for both housing improvement and micro-enterprise activities through administrative agreements, lines of credits and loans signed by nine MFIs: FDL, FINDESA, FJN, PRESTANIC, FODEM; León 2000, FAMA, PRODESA and Cooperativa 20 de abril (see Chapter 6).

Contrary to the two previous phases, this phase had no geographic restrictions placed on it in terms of the cities or peri-urban areas where the MFIs could intermediate PRODEL's resources, both for housing improvement and for micro-enterprises. That is one of the reasons for the dramatic increase in the number of housing improvement loans that occurred from 2006 to 2008 (see Chapter 6). PRODEL also continued providing technical assistance in the housing improvement scheme, both directly with technicians paid by PRODEL, and with commissions charged to clients included in the loans, and in a few cases directly by the MFIs.

Another issue that changed during these years was the interest rates charged to clients. In the early years, interest rates were lower but significantly fewer clients were reached. According to Vance (*interview*, 2009), this was more related to the process of ‘learning the business’ than to the targeting that took place. In recent years however, more clients were reached even though interest rates were higher as the cost of capital was higher. This reflected the shift from the early 1990s when donor finance was more readily available and in significant volumes. This, as some analysts affirm, was a distortion of the market developing (see Daphnis and Flauhaber, 2004). However, it was also the only possible way by which the microfinance industry could have emerged in Nicaragua. From 2003 onwards, the

sources of capital have been private investors. All MFIs have had access to resources but interest rates have been higher because these investors wanted an attractive return for their money.

The debate on financial sustainability

By analysing Sida's internal debate in the process of approving the third phase of support to PRODEL, this section provides insights on how the tension between the goal of achieving financial sustainability in microfinance and the aim of increasing social inclusion in development programmes affected the policy of an international aid donor, and the practice of PRODEL.

The elaboration of the project proposal for a third phase of Swedish support to PRODEL coincided with PRODEL's internal crisis and its subsequent institutional transformation, but also with an important internal debate occurring within Sida itself. This debate, which began in the late 1990s, dealt with the growing influence that financial markets played in developing countries amid the structural transformations occurring globally, and the role of bilateral donor agencies in this process. In 1997, Sida's Department of Infrastructure and Economic Cooperation (INEC) published a document that analysed and made recommendations regarding the approaches and cooperation instruments by which Sida could assist developing countries in strengthening their financial sector, including microfinance (see INEC/Sida, 1997). The document analysed factors that impeded the "mobilisation of domestic financial resources and foreign private flows" (ibid.:12) and the type of external assistance required to promote "efficient and sustainable financial institutions in developing countries" as well as "the role of Swedish institutions in financial sector development" (ibid.) and the need for alliances with foreign development cooperation partners" and "improved coordination within Sida" (ibid.). Finally, it presented a policy for financial sector development for Sida. With respect to microfinance, the document pointed out that development aid agencies like Sida, had

...a poor track record when it comes to microfinance... Assistance provided in the form of project-centred interventions paid little attention to develop sustainable financial intermediaries geared to mobilise local funds and to satisfy the demands of the end users...and financial assistance [was] provided on very soft terms, which in turn made it difficult to establish norms for good repayment behaviour... (ibid.:78).

It also argued that:

...structural adjustment including the liberalisation of the financial sector in developing countries...improved the possibilities for donors to support more sustainable and market oriented microfinance institutions. At the same time there [was] improved knowledge about the characteristics of institutions, which succeeded in achieving operational efficiency (those covering, with client revenues, all administrative costs and loan losses) as well as financial self suffi-

ciency (defined as operational efficiency and capability of mobilising finance on market terms) (ibid.).

The document also called for collaboration with the Consultancy Group to Assist the Poorest (CGAP) in order to increase micro-finance assistance.

As INEC included both the division responsible for finance sector development, which produced the document, and the division for urban development, which was responsible for a number of programmes with microfinance components, including PRODEL, the gradual consolidation of this pro-market oriented approach to finance sector development generated an intense debate within the department. According to Tannerfeldt (written comments to this thesis, January 2009) the theoretical views on 'best practice' advocated by the finance sector division contrasted with the empirical experiences of the urban division had experienced in Central America. The debate became stronger when successful programmes like PRODEL in Nicaragua and FDLG in Guatemala, were requested by the financial division to bring about drastic changes to their operations or close down because they simply were not up to 'best practice' models of microfinance and were, therefore, considered 'detrimental' to the development of the financial markets in their countries.

At the end of 2001, the finance sector division requested a review of the programmes supported by the urban division in Central America. The review was particularly critical of the financial rationale of these programmes (see Daphnis and Faulhaber, 2004). With regard to FDLG in Guatemala and PRODEL in Nicaragua, which worked through MFIs, the review stated that they

...suffered from a mandate that was overly broad and multi-sectoral including housing, micro-enterprise, community banks and infrastructure; and lending to a variety of entities: MFIs, cooperatives, municipalities and community-based organisations; providing technical assistance in the form of training, institutional support, and programmatic strengthening; advocating for improved policy and performance in local governance, local infrastructure, low-income housing finance, micro-enterprise and community banking finance, national housing policy, and MFI institutional strengthening (ibid.:56).

The report also criticised the Central American low-income housing programmes and especially Sida, for targeting urban poor households according to their income level as a valid strategy for achieving developmental goals, and of using these programmes to promote geographic targeting of financial resources, arguing the incompatibility of market housing microfinance practices with this type of targeting through MIFs (ibid.:58–59).

The growing influence of this pro-market approach within Sida, and the review of the Central American experiences, affected, in content and in time, the design and approval process of the third phase and consequently PRODEL's institutional transformation process. The role of a non-profit foundation as a second tier institution

capable of handling credits for the two loan components to be intermediated by MFIs and grants for the infrastructure component to be handled by local governments, was questioned (INEC/URBAN, 2002). The finance division questioned why a second tier institution was necessary and did not just invest in the industry directly. Moreover, the possibilities of the future foundation achieving financial sustainability was also put in doubt, as well as whether it had the capacity to spend the amount of resources requested (*ibid.*). In its concluding remarks to the issues raised by the finance division, the urban division stressed that it was important to take into consideration that

PRODEL was an on-going programme with remarkable success in a difficult environment. From 1994–2001 about 387 infrastructure projects had been completed, more than 21,865 micro-enterprise credits and 7,100 housing credits had been provided and it had created a revolving fund with a present value of 50 MSEK (ibid.).

Urban INEC also stressed that the creation of the foundation was the “best institutional solution to satisfying a number of needs amid a long process of consultations and with advisors being involved in a particularly complicated environment” (*ibid.*).

In spite of the internal debate, Sida’s Project Committee held a meeting in November 2003 to discuss the third phase of support to PRODEL and took the decision to recommend that the Director General of Sida approve the project proposal.²⁵ The meeting’s protocol (Sida, 2003) reveals the intensity of the internal debates within Sida. It points out that preparations for the project had started three years before but that it was not until November of 2003 that the proposal was presented to the Project Committee (*ibid.*). It also evidenced the different approaches within INEC on Sida’s role in developing the microfinance sector in Nicaragua and on PRODEL’s role as an urban poverty reduction model. During the meeting, the head of INEC presented these divergences as the consequence of different approaches to microfinance resulting from “two different time perspectives”: the first, presumably that of the urban division, which aimed to improve the housing situation for a certain target group by means of the microfinance and subsidies for infrastructure and basic services, and the second approach represented by the finance division that supposedly had a longer view on the development of the microfinance sector as such, where different actors should be guided by a common policy framework, which aimed to achieve financial sustainability. The head of INEC suggested that if Sida had possessed the knowledge on microfinance then that it had now, the design of PRODEL in 1994 would have been totally different (*ibid.*).

Defending the proposal in the meeting, the Head of the Latin American Department (RELA) stressed that Sida was in a state of

²⁵ For projects beyond SEK 50 million Sida requires to discuss the proposal in a Project Committee that recommends its submission to the Director General for his or her approval with or without modifications. The committee can also recommend rejecting the proposal. Representatives of different sector departments and the department or the division responsible for the project, and an opponent used to critically assess the proposal, form the committee.

'policy vacuum' in terms of the microfinance sector and added that it would give a strange signal if Sida would prohibit the housing policy that the Swedish government successfully applied in Sweden during a long period of time (*ibid.*). This Swedish housing policy had entailed combining subsidies with credits for lower income groups as a way of ensuring their inclusion in the national housing finance schemes. This was not the case in Nicaragua as PRODEL did not have any State subsidies for housing, although the infrastructure component might have been seen as substituting these housing subsidies.

The opponent's comments during this Project Committee meeting stressed that PRODEL was relevant in relation to Sida's basic policy that recognised the multidimensional poverty concept and that the objective is to empower poor people and ensure their participation, and also to improve the situation of women and female-headed households (*ibid.*). The opponent added that the PRODEL model had been tried and proved feasible already during nine years and what was left was to test if the new structure with a private foundation was able to manage the revolving fund and concluded by expressing the importance of strengthening the institutional capacity of the new foundation. It also suggested that it would be probably more reasonable to channel the Swedish assistance in the form of a conditional loan to eliminate the risk of unfair competition and distortion of the local microfinance market, one of the arguments that the finance division had used against the proposal. Another question posed by the opponent was about the future of the infrastructure component when the Swedish financing ceased (*ibid.*).

According to interviews with members of Sida's urban division and Sida's external consultants to PRODEL, several issues raised by Sida's finance division were appropriate then, and still are today. For example, the importance of looking into what was financial sustainability, the handling of equity funds, the need for institutional strengthening and adequate organisational forms for these types of operation. However, they stressed that already in the early stages of Sida's support to PRODEL the idea was to make the credit components financially sustainable. Thus, even if the comments were appropriate, they were presented in a way that generated doubt and confusion on PRODEL's history and achievements, the nature of the third phase, and the feasibility of its implementation, including the arguments that people would not pay back their loans, or that the infrastructure component would 'contaminate' the microfinance industry in Nicaragua. In their opinion, these arguments were entrenched in an approach within Sida's financial division that saw microfinance as a financial stand-alone product: "if you only get the market right then the rest will work fine. If you get the market functioning and overcome market failures, then the rest will work". This argument was so convincing that it prevailed and was a lingering issue every time that the Central American low income housing experiences were analysed within Sida.

To a large extent, it was difficult for Sida's finance division to recognise that, in spite of its non-orthodox financial approach, PRODEL was the only institution that succeeded in developing through

existing MFIs, a housing microfinance product that was increasingly in demand in Nicaragua, and which served as a model for other countries in Central America and Africa. In this sense, Sida helped to build the microfinance industry in Nicaragua. Moreover, the arguments of the finance division also run counter to the reality on the ground as MFIs were seeking at the time, to diversify products and were trying to be regulated.

Conclusions

The principles of PRODEL's three main components, with minor variations and modifications, were still used in 2009. Local governments managed the infrastructure co-finance mechanism with contributions from the communities, while specialised microfinance institutions (MFIs) managed the small repetitive loans for housing improvements as well as the micro-credits for micro-enterprises under strict cost recovery methods.

Until 2003, PRODEL was a government organisation based in INI-FOM. It then underwent an institutional transformation to become a non-profit foundation. This transformation enabled PRODEL to scale-up its operations nationally, especially through the loan components.

PRODEL received three consecutive phases of Swedish support and was able to lever additional international resources: from bilateral agencies (from the Department for International Development of the United Kingdom, DFID), and multilateral agencies (from the Central American Bank for Economic Integration CABEL and from the Multilateral Investment Fund FOMIN of the Inter American Development Bank), and also from private transnational banks (Citigroup). Overall, Sweden allocated SEK 193 millions to PRODEL over a period of 15 years (equivalent to approximately US\$ 22 million according to the average exchange rates prevailing during this period).

PRODEL worked amid a complex economic and social context plagued with recurrent political and institutional crises and personnel turnover in the municipalities and even within its own structure. Additionally, during this period, PRODEL negotiated its core methodology and development principles with four different national and local government administrations, in respect of both the overall continuity of its actions and to ensure that the infrastructure component could continue operating without being politicised. Finally, it survived calls within Sida that demanded that it should make drastic changes to its operation and even to close. This was particularly evident when PRODEL did not fit the orthodox models prevailing within the microfinance industry that made the market and financial sustainability practically the only parameters for defining what a housing microfinance programme was, without ever considering or examining, as the following chapters show, the social, political, and institutional complexities that can occur while working with the urban poor in local development programmes and with alternative forms of social housing finance.

PRODEL: main outcomes

The aim of this chapter is twofold. First, it makes a reinterpretation of PRODEL's social and financial model in the light of the debates on the links between urban poverty, social exclusion, and asset accumulation. Second, it provides a summary of the quantitative results of PRODEL components during 15 years, including the outcomes from the microcredit component for economic activities, the small and repetitive loans for housing improvements, and the co-financing mechanism for infrastructure and basic services. Thereafter, it compares salient socio-economic features of the households that participated in PRODEL's components with the overall situation of the urban poor in Nicaragua and in the cities in which these schemes operated. Afterwards it examines the outcomes for Estelí, Somoto and Ocotal, in order to better understand how asset accumulation and financial inclusion occurred in specific communities in these cities.

Urban poverty and social inclusion

In the light of the conceptual debates that guide this thesis (see Chapter 2) it is possible to understand that PRODEL's model sought to reduce urban poverty by strengthening the capacities and opportunities of urban poor households and communities to accumulate assets by enhancing their inclusion in different social and financial schemes. PRODEL contributed to asset accumulation by enabling urban poor households and communities to access different financial and technical resources to improve their social infrastructure and basic services (collective assets), as well as their housing conditions (individual physical assets), including their access to land. PRODEL also enhanced the opportunities of microenterprises to access financial assets through microcredit in order to secure their continuity and possible growth.

Collective physical assets and social inclusion

PRODEL's infrastructure component worked under Pouliquen's (2000) premise that it "is not so much the lack of infrastructure *per se* but the lack of opportunities to gain access to that infrastructure, and to the fact that the poor are not taken into consideration in the decision-making process, or they do not have the information on how to access the resources for these services, or they do not have the power to ensure that resources are available when and where they need it most which generates social exclusion". Participation in this component did not depend on the income levels of individual households in a barrio. Inclusion was determined by other factors: the volume of resources available; the criteria used by local govern-

ments to redistribute these resources among the city's different barrios; the power that these communities had to influence the decisions that local authorities took on how these resources should be allocated within the city, and for what purposes they should be used; and the commitment of households from a community to contribute to the implementation and the maintenance of the infrastructure projects. The component was instrumental in changing the attitudes by which local governments understood that decentralisation required good governance and inclusive pro-poor practices. Finally, the component contributed to the accumulation of collective physical assets, and to a revaluation of individual household physical assets as these properties increased in value with the introduction of infrastructure and services.

Individual households' physical assets and financial inclusion

PRODEL's housing improvement component operated on Rust's (2008b) premise that small and repetitive loans could facilitate the consolidation of the social, economic and financial dimensions of housing as an asset, for households that could afford to repay a loan but could not be included in the mortgage lending schemes of formal banking institutions. This form of social housing finance was instrumental in developing new financial products tailored to the needs of the urban poor. Moreover, it helped formal regulated and non-regulated microfinance institutions (MFIs) to understand the incremental processes by which the urban poor build and accumulate their physical assets, and to restructure lending procedures to these processes. The component also assisted urban poor households to strengthen their capacities by understanding what their housing priorities were, and how to make more efficient use of their scarce resources both prior to receiving the loan and during the building process. PRODEL demonstrated that financial services were more likely to be financially sustainable and therefore viable if they were offered as a combined product with technical assistance, as such aid provided an added value in securing a better physical asset, and efficiency in the use of scarce resources.

To summarise, PRODEL's urban poverty reduction model was based on the possibility of underpinning the accumulation of physical, financial and social assets by poor households and communities while simultaneously strengthening their capabilities to participate in the identification of problems and needs, as well as in the decision-making on how scarce resources should be distributed and used. By increasing the opportunities to access financial resources and information, the model improved the accumulation of assets by the urban poor which, in turn, supported them to overcome their poverty, and it empowered them to influence policy change.

Strengthening the assets of the urban poor

This section provides an overall view of PRODEL's outcomes in terms of strengthening the financial assets and individual and collective physical assets of the urban poor.

Strengthening the financial assets of the poor

Between 1994 and 2008, with PRODEL resources, MFIs disbursed more than 100,000 micro-credits for microenterprise activities totaling about US\$ 44.11 million (see Table 6.1).²⁶ During the first four years of operation the number of credits increased from 665 in 1994 to 3,882 in 1997 (see Table 6.1). This growth reflected the expansion of the programme from five to eight cities, the economic reactivation taking place in these cities, as well as the growth of the microfinance industry in Nicaragua.²⁷

Table 6.1 Number, volume, and average size of micro-credits for economic activities in PRODEL (1994–2008) (nominal values).

<i>Year</i>	<i>Number of Loans</i>	<i>Annual Loan Total (in US\$)</i>	<i>Average Size of Loan (in US\$)</i>
1994	665	127,740	192
1995	2,223	287,247	129
1996	2,341	951,125	406
1997	3,882	1,900,866	490
1998	3,441	1,939,113	564
1999	4,652	2,212,885	476
2000	3,402	1,368,296	402
2001	1,902	892,667	469
2002	2,173	1,449,968	667
2003	1,457	1,170,388	803
2004	4,993	2,449,882	491
2005	14,667	9,377,380	639
2006	10,255	7,851,410	766
2007	21,253	5,878,904	277
2008	23,154	6,252,228	270
Total	100,460	44,110,098	439

Source: Own elaboration based on PRODEL (1995, 1999, 2004a, 2009a).

²⁶ Figures on Table 6.1 differ from data presented by PRODEL as input to this thesis. For PRODEL (2009a) the number of loans disbursed for the period 1994–2008 was 99,817 and a total volume of US\$ 44.76 million. The discrepancy relates to different reports that PRODEL and the author of this thesis managed for the first five years of operation 1994–1998.

²⁷ Some interviewees contended, that the election of President Alemán in 1996 generated liquidity problems to the microfinance industry as the government diverted external funds intended for MFIs through a loan from the IADB to commercial banks which allocated these resources to corporate clients and not to micro-enterprise activities. This did not affect PRODEL as it was operating through the BCP with Sida's resources.

The decrease in the number of loans in 1998 was a direct consequence of the impact of hurricane Mitch, while the increase in 1999 links to the incorporation of two new MFIs to PRODEL's operation. The number of loans diminished in 2001 and still further in 2003, reflecting PRODEL's institutional crisis and the problems faced by one of the MFIs that intermediated PRODEL resources (see Chapter 5). Subsequently, the rapid growth in the number and volume of loans from 2004 onwards related to the institutional transformation of PRODEL into a private non-profit foundation and the incorporation of new MFIs to intermediate resources, as well as the expansion of microcredit to 79 municipalities spread throughout the country, except for the North Atlantic Autonomous Region (PRODEL 2009a).

The average size of these loans between 1994 and 2008 was US\$ 439 although there were sharp variations: in 1994 the average size was US\$ 192 while in 2000 it reached US\$ 402, and in 2003 it was US\$ 803 (see Table 6.1). In 2007, however, as the number of micro-enterprise loans increased to more than 21,000 per annum, the average size of the loans dropped to US\$ 277 and in 2008 the average loan amounted to US\$ 270 (see Table 6.1). According to PRODEL and MFIs personnel interviewed, the decrease in the average size of the loans for 2007 and 2008 reflected the impact that the global financial crisis had on the sales and the stocks that formed the micro-enterprise chain in Nicaragua, as they were diminishing and the MFIs had to be more cautious in providing larger loans to their traditional and steady clients.

Moreover, in recent years, an important number of micro-entrepreneurs in Nicaragua gained access to credit cards provided by formal banks, with higher credit limits. This generated a situation in which the micro-entrepreneurs were gathering higher debts through their credit cards which resulted in difficulties in repaying the micro-credits. This forced many of the MFIs to reduce the amount per loan and also to reassess the ability or capacity of micro-entrepreneur clients to repay debts. Other MFIs reduced the repayment period. These are probably the main reasons for such an increase in the number of micro-credits in 2007 and 2008, as well as for the decrease in the average size of the loans for the same years (exchanges of e-mails with PRODEL's Executive Director, 9 June 2009). Finally, political factors influenced the decision of the MFIs to be more cautious in their lending process (see Chapters 7 and 8).

Households included in the microcredit scheme

PRODEL did not have precise figures regarding the number of micro-enterprises and households that potentially benefited from this component. Assuming, conservatively, an average of five micro-credits per small business, it is possible to estimate that about 20,000 micro-enterprises accessed financial resources for economic activity between 1994 and 2008 (see Table 6.2). These microenterprises were not homogeneous and they varied in size and in the number of persons working in them, which in turn also depended on who headed the small business.

According to FIDEG's (2005a, 2005b) survey, women headed 76 per cent of the microenterprises that accessed PRODEL's loans and

men 24 per cent. These proportions were consistent with the findings of a 1998 review of PRODEL's loan portfolio that established that approximately 71 per cent of the borrowers of the microenterprise component were women (see Paniagua et al., 1998), as well as with the periodic reports provided by PRODEL on the gender composition of its microenterprise loan component. FIDEG's survey (2005a) also found that 53.3 per cent of the microenterprises headed by a woman had only one person working in it; 19.8 per cent of the enterprises headed by women had two persons; 12.8 per cent had three persons and 15.1 per cent had three or more persons; while 39.4 per cent of the small businesses headed by a man had one person working; 39.4 per cent had two, and 21 per cent had three or more (see Table 6.2). Based on these figures, it is possible to calculate that about 25,000 households (about 129,000 persons) were linked to the economic outcomes of these small businesses, and potentially benefited from these microloans in different cities in Nicaragua (see Table 6.2).

As there are no geographic restrictions as to where the MFIs could intermediate PRODEL funds, these microenterprises were located in different parts of a city: in houses in poor and non-poor neighbourhoods; in nearby market streets, or in open spaces in the city centres; in central public markets, or even in their own transport or when carrying out jobs in other domiciles. Extrapolating from the FIDEG (2005a) study to the number of microenterprises for the period 1994–2004, it is possible to conclude that about 54 per cent were home-based microenterprises which explains the importance they had for women-headed households; 12 per cent took place in independent locations; 18 per cent in other houses (i.e. plumbers, skilled masons, and carpenters working in other domiciles); 5 per cent in public squares and parks; 7 per cent in central markets, and 5 per cent used their cars or trucks as their main tool of work for income-generating activities. Finally, about 66 per cent of the microenterprises engaged in trading activities; 20 per cent in services, and only 13 per cent in productive activities. These figures are consistent with other studies for Nicaragua, and corroborate that micro-credits were, in the majority of cases, supporting trading activities. According to

Table 6.2 *Microenterprises and households included in PRODEL's microcredit (1994–2008).*

<i>Number of persons working per micro-enterprise</i>	<i>Percentage of micro-enterprises headed by women according to number of persons employed</i>	<i>Percentage of micro-enterprises headed by men according to number of persons employed</i>	<i>Number of micro-enterprises headed by women according to number of persons employed</i>	<i>Number of micro-enterprises headed by men according to number of persons employed</i>	<i>Total number of possible micro-enterprises</i>	<i>Total possible households</i>	<i>Total possible persons</i>
1	52.3%	39.4%	7,950	1,891	9,841	9,841	50,582
2	19.8%	39.4%	3,010	1,891	4,901	4,901	25,190
3	12.8%	3.0%	1,946	144	2,090	3,134	16,111
4	8.1%	3.0%	1,231	144	1,375	2,750	14,137
5	7.0%	15.2%	1,064	730	1,794	4,484	23,048
Total	100.0%	100.0%	15,200	4,800	20,000	25,110	129,067

Source: Own elaboration based on FIDEG (2005a, 2005b) and PRODEL (2009a).

PRODEL (2009a), during the period 2004-2008, about 6.3 per cent of the microenterprise clients had monthly incomes below US\$ 150, while 64.4 per cent had monthly incomes between US\$ 151 and US\$ 300, and 29.3 per cent had monthly incomes of more than US\$ 301.

Strengthening households' physical assets

The small and repetitive housing improvement loan component started operations during a period where lending, either for new housing or for housing improvement, without the existence of sound collaterals and guarantees (especially related to land ownership rights), and clear evidence of the client's income capacity, was considered as highly risky, if not impossible, by the majority of the formal banking institutions (private and public), and even by the micro-finance institutions in Nicaragua. Moreover, this form of social housing finance was introduced at a time when the Nicaraguan government did not have a housing subsidy system.

Number of loans and volume of resources disbursed

From 1994 to 2008, the MFIs disbursed, with PRODEL resources, 43,559 loans equivalent to US\$ 42.58 million (see Table 6.3).²⁸ This figure varied: in 1994, the BCP, the only lending institution that intermediated PRODEL resources then, disbursed 115 loans for a total volume of US\$ 73,003; in 1997, the same bank disbursed 1,167 loans for a total volume of US\$ 822,113. In 2004, the number of loans disbursed by three MFIs was more than 3,400 for a total volume of US\$ 2.9 million, and by 2006, the number of loans disbursed by eight MFIs was more than 6,000 for a total volume of approximately US\$ 6.3 million. In 2008, more than 9,600 loans were disbursed through 10 MFIs for a total volume of loans of about US\$ 14.9 million (see Table 6.3).

The average size of the housing improvement loans for the period 1994-2008 was US\$ 967, yet it varied between US\$557 in 1994, to US\$ 979 in 2001, and US\$ 1,035 in 2006 to US\$ 1,542 in 2008 (see Table 6.3). The average loan size over the period hides the true picture of the difference in the average size of the loans for each year. For example, the average size of a loan between 1994 and 1998 was US\$ 659. Based on Paniagua et al. (1998), it is possible to calculate that for the same period about 66 per cent of the housing improvement loans were between US\$ 155 and US\$ 720; an additional 28 per cent of the loans were between US\$ 721 and US\$ 1,543; and the remaining 5 per cent of the loans were more than US\$ 1,544.

Affordability

The average loan size (US\$ 967) for the period 1994-2008 (see Table 6.3) represented about 3 per cent of the value of the average mortgage loan from the formal banking system in Nicaragua in 2006. This means that households that accessed a housing improvement loan from PRODEL had some sort of regular or stable income but one that

²⁸ Figures on Table 6.3 differ from data presented by PRODEL as input to this thesis. For PRODEL (2009a) the number of housing improvement loans disbursed was 43,705 between 1994 and 2008 and a volume of US\$ 42.55 million. The discrepancy relates to the different reports that PRODEL and the author of this thesis managed for the first five years of operation 1994-1998.

Table 6.3 Number, volume and average size (in US\$) of PRODEL's housing improvement loans (1994–2008) (nominal values).

Year	Number of Loans	Amount of Loans in US\$	Average size of Loans in US\$
1994	115	73,303	637
1995	1,004	559,293	557
1996	928	525,958	567
1997	1,130	822,113	728
1998	1,167	881,839	756
1999	1,400	978,392	699
2000	905	738,799	816
2001	786	770,035	980
2002	1,901	1,273,682	670
2003	2,906	2,377,884	818
2004	3,372	2,945,743	874
2005	5,224	3,397,700	650
2006	6,067	6,280,647	1,035
2007	7,478	6,066,099	811
2008	9,646	14,886,256	1,543
Total	44,029	42,577,743	967

Source: Own elaboration based on PRODEL (1995, 1997, 1999, 2004a, 2009a).

was too low to afford a housing mortgage loan through the formal banking system. This lack of affordable mortgages made the small and repetitive loans for housing improvement probably the only alternative way of addressing the qualitative housing deficit in the country for those households that could afford to pay these loans. According to PRODEL's historical data, 6 per cent of all the clients with housing improvement loans during the period 1994–2008 had household monthly incomes of less or equal to US\$ 100 a month (see Table 6.4). Approximately 17 per cent of the households had incomes between US\$101 and US\$ 200; 21 per cent had monthly incomes between US\$ 201 and 300 per month; 23 per cent had monthly incomes between US\$ 301 and 400; and 34 per cent of the households had monthly incomes of US\$ 401 or more (see Table 6.4). A household with a monthly income below US\$ 90 could not afford a housing improvement loan. This practice prevailed during the first years of PRODEL operations, and representatives of three MFIs intermediating PRODEL's resources in Managua, Estelí, Somoto and Ocotal expressed that this was the income limit. Beyond this limit, "it was not only inconvenient but would also be irresponsible from their side in terms of the borrower's well-being" (interviews held in July 2006 and February 2007).

What emerges is a pattern of the types of household that accessed the housing improvement loans according to their levels of income over a period of 15 years (see Figure 6.1). Indeed, the number of loans for households with monthly incomes equal or below US\$ 100 increased from 17 in 1995 (the first full year of PRODEL's operation) to 687 in 2008, while proportionally they increased from 3 per cent to 7 per cent of the total number of loans for the same years (see Table 6.4 and Figure 6.1). Households earning between US\$ 101 and US\$

200 and getting improvement loans increased from 133 in 1995 to 1,379 in 2008, although the proportion they represented within the total number of housing improvement loans decreased from 23 per cent to 14 per cent. Those earning between US\$ 201 and US\$ 300 also decreased from 21 per cent to 15 per cent for the same years, while those earning between US\$ 301 and US\$ 400 decreased from 28 per cent to 20 per cent over the same time period. However, those with earnings between US\$ 401 and US\$ 500 increased from 13 per cent to 22 per cent while those earning more than US\$ 500 increased from 2 per cent in 1995 to 21 per cent in 2008 (see Table 6.4 and Figure 6.1). Approximately 67 per cent of PRODEL's housing improvement loan clients had monthly household incomes on a threshold that lay between US\$ 100 and US\$ 400 (see Table 6.4). If the average size of an urban household in Nicaragua were approximately five persons this means that on average, 70 per cent of PRODEL's housing improvement clients had a per capita monthly income varying from US\$ 20 to US\$ 80.

How did this monthly income per capita compare to the national income distribution? According to the 2005 National Household Survey on Living Conditions (INIDE 2007:32) only 20 per cent of the upper two deciles had a monthly income per capita equal or bigger than US\$ 95; and about 80 per cent of the Nicaraguan households

Table 6.4 Number and proportion of PRODEL's housing improvement loans per monthly income bracket (in US\$) (1994–2008).

Income bracket US\$	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total ¹
100	2	17	16	9	7	117	29	34	46	109	134	384	473	501	687	2565
101–200	31	133	193	189	154	376	133	152	281	543	553	978	985	1114	1379	7194
201–300	39	179	314	471	429	366	296	166	531	613	823	1066	965	1279	1495	9032
301–400	27	162	273	356	461	392	155	121	512	779	951	690	1505	1544	1921	9849
401–500	13	76	59	76	59	89	208	168	306	483	601	1155	983	1581	2138	7995
> 500	3	11	9	24	56	86	84	145	225	379	310	951	1156	1459	2026	6924
Total	115	578	863	1125	1167	1426	905	786	1901	2906	3372	5224	6067	7478	9646	43559

Income bracket US\$	(Per centage)															
Income bracket US\$	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
100	2%	3%	2%	1%	1%	8%	3%	4%	2%	4%	4%	7%	8%	7%	7%	6%
101–200	27%	23%	22%	17%	13%	26%	15%	19%	15%	19%	16%	19%	16%	15%	14%	17%
201–300	34%	31%	36%	42%	37%	26%	33%	21%	28%	21%	24%	20%	16%	17%	15%	21%
301–400	23%	28%	32%	32%	40%	27%	17%	15%	27%	27%	28%	13%	25%	21%	20%	23%
401–500	11%	13%	7%	7%	5%	6%	23%	21%	16%	17%	18%	22%	16%	21%	22%	18%
> 500	3%	2%	1%	2%	5%	6%	9%	18%	12%	13%	9%	18%	19%	20%	21%	16%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

1 There is a difference between the total number of loans for the years 1995, 1996, 1997, 1998 and 1999, and the ones offered in Table 6.3 in this thesis. This difference relates to the figures provided by PRODEL according to income level, which do not match the number of loans disbursed each year. Nevertheless, in terms of proportions it shows a relatively accurate picture of the percentage of clients according to monthly income bracket. The numbers and proportions for 2007 and 2008 are the author's own calculations according to trends over the previous 13 years.

Source: Own elaboration according to electronic data provided by PRODEL in November and December 2007, and PRODEL (2009a).

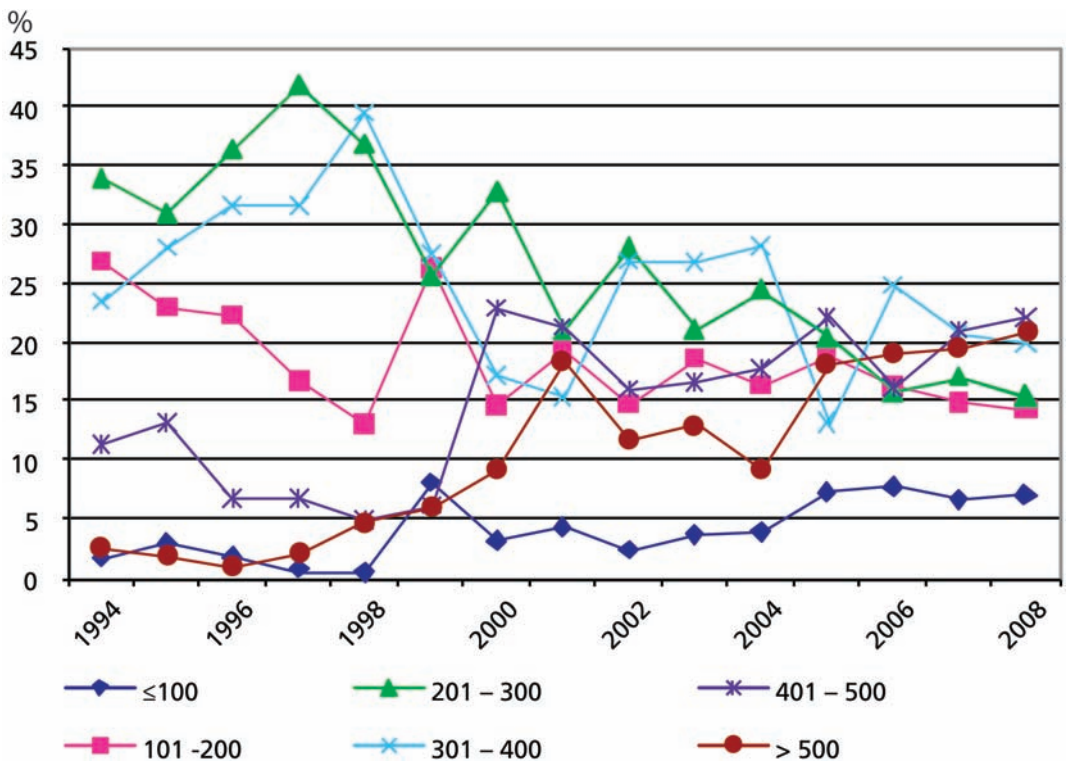


Figure 6.1 Monthly income ranges (in US\$) of PRODEL's housing improvement loan clients (1994–2008).

Source: Own elaboration based on Table 6.4 of this thesis.

had monthly incomes per capita below or equal to US\$ 68; while 30 per cent had monthly incomes per capita below or equal to US\$ 23. Thus, it is reasonable to assume that the majority of PRODEL's clients did not belong to either the upper or the lower deciles according to their monthly household incomes.

Lending conditions

According to PRODEL (2009a), the repayment period of the loan increased from 12 months up to 72 months, although over the final five years (2004–2008) the average repayment period for the loans was 28 months. In 2004, the interest rate for the clients of the housing improvement loans was, on average, 14 per cent per annum. The effective interest rate that MFIs charged increased substantially in the last three years. In 2007, the interest rate (including direct legal and administrative fees for the MFI) was 31 per cent for a housing improvement loan of less than US\$ 1,500. Yet, this rate was lower than the 24 per cent that non-regulated MFIs could charge according to the Nicaraguan Central Bank. Some MFIs added an extra 15 per cent in commissions and fees, so the rate was about 39 per cent (inputs from MFIs personnel interviewed in 2006, and Irene Vance in May 2007).

In later years, the MFIs signed collective agreements with the ministries of health and education to deduct payments for housing improvement loans from the monthly salaries of their employees. A teacher in Nicaragua earned about US\$ 140, nurses and doctors be-

tween US\$ 250 and US\$ 300, and tobacco workers between US\$ 90 and 120. However, the majority of employees in the public sector also had an extra job which allowed them to have an income that probably doubled the amount they received as government employees (interview with the Head of the FDL branch in the Ricardo Huembes market, Managua, July 2006). In the absence of real guarantees (including fully registered land title) in many of the cities where PRODEL operated, this automatic deduction from the employees' monthly salaries reduced the default risk and increased accessibility for this segment of the market.

Number of households included in the housing improvement loans

It was difficult to determine quantitatively how many households were included in the small and repetitive loans for housing improvements as the total figures for credits disbursed did not equate with the potential number of households that accessed these loans. To determine this number, it was vital to know the degree of refinanced loans during the entire period, i.e. how many credits did each household receive. A recent report on the implementation of the Third Phase of Swedish support, PRODEL (2009a), established that from 2004 to 2008, the households that participated in the small and repetitive housing improvement loan scheme borrowed, on average, 2.5 credits per household. Thus, PRODEL calculated that from a total of 31,787 housing improvement loans disbursed during this period, approximately 13,000 households accessed the lending scheme. Applying this factor (2.5 credits per household) for the entire period 1994–2008, would mean that approximately 17,600 households were included in the housing improvement loans.

According to four different methods of calculation, this thesis demonstrates that the figures provided by PRODEL underestimated the total number of households included in this component (see Table 6.5). Method A uses the same PRODEL (2009a) data, but instead of 2.5 credits per household, decreases this factor to two credits per household. The reasons for decreasing this factor relate to the fact that during the period 2004–2008, PRODEL expanded its geographic operation from 25 to 79 municipalities, and the number of MFIs lending for housing improvement increased from 4 in 2004; to 5 in 2005; 8 in 2006; 9 in 2007; and finally to 11 in 2008. In this sense, it was not feasible that in a period of such intense geographic and institutional expansion, the rotation of the loans per household was more than two, given that the average period for the loans was 28 months according to the same report (see PRODEL 2009a). According to Method A, the possible number of households that accessed a housing improvement loan was, therefore, 22,000 (see Table 6.5).

FIDEG's (2005a) survey established that 38 per cent of the 229 interviewees who participated in the housing improvement component received at least two loans or more during a period of 12 years. Thus, Method B calculates that for the period 1994–2008, each household received 1.6 credits (assuming that during the last two years it would have been impossible for a household to receive 2 credits). This means that about 16,716 households received more

Table 6.5 Households included in PRODEL's housing improvement loan component (1994–2008).

Indicators	Method Used				
	Based on PRODEL	Method A Based on PRODEL ¹	Method B Based on FIDEG	Method C Based on PRODEL data for 2007	Method D Based on data from Estelí
Possible number of households included in the housing improvement loan component	17,600	22,000	27,283	34,760	39,126
Households as a percentage of the total number of loans	40%	50%	62%	79%	89%
Average number of loans per household	2.5	2.0	1.6	1.3	1.1
Number of persons in households	90,464	113,080	140,235	178,666	201,108
Persons as a percentage of the urban population in Nicaragua in 2005	3%	4%	5%	6%	7%

1 This method also combines the data of PRODEL 2009a.

Source: Own elaboration according to FIDEG (2005a, 2005b) and PRODEL (2009a, 2009b).

than one loan and, therefore, the total number of households included in PRODEL's scheme was about 27,283 (see Table 6.5).

Method C bases its finding on a table prepared by PRODEL in 2007 for this thesis which estimated that between 1994 and 2006, the total number of refinanced loans was 5,766, representing about 21 per cent from the total 27,197 housing improvement loans disbursed during the same period of 13 years. According to this method the total number of households received an average 1.3 credits. Extrapolating this average to the totality of 44,000 loans disbursed for the period 1994 to 2008, implies that about 34,760 households potentially benefited from the small and repetitive housing improvement loans component (see Table 6.5).

Finally, Method D calculates this number based on a list of all the clients that accessed a housing improvement loan from 2005 to 2007 in the departments of Estelí, Somoto and Ocotal (PRODEL 2009b). The list, prepared by PRODEL's technical assistance officers in these geographic areas, contained information on 2,447 loans, which represented 13 per cent of the total housing improvement loans that the MFIs disbursed during those three years in Nicaragua with PRODEL resources. The list also determined if a loan received by the household for a specific year, was the first, the second, the third, or the fourth, or more. According to these lists, for 89 per cent of the households it was the first loan, and for the rest, at least the second or more. Extrapolating this factor to the totality of loans for Nicaragua for the period 1994–2008, gives a number of 39,126 households that potentially were included (see Table 6.5) for an average of 1.1 credits per household.

From the four methods shown in Table 6.5, Method C is more precise as it calculates the number of loans and refinanced loans per annum and per municipality for the first 13 years of operation of PRODEL which represented approximately 62 per cent of the total number of loans for the period 1994–2008. According to Table 6.5 the number of persons that benefited from these loans ranged from

90,000 to 200,000 (assuming 5.14 as the average number of persons per household in the urban areas of Nicaragua according to the 2005 National Census). Thus, according to the different methods used, during the period 1994–2008 between 3 per cent and 7 per cent of the total urban population in Nicaragua improved their housing conditions through these loans. If Method C is accurate, the number of people included in PRODEL's housing improvement loan scheme was equivalent to 6 per cent of the total urban population in Nicaragua (based on the year 2005).

In each of the eight municipalities where PRODEL started operations during the first and second phases of Swedish support, the analysis shows a more substantive impact in terms of financial inclusion. In Ocotol, between 38 and 20 per cent of the city's housing stock improved, depending on whether the number of households included in the loan scheme is measured against the city's housing stock for the years 1994 or 2005 respectively (see Table 6.6). In Somoto, the number of households included as a proportion of the housing stock varied from 66 to 45 per cent; and in Estelí from 29 to 21 per cent. For the totality of the eight municipalities, the proportion varied from 15 to 11 per cent for the period 1994–2006 (see Table 6.6).

Assuming that 30 per cent of the amount of each loan paid for labour, the small and repetitive housing improvement loans generated more than 50,000 labour months during the period 1994–2008 (see PRODEL 2006b).

Table 6.6 PRODEL: Housing improvements as a proportion of housing stock.

Municipality	Number of Households included in the housing improvement loan scheme (1994–2006)	Households included in the loan scheme as percentage of housing stock in each municipality in 1994	Households included in the loan scheme as percentage of the housing stock in each municipality in 2005
Ocotol	1,624	38%	20%
Somoto	1,820	66%	45%
Estelí	4,241	29%	21%
Leon	1,430	6%	5%
Chinandega	1,209	7%	6%
Chichigalpa	280	5%	4%
Matagalpa	1,385	13%	8%
Jinotega	1,170	19%	13%
Total 8 municipalities	13,159	15%	11%

Source: Own elaboration based on Nicaragua's VII Population and III Housing Census 1995 and VIII Population and IV Housing Census 2005 (www.inide.gob.ni), and electronic data provided by PRODEL in 2007.

Land tenure and gender

To what degree, then, have land tenure and gender issues been critical elements in achieving inclusion in this form of social housing finance? In 1998, an assessment of the quality of PRODEL's loan portfolio (see Paniagua et al., 1998) found that in only 22 per cent of cases had a registered land title secured the loan, 5 per cent had handed over their property rights to the bank, while at least 42 per cent of the housing improvement loans did not require collateral linked to a registered land title or proof of land-tenure rights at all, and there was no information for 32 per cent of cases on the type of

collateral used. Rather than the types of guarantee provided as collateral (including land), the study (ibid.) found that unsigned loan contracts between the bank and the borrowers were the main cause of arrears. The study also found that 60 per cent of the borrowers were women and that the number of payments in arrears was independent of gender (ibid.). Thus, four years after PRODEL had started operations, land tenure was not a determinant issue for financial inclusion and women formed the majority of borrowers.

Data provided by PRODEL (2009a) suggests that 52 per cent of the borrowers were women and 43 per cent of these were household heads. For the municipalities of Estelí, Somoto and Ocotal data from PRODEL (2009b) showed that in 2005, women constituted 66 per cent of the total borrowers of the housing improvement loans, while only 31 per cent of the women borrowers were in possession of land for which they had land-tenure rights or which they owned. Although it is unclear from the data if land titles constituted the collateral for the loan, the information suggested that women accessed a loan without being the main owners of the land. Similarly, in the same departments, in 2006 and 2007, women constituted approximately 72 per cent of the total borrowers of loans for housing improvement, and their ownership and possession over land tenure had also increased from 61 per cent in 2006 to 64 per cent in 2007. The reason for this growth links to the allocation of land titles by national government which, following a long process of land tenure regularisation, finally recognised and registered the land to households that had occupied the land in the late 1980s and beginning of the 1990s in the main cities of these departments.

Increase in the value of housing

According to FIDEG's (2005b) survey, after participating in the small and repetitive housing improvement loans component, the increase in the mean value of the houses in US\$ in seven of the cities where PRODEL operated was significant. In Somoto, Ocotal and Matagalpa, the increase in the mean value of the houses doubled (see Figure 6.2); while in the rest, it ranged from between 1.4 and 1.8 times. Overall, looking at the average across all seven cities, house values increased more than 1.7 times (see Figure 6.2). From interviews in the cities of Somoto and Ocotal, and Estelí in 2007 and 2009, it was possible to learn that the increased mean housing value (as perceived by household members) related to both the housing improvement loans and also the investments in infrastructure and services with, or without, PRODEL resources, and followed similar trends as the ones established in FIDEG's survey.

Improved quality

According to data from FIDEG (2005b), overcrowding was reduced from 48 percent to 8 percent; the use of earth floors also decreased from 40 percent to 11 percent; and pit latrines decreased from 58 per cent to 38 per cent; while kitchen improvement increased from 69 per cent to 85 per cent. Approximately 12 per cent of those households that improved their houses subsequently received additional income from renting rooms.

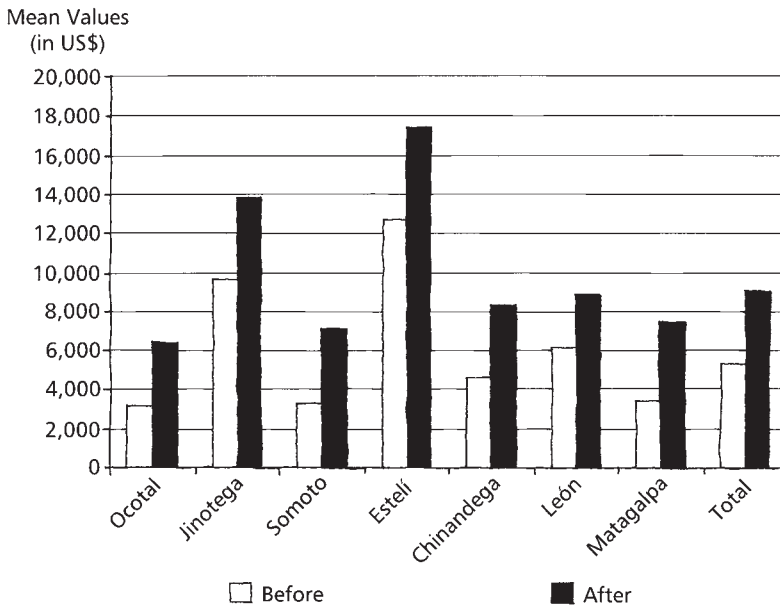


Figure 6.2 Mean housing values (in US\$) before and after PRODEL's housing improvement loans.

Source: Own elaboration based on FIDEG (2005b).

Strengthening the physical collective assets of the urban poor

From 1994 to 2008, PRODEL co-financed 659 infrastructure projects under the decentralised and non-reimbursable fund (see Table 6.7). Nine of these projects were monetary incentives to the municipalities to implement different types of municipal projects, including economic infrastructure. Around 634 of the projects, equivalent to 96.2 per cent of the total projects (see Table 6.7), were located in the cities of Chichigalpa, Chinandega, Estelí, Jinotega, León, Matagalpa, Ocotol and Somoto, the cities in which PRODEL started working during the first and second phases of Swedish support; 2.8 per cent of the projects were in the cities of Juigalpa and Rivas which were incorporated during the third phase starting in 2006; and only 1 per cent of the projects were in four small peri-urban municipalities after 2008 (see Table 6.7). According to PRODEL's different annual reports the thesis identified more than 50 different types of project clustered in 10 broad categories (see Tables 6.8 and 6.9), of which:

Potable water supply systems including wells; water catchment tanks, introduction of main pipe networks and household connections, represented 4.7 per cent of the total number of projects;

Sewerage systems: including septic tanks, pit latrines, water-borne sewerage pipeline network, constituted 14.7 per cent of the projects;

Drainage and storm water systems including street gutters, kerbs, cobblestone paving, small box bridges, flood mitigation works (hy-

draulic curtains, contention walls, coating of river channels, and water tunnels), constituted 34.6 per cent of the projects;

Repairs and maintenance of nursery centres, and elementary schools, represented 5.9 per cent of the number of projects;

Electricity systems including public lighting, household connections, and the introduction of light systems to schools and community centres, represented 9.6 per cent of the projects;

Environmental issues including preventive health campaigns, solid waste management (refuse disposal, dump and landfill management, and the introduction of trash-bin containers in communities), represented 0.6 per cent of the projects;

Road and street networks: including internal paths in community areas, street pavements, pedestrian paths, road and street improvements, sidewalks, vehicular and pedestrian bridges, and more recently rural roads, represented 19.9 per cent of the projects;

Land management including urban land planning, human settlement planning and the introduction of associated basic infrastructure, was 3.5 per cent of the projects;

Construction and rehabilitation of public squares, small community parks, playgrounds, and sport venues, 5.8 per cent of the total number of projects; and finally; other projects – including community and multipurpose centres, preventive health centres, markets and slaughterhouses – represented 0.8 per cent of the number of projects.

The type of project varied according to the priorities of local government and the communities in each city. For example, in Jinotega, potable water and sewerage systems constituted 55.9 per cent of the

Table 6.7 PRODEL: Number of infrastructure projects per municipality and per year (1994–2008).

Municipality	Year																Total	%
	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08			
Leon	15	15	8	6	4	9	12	9	2	4	0	0	0	0	0	84	12.7	
Chinandega	15	19	16	15	7	9	6	9	3	4	4	5	5	0	0	117	17.8	
Estelí	11	12	10	11	5	9	5	8	7	4	4	4	5	0	0	95	14.4	
Ocotal	8	9	6	9	7	9	6	7	5	5	5	6	4	6	3	95	14.4	
Somoto	12	7	6	6	5	5	5	5	5	3	5	7	3	5	3	82	12.4	
Chichigalpa	0	0	0	0	5	7	3	2	3	5	7	7	5	8	3	55	8.3	
Matagalpa	0	0	0	0	5	8	0	4	3	8	7	7	5	0	0	47	7.1	
Jinotega	0	0	0	0	8	8	5	6	5	7	4	3	3	7	3	59	9.0	
Juigalpa	0	0	0	0	0	0	0	0	0	0	0	0	4	5	2	11	1.7	
Rivas	0	0	0	0	0	0	0	0	0	0	0	0	1	5	1	7	1.1	
Nueva Guinea	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	2	0.3	
Muelle de los Bueyes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	2	0.3	
San Jose Cusmapa	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0.2	
Las Sabánas	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0.2	
San Lucas	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	1	0.2	
Total	61	62	46	47	46	64	42	50	33	40	36	39	35	36	22	659	100.0	

Source: Own elaboration based on PRODEL annual reports and PRODEL (2009c).

Table 6.8 PRODEL: Number and type of infrastructure and basic service projects per municipality (1994–2008).

Municipality	Potable water systems	Sewerage systems	Drainage and storm water systems	Schools	Electricity	Solid waste management	Roads and streets	Land management and infrastructure	Parks and sport centres	Community Centres and economic infrastructure	Total
Leon	5	12	11	0	15	2	23	0	15	1	84
Chinandega	4	15	25	16	18	0	28	0	9	2	117
Esteli	0	9	42	2	3	0	31	0	8	0	95
Ocotal	0	9	42	12	9	0	18	3	1	1	95
Somoto	1	5	40	8	2	0	16	6	4	0	82
Chichigalpa	0	16	21	0	11	1	6	0	0	0	55
Matagalpa	4	6	34	0	0	0	3	0	0	0	47
Jinotega	13	20	9	1	5	1	1	7	1	1	59
Juigalpa	0	0	4	0	0	0	0	7	0	0	11
Rivas	2	5	0	0	0	0	0	0	0	0	7
Nueva Guinea	0	0	0	0	0	0	2	0	0	0	2
Muelle de los Bueyes	0	0	0	0	0	0	2	0	0	0	2
San Jose Cusmapa	1	0	0	0	0	0	0	0	0	0	1
Las Sabanas	1	0	0	0	0	0	0	0	0	0	1
San Lucas	0	0	0	0	0	0	1	0	0	0	1
Total	31	97	228	39	63	4	131	23	38	5	659

Source: Own elaboration based on PRODEL (1995, 1999, 2004a, 2009c).

Table 6.9 PRODEL: Breakdown of infrastructure project per municipality (in percentages) (1994–2008).

Municipality	Potable water systems	Sewerage systems	Drainage and storm water systems	Schools	Electricity	Solid waste management	Roads and streets	Land management and infrastructure	Parks and sport centres	Community Centres and economic infrastructure	Total
Leon	6.0%	14.3%	13.1%	0.0%	17.9%	2.4%	27.4%	0.0%	17.9%	1.2%	100.0%
Chinandega	3.4%	12.8%	21.4%	13.7%	15.4%	0.0%	23.9%	0.0%	7.7%	1.7%	100.0%
Esteli	0.0%	9.5%	44.2%	2.1%	3.2%	0.0%	32.6%	0.0%	8.4%	0.0%	100.0%
Ocotal	0.0%	9.5%	44.2%	12.6%	9.5%	0.0%	18.9%	3.2%	1.1%	1.1%	100.0%
Somoto	1.2%	6.1%	48.8%	9.8%	2.4%	0.0%	19.5%	7.3%	4.9%	0.0%	100.0%
Chichigalpa	0.0%	29.1%	38.2%	0.0%	20.0%	1.8%	10.9%	0.0%	0.0%	0.0%	100.0%
Matagalpa	8.5%	12.8%	72.3%	0.0%	0.0%	0.0%	6.4%	0.0%	0.0%	0.0%	100.0%
Jinotega	22.0%	33.9%	15.3%	1.7%	8.5%	1.7%	1.7%	11.9%	1.7%	1.7%	100.0%
Juigalpa	0.0%	0.0%	36.4%	0.0%	0.0%	0.0%	0.0%	63.6%	0.0%	0.0%	100.0%
Rivas	28.6%	71.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Nueva Guinea	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	100.0%
Muelle de los Bueyes	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	100.0%
San Jose Cusmapa	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Las Sabanas	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
San Lucas	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	100.0%
Total	4.7%	14.7%	34.6%	5.9%	9.6%	0.6%	19.9%	3.5%	5.8%	0.8%	100.0%

Source: Own elaboration based on PRODEL (1995, 1999, 2004a, 2009c).

total projects (see Table 6.9), while in Estelí there were no potable water projects, and drainage and street improvements represented about 77 per cent of the total projects implemented over the period 1994–2006.

During the same period, the total investment in this co-finance mechanism for infrastructure was US\$ 17,805,730, of which, PRODEL provided approximately 50.2 per cent of the financial resources; local government 34.1 per cent; the urban poor communities 13.7 per cent; and the remaining 2 per cent of funding came from other sources (see Table 6.10).

Table 6.10 Investment (in US\$) per partner in PRODEL's infrastructure component (1994–2008).

Municipality	PRODEL	Local			Total	Percentage for each city of total funding
		Governments	Communities	Others		
Leon	863,409	461,410	175,989	30,549	1,531,357	8.60%
Chinandega	1,349,460	1,034,240	381,308	16,961	2,781,969	15.62%
Estelí	1,479,694	1,180,987	352,895	33,693	3,047,270	17.11%
Ocotal	1,167,498	667,503	279,277	52,579	2,166,858	12.17%
Somoto	1,241,592	758,835	316,885	35,672	2,352,983	13.21%
Chichigalpa	827,609	545,481	267,572	59,953	1,700,616	9.55%
Matagalpa	556,443	506,967	182,016	39,566	1,284,992	7.22%
Jinotega	901,841	542,977	290,825	71,607	1,807,250	10.15%
Juigalpa	268,678	184,818	81,777	11,054	546,325	3.07%
Rivas	85,957	52,118	38,883	7,287	184,244	1.03%
Nueva Guinea	67,265	69,848	24,951	—	162,064	0.91%
Muelle de los Bueyes	60,000	32,204	19,820	—	112,024	0.63%
San Jose Cusmapa	16,649	10,006	12,423	—	39,079	0.22%
Las Sabanas	22,953	9,126	6,186	—	38,265	0.21%
San Lucas	29,761	15,481	5,192	—	50,434	0.28%
Total Investments	8,938,810	6,072,000	2,436,000	358,921	17,805,730	100.00%
Percentage	50.20%	34.10%	13.68%	2.02%	100.00%	

Source: Own elaboration based on PRODEL annual reports and PRODEL (2009c).

The investment each year varied from municipality to municipality and it depended on the amount of resources that both the municipal council and the communities were able and willing to contribute to co-finance the infrastructure projects supported by PRODEL. In middle-sized cities like Estelí and Chinandega, the average investment each year was more than US\$ 220,000, with PRODEL investing less than 50 per cent; the local governments contributing on average 36 per cent (Estelí) and 38 per cent (Chinandega) per annum; and the communities 14 per cent. In small municipalities like Somoto and Ocotal, the percentage of local government contributions diminished to 31 per cent and 29 per cent on average per annum while the communities invested 15 per cent on average every year (see Figure 6.3).

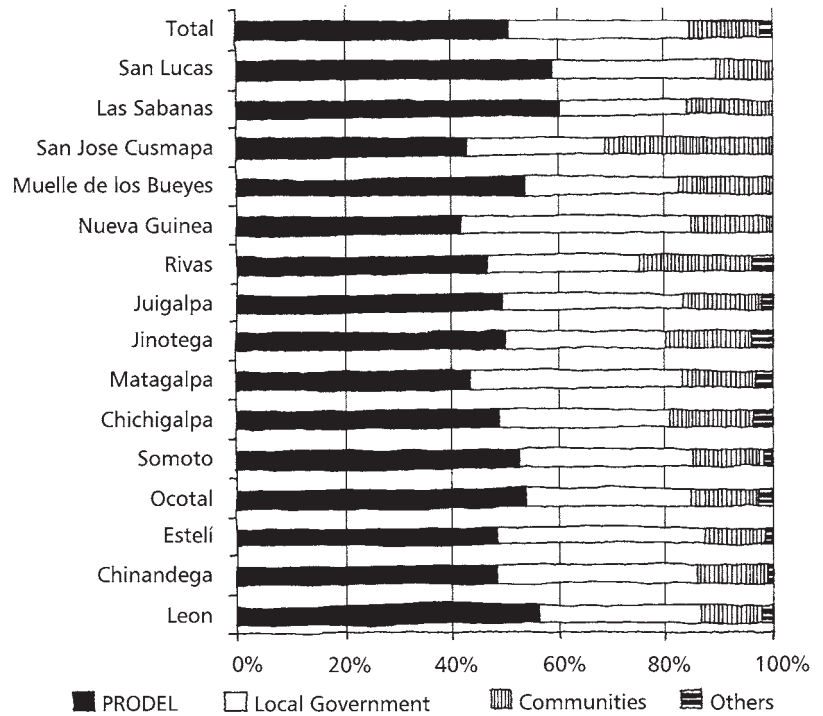


Figure 6.3 PRODEL: Contributions per partner to the infrastructure component (in percentages).

Source: Own elaboration based on PRODEL (2009c).

Table 6.11 PRODEL: Investment per capita per year in the infrastructure component (in US\$).

Municipality	Population in 1994	Population in 2005	Total investment per city	Investment per capita/ city's population 1994	Investment per capita/ city's population 2005	Years of PRODEL operation in city	Investment per capita per year (according to 1994)	Investment per capita per year (according to 2005)
Leon	122,390	139,433	1,531,357	13	11	10	1.25	1.10
Chinandega	97,566	95,614	2,781,969	29	29	13	2.19	2.24
Estelí	69,866	90,294	3,047,270	44	34	13	3.36	2.60
Ocotal	24,488	34,190	2,166,858	88	63	15	5.90	4.23
Somoto	13,869	18,126	2,352,983	170	130	15	11.31	8.65
Chichigalpa	28,322	34,243	1,700,616	60	50	11	5.46	4.51
Matagalpa	57,576	80,338	1,284,992	22	16	9	2.48	1.78
Jinotega	29,922	41,134	1,807,250	60	44	11	5.49	3.99
Total	443,999	533,372	16,673,295	38	31			

Source: Own elaboration based on PRODEL (2009c) and INIDE censuses (www.inide.gob.ni).

PRODEL and the urban poor in Nicaragua

This section uses the database of FIDEG's (2005a) survey carried out in May 2005 to compare the participants in PRODEL's three main components with the rest of the Nicaraguan population, and with the urban poor population in general, and the urban poor in particular, in the cities in which PRODEL had operated since 1994.

Household poverty levels included in PRODEL's components and the urban poor in Nicaragua

The comparison considered official poverty lines (according to income and consumption levels), and the perception of poverty, levels of education, levels of migration and the resulting remittances sent back to families, and the extent of unsatisfied basic needs between those households included in PRODEL's three components and the urban poor in Nicaragua overall, and in the cities in which it operated.

A comparison according to poverty lines

The national poverty line for 2005 established the annual level of consumption of food per person to satisfy the minimum daily caloric requirements (extreme poverty line) plus an additional amount to cover the consumption in services and non-food goods such as housing, transport, education, health, clothing and other expenses (INIDE 2007:4). The value of the general poverty line for 2005 was equivalent to US\$ 427.67 per person per year, or the equivalent of US\$ 35.64 per person per month and the extreme poverty line was US\$ 234.76 per year or US\$ 19.56 per month (ibid). That year, according to these values, more than 31 per cent of the households living in urban areas of Nicaragua were considered poor (24 per cent poor, and 7 per cent extreme poor), the rest were considered non-poor.

Using FIDEG's survey database (2005a), monthly food expenditure per capita of household members that participated in PRODEL's components was calculated and compared with the national poverty lines for 2005. According to these calculations, from the totality of households surveyed by FIDEG, only 24 per cent were poor, of which 16 per cent were poor, and 8 per cent of the households were extreme poor (see Figure 6.4)²⁹ These figures were much lower than the levels of poverty prevailing in Nicaragua's urba. This figure varied from one component to the other. In the microenterprise component, the prediction was that only 9 per cent of the households were

²⁹ A methodological problem of FIDEG's survey in the micro-enterprise component is that when asked about their monthly income and expenditures, interviewees mixed their household expenditure with their micro-enterprise expenditure, resulting in higher values than normal. To avoid extreme cases, 'outliers' were identified from the sample, and treated as missing values (not only from this component but also in the housing improvement and the for infrastructure components). Thus, from 542 cases, only 529 cases were considered in the calculation of the monthly food expenses per person.

poor (6 per cent poor and 3 per cent extreme poor). In areas which stood at 24 per cent poor and 7 per cent extreme poor (see Figure 6.4). In the small and repetitive loans for the housing improvement component, the proportion of poor households increased to 19 per cent of which 14 per cent were poor and 5 per cent were extreme poor (see 6.4). This figure was still below the national average for urban areas which then stood at 31 per cent. However, the infrastructure component showed a significant number of poor households above the national urban average: about 40 per cent were poor of which 23 per cent were poor and 17 per cent were extreme poor (see Figure 6.4).

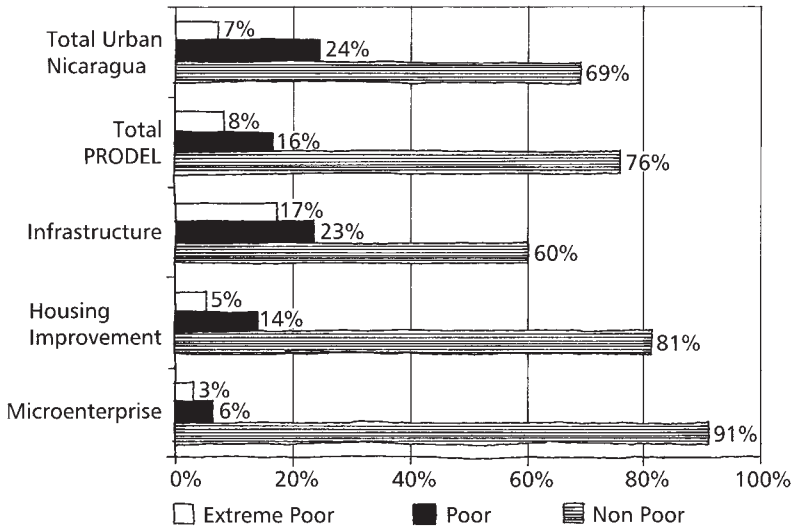


Figure 6.4 Households' poverty levels in PRODEL's components.

Source: Own elaboration according to Table 4.3 of present thesis and SPSS data base from FIDEQ (2005a) survey.

The data for the three components corroborated one of the principles that guided the original design of PRODEL: the combination of micro-credits for economic activities and housing improvements, aimed at microenterprises and households that could afford to pay back a loan, combined with the co-finance mechanism for infrastructure, ensured broad social and financial inclusion while reinforcing the dynamics of urban poverty reduction in the communities in which it operated.

Perception of poverty

When data from the levels of poverty (see figure 6.4) was cross-tabulated with the perception of poverty, approximately 70 per cent of the people interviewed considered that their household was poor despite that their levels of income and expenditure per month was above the poverty line. This figure also varied from one city to another (see Figure 6.5).

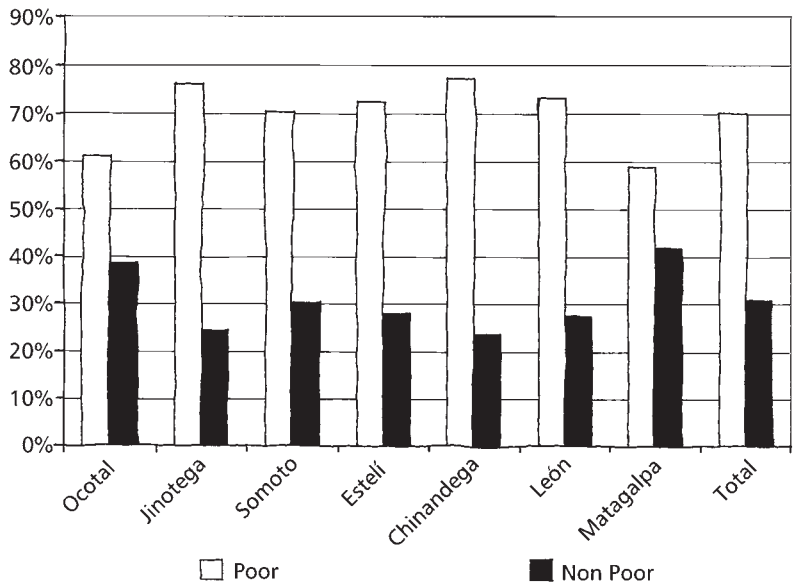


Figure 6.5 PRODEL: Perceptions of poverty according to cities.

Source: Own elaboration according to SPSS database from FIDEQ (2005a) survey.

This perception of poverty however, changed by component: 57 per cent of the microenterprise clients believed they were poor, while 67.7 per cent of the clients in the housing improvement component considered themselves as poor, and 80.7 per cent of those participating in the infrastructure component saw themselves as poor (see Figure 6.6).

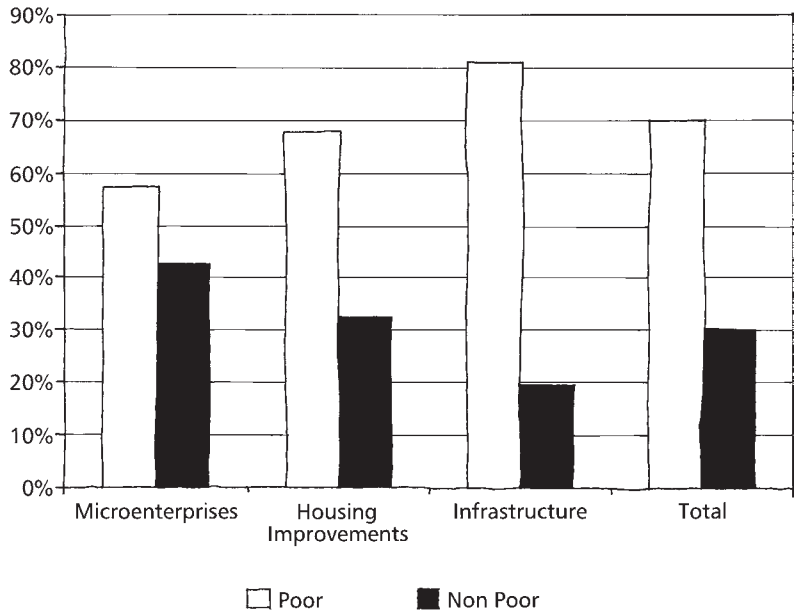


Figure 6.6 PRODEL: Perceptions of poverty according to component.

Source: Own elaboration according to FIDEQ (2005a) survey SPSS data base.

Another interesting characteristic with the micro-entrepreneur was the perception of poverty according to their place of work (see Figure 6.7). It clearly shows that the majority of those working at market places perceived themselves as non-poor while the majority of those working in the streets or in open spaces considered themselves as poor.

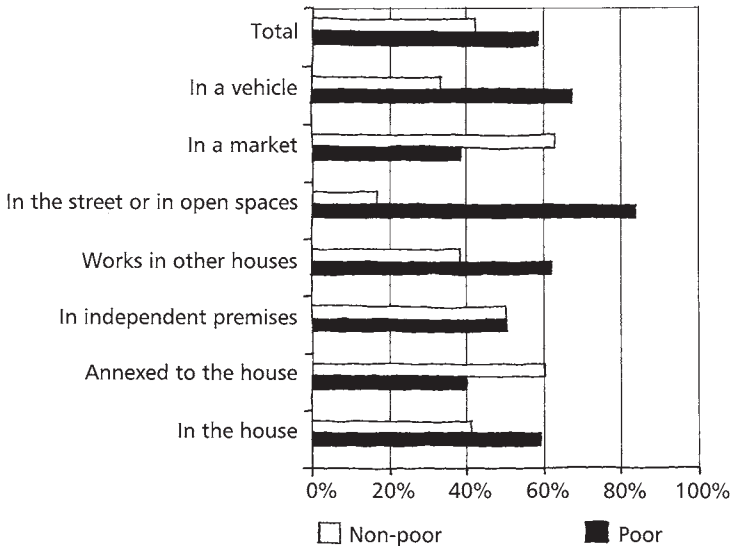


Figure 6.7 Perception of poverty according to location of microenterprise.

Source: Own elaboration according to FIDEG (2005a) survey data base.

When the perceptions of poverty per component were cross-tabulated with a question about their future possibilities: 'if they see themselves as winners or losers?', the following data emerged: from the total households in the microenterprise component that considered themselves as poor, 77 per cent responded that they saw themselves as 'winners' and only 23 per cent said that they were losers. In the small and repetitive housing improvement loan component, 72 per cent of those that saw themselves as poor saw themselves as winners, while 28 per cent saw themselves as losers; and finally, only 66 per cent of those in the infrastructure component who regarded themselves as poor also saw themselves as winners, and the higher proportion of 34 per cent saw themselves as losers (see Figure 6.8).

These results corroborate that moving out of poverty related to and depended on subjective hopes, aspirations and perceptions of well-being, and not only on income, expenditure or unequal levels of expenditure. As Graham and Felton (2005) argue, "the levels of income and opportunity affect an individual's perception of well-being, but those perceptions also affect economic and political choices that individuals make". As is shown in the coming chapters, the perception of new possibilities and opportunities played an important role in respect of the perception of poverty and inclusion among households interviewed in Estelí in March 2009 (see Chapter 7).

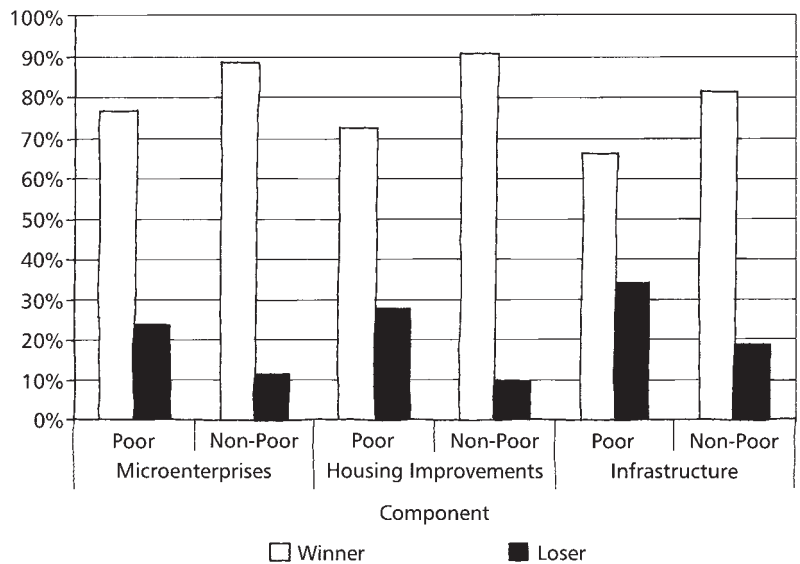


Figure 6.8 PRODEL: Households' perceptions as 'winners' or 'losers'.

Source: Own elaboration based on FIDEG (2005a) survey data base.

Migration and remittances

Those households that were non-poor according to their levels of income had the highest levels of migration 18 per cent, while the households categorised as poor had only 10 per cent migration, and those classed as extreme poor, only 4 per cent. This confirmed that migration from urban areas in Nicaragua took place primarily within families with relatively higher income levels. When the issue of migration was cross-tabulated with the perception of poverty it showed that 16 per cent of those that considered themselves poor had experienced someone in the family or a peer migrating, while only 13 per cent of those that did not consider themselves poor had a family member or a peer, who had migrated. In this connection, in respect of remittances sent home, 65 per cent of those that migrated sent remittances and 35 per cent did not. Approximately 70 per cent of those in the microenterprise component received remittances, along with 63 per cent of those in the housing component and 65 per cent in the infrastructure component.

During the field visits to Somoto, Estelí and Ocotal in 2007, the ex-mayors and staff from the MFIs pointed out that after 2001 people from those cities were increasingly migrating to Spain instead of the USA, and were sending home Euros as remittances.

Level of education

In Nicaragua in 1995 more than 27 per cent of the total population who were 10 years or older had received no formal education, although this figure had been reduced to 20 per cent by the year 2005 (see Table 6.12). The most dramatic changes during this period were the percentage of persons with secondary or tertiary levels of education: the number of people with some secondary education, or who had actually completed secondary school, increased from al-

most 20 per cent to 26.5 per cent, while persons who had attended some kind of tertiary education, or who had completed university, increased from 3.6 per cent to 7.1 per cent of the overall population (see Table 6.12). In 1995, the eight municipalities in which PRODEL started working during the first and second phases (Ocotal, Somoto, Estelí, León, Chinandega, Chichigalpa, Matagalpa and Jinotega) had a combined average of 20 per cent of the population aged 10 years or more without any formal education (see Table 6.12); 19.9 per cent had some degree of primary education; almost 28 per cent had completed their primary education; 23 per cent had some degree of secondary education; 4.5 per cent had some technical education; and about 4 per cent had tertiary education.

In the same municipalities, in 2005, the percentage of people with no education at all had been reduced to 15.9 per cent, while 15.2 per cent had some level of primary education, 27.7 per cent had finished primary education, 28.3 per cent had secondary education, 3.2 per cent had some technical education and 9.3 per cent had a tertiary education. This figure is high and it is explained by the fact that León and Estelí are university cities in which some of Nicaragua's public and private higher education institutions have opened branches. From these eight cities, Matagalpa and Somoto in 1995 and in 2005, Jinotega, Matagalpa and Somoto had the highest number of people without any education at all. The education situation was particularly critical in Jinotega (see Table 6.12) where the primary, secondary, technical and university levels were among the lowest of the eight cities in both 1995 and 2005.

Based on FIDEG's (2005a) survey data Figure 6.9 was elaborated indicating the percentage of people aged 10 years or over, according to their levels of education and grouped by the PRODEL component in which they participated (micro-entrepreneurs, housing improvements and infrastructure). The data shows that from a total figure of 2,255 people, about 4 per cent did not have any level of education; 19 per cent had incomplete primary schooling; 14 per cent had completed primary school; 31 per cent had incomplete secondary schooling and 9 per cent had completed secondary school, while 6 per cent had trained for a technical career, 9 per cent had an incomplete university education, while 7 per cent had completed university. All these percentage levels of education in 2005 for those participating in a PRODEL scheme were higher than the average percentage for the eight municipalities.

When disaggregated by component, the levels of education of those households that participated in the infrastructure component were lower than the education level of those households that were clients of the microenterprise and housing improvement loan components (see Figure 6.9). While 6 per cent of the household members of the participants in the infrastructure component did not have any education, as compared to 3 per cent of the microenterprise and 2 per cent of the housing improvement component, 23 per cent of the infrastructure component had an incomplete primary school education, while 20 per cent and 15 per cent of the microenterprise and housing improvement components respectively had incomplete primary schooling. The gap increased in respect of completed sec-

Table 6.12 Distribution of Nicaragua's population aged 10+ years, according to education levels in 1995 and 2005.
Year and Place

	Total Population	Level of education						Ignored
		None	Primary 1–3 grades	Primary 4–6 grades	Secondary	Technical	University	
1995								
Nicaragua	3,012,348	27.1%	20.8%	25.9%	19.9%	2.7%	3.6%	0.0%
Chinandega	82,650	17.2%	20.3%	29.2%	23.8%	6.0%	3.4%	0.0%
Chichigalpa	29,824	17.1%	21.2%	30.6%	24.0%	5.1%	2.1%	0.0%
Leon	117,155	15.8%	17.6%	28.2%	26.3%	5.2%	6.8%	0.0%
Somoto	20,277	26.1%	23.2%	29.8%	15.8%	3.4%	1.6%	0.0%
Estelí	67,198	17.4%	17.3%	31.7%	24.3%	4.9%	4.4%	0.0%
Ocotal	18,802	18.6%	19.6%	31.9%	23.3%	4.9%	1.7%	0.0%
Jinotega	52,741	24.3%	23.8%	22.1%	16.3%	1.8%	1.7%	0.0%
Matagalpa	73,565	28.3%	21.6%	24.3%	19.5%	3.3%	3.0%	0.0%
Sub-total 8	462,212	19.9%	19.9%	27.9%	22.6%	4.5%	3.6%	0.0%
2005								
Nicaragua	3,885,447	20.1%	16.5%	27.0%	26.5%	2.3%	7.1%	0.4%
Chinandega	95,102	13.2%	13.9%	28.6%	31.6%	4.2%	8.0%	0.5%
Chichigalpa	35,187	13.1%	14.6%	31.9%	29.3%	4.5%	6.3%	0.2%
Leon	140,200	11.4%	12.0%	26.0%	32.0%	4.4%	14.0%	0.3%
Somoto	26,053	18.2%	17.3%	32.0%	23.2%	2.4%	6.8%	0.2%
Estelí	87,979	12.8%	13.0%	29.2%	30.6%	2.9%	11.2%	0.3%
Ocotal	26,744	13.7%	14.4%	29.2%	30.5%	3.4%	8.5%	0.3%
Jinotega	73,008	26.0%	22.1%	25.3%	19.8%	1.4%	5.1%	0.4%
Matagalpa	101,676	20.8%	17.9%	26.9%	24.5%	1.9%	7.6%	0.5%
Sub-total 8	585,939	15.9%	15.2%	27.7%	28.3%	3.2%	9.3%	0.4%

Source: Own elaboration according to INIDE (2006, 2007).

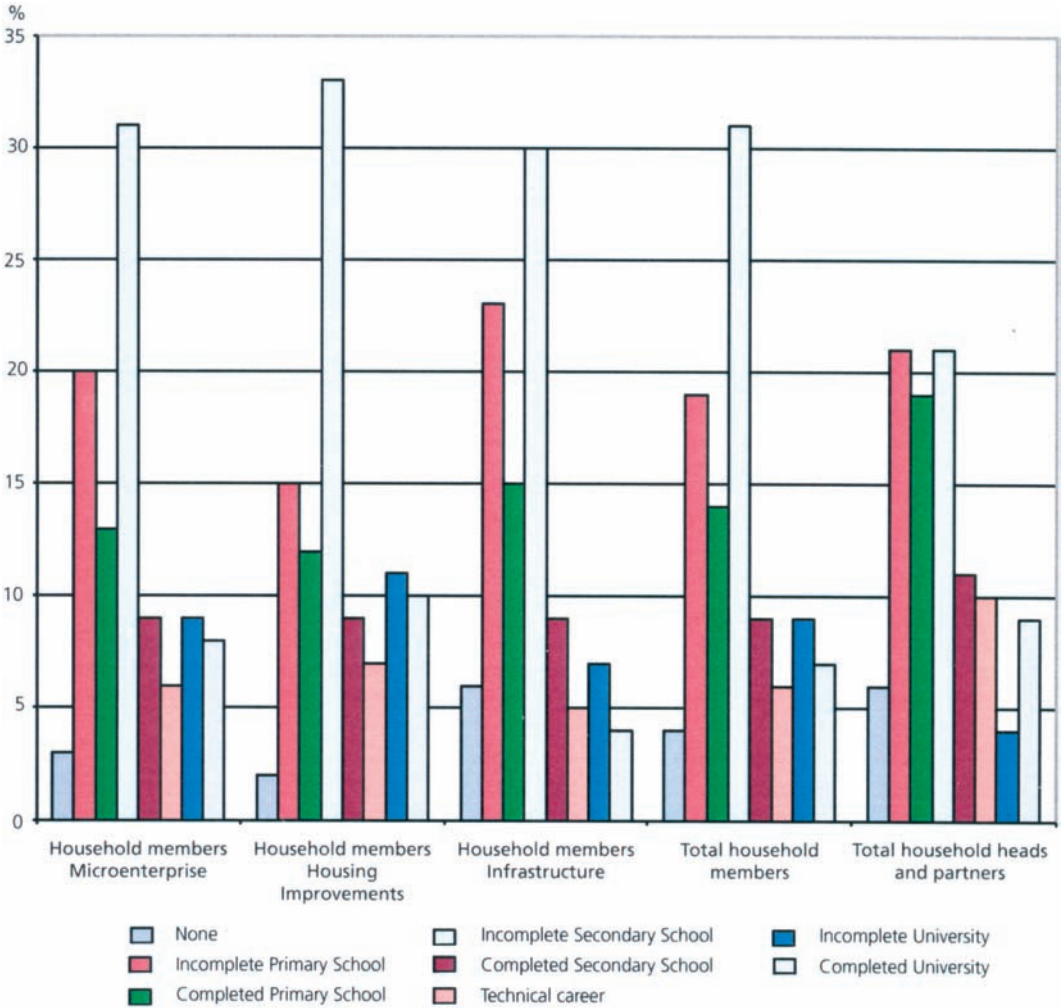


Figure 6.9 Level of education of household members that participated in PRODEL's components.

Source: Own elaboration according to FIDEG's (2005a) SPSS file on individual data.

ondary school, technical careers and university education. The highest numbers attending university derived from those clients involved with housing improvement; this was closely related to the fact that, in recent years, the MFI's have especially targeted teachers and nurses through this component since, although their earnings were low, they had a high level of education.

Conclusions

This chapter examined the quantitative outcomes of PRODEL's components in terms of asset accumulation and financial inclusion. It quantified the possible number of households, included in both loan components. In the microcredit for economic activities approximately 20,000 microenterprises had access to these loans and more than 25,000 households benefited from this component. In the small and repetitive housing loan component, more than 34,700 households improved their housing conditions. Assuming that approximately 60 per cent of the barrios in the cities were PRODEL-operated with more than 10 years' access to the co-finance scheme, then at least 60,000 households directly benefited from this component. Consolidating the collective assets of the urban poor and the capacities of local governments required not ephemeral, but sustainable investment efforts.

The chapter also demonstrated PRODEL's significant outreach work with women, who constituted 70 per cent of the main borrowers in the two loan components. Although household income and expenditure in the small and repetitive loans for housing improvement component were higher than the levels of urban poverty, participants in the co-finance mechanism for infrastructure had lower levels of expenditure and income when compared to the levels prevailing overall in the cities of Nicaragua. This also illustrated the importance, in terms of reducing urban poverty, of the perceptions that participants have of poverty.

The next chapter examines these outcomes from the perspective of members of the institutions implementing these components, as well from households that participated in the different components in the cities of Ocotal, Somoto and Estelí.

Findings from Estelí, Somoto and Ocotal

The previous chapter examined PRODEL's quantitative outcomes during a period of 15 years, and cross-referenced the characteristics of those participating in the loan and infrastructure components with urban poverty indicators. This chapter provides further findings on the effects that the co-finance mechanism for infrastructure and the small and repetitive housing improvement loans had on the accumulation of physical assets and the financial inclusion of urban poor households in the cities of Estelí, Somoto and Ocotal. The chapter starts by analysing the role that micro-planning played in opening the 'spaces of negotiation' (see Hamdi, 2006) that allowed the financial inclusion of different households independently of their income level. It then highlights various institutional and contextual issues that affected these operations. The chapter then analyses the role of combining technical and financial assistance in the loan component for housing improvements as a means to consolidate the assets of urban poor households. Qualitative information obtained through interviews held with household members that participated in these components complements the quantitative data for the infrastructure and the housing improvement components in the three cities.

Social inclusion and co-finance for infrastructure

This section analyses the role that micro-planning played in the process of inclusion of different households in the co-finance mechanism for infrastructure. It then analyses a series of factors that affected this mechanism, including good governance, accountability and transparency, as well as tax revenue collection at the local level.

Spaces of negotiation and inclusion: the role of micro-planning³⁰

PRODEL signed framework agreements with municipal governments that defined the incentives, responsibilities and contributions of each institution in implementing the decentralised co-finance mechanism for infrastructure. PRODEL then transferred the funds to the local government if certain conditions were met: the municipal-

³⁰ This section draws from Stein (2001, 2008); Olivas (2006a, 2006b), and interviews with ex-mayors of Somoto, Ocotal and Estelí; PRODEL's central office staff; members of PRODEL's municipal technical units; and households interviewed during field visits in February 2007 and March 2009.

ity promoted community participation in prioritised areas; the municipal council committed human and financial resources to co-finance the infrastructure projects; the municipality provided technical assistance to poor communities in the different stages of the project cycle (decision-making, planning, implementation, and post-project maintenance); and finally, the municipality formed a technical unit to manage the different phases of the co-finance mechanism, including the design and planning of the infrastructure projects.

Through participatory methods, local governments and urban poor communities identified, prioritised, negotiated, and afterwards implemented and maintained the infrastructure and basic services projects. The co-finance mechanism served as the main incentive for local governments to work with PRODEL resources, and for the communities to work with local governments. A core part of this methodology was the micro-planning process that PRODEL developed and used over 15 years. The exercise was an adaptation to the Nicaraguan context and to PRODEL's requirements of the action-planning methodology developed by Goethert et al. (1992). PRODEL institutionalised this methodology in each city where it operated this component so that the trained staff of the municipal technical units were able to carry out, together with community representatives, rapid appraisals in which participants established and prioritised what their main problems were, and also identified, negotiated and agreed possible strategies and concrete solutions to these problems, and planned for implementation.

Selection of city areas for the infrastructure component

The micro-planning workshops took place in barrios that the municipal council identified as priority areas according to a set of criteria agreed mutually with PRODEL. The identification of these areas involved community members in gathering information, and allocating points based on the levels of infrastructure and basic services (water, sewerage, drainage, street lighting, electricity supply, and communal equipment), in other words, the condition of collective physical assets. The municipal technical unit verified the results and these were tabulated in a matrix that allowed the municipality, and especially its municipal council, to have an objective base from which to negotiate the potential benefits of PRODEL with different communities (interview with Carmen Aguilar, Social Promoter of the Municipality of Ocotal, February 2007).

This mechanism discriminated positively between those barrios that did not have adequate levels of basic services and infrastructure, and those that already had. Thus, the poorer the neighbourhood was according to its levels of collective physical assets, the higher the possibility of that neighbourhood being included in the infrastructure component. However, poverty conditions alone were insufficient to allocate PRODEL resources to a community. If two barrios had similar infrastructure levels, in addition to established organisational capacities and strengths, the attitudes and willingness of the barrios' households to participate, were appraised. The more a barrio demonstrated its disposition to participate and contribute, the

greater became the possibility of gaining access to PRODEL resources. In other words, the existence of 'social capital' was a precondition for accessing resources (see Moser and Felton, 2007: 30). According to a community leader of the Leonel Rugama barrio in Estelí:

Sometimes people from nearby barrios complain that the municipality not only favours the rich over the poor, but also discriminates among barrios that are poor. To tell you the truth, I always reply to these people that this depends on the capacity of the leaders existing in each community. If you have 'perky' leaders that are able to get things 'moving on the ground', things will happen, but if you wait and are passive things will never get done (interview, 26 March, 2009).

Once the municipal council selected the barrios, a social promoter from the technical unit of the municipality identified the natural leaders of the community. The social promoter met with these leaders and explained the infrastructure component and what was required from the community. A General Assembly of the barrio took place to select 25 to 30 representatives to participate in the micro-planning exercise (see Olivas, 2006a). In Ocotal this General Assembly took place in different locations such as community centres, basketball courts, football fields, or in primary schools (Aguilar interview, 2007).

According to PRODEL's Executive Director (Olivas, 2006b), the experience showed that "in order that this process has a validity and is legitimated by the community, it is necessary for at least 60 per cent of the households of a community to participate in the General Assembly, and that there is a gender and age balance in the representatives who afterwards participate in the micro-planning workshops". In other words, "observable personal characteristics (sex, age), and unobservable characteristics (disposition, attitude) of individuals and the community were taken into account as a way of promoting inclusion in decision-making mechanisms" (see Behrman, Gaviria and Székely, 2003:15).

The micro-planning sequence

Following Goethert et al. (1992) methodology, the sequence of the micro-planning exercise was: 1) problem identification; 2) identification of strategies and solutions; and 3) project design and planning for implementation.

Problem identification: During this phase, the exercise attempted to establish what the main problems of a community were; for whom these problems were crucial; and why they constituted a problem at all. Small groups of community members and representatives of the technical unit of the municipality made 'transect walks' through different areas of the selected neighbourhood. In this process they identified problems by actually observing what was happening in the community, and by conducting unstructured short dialogues with neighbours from all ages and gender that they met on their way. Participants met again after the walk and enumerated the main problems they observed and identified. They then discussed the problems and prioritised those that seemed crucial. The PRO-

DEL experience corroborated Hamdi and Goethert's (1997) findings in other parts of the world, that in this phase what seemed to be a problem to a certain group of families in a given area of a barrio was not necessarily perceived as a problem in other parts of the community. A community leader of barrio Betania in Estelí, remembered that during the micro-planning workshop

We identified that there were serious problems of sewerage and that septic tanks and latrines were our top priority. The majority of households approved this decision except for 12 households that thought that this project did not reflect their necessities and priorities. Once the project was completed it was clear that for the majority of households the latrines worked except for those few that lived in irregular terrains and that had voted against the project (interview, 26 March 2009).

From the dialogue held with women and children focus groups in the Yelba María Antunez neighbourhood in the city of Ocotol in February 2007, it was evident that the conditions in streets and the lack of public lighting constituted a serious risk for different ages and gender groups in the barrio as they had to walk back and forth on this dangerous street from work and school every day. The group of children recalled that "one of their friends almost died" when the street flooded and "he was washed away by the current". The women's group recognised that the problem in that particular street was not perceived as a serious risk by other families living in different sectors of the same community but who did not have to walk through the same place every day. Children, teenage girls and women felt more intensely about this safety problem than did young male teenagers and adult men. Thus, an evident problem within a specific area was perceived differently by diverse age and gender groups.

While garbage dumps usually generated health risks such as rats, flies and mosquitoes that negatively affected the health of those families living near the dump, the impact was probably less felt by other members of the community, who did not live so near the dump, as was the case in some of the micro-planning exercises in Ocotol. According to Carmen Aguilar, "the idea of mapping the problems that affected each corner, road and path provided a broad picture of the variety, diversity and complexity of the perceived and felt problems that different age and gender groups in the community faced was very useful". In this sense, the 'walking through' method allowed both the community leaders and the representatives of local government to better understand the community conditions, and their associated problems.

In conversations held with members of the municipal technical units of Ocotol and Somoto in 2007 they confirmed that in these planning exercises the communities usually expressed their problems in terms of 'lacks' or 'needs' and immediately linked them to a potential solution. The technicians said that the majority of community members – when asked to identify their main problems – usually answered in terms of 'lack' of e.g. public lighting, 'lack' of playgrounds, the 'need' for a health clinic so people did not have to

travel so far for treatment for a health problem, or the ‘need’ for a truck to get rid of the rubbish.

The role of the municipal staff was to transform these ‘lacks’ and ‘needs’ into problems so that the causality of the problems and their potential solutions became clearer. This was an important step because a well-identified problem could have multiple ways of being addressed in the short, medium or long term. Nevertheless, this process was complex and not always understood by the communities, nor by the municipal technicians.

Identification of solutions: once participants discussed and prioritised their problems, they identified and negotiated strategies and solutions to address them. To consider these solutions, different criteria were used: urgency, costs, sequence and feasibility. The urgency criterion established which problems required immediate solutions and which could wait a little bit longer; which were ‘life threatening’ and which, although still problematic and important, could be postponed and solved at a later stage. With cost, these solutions were rated according to their monetary cost and whether they were within the range of available and potential financial, labour and in-kind resources from PRODEL, the local government and the community. The sequence criterion appraised the logical chain of solutions over time. Finally, the feasibility factor assessed if implementation were possible according to the problem’s level of technical difficulty. A system of points allocated a mark for each criterion and helped to rank and compare each of the solutions. For example, in a micro-planning exercise in the city of Estelí representatives of the community and the local government identified and prioritised problems of insecurity and violence resulting from the presence of nearby juvenile gangs; instability of the terrains in some parts of the community during the rainy season; and the difficulties of public transport running in those community areas, given the streets’ condition.³¹ For each problem different strategies and solutions were identified. The point system made it clear which solution achieved a higher score. This did not mean that the participants rejected a solution, but it showed that, according to the agreed appraisal criteria, a particular solution took a higher priority than another. What emerged was a community action plan of the issues identified, negotiated, and prioritised between the participants and the representatives of the municipality.

Interviewees in the three cities said that in several occasions “serious discrepancies between the solutions identified by local authorities as their priorities and those identified by their communities emerged”. Usually local government representatives came to workshops with an overall view of the needs of the city and with preconceived ideas of the types of project required in a specific community according to their strategic municipal plans. Yet, these priorities were not necessarily those of the community. This was particularly evident from conversations held with past members of the municipality and community leaders in Estelí. Stein (2001) detected similar problems in the 1990s in other municipalities like Chinandega and

31 Notes from the author of this thesis on a micro-planning exercise run in the city of Estelí in 1998.

León, and also in Estelí. That was the reason why the workshops needed ample room for negotiations between different sectors of the community and the local government. The fact that all solutions became part of an action plan demonstrated to the parties that their needs, ideas and priorities were taken into account and could, eventually, be addressed although not necessarily resolved, and certainly not necessarily financed with resources from PRODEL.

The workshops allowed local government to provide technical and financial inputs to the communities in terms of the costing and other technical complexities (topographic slopes, future municipal plans for introduction of pipelines, and other issues) that demonstrated if the project was feasible or not, even if it had been identified as a priority project. The planning outcomes were reported to a General Assembly meeting of the community. This meeting provided an opportunity to earmark the community contributions for the implementation phase. The resulting ratification of the workshops outcomes in different communities were forwarded to the municipal council so that the local government earmarked resources for the identified and prioritised projects.

Project design and planning for implementation: at this point, a project committee elected by the community negotiated with the municipal authorities over the design and planning for project implementation. The municipal technicians took advantage of the local knowledge that committee members had to identify factors that might accelerate or impede project implementation. An important element at this phase was the transfer of knowledge and know-how to the committee members about the details of project implementation and its implications for the community and for those households that the project might affect. Obstacles sometimes appeared when families had to remove existing physical structures from their plots to enable the introduction or expansion of roads and paths, electrification, sewerage or water systems. In the case of community buildings, such as health clinics, schools and community centres, there was less of a problem. At this point, it was also established what the 'in kind' labour and monetary contributions of the community, the municipality and PRODEL were to be. The municipal technician and the project committee determined which activities required a labour force and administrative inputs from the community. The idea was to maximise the contributions from both the barrio and the local government to co-finance the project. Although the community engaged in activities that usually did not require a high level of skills, the role they played in the administration of the project gave them more control over the management of the construction materials, and information on how the monetary resources were used. This increased the transparency between local governments and the communities. According to Marta Adriana Peralta³², ex-Mayor of Ocotol:

The introduction of PRODEL's model of micro-planning workshops between the municipality and the communities, and afterwards the utilisation of the co-financing mechanism, made the communities more demanding but also

³² Peralta was Ocotol's Mayor from 1996 to 2000. She was later a member of the General Assembly and Board of Directors of PRODEL.

more eager to propose and negotiate. It strengthened local leaderships of the barrios with what I call 'real participation' including social auditing so that there was real supervision over the quality of the projects that were jointly implemented. This generated a culture of responsibility and counterparts from the municipality and the communities (interview, February 2007).

Micro-planning and the spatial concept of community

Recent debates on the spatial levels at which certain political, social and development processes take place show the importance of discussing scale not only as an analytical category, but also in terms of the dimensions of action and practice (see for example Hamdi, 2006; Moore, 2008). "Scales may not be tangible or visible but they are real" (Smith, 2000:7 cited by Moore, 2008:209) and they help to define "not only personal perceptions but social relations" (ibid.). While governments try to establish spatial legal divisions, communities establish socio-spatial divisions, frequently redefining "official classifications for their own purposes" (Moore, 2008). Thus, these social-spaces help to transform a 'community' into "a community of place, or interest or practice" (Hamdi, 2004) giving "meaning to events and relationships that take place in a given territory, and providing a framework for purposeful actions" (Moore, 2008:215).

The Executive Director of PRODEL contended that geographical scales at which the micro-planning exercise became an effective framework for practice and a map of action were critical for social inclusion. He argued that micro-planning was more effective in identifying problems and solutions when it took place in territories that families considered, for different historical reasons, as 'their neighbourhood', and not according to arbitrary zones composed of several barrios that sometimes local governments defined according to their own administrative needs or to comply with the requisites of external development cooperation agencies.

The methodology works best if it does not go beyond 280–300 households. If, for example, you group five barrios that each have 280 houses per barrio even if you try the same methodology of micro-planning it does not work for 1,400 households. You lose the integral idea of inclusion, and then the community loses interest in participation. From our experience, micro-planning is more effective with fewer than 300 families distributed across an area of not more than 25 blocks. If there is a big barrio it is better to divide it into sectors and then carry on planning exercises for each sector. The case of the barrio Roberto González in Chinandega is a good example where we divided a barrio that was too big into different sectors. We must remember that the results of the micro-planning exercise become an improvement community plan that guides the community to action without waiting for the municipal government to solve all the problems, although some of these results become part of the investment plan of the municipality (interview, July 2006).

According to Manuel de Jesús Espinoza Telles, Head of Supervision of PRODEL's Infrastructure Component in 2006, there were cases when local governments defined and established, for the purposes of PRODEL's interventions, the boundaries of where each barrio physically started and where it ended. Yet, to be effective, this definition required a broad consensus and approval from the communities involved. Based on these spatial definitions, the municipal council tried to focus their and PRODEL's resources in different barrios located in the same geographic area in order to have better integrated and measurable interventions (interview, 18 July 2006).

Espinoza estimated that the costs for each micro-planning workshop in a community of about 300 households were about US\$ 300 or an average of US\$ 1 per household in 2006. These costs covered snacks, coffee and workshop materials, and were seen by PRODEL as part of the pre-investment costs required by each infrastructure project. They also formed part of PRODEL's contribution to the co-finance mechanism. Espinoza contended that the pre-investment costs of about a dollar per household "produced enormous benefits in terms of the social inclusion impact that it generated in each barrio, as well as on the possibility of increasing the sense of collective ownership by the community over the physical projects that were thereafter implemented" (interview, 18 July 2006).

For PRODEL's Executive Director, the attitudes of external actors have been an important aspect of making this process feasible, but the "real collective concept of community emerges during project implementation as the community discovers its internal potential to promote development and to transform its material conditions". At this stage, some communities no longer needed to wait for PRODEL to start their saving schemes and fundraising. Some had even gone to microfinance institutions (MFIs) and asked for lines of credit to resolve part of their problems. In some cases some members of the community put up their houses as a guarantee to access new funds for other types of infrastructure and service. "It is this level of perseverance, continuity and knowledge that pushes things to work for the community. Secondary actors promote but are not the leading actors" (interview, July 2006).

Outcomes in Estelí, Somoto, and Ocotal

Based on the number of inhabitants of each of the barrios in which the co-finance mechanism operated in these three cities the following figures were estimated:

Estelí: A total of 95 infrastructure and basic service projects implemented between 1994 and 2006 reached about 69 per cent of the city's population (more than 62,000 inhabitants, or 12,400 households). The amount of resources invested with contributions from PRODEL, the municipality and the communities totalled more than US\$ 3 million. The average cost per project was about US\$ 32,000. Dividing the total investment by the total number of inhabitants in the city of Estelí in 2005 (year of the national census), gives an investment per capita of US\$ 34 during the period of operations of PRODEL (see Table 6.11) and for the inhabitants in just these barrios, the in-

vestment rises to about US\$ 50. Average figures varied and some barrios accessed more resources than others. In Barrio Los Angeles, the investment in infrastructure projects (including resources from PRODEL, the municipality, and the community) totalled US\$ 154,000. According to the 2005 national census, this barrio had 1,550 inhabitants, thus the investment per capita was US\$ 99, much higher than the average for the city and across all the barrios included in PRODEL's scheme.

Ocotal: A total of 106 projects, implemented between 1994 and 2008, reached 70 per cent of the city's population. The total cost of the projects was about US\$ 2.2 million and the average cost per project was US\$ 22,000. The investment per capita for the entire city during the same period was approximately US\$ 63 (see Table 6.11). Again this investment varied between barrios.

Somoto: A total of 82 projects, implemented between 1994 and 2008, reached more than 90 per cent of the city's population. The total cost of these projects was approximately US\$ 2.35 million. The average cost per project was US\$ 28,600 and the investment per capita for the entire city during the same period was about US\$ 130 (see Table 6.11), and, as in the other cities, this figure varied from barrio to barrio.

In her Guayaquil study, Moser (2009) contended that arbitrary averaging at the city level hid the detail of what happened at the individual household level but allowed the resources accessed by the different communities in terms of inclusion to be compared. A closer look at the co-finance mechanism for infrastructure in PRODEL showed the territorial extent of these investments in each city, as well as the different types of project implemented and the number of households involved. When mapping these infrastructure projects in each community and in each of the three cities, a pattern of investments in the barrios emerged, showing that the majority were located more towards the periphery of the city rather than the inner city (see Maps in Appendix C).

Several of these barrios had been formed during the years of the armed conflict or immediately after peace agreements, and included the return of thousands of displaced families. As there was no baseline data for each of these barrios, it was reasonable to assume that they covered the bulk of unsatisfied basic needs in terms of infrastructure, basic services, adequate housing and employment in these cities, especially during the first years of PRODEL operations.

Ex-mayors in Estelí, Somoto and Ocotal said that PRODEL was initially seen by the local authorities more as a social compensation fund to confront the critical socio-economic conditions prevailing in these barrios. It was only during the process of incorporating the programme's methodology into their daily practices and routines, as well as the continuous presence that it had in their municipalities, that the potential of PRODEL's model as a development tool was fully appreciated. According to the Executive President of INIFOM in 2007 and ex-mayor of Ocotal, Eduard Centeno, the resources from PRODEL were "the only secure resources they had in the municipality that would translate into concrete works". This gave local government much-needed credibility and pushed them to continue work-

ing in other neighbourhoods. Moreover, “the fact that PRODEL was seen as a sustainable effort, and not a one-shot programme”, allowed them to complete cycles of investment in many barrios. In this sense, the communities also perceived that “the process did not stay in the middle, it started and it finished, helping therefore to transform physically and socially entire communities” (interview, February 2007).

Types of infrastructure project

From the historical data, it is evident that the predominant type of project varied from one city to the other, although in the three cities, the improvement of streets and storm-water systems was a common feature. In Estelí, street and road improvements as well as storm-water and drainage systems dominated and constituted almost 77 per cent of the total number of projects implemented (see Table 6.9); while in the other two cities there was more diversity. Still in Somoto, they totalled 68 per cent of the projects and in Ocotal 63 per cent (see Table 6.9).

An ex-mayor of Estelí during the first years of PRODEL operations, as well as other ex-members of the technical unit of the municipality, recognised that investments followed more or less the decisions taken by the municipal council and its technical unit in the early 1990s, who prioritised the improvement of the street network, as had been established in the municipal strategic urban development plan. This did not mean that the municipality of Estelí identified the projects without the participation of the barrios through the micro-planning workshops. However, there was a strong emphasis on these types of work. Since the Sandinistas were in control of the municipality for the last 15 years, each incoming administration tried to follow the investment pattern established in the strategic plan.

Antonio Prado Mejía (ex-Mayor of Somoto) and Osmin Torres (head of the municipal technical unit in Somoto for more than 12 years) explained that in their city priorities were set according to the decisions of its municipal council; following the results of the micro-planning exercises. In the early 1990s, Somoto suffered severe flooding problems that required several years of investment in preventive and mitigation works. Thus, in the first years of PRODEL’s operation, the Municipality of Somoto together with community leaders prioritised projects related to mitigation works to prevent the flooding of some barrios in the southern and eastern-central parts of the city. According to Prado and Torres, “several important projects done during previous administrations (the first on behalf of the more rightist Liberal Party, and the second from the leftist Sandinista Party) were a series of risk mitigation hydraulic projects that protected Somoto against flooding”. The construction of these works “finished some weeks before hurricane Mitch” which helped Somoto to withstand some of the dire consequences of the natural disaster. The fact that different municipal administrations continued the implementation of these protection works through the co-finance mechanism showed the importance that PRODEL had in Somoto irrespective of political affiliation (interviews, February 2007).

Three of the barrios in Somoto that had previously suffered recurrent flooding were visited in 2007. The visit to these barrios was particularly illustrative as it allowed understanding of the long-term impact of these mitigating works. Over a period of 11 years (from 1994 to 2004), 13 infrastructure projects were implemented through the co-finance mechanism in the barrio Mauricio Cajina, that according to the 2005 national census, had 1,226 inhabitants, or approximately seven per cent of the population of the city. Eight of the projects in this barrio were risk-mitigating works against flooding, one improved the sewerage system, and the other four improved the streets. Women interviewed during the walk through the Mauricio Cajina barrio said that there had been no flooding in their barrio for the last years, and that they recognised that as result of these mitigating works as well as other subsequent projects, the value of properties in the barrio and of their own houses had increased substantially, in some cases, even 'threefold'. Micro-entrepreneurs interviewed during the walkthrough also reported that their businesses had improved when the infrastructure projects had been finalised, and that suppliers of goods, for example, now entered regularly into the barrio and other surrounding neighbourhoods without difficulty, even during the rainy season.

Interviewees in the city of Ocotol also remembered the critical conditions prevailing in the barrios located in the northern part of the city, which were caused, among other things, by the deteriorating conditions of several adjacent streets, as well as a ravine that became a rubbish dump and also the natural course for running storm and grey waters, and, in some cases, of sewage, which flowed directly into the stream. During the rainy season these conditions worsened as the risk of flooding and other serious health and insecurity hazards increased. The solution to these problems revealed, as Moser (2009) asserted for the case of the urban poor community in Guayaquil, the connection between the different physical and intangible assets of the poor of the community and the individual households.

In the barrio Anexo Laura Sofia Olivas and nearby barrios there was diarrhoea, and respiratory diseases. Evidence of this situation was registered at the near health centre. What the municipality with the participation of the communities did was to enclose all the running waters and fix the street. This had an enormous impact on the health conditions of the barrios, and also on the internal transport system in the city of Ocotol (Eduard Centeno, interview, March 2009).

Members of Ocotol's municipal technical unit and people living in the neighbourhood shared the same feelings. Carmen Aguilar, Social Promoter of the Municipality of Ocotol, considered that the impact of improving the street by laying cobblestones, and the storm-drainage system projects were impressive:

Before, the barrio's main street was nicknamed 'death ally'. The situation was so dreadful that in the evenings and at night people did not dare to cross this street be-

cause it entailed the risk of falling or being washed away into the ravine or because of the insecurity of the place at night (interview, February 2007).

Indeed these communities were visited in 1998 while being Sida's senior consultant to PRODEL, and again in February 2007 within the framework of this research. The physical improvements in the streets and in several of the houses were evident, and what the projects represented for different age, gender and economic activity groups within the barrio became easier to understand. On a walk through the barrios, following the path of the enclosed drainage system, five children playing in the street, two groups of five women in different houses, and five different micro-entrepreneurs, were asked about their views and perspectives on how the project had impacted on their lives. The children remembered that before the project, the street was 'very dangerous' but that now they could play safely in the street". The women also recalled that "during the rainy season children usually were sick" but since the project had been completed "diarrhoea as well as dengue fever had diminished". One of the women, a single mother of five children thought the project "was very useful" but she still did not manage to understand how her wood shack would be improved as she was very poor and "did not have enough resources, and maybe the municipality will also help me to improve it".

The micro-entrepreneurs (working in three different small stores and one in a small shoe workshop) explained that access to their businesses improved as clients, and also the suppliers of products, did not have to "go through the mud and jump over the ponds, or make long detours to come and buy products from their shops". The street improvement, according to the family who owned a small shoe workshop, increased the value of their home despite the fact that "the economic situation in Ocotal was very difficult".

For Carmen Aguilar, the introduction of the drainage and sewerage systems in the northern barrios of Ocotal "not only helped to stop the dengue fever and diarrhoea outbreaks, but it also helped to revalorise the self-esteem among the citizens of the barrio", with something that probably seemed quite insignificant in itself, but which vastly improved their pride in the place in which they lived as well as their self-esteem as a community "by re-naming their neighbourhood": Once contemptuously called 'La Sapera' ('the toad-breeding place'), the barrio was later called by its original name: Danilo Ponce" (interview, February 2007). The women interviewed during the walkthrough shared the same feeling.

Both Marta Adriana Peralta and Arnulfo Aguilera, ex-mayors of Ocotal considered that the closure of the open drainage systems, the introduction of the electric system, and the opening of new roads, as well as the improvement of streets and pathways, greatly contributed to both the improved health of the city and the image of the city. "If today Ocotal is a more attractive tourist centre this is very much related to the investments from PRODEL", they argued.

Judging from the mapping of the projects implemented, as well as by the volume of resources invested by PRODEL's co-finance mechanism in the cities of Estelí, Somoto and Ocotal (see Maps in Appen-

dices and Table 6.10), it is possible to conclude that a significant share of the infrastructure projects focused, but not exclusively, in periphery neighbourhoods, especially those experiencing, as they did, in the early 1990s, rapid population growth, growing unsatisfied basic needs, and as a result of these factors, increasing demands for infrastructure and basic services. The types of investment also suggested a compromise between the priorities set by the municipal governments in their strategic or annual operative plans and the priorities identified by the communities through the micro-planning workshops. This was especially noticeable in respect of the street and road improvement projects in Estelí, the protection works carried out to address the flooding problems in the southern and central barrios of Somoto, as well as the projects in the northern barrios of Ocotal. A closer look into the storm and pluvial system built in the northern barrios of Ocotal, as well as in the Mauricio Cajina barrio in Somoto, revealed an interesting link between the consolidation of collective physical assets, health and security, a renewed sense of self respect and pride in the community and in the city, and the revalorisation of individual household's physical and productive assets.

The co-finance mechanisms in these three cities showed that to perceive fundamental physical changes as well as attitude changes in a barrio required sustained efforts over a number of consecutive years. For the Executive Director of PRODEL it required an investment of approximately US\$ 150,000–200,000 per 1,500 persons; an investment per capita that varied between US\$ 100–130 over a period of three to five years or between US\$ 30–40 per person per annum (Marlon Olivás, interview February 2007).

Factors affecting the co-finance mechanism

This section explores several institutional and contextual issues that enhanced or constrained the inclusion of poorer urban groups into the co-finance mechanism for infrastructure and basic services. The section tries to understand in what ways the co-financed mechanism for infrastructure strengthened institutional capacities and how this helped to open new opportunities for the urban poor to accumulate assets. A number of governance issues, including the role played by local governments in opening 'spaces of negotiation' (see Hamdi, 2006) for the poor to access and control resources, or even to contest local policies (Roy, 2008:680) are analysed. The section is based on interviews with municipal staff as well as households that participated in the infrastructure components in Ocotal, Somoto and Estelí, who were asked what they thought the main constraints or obstacles were to inclusion in this component.

Co-finance for infrastructure and asset accumulation

Over a period of 15 years the mechanism of micro-planning was an important instrument for identifying and prioritising problems, as well as strategies and solutions among members of communities, their leaders, and the municipal authorities. Although not sufficiently nor explicitly recognised, the planning exercise became an important instrument for recognising not only problems, but also, more im-

portantly, the opportunities and capacities already existing in the communities that contributed to the solution of the problems identified. This inventory of problems, but more importantly and following Moser's (2009) approach, the inventory of 'tangible' and 'non-tangible' assets which the community had and used in solving their problems was perhaps what made this co-finance mechanism so effective and permanent over these years. At least that was the perceptions of the mayors and members of the technical units interviewed in 1998 (see Stein, 2001) and also the mayors and technicians interviewed 10 years later in the framework of this research. In Estelí, Ocotal and Somoto, representatives of the municipal technical units, as well as the mayors, and perhaps more importantly, the households interviewed agreed that this mechanism was very important to identify what they already had (in other words, their assets) and that could be used for the purposes of the co-finance mechanism for the introduction of infrastructure and basic services.

Co-financing for infrastructure and national reconciliation

The interviewees agreed that the introduction of PRODEL's methodology was an important step that allowed local governments to address the growing demands for services and infrastructure generated as a consequence of the end of the civil war and the peace agreements in their respective cities:

PRODEL was a sort of 'lifesaver' at the time because it allowed us to solve very concrete and punctual problems, and in the process, we also learned, as the technical, administrative and social routines and procedures that the programme demanded from us strengthened our own internal implementing capacities at the municipal level (Arnulfo Aguilera ex-Mayor of Ocotal, interview, February 2007).

Indeed, PRODEL's model of community participation generated a substantial difference as compared with the past practices of social mobilisation during the Sandinista regime. According to the Executive Director of PRODEL:

In the 1980s there were important levels of social organisation at the local level; however top-down practices defined and decided these priorities. The population mobilised to defend the revolution but it did not deal with important issues at the level of their communities, for example, youth violence³³ or what types of basic service the communities really needed. The regime defined what the health priorities were, and communities participated in massive days of vaccinations and campaigns against malaria, but they did not participate or decide what types of infrastructure they required... There were massive mobilisations but not participation in the 'real sense' of the word (interview, February 2007).

³³ In recent years, the number of juvenile gangs and their members have increased substantially in the city of Estelí (see Abaunza and Andino, 2002).

The interviewees concurred that the concept of community participation as understood by the Sandinistas suffered a major setback with the change of government in April 1990. For ideological reasons the central leadership of the FSLN wanted, on the one hand, to politically confront the new centre-right government in different parts of the country by showing massive mobilisations against the new structural adjustment economic policies (see Chapter 4). On the other hand, this same leadership started accommodating and negotiating arrangements and agreements with the new government while, at the local level, the community leaders felt somehow 'left out' from this process, and became aware that their protests and demands had not led to tangible results neither in their cities nor in their local communities. PRODEL's participatory methods introduced a different dynamic at that time:

By organising the communities according to their needs, irrespective of their ideological affiliations, there was a direct contribution by PRODEL to national reconciliation. By confronting and solving common problems like the lack of drinking water, electricity, roads, pluvial drainage, etc., different and antagonist forces met each other, and the political issues that divided them in the past, gave place to community problems that were shared by everyone. The process was not easy: at the beginning there were political tensions, but when the electricity was inaugurated or the water introduced, you perceived in both sides a sense of achievement" (Marlon Olivas, interview 2007).

The ex-mayors of Ocotal recognised the existence of an institutionalised culture of participation within the municipality adopted and promoted by the successive municipal councils, mayors and technical staff that were in office since 1990. They agreed that this had not always been the case, and that throughout the 1990s internal conflicts at the municipal council level sometimes paralysed decisions regarding projects and programmes. In this sense, PRODEL's contribution towards overcoming these tensions was extremely valuable:

When I was the mayor it was hard to tell the 10 council members that the political election campaign was over and that we had to work together for the benefit of the city. I must admit that we had our difficult council meetings but there was never a polemic in relation to PRODEL. The interesting thing about PRODEL is the way that we as mayors or members of the municipal council became accountable and that when a member of an opposition party presented a good idea for the programme it was taken into consideration not because of his or her political affiliation but because it helped the city (interview with Marta Adriana Peralta, February 2007).

Through PRODEL's methodology antagonist barrios, formed by different demobilised armed groups, were able to work together for the first time, and this led to an interesting process of reconciliation and thereafter to a sense of local community development in their cities.

When we inaugurated the electricity project in the three barrios, a long procession with thousands of lanterns under the banner 'For Our Unity, God and Light' took place... In the following days and weeks you could see how the barrios were transformed: the economy of the barrios improved as new stores opened and there were new work-shops, grain mills, and television sets... In the barrio Roberto Gómez a similar process happened, after the streets and the lights were improved, there was an interesting process of housing improvements and also of the health clinic and pre-primary kindergarten school (interview with Marta Adriana Peralta, February 2007).

This situation would eventually change and, as shown in Chapter 8 of this thesis, the problems that limited this participatory mechanism related to the polarised political context still prevailing in Nicaragua, and also to the mechanisms used by international donors to channel resources for infrastructure and basic services that contradicted the logic of PRODEL's co-finance model.

Co-finance for infrastructure and local government strengthening

The thesis wanted to understand if PRODEL's model was compatible with the existing municipal organisational structures, and if it generated structural changes which improved the efficiency of local government operations. The ex-mayors interviewed agreed that in the early 1990s their municipalities' institutional structures were too weak to respond to the challenges of development and to the increasing demands from the communities. They recognised that PRODEL respected the internal decision-making processes that the municipal councils took, and it was supportive in setting up follow-up mechanisms required for the implementation of the infrastructure projects. According to Marta Adriana Peralta, "PRODEL was not an island within the municipality. Its central and municipal technical units were instrumental in assisting the local government to develop the different projects that it had in its portfolio, beyond the ones financed by PRODEL".

Interviewees recognised, as in the case of the city of Somoto, that during the last 15 years PRODEL's co-financing methods became routinely adopted by local governments. When other external resources from international cooperation were available to their municipalities they ensured, through negotiation, that this assistance followed the co-finance mechanism developed by the PRODEL model. Additionally they recognised that PRODEL's existence was instrumental in securing the stability of the technical staff working in the municipal technical units and ensured the continuity of procedures and methods, and especially reinforced ownership of the processes.

Every four years, when the elections are coming, we have meetings on behalf of the technical unit with each candidate to inform them what PRODEL is all about so there is more confidence between the municipal authorities, the candidates, and the technical team on the procedures and

aims, and goals of the programme” (interview with Osmin Torres, February 2007).

Co-finance for infrastructure and tax revenue collection

As seen in previous chapters, the co-finance mechanism for infrastructure required ‘in kind’ and monetary contributions from local authorities and communities as a precondition for accessing PRODEL resources. The thesis tried to understand if one of the outcomes of the PRODEL approach was an enhanced revenue capacity of local governments as a means of facilitating the inclusion of different urban poor groups.

The interviewees agreed that PRODEL improved revenue collection in the municipalities to meet the financial local counterparts required by the programme. They highlighted that during the Sandinista Regime in the 1980s there was an impressive level of external donations and therefore many local authorities did not pay attention to the collection of internal taxes, which was clearly part of their responsibility. According to INIFOM, by 1992, tax revenues (including the property tax, sales taxes and road tax) were the most important source of income for the municipalities and although these taxes represented about 90 per cent of the total source of income yet the majority of local governments were only collecting 10 per cent of their potential income (PNUD/CNUAH-Habitat/INIFOM, 1994).

When PRODEL requested monetary counterparts from local authorities as a binding condition for participating in the co-finance mechanism, the authorities then started asking themselves where these resources would come from. They suddenly realised that the municipal governments had a weak tax-revenue collection system and, as in the case of the city of Ocotal, that it was unnecessary to introduce new taxes, as they had simply to collect existing ones as a means of meeting their matched-money target. They also realised that citizens were reluctant to pay these taxes without tangible investment plans showing the planned use for the taxes. According to the Executive Director of PRODEL, who at the time was the municipal technical unit director of Ocotal, the sales tax that all business (formal and informal, whether small, medium or big) had to pay already existed, so they started collecting it. “The municipal authorities realised that in those barrios where PRODEL had been started working people were more conciliatory to the idea of paying taxes. When people saw substantial changes in their physical environment and that their taxes were reinvested in tangible projects they started paying” (interview February 2007). Indeed, during the walkthroughs in the barrios in the cities of Ocotal, Estelí and Somoto the majority of interviewees, with the exception of two families in Estelí, affirmed that the PRODEL infrastructure projects helped them to understand more precisely how the municipality spent their taxes.

Additionally, local authorities, even those whose mayors were from the FSLN, contested the position adopted by many Sandinistas in the early 1990s, which stated that only the rich should pay taxes while the poor should be exempted.

The PRODEL experience taught us that what provided the sense of equality among tax payers was not as a result of

the place where they lived, nor by the fact that they were poor or rich, but according to the type of house and business they had. The municipality started collecting the sales tax in which each business had to pay 2 per cent over their sales as well as the rest of taxes. If you had a big business and a big house you paid taxes accordingly. Thus, we created a sense in Ocotal that the ones that were paying their taxes were all citizens irrespective of their wealth...
(Marlon Olivas, interview 2007).

PRODEL incentivised local governments to increase their revenue capacity. In 1996, the third year of PRODEL's operation, the municipality of Ocotal increased its revenue collections by 30 per cent (Stein, 1998), and this process continued in successive years in other municipalities as well:

We managed to increase tax revenues in the municipality of Somoto from Córdoba 2 million per annum to 2.5 million in a very short period of time, as we were interested in increasing the number of projects that could be implemented with PRODEL's resources. You see all these streets and drainage systems have been improved with these resources that we were able to put as matched funding to PRODEL and that came from our capacity as local authorities for collecting taxes (interview with Douglas Antonio Prado Mejía, February 2007).

Data on the property tax (Impuesto de Bienes Inmuebles) showed that between 2001 and 2003 in the municipalities in which PRODEL worked the revenues from this tax increased substantially (see Figure 7.1). With the exception of Somoto, the other municipalities performed better than the national average over the same period (Martínez-Vázquez and Sepúlveda, 2007) (see Figure 7.1). The figure for Somoto, however, was lower than the national average. This was probably a result of the impact that hurricane Mitch had on the city's economic performance. Other factors, related to the national fiscal transfer system to the municipalities, also influenced this process.

The 1995 constitutional reforms reaffirmed the municipal autonomy and established the compulsory transfer of a percentage of the national budget to all the municipalities of the country prioritising those municipalities that were poorer (Gómez Sabaini and Geffner, 2006:7). The first fiscal transfer was approved by the National Congress in 1999 and aimed to increase gradually as a percentage of the nation's general budget. However, it was not until 2003 that the new Law of Municipal transfers established this percentage at 4 per cent of the total central government revenues. In 2005, it rose to 5 per cent and in 2006, to 6 per cent (see Martínez-Vázquez and Sepúlveda, 2007) and it was expected to grow up to 10 per cent by 2010 (Gómez Sabaini and Geffner, 2006).

The basis for the municipal transfer system was a model that took into account four criteria: fiscal equity (corresponding to 50 per cent of the relative weight in the distribution criteria between municipalities); population per municipality (30 per cent of the relative weight); transfers according to project implementation (10 per cent); and

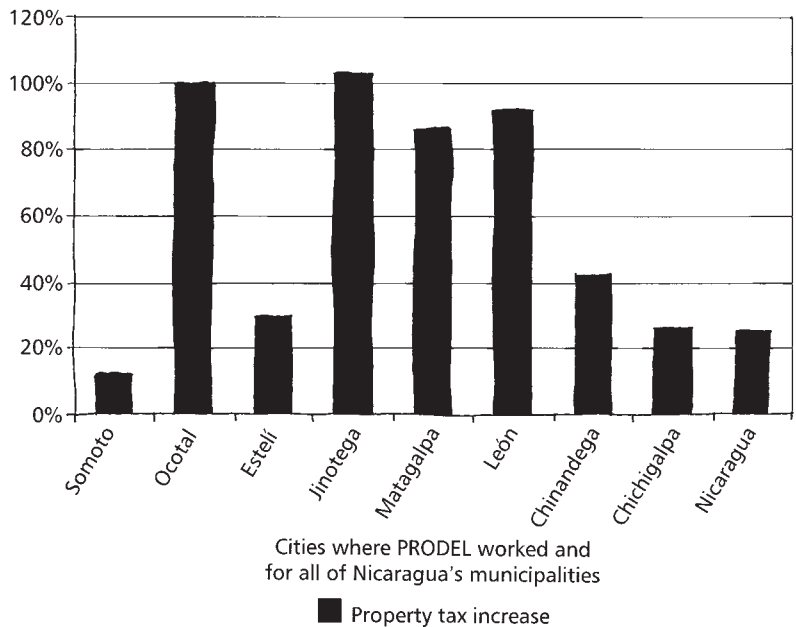


Figure 7.1 Property tax increase 2001–2003.

Source: Own elaboration based on PRODEL 2006b and Martínez-Vázquez and Sepúlveda (2007: Table 13).

transfers according to fiscal effort on property tax collection (10 per cent) (see Martínez- Vázquez and Sepúlveda, 2007: 25). Although it was not set as the main distribution parameter, this last criterion aimed to stimulate the fiscal effort of municipal governments, in particular, the collection of property tax (ibid.:15).

The Martínez-Vázquez and Sepúlveda study (2007) cautioned linking the fiscal effort to property tax, as its implementation could generate undesirable political costs and conflicts in a polarised society such as the one in Nicaragua. The study concluded that: “differences on the technical and financial capacity of municipalities, community preferences and their political situation, may well result in great differences in the capacity of municipalities to collect” (ibid.:28).

In those municipalities in which PRODEL worked this situation was positive in view of the fact that since 1994, 10 years before the approval of the municipal transfer law, the investments in infrastructure through the co-finance mechanism had already established an important incentive to enhance the capacities of local government to collect taxes and especially to establish community preferences towards projects implemented with funding from PRODEL.

At the time that PRODEL started, there was no transfer of resources from central to local governments. Today the municipality of Ocotal has these central government transfers. Just imagine what impact the programme had when the municipal government was able to plan annually with a transfer of 80,000 dollars from PRODEL and that we could plan together with the urban poor communities the

use of these resources (interview with Marta Adriana Peralta, February 2007).

In conversations held with international consultants working on municipal issues in Nicaragua in 2006, they considered that the municipal transfers, although very important, especially for poor municipalities, ended up having a negative effect as they became a disincentive for municipalities to collect taxes.

Co-finance, transparency and accountability

In recent years there has been an increasing perception in Nicaragua's public opinion polls that national and local governments lacked transparency and that corruption had increased. An international study measuring accountability; political stability; government effectiveness; and control of corruption in different countries in the world (see Kaufmann, Kraay and Mastruzzi, 2008), concluded, that in 2007, the situation in Nicaragua in terms of control of corruption and government effectiveness had not improved during the last decade and had even deteriorated. These general findings for Nicaragua were significant when compared to the general perception that households that participated in PRODEL's infrastructure component had of their local authorities, as well as their peers in their respective communities.

The FIDEG database (2005a) showed that 56 per cent of the households that participated in the co-finance mechanism thought that the municipality managed the monetary and material resources in a transparent manner; 6 per cent said that transparency in the use of resources had lessened, and 38 per cent were not aware or did not have enough knowledge or information to respond. When households were disaggregated into those that participated directly in infrastructure project activities and those that did not, 70 per cent of those that participated directly in the co-financing mechanism considered that the municipality managed the resources in a transparent way; only 2 per cent did not think it was done in a transparent manner, and 28 per cent did not have sufficient knowledge on this matter. However, those that did not participate answered differently: 48 per cent thought that the municipality acted in a transparent manner, while 8 per cent thought it was done with a reduced level of transparency and 44 per cent did not know.

When asked about their perceptions on the way the community's project committee handled resources and materials the FIDEG (2005b) study found that 56 per cent of the households thought they handled it in a transparent manner; 9 per cent thought it was not transparent while 35 per cent did not have enough knowledge to respond. When these households were disaggregated into those that participated in project activities and those that did not, the situation changed: 68 per cent of those that participated thought that the community project commission managed the resources and materials in a transparent way; only 2 per cent did not think it was done in a transparent manner and 28 per cent did not know. However, those that did not participate directly answered differently: 49 per cent thought that the community project commission had acted in a transparent manner; while 10 per cent thought the commission had

done it with a reduced amount of transparency and 41 per cent did not know.

The data from the FIDEG survey (*ibid.*) suggested, that the perception of transparency and accountability that urban poor households had of their municipal authorities and even of their community project commissions was very positive and was closely related to their level of involvement in the administration and the implementation of the infrastructure projects. In this sense, PRODEL improved the dimensions of governance by promoting the effectiveness of the actions of local governments, in highly partisan contexts. It increased, as the Kaufman, Kray and Mastruzzi (2008:7) study suggests, for other parts in the world "...the perceptions of the quality of public service, the quality of the civil service, the degree of its independence of political pressures, the quality of policy formulation and implementation and the credibility of the government's commitment to such policies".

Asset accumulation and housing improvement loans

This section shows the importance that small and repetitive loans for housing improvements had in consolidating the individual physical assets of urban poor households. The section shows how combining technical and financial assistance made this process more efficient and effective, and how this long-term process of incremental housing occurred. From interviews in Estelí the section also identifies some of the external and institutional obstacles that households faced during this process.

Technical and financial assistance for housing improvement

Since its inception, PRODEL recognised that finance alone was insufficient to deal with the multi dimensions of the housing needs of the urban poor. For financial inclusion and asset building to occur on a massive scale, adequate methods of identification of priorities and solutions, as well as sound methods of construction were a prerequisite. According to Irene Vance (interview, March 2009), PRODEL brought together the "best of the self-help housing approaches in order to match the savings of urban households with the financial approaches of the microfinance industry". Thus, contrary to certain microfinance approaches to micro-lending for housing improvement prevailing at the time (e.g. Daphnis and Faulhaber, 2004), PRODEL consciously adopted an unorthodox approach that combined financial and technical assistance as a way of maximising the outcomes from both the resources made available by small and repetitive loans as well as the household's in-kind, labour and monetary contributions (exchange of correspondence with Irene Vance and Marlon Olivas, June 2009). In this sense, PRODEL represented an interesting case of the changing approaches occurring within the housing microfinance industry that saw its contribution in terms of a value chain

production, and not only as a narrow financial product (see for example, Ferguson, 2008; Rust, 2007, 2008b; Vance, 2008).

Convincing the MFIs in Nicaragua about the importance of combining technical and financial assistance was not easy. It was difficult in the years when the BCP was the sole intermediary of PRODEL's resources, and it continued with MFIs that intermediated PRODEL resources for housing improvements. Elizabeth Edwards, who worked as an analyst of MFIs for PRODEL, and in the 1990s was credit officer in the BCP in Estelí, remembered that:

The technical assistance was the most innovative part that PRODEL introduced in the micro-lending process for housing improvement and it had enormous acceptance among clients, especially women, who acquired new knowledge on how to negotiate and identify the typical mistakes that masons and builders usually commit. However, it was also difficult to introduce the concept of providing technical assistance as part of the lending process that the BCP did, and it took a while until its potential was fully understood within the Bank (interview, 23 March 2009).

Representatives of the MFIs FDL, FJN, and FODEM interviewed in 2006 in Managua and Estelí agreed that having technical assistance made credits more attractive to clients. However, they also thought that it was difficult for the MFIs to understand the advantages of this technical assistance, especially when credit officers had to disburse a number of credits each month to fulfil their operative plans, and sometimes felt that the technical assistance slowed this process. Indeed, according to Ismael Rodríguez, PRODEL's Credit Manager,

MFIs usually think that it is simpler and faster to consider a housing improvement loan as a consumption loan without necessary getting involved in technical issues such as planning and budgeting, as well as in supervision of the construction works. Making the MFIs understand from a financial perspective that this technical assistance is crucial so that the housing loan does not cover other household consumption needs but optimises the [social] returns from the housing improvement, and that this is a key condition for a successful loan recovery has been one of the most difficult challenges for PRODEL during these years (interview, 25 March 2009).

Financial screening

The first step of this combined financial and technical process consisted of assessing the capacity of a potential client to participate in the lending scheme. The criteria used by the MFIs to evaluate affordability and re-payment capacity related to the type, quality and amount of a household's monthly income and expenses. Additional criteria included the composition of the household and the type of work and occupation of its members (if they worked in the informal or in the formal economy); the status of the land tenure; and the type of collaterals that households provided as guarantees. Yet, this process was not always straightforward, especially for first-time bor-

rowers as they gradually had to learn and get acquainted with the financial procedures related to the housing improvement loan.

A woman interviewed in Barrio Los Angeles in Estelí remembered that at the beginning, requesting a loan was difficult as she had to comply with a number of requisites the bank asked for and she was not sure what to do. “Now it is different”, as she already had five loans from the bank and other MFIs. However, with the first loan, “I did not know much about finance, I did not know whom to go to and how to deal with the whole issue of the guarantees” (interview, 25 March 2009).

Indeed, Elizabeth Edwards, who at the time was credit officer at the BCP in Estelí and dealt with clients like the woman in Barrio Los Angeles, recalled that the bank had to change a series of procedures: the hours of meetings with potential housing improvement clients from 15:00 to 17:00 hrs, so that working women and men could participate in the orientation talks that the BCP gave to explain in detail what the housing improvement loan was, how it worked, who was entitled to a loan, and what were the prerequisites to participate. Yet, it was not easy for the clients nor the bank to adjust to this methodology, as this was a totally new process.

According to Ismael Rodríguez (PRODEL’s Credit officer), to avoid problems such as those mentioned by the woman in Barrio Los Angeles, PRODEL encouraged the technicians to work together with the credit analysts. That is why immediately after this financial screening process was completed, and before the borrower presented a formal request for a loan to the MFI, the technician carried out rapid appraisal exercises at the client’s house.

Mapping of problems and identification of solutions

The mapping at the household level partially followed the logic of the micro-planning exercise for the infrastructure component at the community level. Here, however, the mapping of problems took place on the site occupied by the household and also inside the house. Technicians encouraged the inclusion of different household members in the appraisal exercise in order to allow them to express different perspectives on identifying and solving problems. The technician helped to establish for which household member these problems were crucial and why they were a problem (similar to the method used in the infrastructure component). This helped households to become aware of a variety of problems usually not acknowledged. For example, a perceived problem for a teenager differed from the perceived problem by the head of the household.

As in the infrastructure component problems were referred to in terms of ‘lacks’ and ‘needs’. For a teenage girl, the ‘lack’ of a place to study or the ‘need’ to have her own room separate from her brother was her main concern; for the male head of the household, the ‘need’ to widen the living room to have more space to receive his friends was his main concern; for his spouse, the ‘lack’ of a better kitchen so that smoke did not get into the bedrooms was her worry (interview with PRODEL technicians in Estelí, February 2007). The role of the technician was not passive as he or she inspected the house and detected other health, social and structural problems.

The technician tried to explain that there were potential solutions to more complex problems and guaranteed that all members could express what their problems were and then a type of negotiation process followed that took into consideration the previously-identified problems.

According to Zulma Espinoza, PRODEL's Head for Technical Assistance, the housing improvement component detected four main problems during these years through these exercises. First, a set of 'insecurity problems' linked to the perceived, permanent and constant risks that households in this type of settlement faced: housing structural risks which related to the quality and stability of the walls, floors, and roofs; social risks which related to existing hazards from common urban violence and the possibilities of theft or assaults in the surroundings; and finally, natural disaster hazards, related to unstable soil, possible landslides or even flooding of the site. The second set identified problems related to unhealthy environments (the existence or lack of basic services such as drainage, grey water and sewerage systems, and also to risks related to excess of humidity, including mould, or fungi, or bad location and expulsion of pluvial water, grey waters, and nearby rubbish dumps or stagnating water). The third problem group related to overcrowding (lack of privacy, promiscuity and possible child abuse, intra-family violence, tensions and lack of self-esteem). Finally, problems related to poor ventilation and illumination of the house (interview, 18 July 2006).

Indeed, discussing these internal household problems was not trouble-free, as issues of domestic violence and of power-controlling behaviours and relationships surfaced or were hinted at. Research on domestic violence in Nicaragua, including wife and children abuse showed the difference of perceptions between men and women on this matter and that disclosing the violence was a complicated delicate process. Not even under rigorous public health programmes or surveys, were the victims willing and open to disclose their situation (see Ellsberg, 2000).

PRODEL technicians who provided assistance to clients that borrowed for housing improvements from several MFIs in the city of Estelí perceived overcrowding as a critical problem. According to them, overcrowding occurred when more than three persons slept in one room, and less than nine square metres per person was seen as a reasonable measure for overcrowding (interview with Alvaro Barreda Lazo and Rubida Amaya Benítez, February 2007).

Households interviewed in March 2009 also perceived a growing feeling of insecurity resulting from an increase in the presence of juvenile gangs in their barrios. Therefore, improving the security conditions in the house was a top priority both as part of the identified problems, as well as the solutions proposed.

The technician also identified, together with household members, the possible solutions to the problems and the sequence by which these solutions were achievable with the loan, and with the resources the household could contribute (in kind, labour and money). The aim was to establish a detailed design and budget of the incremental improvements which usually required several stages of building and lending over a period of time that went beyond the limited

period of the housing improvement loan. The technicians took into account the costs covered by the loan and the additional resources of the household (accumulated and saved construction materials and building tools, available labour force, remittances from abroad, covering the cost of transport of materials, and other issues).

An interviewee from Barrio Noel Gámez in Estelí recalled that before requesting the loan, she and her husband had already saved several bricks and bags of gravel which represented about 25 per cent of the value of the building materials that were required to start the improvements they wanted to do (interview, 27 March 2009).

Once prioritised, the technician prepared a budget for the agreed solution which accompanied the loan request to the MFI, and described the activities the loan and the household contributions could cover, and what improvements were achievable based on the amount of the loan. On the basis of this plan, and if the other financial conditions were met (guarantees, forms completed, etc) the MFI approved the loan request, signed a loan agreement with the borrower, and then proceeded to disburse the loan.

When asked how and who determined the type of improvements in their house, the majority of the interviewees in Estelí in March 2009 recognised the crucial role that the technical assistant played in this process. Another interviewee of Barrio Los Angeles in Estelí expressed that every time she wanted a new loan, PRODEL's technician came and they discussed what she wanted to do, and if what she wanted to build could be adjusted to the amount of resources she had and that she wanted to request as a loan. This was helpful and on several occasions helped her to adjust the budget to make it more reasonable (interview, March 2009).

Loan approval

In addition to the different types of guarantee that a household provided (solidarity collateral, guarantor signatures, fiduciary, pawns, land title and others) and to the verification process to know if the house were owned by them, even if they did not possess a registered land title, some MFIs verified with the neighbours how long a person had lived in that house, and what was his or her track record in the barrio.

The social investigation within the vicinity where the person lives is sometimes even more important than the socio-economic questionnaire, we also want personal references, but more important a check of the people that know the client. We want to know if the person lives where he said he lived, and if people know how long he has lived there, if he rents or if he or she has a partner, for what is he asking the credit for, if not we go to the nearby shop and ask. From our experience, 70 per cent of the loan analysis depends on the income of the borrower, 5 per cent on the types of document presented by the client and 25 per cent to this field study done by the credit officials on the surroundings of the borrower (interview with the Manager of FDL's branch Iván Montenegro market, Managua 16 July 2006).

This was a practice that the MFIs generally used to overcome the lack of sound collaterals, as micro-lending for housing improvements was largely built on trust and the moral responsibility to pay back the loan.

Supervision of the building process

After the loan approval and its disbursement, the technician supervised the construction process to ensure the quality of the work and the appropriate use of the loan. Interviews with clients of housing improvement loans in March 2009 in Estelí recognised the importance and value of the technical assistant during the construction period. An interviewee from Barrio Los Angeles said that:

I hired the masons / builders myself, but the PRODEL technician oriented and helped me in preparing the budgets, the small blueprints for building the room and other improvements, and how we could make best use of the resources and to implement the improvements, including using some materials I had bought and saved before the loans. Although I did not keep to the 'planito' [the little plan] of the things we agreed that I would do, his assistance was very important (interview 25 March 2009).

As a large proportion of the borrowers for housing improvement loans were women, and the majority of them household heads, technical assistance was crucial as builders, masons and constructors sometimes took advantage of them being women:

PRODEL's technician came to see if the builders were helping me, and sometimes argued with them that they were charging me too much for their work and that some of the works they did were not correctly done (interview, 25 March 2009).

FIDEG's (2005b) study found that 74 per cent of the borrowers (men and women) considered that the technical assistance had been useful in terms of their housing improvements. Among the women surveyed, more than 20 per cent thought that it was most useful for the planning of their improvements; 35 per cent thought it allowed them to better manage their building budget; 12 per cent to acquire skills on basic building issues; and 6 per cent to supervise more competently the builders responsible for the improvements. The rest stated that they did not receive any technical assistance.

As such, the screening and the technical assistance methodology used by PRODEL in the housing improvement loans related to what Gray-Molina, Pérez de Rada and Jimenez (2003:29) called "individual-based models of social capital formation", as there were clear "linkages with household and individual decision-making models" (ibid.).

Strengthening individual household assets

This section attempts to understand the role played by the co-finance mechanism and the small and repetitive loans in consolidating the physical assets of the urban poor. It also establishes the main con-

straints of these forms of social housing finance in opening new opportunities for the urban poor. Complemented with viewpoints from PRODEL's personnel as well as from other institutions responsible for the implementation of these components, the section aims to further understand PRODEL's model in terms of asset accumulation and financial inclusion.

As a result of interviews held with household members in the city of Estelí in February 2007 and March 2009, it was evident that access to housing improvement loans, as well as the co-financing mechanism for infrastructure had substantially helped to consolidate their physical assets. However, these incremental developments neither started nor ended with PRODEL's financial and technical support. Different structural economic, political, and institutional factors at the macro level, as well as internal community and household dynamics, also influenced them. This section endeavours to examine these factors from an asset accumulation perspective.

The civil war, the establishment of the barrios and land tenure regularisation

Nine of the 18 persons interviewed in March 2009 had migrated to the city of Estelí during the 1980s as a consequence of the civil war.³⁴ They arrived in Estelí from nearby rural areas after a member of their family, or they themselves, became victims of the armed conflict. In some cases, their parents were relatively well off:

We lived in Miraflores, my father was a relatively well-off peasant. We were seven children and one of my sisters went to study in Cuba after the [Sandinista] revolution. The day she returned home the Contras came to kill her. To protect her, my father took a horse and brought her to Estelí. When he returned home they killed him and afterwards burned our house. We could not stay there any longer so we came to Estelí looking for a place to live and earn a living (interview, 25 March 2009).

In other cases they were poor households that benefited from the social and economic reforms promoted by the Sandinista regime and for the first time, had access to land. Others studied to be school teachers or paramedics in rural areas:

I was an elementary teacher working in rural areas...in an ambush by the Contras I was injured and kidnapped and held hostage for several weeks. I was able to escape from my captivity and the only safe place to be at that time was Estelí (interview, 26 March 2009).

Some interviewees remembered the tragic events they suffered personally:

Unfortunately in the 1980s, when I was 27 years old and mother to eight children they killed my husband in Miraflores so I left and went to another village and worked in a

³⁴ The interviewees' identities are not provided or have changed in various sections of this thesis for security reasons.

tobacco company for many years before coming to Estelí (interview, 25 March 2009).

For another interviewee, a single mother, the situation was similar to the one described previously:

I was a single mother with a child of one month when the massacre occurred in San Ramón where I lived with my parents. They killed my father, and we were forced to migrate to Estelí (interview, 27 March 2009).

Indeed, the creation of many barrios in the cities of Estelí, Somoto and Ocotal was a direct consequence of internal displacement during the civil war, as well as the return of thousands of displaced families from neighbouring Honduras after the signing of the peace agreements. Some barrios were formed by the ex-soldiers of the Nicaraguan army; others, by members of demobilised Contras who had fought against the Sandinista regime; and others, simply by families forced to migrate during the conflict, but who had no particular political affiliation. According to two ex-mayors of Ocotal, addressing the needs generated by the establishment of these new barrios, irrespective of their political affiliation, was a complicated task for the local authorities that took office in 1990s:

When I became the Mayor of Ocotal in early 1990 it was a difficult period of extreme political polarisation and confrontation with a huge number of demobilised forces from both the Nicaraguan Army and the counter-revolutionary forces settling down in the city. We did not have much experience in addressing these political problems, neither the methods nor tools to solve the increasing demands for services, infrastructure, jobs and housing of the city's population (Arnulfo Aguilera Maradiaga, interview February 2007).

Marta Adriana Peralta, remembered three barrios with strong demands for land, and conflicts between them: Nicarao, formed by 'ex-contras' [or ex-combatants] and 'repatriados' [or returnees] after the peace agreements, and 'Nora Astorga', a settlement formed by ex-members of the Army and revolutionary cadres, and Santa Ana. "To be honest with you, at the time, we did not have the slightest idea how to deal with these demands and problems" she stressed (interview, February 2007).

When asked how the barrio in which they lived was established, some of the interviewees recognised that before, and immediately after, the triumph of the opposition parties (UNO) in the February 1990 national elections, community-based organisations linked to the Sandinista party in Estelí promoted the *de facto* occupation of land on which their barrio stands today. Some families took advantage of this opportunity and ensured access to land, that under different historical circumstances, would have been much more difficult and complicated.

We occupied this land more or less in 1989 or 1990, immediately after the change of government. My mother occupied several plots one for each of her children. At the time I was 18 years old studying to be a teacher and working as

an empirical teacher, but my mother encouraged me to come and to stay in one of these plots. 'You will pay for it as you can!' she told me. As I was single, I told my boyfriend to come with me during the nights to lookout after the plot. He did not come but I and other women came every night to safeguard the sites from other people that wanted to take them away from us. As I studied in the morning I remember arriving one afternoon and found that someone was occupying my site. I complained, but since I was single the community leaders thought that I didn't need the plot and gave it to somebody else, but I showed them that I had already given the down payment so they gave me another plot, where we are right now, although it was smaller" (interview, 25 March 2009).

Another interviewee remembered how this process happened:

I lived in barrio Sandino which is not far away from here but I came and occupied this plot for my daughter. Every night we came with other women to guard the plots, and we slept under black plastic roofs for several months (interview, 25 March 2009).

Other households recognised that it was the municipal government of Estelí that played a key role in the formation of their barrios as a response to the increasing demands for land coming from organised demobilised combatant forces:

Our barrio, Leonel Rugama, was formed by a group of demobilised army men that demanded from the municipality a piece of land. The municipality gave us the plots under the condition that we had to build our shacks rapidly... First we were only ex-army people but later on members of the Contras also settled here... At the end, all of us were poor and we were able to live in harmony... the neighbouring barrio La Unión, however, was formed only by Contras (interview, March 2009).

Not every barrio, however, had been formed from a land invasion or a political decision by the local authorities to meet the demands of organised pressure groups in Estelí. One interviewee and her husband, for example, relocated to a new settlement established for families affected by hurricane Mitch in 1998, through a legal and organised process promoted by the municipality with the support from the Catholic Church. Another interviewee lived in the same plot of land she bought 40 years ago in the barrio now called 'Panamá Soberana,' from private owners that subdivided their land for sale.

PRODEL's staff, as well as municipal employees and households interviewed, did not recall any family from these settlements being evicted during the last 18 years. According to Ismael Rodríguez, PRODEL's credit officer:

During these years, the local government provided these settlers with a certificate called 'solvencia municipal' which recognised their occupancy rights even if this is not considered a legal public document. Several barrios have been

under this legal condition for the last 20 years; so people know that although they lack a proper recognised public legal land title, they will not be evicted.

Still, the lack of clarity on their land tenure property rights was an issue that affected some barrios. An interviewee of Leonel Rugama's barrio explained:

Only recently they provided us with land titles. It took the authorities so long, because the land that they gave us was not originally from the municipality as we had thought. Therefore, the municipal authorities had to negotiate for a long period of time a solution with the private owner. To tell you the truth, the Zapata family who was the private owner of this land never bothered or threatened us, at the end they negotiated a deal with the municipality, not with us (interview, March 2009).

A woman, who lived in the same barrio for 40 years, experienced problems because she and her husband did not register their title in the 1960s, and a governmental decree, immediately after Chamorro came to power in the 1990s, impeded legalising their land adducing that in the barrio there were illegal occupations. The municipality promised to solve the problem but according to the interviewee, the local government was busy resolving the land issues of the new barrios that emerged immediately after the change of government, and not the old ones established long before the Sandinista revolution.

We do not feel afraid and we know that nobody will threaten to evict us, yet many of the MFIs are not willing to consider us as subjects of credit until we have the issue of land tenure solved (interview, March 2009).

According to PRODEL officers, although these public land titles were not fundamental to the MFIs lending money schemes for housing improvements, the lack of clarity regarding the ownership of the land was problematic when households borrowed bigger amounts for larger improvements, or when a family had a private document of purchase that was not registered, and had not been issued by the municipality. Moreover, since 2007, when Daniel Ortega became President of Nicaragua political factors affected the work of the MFIs, as well as the processes of community participation (see Chapter 8).

Contextual circumstances that affected the lending process

During the field visit to Estelí in March 2009, the study found that the act of presenting a registered land title as a guarantee was increasingly becoming a requisite by MFIs, in some cases, irrespective of the amounts borrowed by the households. This generated conflicting opinions even among the MFIs' more traditional and steady clients. It was possible to notice that accessing credit was becoming more problematic, although not impossible, for certain urban poor groups in Estelí. The analysis of the possible factors that caused this situation, and why, under certain circumstances, these factors were more significant than others helped understanding the difficulties that the urban poor usually faced in achieving inclusion in these lending

schemes. It also allowed understanding the influence that external processes had in the decisions that the MFIs took regarding their lending schemes. This visit facilitated the understanding that it was not only the type and quality of collateral, or the household income level, or the capacity of payment, or even the previous credit track record of the household that, at the end of the day, determined financial inclusion. Other critical contextual and institutional factors played a key role in opening or closing opportunities for financial inclusion.

Asset accumulation and financial inclusion: case studies

To understand in depth the complexities of small and repetitive lending for housing improvement, the cases of five women-headed households in the city of Estelí are presented. Their cases illustrate the way they were included in the lending scheme, and how their families accumulated assets over the years. Through these cases, as well as from other interviews made in Estelí during the research, it was possible to learn about the obstacles they faced over the years, and what critical issues they encountered in their incremental process of consolidating the multi dimensions of housing as an asset. The five cases show the complementary ways by which the collective physical assets of a community reinforced the possibilities of consolidating an individual household's assets and vice versa. The five cases are not presented as the totality of households that accessed PRODEL's resources for housing improvement neither in their barrios, nor in Estelí nor in Nicaragua, and are not intended to be the basis for generalisations; their sole purpose is to illustrate some of the probable processes that households with similar characteristics faced in the changing context that Nicaragua experienced during the last 15 years.

*The case of María Luisa*³⁵

María's father bought her a plot of land of approximately 280 square metres in Barrio Los Angeles in 1997 for ₡ 3,500 and gave her an additional sum of ₡ 2,000 to build a wooden shack (see Figure 7.2). Her father bought the plot from one of the original occupiers of the land. At the time, María was unemployed and her income came from selling clothes she made with a sewing machine and tortillas she baked. The monthly salary of her husband, who was a guard in a building company, complemented this income. With their own resources, including a small loan from the building company where her husband worked, they started improving their wooden shack.

In 1998 María heard about PRODEL's housing improvement loans and decided to attend the BCP credit briefings which, at the time, took place in the offices of the municipality of Estelí. She received her first loan of US\$ 500 that they used to complete two bedrooms and added the roof (see Figure 7.3). Her husband had practical ex-

³⁵ Inputs by Irene Vance and Alvaro Barreda Lazo helped to clarify some issues on this case.

perience of building techniques so his input into the building process throughout these years was critical. It took María two years to repay the first loan and she recalled that the credit officers of the Bank and the technical officer of the municipality had treated her very positively.

In 2002 she requested a second loan, this time from another MFI as the BCP had closed its operations. She received another loan for US\$ 500 to build the front and side walls of the house's facade (see Figures 7.2 and 7.3). However, the price of building materials had increased and therefore they could not realise all their plans using just the loan. When her husband became unemployed, María faced difficulties in making her loan repayments on the due date, but she did make the payments, albeit sometimes late, and she ultimately repaid the entire loan. However, "the MFI pressed me constantly, even using lawyers, and I found this procedure, although probably understandable from the MFI's point of view, quite stressful".

With their own additional resources, Maria and her husband finalised what they started with the 2002 loan and also continued the building work, installing a bathroom and also laying tile floors. In 2004, she heard that another MFI was intermediating funds from PRODEL in Estelí, so she decided to request a third loan for US\$ 700. In general she felt that this MFI treated her totally differently from the other and if in any given month she could not pay on time she called and informed them that she would pay later, and they never made an issue of this. According to María:

The MFI and the client need to have mutual respect and we as clients need the courage to inform the MFI in advance that we cannot fulfil our obligation on the agreed day but that we will pay them some days later. For example, last month I used part of the money that I put aside for the monthly payment of the loan, as I had to buy medicines for my back pain and I could not work on my sewing machine. The MFIs need to understand and be aware that during different periods in the lives of working families like mine, there are ups and downs and that life is not always an easy and straight line (interview, 25 March 2009).

In 2006 María applied for and received a fourth loan for an additional US\$ 700, and in 2006 she requested a fifth and bigger loan from the same MFI for US\$ 1,000 (see Figures 7.2 and 7.3). In total she had five housing improvement loans totalling US\$ 2,500 over a period of 10 years.³⁶

According to personnel from the MFI and PRODEL who were acquainted with María's case, in spite of some temporary difficulties she faced, her credit record was flawless. Moreover, she was an example of a borrower that had been able to maximise her own scarce resources with those from loans to generate, through incremental methods, a high quality housing improvement. María refused to rate how much her house was valued but she stressed emphatically "that

³⁶ According to Alvaro Barreda Lazo, after the fifth credit María got a sixth credit for her sewing microenterprise.

even if the MFIs or other people would offer her US\$ 16,000 for the house she would never sell it”.

María was not the only borrower in barrio Los Angeles with a similar story of accessing repetitive loans to improve their housing conditions. Approximately 25 per cent of the 117 households in the barrio received at least one credit for housing improvement since this component had been started in 1994. Yet, the case of María is somehow different. She was also a well-known community leader, who had been instrumental in organising the community in their efforts to introduce a different infrastructure and initiate basic services projects, some of them co-financed with resources from PRODEL, the community and the municipality, and others with resources from other international cooperation agencies. She, with other members of the community, participated, over a period of 10 years, in a significant process of accumulation of collective and individual household physical assets: the introduction of latrines, electricity, potable water and pluvial and storm water systems, and more recently sewerage, the improvement of the internal streets in the barrio, and the building of an access bridge that allowed public transport to go in and out of the barrio.

I feel that improving the house as well as our neighbourhood has increased the self-esteem of all of us, and my kids say that they feel blessed to have such a nice house in which they can bring their friends to study. Without doubt it has had positive effects on the education and health of my two kids (interview, 25 March 2009).

She also stressed that certain level of education, as well as individual aspirations and responsibilities, combined with the existence of strong social networks, were basic ingredients required to change the conditions of someone who was poor. Without these elements, “it would have been difficult to access and pay the five consecutive loans and also improve the house”. However, going to school and getting an education do not necessarily make a good client.

You also have to use the loan for what you said you were going to use it, and not to get simultaneously involved with different microfinance institutions borrowing money that you will not be able to pay it later on, and you know what, you also need to feel the support of your neighbours and the community when you most need their help (interview, 25 March 2009).



Figure 7.2 *María Luisa's house after 10 years and five improvement loans.*
Source: PRODEL.

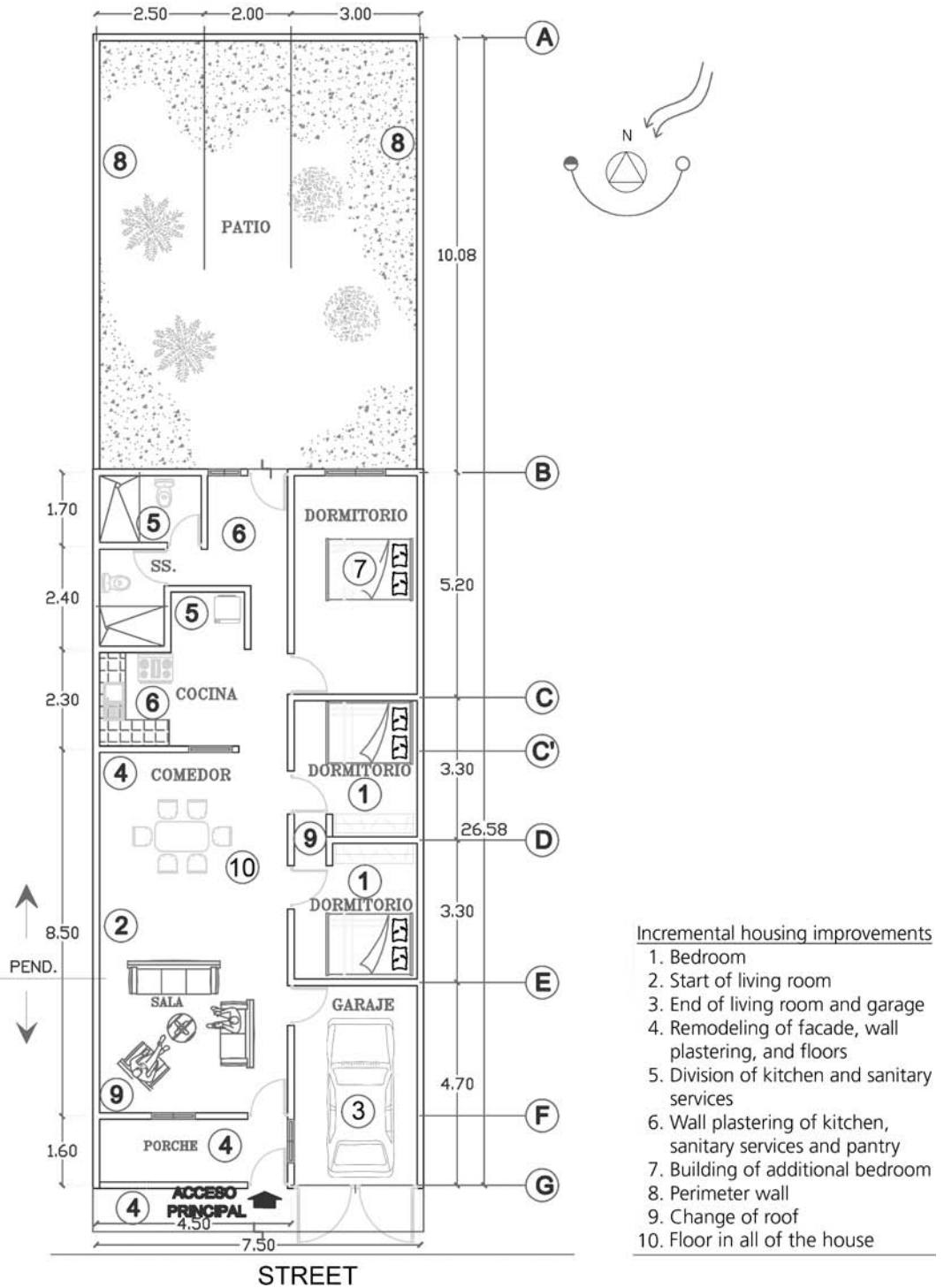


Figure 7.3 María Luisa's incremental housing improvement plan.

Source: Alvaro Barreda Lazo, PRODEL technical assistant in Estelí.

The case of Rosa Isabel

Rosa was an elementary school teacher, married to Jorge. They had two children: a boy (from her husband's previous marriage) who was studying at university in his third year, and a girl who had finished high school and was studying the first year of finance at FAREM, the national university faculty in Estelí. Rosa bought a plot of land in the Barrio and from 1990 to 1994 she built a small wooden shack with corrugated zinc roofs. The house did not have a kitchen, bedrooms, or a bathroom. In 1994, she borrowed the first loan for 5,000 Córdoba from the BCP and started building the living room.

Walking one day down the street, I saw someone improving her house and asked her 'how did she do it?' She said she'd had financial assistance from the Banco Popular, so I went and requested a loan from the BCP, and gradually I started improving my house, first the walls of the room where we are sitting here today, and I also used part of the loan to connect to the electricity system (interview with Rosa, 25 March 2009).

At the time of requesting the first loan, she did not have any notable assets in her house (no radio, television set, nor refrigerator, nor even a good mattress), and therefore, the only thing she was able to give as collateral to the bank was the document that certified that she was in the process of purchasing the plot of land. The bank accepted this document although clearly it was not a registered land title. She borrowed additional loans from other three MFIs, to build two bedrooms, then the garage "just in case that in the future we have a car, or that we need to sell the house, the price of the house with the garage will increase". Afterwards she invested the loans to build perimeter walls around the site, and finally the bathroom.

It is interesting to note that the housing improvements for both Rosa and María included building a garage, in spite of the fact that neither family, at the time of the interviews, owned or used a car. This reflected various personal and contextual processes. First, in both cases the garage was or could be used for storage or as an extra room to rent. Second, both María and Rosa genuinely expected that in spite of the country's then socio-economic difficulties their personal household conditions could improve in the near future sufficiently to allow them to purchase a car. Third, adding a garage could substantially increase the market price of their houses, in the eventuality of having to sell their homes. Fourth, Estelí's economic condition was improving, and the barrios where they lived were becoming increasingly popular to people who had the means to pay for more expensive housing, than had been the case in previous years.

Rosa was convinced that without these repetitive small loans, "it would never have been possible to collect the money it took her to build this house". During these 15 years, with technical assistance from PRODEL she hired and supervised the builders, learned how to elaborate and control budgets and even helped in the construction process. With her monthly salary of Córdoba 3,800 she repaid the loan in instalments (her monthly payment for the last housing improvement loan was 2,500 Córdoba, which represented approxi-

mately 65 per cent of her monthly salary). Her husband, who worked in the penitentiary system and during the weekend drove a taxi, paid for the food, the utility rates, as well as for other household expenses. Since 1994, she had five loans totalling US\$ 5,000.

He is a very good husband; he comes from a very poor family. When he was little he literally did not have a house to live in; at nights he used to wrap himself in a plastic bag, specially when there was rain and winds. His childhood was very hard. His mother abandoned him when he was eight years old. She left with his stepfather to go to Honduras. He lived in Ocotal and for many years sold water riding a donkey. When he reached 12 years old he joined the Army. So you can imagine that he feels that the house we have right now is not only nice: for him this is a mansion!

Rosa also remembered that in a period of 19 years not only her house but also the entire neighbourhood changed as result of the housing improvement loans and also the improvement in infrastructure and basic services.

Before, it was almost impossible to go out to in the streets during the rainy season, we had to use rubber boots, and there was no water, sewerage or drainage systems. With our own resources, and I think also from the municipality and PRODEL, we introduced water, and also public lighting and also in the houses. The majority of the houses are no longer made from wood, and the majority have now been improved. We also have a health clinic not far away and I know that in the coming months we are going to introduce water gutters in the streets (interview, March 2009).

She remembered that during hurricane Mitch in 1998, the water from a nearby ravine spilled into the entire barrio. Years later the municipality and the community improved the conditions of the ravine so that the barrio no longer flooded. When asked if she considered that she or her family were poor, Rosa replied that:

Many people that once lived in the barrio have left for other places even outside Nicaragua, searching for a better life. Probably some of them have found a better living. I decided to stay and today I feel that my house is worth tens of thousands of dollars, the block where I live is nicer, and there are only three wooden shacks remaining, and in spite of the difficulties experienced, I feel that my family has improved during the last 15 years (interview, March 2009).

Rosa recognised that in the barrio there were other types of problem; sometimes gangs came in and she was a little bit afraid, especially for her daughter's safety when she came home from university at night. Thieves entered her house twice and stole a tape-recorder she was paying off at the store, and the second time they took some clothes and the gas tank. That was the main reason why she reinforced the perimeter walls, the roof, and also the doors. In spite of these problems, she felt that things had changed and improved in barrio Los Angeles and in her house. She dreamed of building other

rooms for her daughter once she married, so Rosa could be near her grandchildren.

The case of Ericka

Ericka was 27 years old and worked as a credit officer in an MFI providing financial assistance to women for the purposes of both housing improvement and supporting their microenterprises. She studied business administration at university and her husband, Victor, who was 28 years old, was a taxi driver. He had also completed his secondary education. Their daughter was four years old. Ericka and Victor together earned about US\$ 650 per month, which meant that their monthly income was way above the poverty line for urban areas in Nicaragua. They were also a couple with relatively stable jobs. They bought the land in the barrio around 2002 for US\$ 3,500, and lived in a small wooden shack for five years before being able to improve it.

During these years, they regularly saved some building materials, especially red bricks, gravel and sand, so that eventually they could improve their wooden shack. About two years ago they approached, another MFI working in Estelí, and requested a housing improvement loan. The first loan they received was for US\$ 1,000 and with this loan and the building materials they had saved during those years they built a living room using bricks (see Figure 7.4). Afterwards they requested a second loan for US\$ 1,300 to build a bedroom and a kitchen (see Figure 7.4). For both loans, they provided the land title as their main collateral and additionally they provided a guarantor, who had an established business. They repaid the first loan in eight months and they expected to repay the second loan within one year. They wanted to get a third credit, and running parallel to this, they also wanted to start purchasing and saving additional building materials as they had done prior to getting the first loan.

What made Ericka's case interesting is that she simultaneously was a loan officer in an MFI and also a borrower herself in a different MFI. These insights allowed her a better understanding of the potentials as well as the limitations that existed in the context of Estelí, from a lender and borrower perspectives in terms of the loan conditions, the type of collateral and guarantees requested, the importance of saving building materials before accessing a loan, and starting an improvement processes, and more importantly what was the best way of using the technical assistance to optimise the use of the loan.

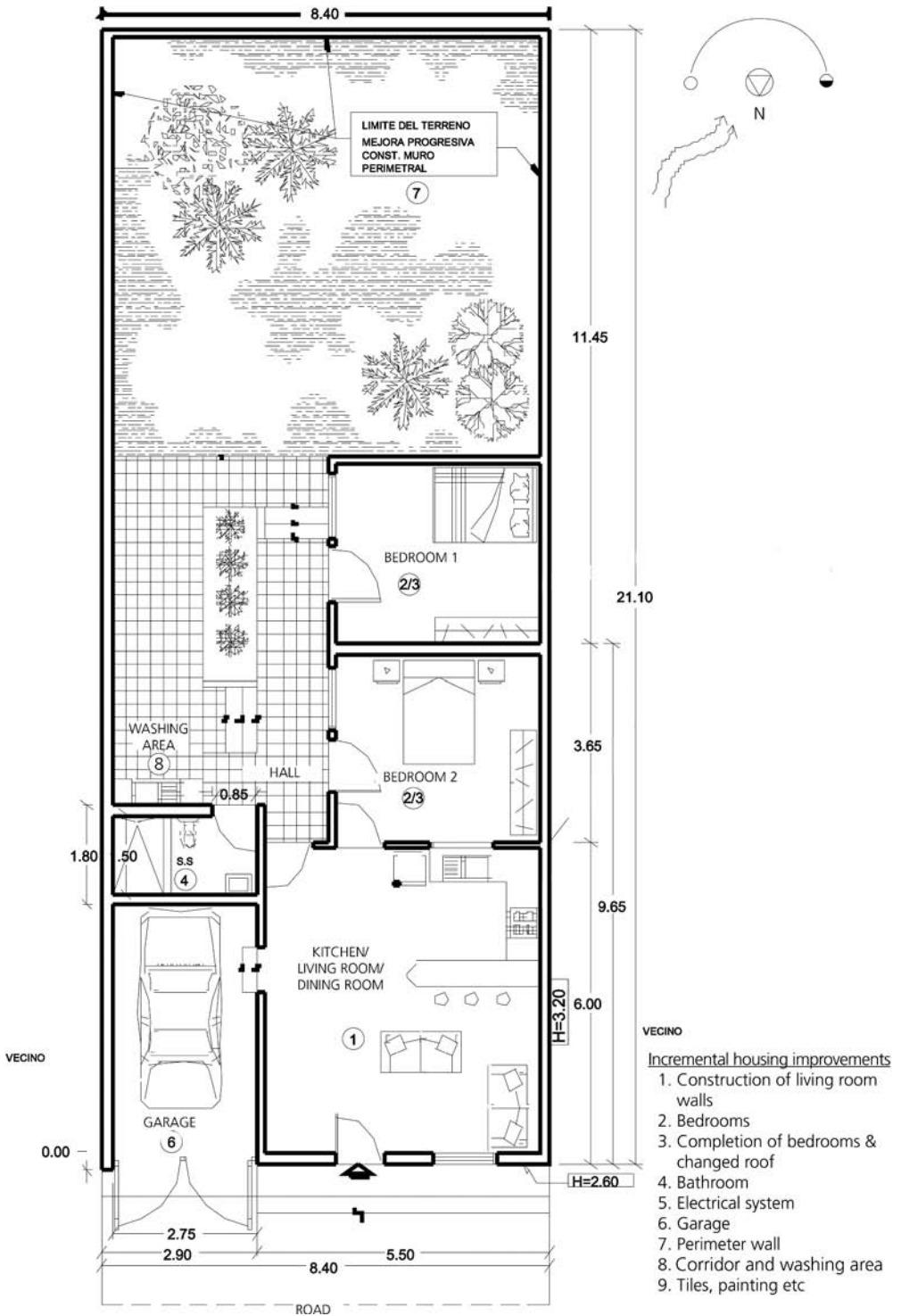


Figure 7.4 Ericka's housing improvement plan.

Source: Alvaro Barreda Lazo, PRODEL technical assistant in Esteli.

The case of María Julia

María Julia, a single mother with two sons, was an elementary teacher for 25 years. She earned about ₡ 3,800 (US\$ 190) per month, and as a teacher her income was stable, although relatively low to support a family of three people. Despite her modest income, she did not consider her household to be poor. Her two sons worked, one of whom also looked after and cared for his aunt's house. The aunt had lived in the USA for the previous 20 years; with the money the aunt paid him, the young man was paying for his university studies. The other son contributed some resources to the household by selling firewood and food.

The municipality of Estelí had assigned María Julia the plot of land where she lived 17 years previously, and she built her house with the financial resources provided by six consecutive housing improvement loans that totalled more than US\$ 6,000 plus her monetary and building materials savings. However, she only moved into her house after the third loan, as she rented a small flat in another barrio near the school where she worked. During the construction period, María Julia also washed and ironed clothes for neighbouring households to earn some extra money. In 2000 she left the flat and moved into her current house.

In late 1994 she approached the BCP and the first housing improvement loan was only disbursed in 1996 totalling ₡ 4,000 (US\$ 453), which enabled her to build the four walls of the living room, but was insufficient to construct a roof for it. The second loan, taken in 1998 was for ₡ 6,000 (US\$ 542), which she used to build the walls of two bedrooms, but, again, without being able to finance a roof. She received a third loan in 2000 totalling ₡ 10,000 (US\$ 770), which helped her to construct the roofs, the doors and to introduce drinking-water pipes. She applied for an additional fourth loan in 2002. This fourth loan for ₡ 12,000 (US\$ 830) helped her to plaster the walls and to lay out the floors of the living room and bedrooms. With a fifth loan of ₡ 26,000 (US\$ 1,679) in 2003, she built the kitchen and paid off the outstanding balance of the fourth loan, and with the sixth loan for ₡ 32,500 (US\$ 1,812) received in 2006, she built the perimeter walls of the plot and plastered them and put ceramic tiles in the kitchen (see Figures 7.5 and 7.6).

María Julia was proud of her house and she firmly believed that, "without these loans and the work of the MFIs as well as the technical assistance provided from PRODEL, it would have been impossible for her to have the nice house she has today". In this sense she was very grateful. Moreover, the barrio in which she lived was very united and the majority of families participated in the infrastructure projects with and without contributions from PRODEL's resources during the last years. She was also proud of the fact that every Wednesday a waste collection truck from the municipality came to the barrio and the neighbours were conscientious in putting their rubbish bags in the right place for collection.

Her house was legally registered and she possessed a full land title. She said that the majority of her neighbours were the same as when the barrio had been established 17 years previously, and that no one wanted to sell their homes, as the barrio was very well lo-



Figure 7.5
María Julia's improved house.

Source: Alvaro Barreda Lazo, PRODEL.

cated, near the university of Estelí campus and other professional training institutions. When asked what had been the most difficult issue she had experienced in this long process of housing improvement, she immediately answered:

That I did it alone, without any help, only with my own efforts and savings, but I know that my two sons truly recognise this effort. Every block, every brick you see here, I know what it cost me not only moneywise but emotionally (interview, March 2009).

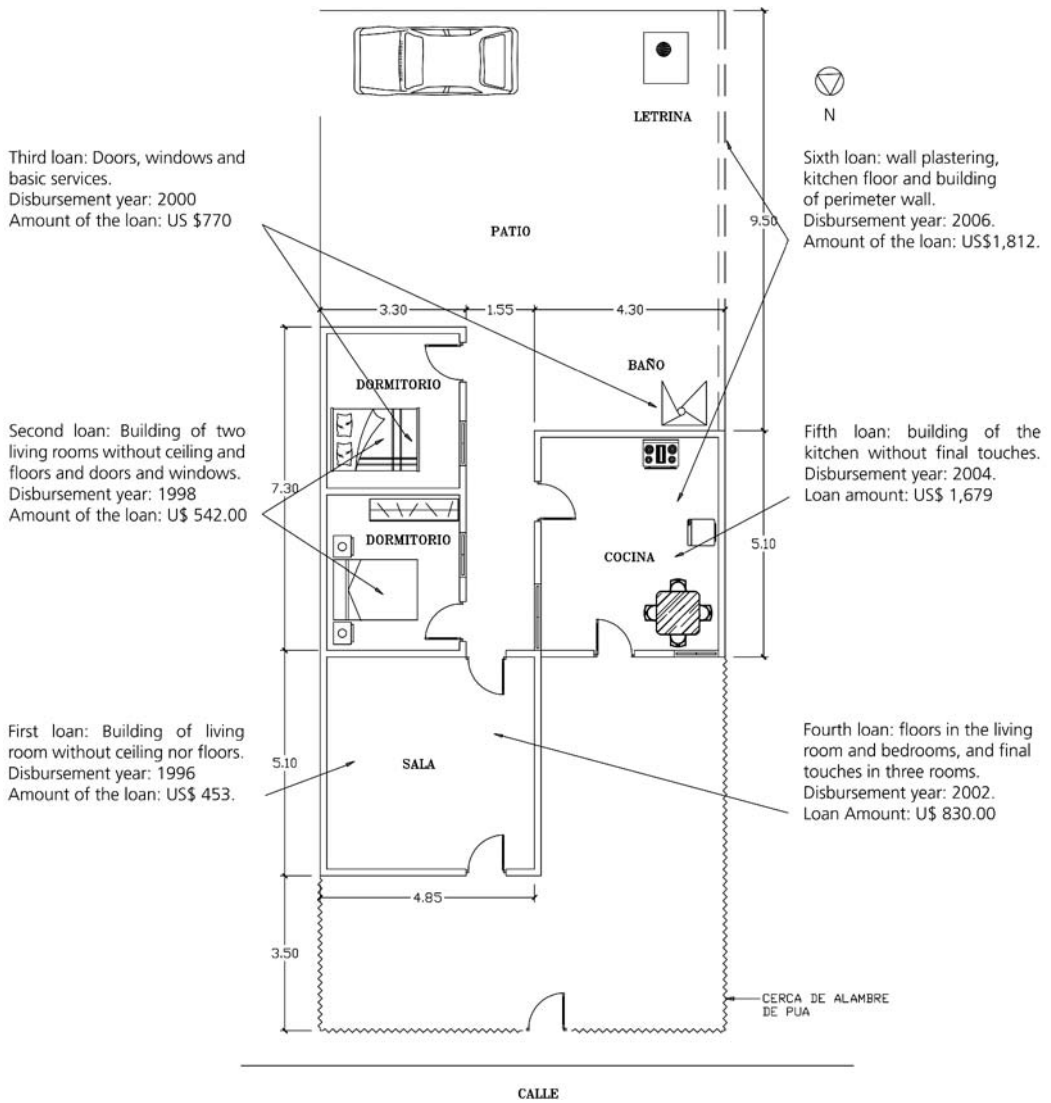


Figure 7.6 María Julia's housing improvement plan.

Source: Alvaro Barreda Lazo, PRODEL technical assistant in Esteli.

The case of Blanca Iris

Blanca was also an elementary school teacher. Her husband was a plumber working in the informal sector. They had one daughter and lived in barrio Oscar Turcios that lies on the east side of the city of Estelí, in a plot of land of approximately 53 square meters they had bought eight years previously. Compared to the plot sizes in nearby barrios, this one was relatively small. Blanca had a monthly income of approximately US\$ 175.

In past years she had borrowed three consecutive housing improvement loans from the same MFI. The first loan in April 2003, totalling US\$ 872 with a repayment period of three years, enabled her to build the walls of the living room (see Figure 7.8). With a second loan she borrowed in March 2006 for approximately US\$ 693 she changed the roof of the living room, and with the third loan for US\$ 628 in March 2008, she improved the kitchen, built a wall for a bedroom and introduced some improvements to the bathroom and toilet facilities, including connection to the sewerage system (see Figure 7.8). She paid about \$ 40 per month for the last loan, although she had started by paying about US\$ 52 per month as repayments were based on a decreasing quota.

Given the work of her husband as a plumber, he was able to collect broken ceramic pieces from the different construction sites he visited, and with them he created an interesting mosaic on the exterior walls of the house and also on the interior bathroom walls (see Figure 7.7). Clearly the value of the house was more to them than the US\$ 2,200 they had borrowed.

The fact that Blanca had a registered land title, and a permanent job as a teacher, enabled her to access the housing improvement loans without any problem. As her husband did not have a permanent job and worked in the informal sector, the MFI only considered her stable work as the main source from which the monthly payment was to be paid. Nevertheless, the MFI took into account the husband's income from which he paid for the rest of the monthly expenses of the family. Thus, an important proportion of Blanca's monthly salary paid the loan, while the remaining household expenses were covered by the husband's income.



Figure 7.7
Blanca's improved house.

Source: Alfredo Stein photos, March 2009.

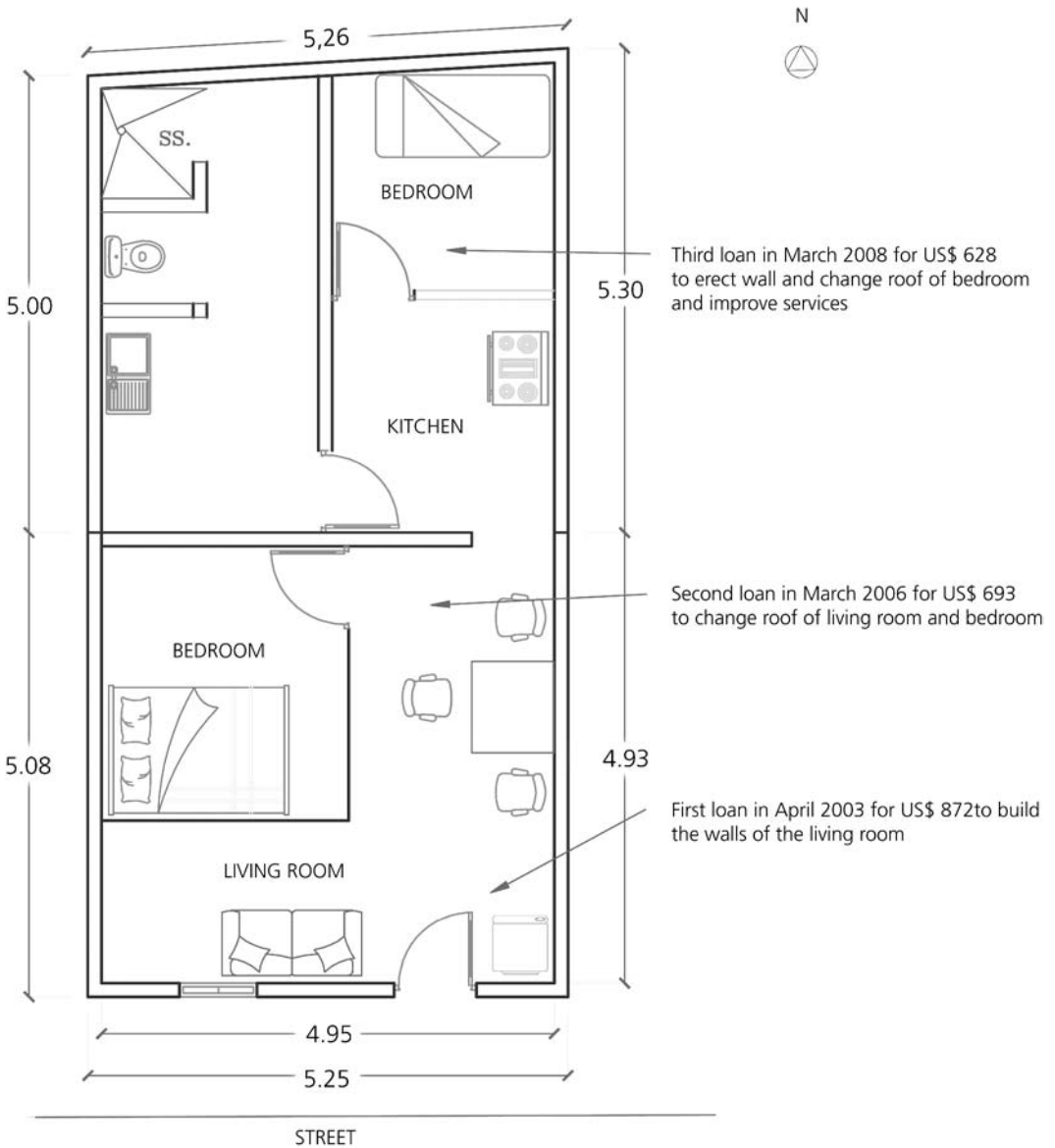


Figure 7.8 Blanca's incremental housing improvement plan.

Source: Alvaro Barreda Lazo, PRODEL technical assistant in Estelí.

Obstacles faced in the process of housing improvement borrowing

Through these five cases as well as from the other interviews in Estelí the contextual, institutional and individual household possibilities, as well as see the obstacles that were critical in these incremental housing improvement processes, became apparent. When analysing the main constraints that the poor faced with these loan schemes, one of the interviewees was unequivocal about the positive role that the MFIs and the small and repetitive loans had played in opening up new opportunities and consolidating the individual physical and social assets of urban poor households in Nicaragua: “Without them, all what I have achieved would have been practically impossible”. Other interviewees stressed, however, that land registration had become an important issue in the previous two years:

There are thousands of people in Nicaragua that own their land plots but have not registered their titles. Sometimes, even if you have been an excellent client, and then request a bigger loan you may find that without registering the title you will not get it. After more than nine years of being an excellent credit client, I had to register the land title and mortgage my house as the only possible way to access a US\$ 1,000 loan I requested. If it had been for a US\$ 5,000 or US\$ 6,000 loan I understand the risk that lending such an amount entails for the MFI, but for US\$ 1,000 I feel it is more difficult to understand. I think this might be an obstacle in the future if you have to mortgage the house for a US\$ 1,000 loan when the current value of my house is probably much bigger if we considered the improvements that we have made to the house during these 10 years, and also the improvements in services and infrastructure that occurred in the barrio (Interview, 25 of March 2009).

When asked if the MFI had not recognised other assets as collateral, as had been the case in previous loans, one interviewee expressed that

This was not the case this time. For example my television set, my refrigerator, my sewing machine and other assets I have in my house are worth probably more than US\$ 1,000. I was therefore surprised when I had to present a ‘solvencia’ [certificate] from the municipality proving that I paid my municipal taxes, something that I have done for years, and that I had also to mortgage my house.

While discussing the probable reasons behind this attitude by the MFIs, several of the interviewees from different barrios in Estelí, and later on, PRODEL staff, as well as members of the MFIs explained that in recent months, there had been an important vocal ‘movimiento de no pago’ [non-payment movement] in that members had threatened not to pay back their loans to the MFIs in Nicaragua. Several of the interviewees expressed their concern that this movement could generate a situation in which the MFIs would eventually “think twice before lending to poor families to improve their houses”. They

also confirmed that there was “a lot of noise on this issue in the barrios” and that the MFIs were being more cautious in their loan analysis. Another interviewee, a micro-entrepreneur who had baked and sold ‘rosquillas’ (a small round biscuit that was typical of this part of the country) for the last 25 years, confirmed that she had approached an MFI and asked for a housing improvement loan and had been told that new credits were not being approved. She assumed that the main reason behind this decision was a direct consequence of this non-payment movement. Additionally, representatives from MFIs and also PRODEL confirmed that they were becoming more cautious as their lending portfolios were subject to increasing arrears, and several MFIs were taking cautionary measures against this phenomenon.

Political factors

According to different interviewees, this non-payment movement was the direct consequence of a series of policy measures taken by the new Sandinista government that came to power in January 2007. For Spalding, (2009) within the increased cooperation that the Venezuelan government of Hugo Chávez provided to the government of Ortega, there was a US\$ 20 million aid package including US\$ 10 million for social programmes and US\$ 10 million to finance micro-credit. One of the conditions to access to these resources was that the cooperatives that intermediated these funds had to reduce their lending interest rates to below those normally charged by the MFIs in Nicaragua. In addition to these subsidised loans, the government of Nicaragua had launched a national campaign called ‘Usura Cero’ (Zero Usury), aimed especially at women working in the informal sector, which consisted of establishing a new line of microcredit through the Industry and Trade Ministry (ibid.). Spalding (ibid.) contended that Ortega’s real aim was to generate an alternative governmental loan scheme that not only competed with the MFIs in financial terms, but also used this lending scheme as a tool for political ‘clientelism’ (ibid.). Although the programme was under criticism and scrutiny from different social, political and financial sectors, it certainly had an impact on the regular work of the MFIs in Nicaragua, and according to external consultants interviewed, some MFIs were already experiencing double digit arrears compared to previous years. Thus, the situation became critical.

Institutional and contextual issues

Several interviewees pointed out that this non-payment movement unfortunately coincided with the change of a branch director of one of the MFIs in Estelí’s that had less experience in the management of housing improvement loans, as well as with the measures that MFIs, in general, took to mitigate the increasing risks of a possible economic recession in Nicaragua. In this context, they considered that the MFIs had to be more cautious in their credit analysis but also be willing to explain in more detail and make more visible what the financial commissions and other fees deducted from the loans were, and to try to expedite the procedures they required to approve a loan, especially with those clients that had a good proven track record. Based on their lending experience, they suggested that an in-

creased understanding by the MFIs of the long-term internal social dynamics of a household was also crucial. In this sense, they thought that the MFIs should increase their knowledge on the processes by which low-income families moved through different life stages and accumulated different assets. “Children grow up, there are ever-changing new needs from teenagers, we also change jobs or sometimes even lose them, but in spite of the ups and downs, we are able to demonstrate a positive attitude in strengthening our households internally and in also being responsible with our social and financial commitments”.

Some interviewees also felt that in the context of a political and economic crisis, such as the one that Nicaragua was experiencing, the MFIs should highlight the existing partnerships between the lending institutions and their good and long-term clients.

To the contextual political factors already mentioned, others interviewees stressed that there were other socio-economic issues at stake, especially institutional and household opportunities and constraints, that sometimes affected a more consistent and more inclusive financial system for urban poor households that wanted to improve their housing. They contended that the types of guarantee and repayment capacity were important criteria in assessing the housing improvement loan analysis. However, in their opinion, the collateral analysis could be more flexible, as well as the analysis of the borrowers’ employment and level of income. For example, they stressed, that it was difficult to find anyone in Estelí who had a permanent job. For example, some borrowers could provide a certificate from their workplace, but that was not the case for thousands of housewives or single mothers working independently in their homes although they were certainly creditworthy. Before the economic crisis, remittances from abroad were used as support in the credit analysis and sufficed instead of a job certificate. Amid the economic crisis, there was no certainty of money being sent back by family members living abroad; therefore, the MFIs were more cautious to take into account these remittances when analysing the household income. In the political circumstances of 2010, a loan of US\$ 3,000 or more would probably require a mortgage, but a lesser loan probably did not need one. “Practice tells us” said some interviewees from several MFIs, “that even if a client puts down the land title as collateral and this title is registered, and the client can show a job certificate, but has a bad track record with previous loans, or his or her reputation in a barrio is not so good, it will be difficult to recover the loan even with a good collateral”.

Some of the interviewees suggested that clients who had permanent employment always seemed more convenient for the MFIs as there was less risk that the loan would not be recovered. Interviewees also contended, that although in the context of an economic and political crisis like the current one in Nicaragua the MFIs should not take unnecessary risks, the MFIs had to be aware and proactively demonstrate that the majority of people in Estelí were working in the informal economy and that probably, in many cases, these people had even higher incomes than those working in permanent, formal employment.

Conclusions

The chapter showed how technical methods of participatory planning with communities (called *barrios* in the context of Nicaragua) combined with technical assistance to individual households opened up new opportunities to people to access external financial resources. Ensuring the participation of the urban poor in these planning processes, whereby they identified their problems, negotiated and decided how these resources were allocated and also used, was a critical element that facilitated their financial inclusion.

The chapter also highlighted the importance of having workable and manageable geographic and numeric scales that allowed for a more effective involvement of different households within a community, in a decision-making process, and thereafter in project implementation in the co-finance mechanism for the introduction of infrastructure. In this sense, micro-planning methods facilitated the opening of these “spaces of negotiation” between the agencies and institutions that externally controlled and managed resources and the communities that according to Hamdi and Goethert (1997) “hold the knowledge of their problems and the solutions to them”, and that were lacking in rapid changing urban contexts such as the ones in Nicaragua.

With the small and repetitive housing improvement loans, the importance of technical assistance to the borrowers proved to be critical. Apart from taking on board how loan repayments were a financial burden, solutions to practical problems were identified and construction standards were improved as different stages were prioritised.

The chapter examined the difficulties that lending institutions faced in understanding the need to combine technical and financial assistance as a way of ensuring that the physical assets improved through the small and repetitive improvement loans corresponded to the aspirations and necessities of individual households. Although the costs of these technical services were fully recovered through the loan, MFIs preferred this service to be outsourced. In the majority of cases, this service was provided by PRODEL. In this sense, the financial and technical analysis combined facilitated the access to the loan and increased the possibilities of poor households to consolidate their housing as a multi dimensional asset (see Rust, 2007).

The chapter also highlighted how political problems, in the context of the new Sandinista government, generated problems of cost recovery and challenged healthy loan portfolio management for the MFIs.

Having further understood how financial inclusion and asset accumulation took place in Estelí, Somoto and Ocotal, the thesis now explores the limits of the model, and analyses more closely the main proposition that guides this thesis: if exclusion occurs in PRODEL then it could also occur elsewhere.

The limits of PRODEL's model

This chapter provides the main arguments that help to substantiate the proposition that guided this critical case study: if social exclusion occurs in PRODEL, it might occur elsewhere. To achieve this, the chapter examines what the limits of PRODEL's model in terms of financial inclusion and urban poverty reduction were.

Poverty reduction and financial inclusion

This thesis, especially Chapters 6 and 7 highlighted the substantial and tangible contributions that PRODEL made in addressing the needs for improved housing and infrastructure as well as for economic recovery through income-generating activities in the different cities in Nicaragua where it operated since 1994. By focusing the analysis on the cities of Estelí, Somoto and Ocotal the study gained an in-depth understanding on the evolution of the social and financial model applied during a 15-year period, and obtained additional details on the opportunities that each of PRODEL's components represented to diverse urban poor individual households and communities, as well as non-poor groups.

The study highlighted the means and methods by which different urban poor households and neighbourhoods were financially included into PRODEL's logical approach, and the forms of social housing finance and technical assistance that helped to strengthen the community's collective and individual physical, financial and social assets. Additionally, the study showed the institutional and organisational growth experienced during these years by which PRODEL became a mature second-tier institution having strong ties with more than a dozen microfinance institutions (MFIs) and 10 local governments. By the first half of 2009, PRODEL's financial and social model operated at the national level and not solely in a few municipalities of Nicaragua as had occurred during the second half of the 1990s. The study illustrated the links that PRODEL developed with different international financing agencies, and not only with Sida. Finally, it identified a series of challenges and tensions that its social and financial model faced. By examining some of these challenges in the following sections, a better understanding of the limits of PRODEL's model in terms of financial inclusion emerges.

Financial inclusion and local development

At the core of PRODEL's model for poverty reduction and social inclusion lay the principle that the combination of its main investment components (the small and repetitive loans for housing improvements, the co-finance mechanism for the introduction of infrastructure and basic services, and the financing of economic activities through micro-credit) in the same geographical areas, even if they had different financial bases, generated a multiplier effect that promoted local development and also reduced urban poverty. As PRODEL's Executive Director contended:

PRODEL is not a programme for housing improvements; nor a micro-credit programme for productive activities; nor a programme for basic infrastructure. Nevertheless, the combination of these three components in the same territory over a relatively long period of time is what generates the possibility of inclusion of different urban poverty groups in local development processes (interview, July 2006).

According to several external consultants and PRODEL staff interviewed, this vision of local development was based on the assumption that urban poor households and communities managed and possessed an important reservoir of resources. These resources, if both stimulated and supported, could be used in material and social processes that would help to consolidate what Moser (2009) calls tangible and non-tangible assets of the urban poor. This vision probably constituted the core reason why PRODEL tried to guide the investment of its resources, channelled through MFIs and local governments, in such a way that the three components integrated simultaneously wherever feasible, in the same territory. By territory, PRODEL's approach not only referred to a specific neighbourhood or a barrio within a city. By territory it referred to the totality of a city in which poor, as well as mixed and non-poor, barrios co-existed side by side. Why was this integration so necessary for PRODEL's social inclusion model?

As perceived by various interviewees in this study, the experience of PRODEL over a period of 15 years was that urban poverty is multi-dimensional. This was pragmatically reinforced within the different implementing agencies. It also strengthened the idea, as Moser's (2009) study in Guayaquil showed, that the assets of the urban poor are interrelated; so, whatever happened to one of these assets affected the others. Paraphrasing the words of several of the ex-mayors, the professionals of the municipal technical units, as well as of household members interviewed in different barrios in Estelí, Somoto and Ocotal: if one did not improve the social and economic infrastructure to address different risks and vulnerabilities in a community, there could not be a real improvement to housing, and vice versa. Moreover, if there were no improvements in households' income levels, it was more difficult to improve housing conditions as well as the basic services in a community. Interviewees were also aware that if there were no social cohesion, individual household problems tended to increase, and in some cases generated social conflicts within the barrios.

Local actors were conscious, however, that consolidating many of these social, economic and financial dimensions depended on macroeconomic conditions and political situations that went beyond the variables that PRODEL, local government, the MFIs, and the communities managed and controlled, or even the assets that they commanded.

The perceived interrelation between collective and individual assets in the municipalities and in the communities where PRODEL operated, coincided with Rust's (2007) findings in the case of South Africa, that for the urban poor, housing as an asset entailed more than a financial dimension that allowed a household to leverage additional financial resources. Equally important, it allowed a household to increase its income levels by physically improving the house through microfinance. By renting a room, or by installing a small workshop or a temporary micro business, including the selling of 'tortillas', 'rosquillas' or even the establishment of very small 'beauty parlours', or other types of workshop, as seen in many of the improved houses in the barrios visited, households generated additional income. The introduction and improvement of basic services and infrastructure, allowed such households to further connect physically and socially, to their broader community and also to the city.

Financial inclusion and targeting the poor

The integration of PRODEL's investments in the same territory cannot be understood as an exercise in targeting of financial resources or credit services towards the poor as Daphnis and Faulhaber (2004) maintained. Equally, it cannot be understood as a means to improve what is called the "vertical equity or the unequal, but fair, treatment of un-equals" (see Hanson, Worrall and Wiseman, 2007). In fact, PRODEL's co-finance mechanism for infrastructure was contradictory in itself. While it 'discriminated positively' for poor communities within a city that had the most unequal levels of basic services and infrastructure from other communities with higher levels (according to the Matrix 65), the process and the methods of delivery to a specific community provided resources to (and incorporated all members within) that community irrespective of their income levels. That allowed covering everyone and therefore making the benefits of infrastructure, at least in a given barrio, a collective and not an individual issue. For a discussion between targeting and universal benefits in development projects see Mkandawire (2005). PRODEL credit components, on the other hand, were open to all those that could afford to pay and in this sense it 'discriminated negatively' against those households that were unable to repay a loan. Thus, the integration of the three components in a city over relatively long periods of time, through 'positive' and 'negative' differentiation methods, was more than a compensation mechanism for poverty alleviation, and became a local development tool for inclusion, asset accumulation, and poverty eradication, as it also included a variety of local and external actors, especially the MFIs, local governments, and particularly urban poor and non-poor local communities and households.

The future of the co-finance mechanism for infrastructure

Although the principle of investing the three components in the same geographic areas constituted one of PRODEL's guiding principles, the practice after 15 years suggested that the principle had been difficult to follow. The MFIs that PRODEL worked with disbursed the small and repetitive loans for housing improvements as well as the micro credits for micro-enterprises, in cities and neighbourhoods that they deemed suitable from their own institutional and financial perspective, and not necessarily according to the need of integrating investments in given territories where the poor were concentrated or where the co-finance mechanism worked. Compounded with PRODEL's institutional transformation, from being a governmental programme into a non-profit foundation, (see Chapter 5), this shift of approach significantly enhanced the breadth of outreach of the loan components. Thus, in a very short period of time, the MFIs operated the two microcredit components on a massive scale in more than 79 cities and municipalities. In 2008, for example, eleven MFIs disbursed more than 9,000 housing improvement loans, while nine of these MFIs also disbursed more than 23,000 microcredits for economic activities (see Chapter 6).

In spite of its vital contribution to social inclusion, the co-finance mechanism for infrastructure, however, had been implemented in only 10 cities, and to a lesser extent, in another five peri-urban municipalities. In other words, there were a substantive number of cities and municipalities served by the micro-credit components that were not covered yet by the infrastructure component. What implications did this have for PRODEL's social and financial inclusion model?

First, it suggests that over time the mechanism that focused resources on the same territory to achieve a multiplying effect that facilitated the inclusion of different urban poor and non-poor households in local development processes was gradually fading away. This does not mean that the mechanism was disappearing, but it implied that there were at least 64 cities where PRODEL operated in which a challenging situation in terms of financial inclusion emerged. On the positive side, there were households that now had access to small and repetitive loans for housing improvements accompanied by technical assistance, as well as for microenterprises that accessed financial resources to improve their economic activities. The households and microenterprises which became clients of the MFIs, were probably in the majority of cases, (especially those in the housing improvement loan component) not previously served by the formal banking system in Nicaragua nor probably by the MFIs. Therefore, it is possible to conclude that financial and social inclusion was substantially enhanced in these cities through the loan components. On the other hand, access to housing improvement loans became increasing difficult in 2008 and 2009. This conclusion is based on the tendency of the average size of the loan for housing improvement over these years to increase (see Table 6.3); and by the income bracket to which the clients of these loans reasonably belonged (see Table 6.4). Moreover, interviews in Estelí illustrated that there were potential households with adequate income levels but whose mem-

bers worked in the informal sector, or even who were part of the formal sector but did not have a registered land title that faced increasing difficulties in accessing the small and repetitive housing lending scheme.

Second, from the experience gained in the 10 cities where PRODEL worked, it is possible to infer that there were households in the other 64 cities that were so poor that they were not able to access a housing improvement loan or a microcredit for productive activities, nor improve their basic services as the co-finance mechanism for infrastructure was absent. Although PRODEL was not the only programme operating in these 10 cities, it certainly was the most important sustainable source of finance for this purpose for more than a decade. It is therefore possible to assume – as was the case in the cities where PRODEL operated with its three main investment components for various years – that there were serious backlogs in the provision of basic services and infrastructure in the urban poor communities of these cities. This was especially true at a time when international resources for this type of investment in Nicaragua diminished, and that other governmental and non-governmental programmes, in spite their important contributions, were unable, or able only partially, to address this backlog. For that reason it is possible to presuppose, following Pouliquen (2000) and Sen (2000), logical arguments that an important portion of urban poor households and communities in these cities continued to be financially and socially excluded from accessing basic services and infrastructure.

Using the investment maps elaborated with the PRODEL's assistance it was possible to trace, during the fieldvisits, in more detail, the physical differences that existed between the barrios that received an important share of PRODEL and municipal investments during the period 1994 to 2006, and those that had not. The visit to Estelí in March 2009 suggested that investments in infrastructure, with a co-finance mechanism on a regular basis, generated a substantial difference in the levels of physical consolidation of a barrio.

Reasons for current trends

Two questions emerge from this situation: first, why was PRODEL unable to extend the co-finance mechanism for infrastructure to other cities at the same rate as it succeeded in expanding its credit components? Second, why were some urban poor households excluded from the small and repetitive housing improvement loan scheme?

At first glance, the answer to these two questions seems straightforward. On the one hand, PRODEL did not have sufficient resources to expand its infrastructure component to other municipalities, and on the other, the critical political juncture, and the macro-economic context affected the overall activity of the microfinance institutions in Nicaragua (see Chapter 7).

A deeper analysis however, identified other key conceptual, policy and contextual elements for a more coherent explanation to the phenomena. The first of these crucial factors linked to the debates on financial sustainability and financial inclusion, and the implications it had for the policies of international donors and governments,

and the practice of microfinance institutions, especially for a second tier institution like PRODEL. The second element related to the policy debates as well as the concrete methods by which international cooperation aid agencies channelled technical and financial resources for low-income housing, basic services and infrastructure to countries such as Nicaragua. A third factor linked to the external macroeconomic context that affected the economies of the world including the one in Nicaragua. The fourth reason linked to the polarised political and socio-economic conditions that prevailed in the country for 15 years. Finally, it related to the institutional transformations that PRODEL, the local governments in Nicaragua and MFIs went through and the implications these transformations had in terms of urban poverty reduction and financial inclusion. The following sections explore these factors.

Financial sustainability and financial inclusion

PRODEL's mechanism for infrastructure required resources, on a sustained basis, that by nature were grants that were 'irrecoverable', even if the practice for 15 years showed that half the costs of these projects were co-financed locally by municipal governments together with participating communities. However, contrary to the loan schemes (with shorter repayment periods, and high interest rates to cover both administrative and inflation costs), the long-term viability of the infrastructure component from a financial sustainability perspective was not secured.

This issue was raised during Sida's internal debates to support, or not, the third phase of PRODEL (see Chapter 5). One of the arguments against PRODEL's model (see Daphnis and Faulhaber, 2004), was that the co-finance mechanism for infrastructure, as conceived and managed, was a financial product that was neither 'attractive' nor 'desirable' to profit-oriented financial institutions. Moreover, the argument contended that the mixture of the infrastructure component with microcredit was a mistake that would distort not only the credit components but also the financial markets, as well as the microfinance industry in Nicaragua (see Chapter 5). Those that opposed the PRODEL model recommended Sida to channel financial resources for microcredit but not resources for infrastructure. In spite of the arguments against the model, Sida decided to continue its support to the third phase for both the co-finance mechanism for infrastructure and the credit components through PRODEL during the third phase. What were the results of this decision?

As seen in previous chapters of this thesis, PRODEL's institutional transformation from a governmental programme into a non-profit institution, as well as the existing financial evidence on how the loan portfolios through the MFIs performed during the third phase of Swedish support empirically proved that the argument that opposed mixing the three components was false. PRODEL not only managed the infrastructure component, without contaminating its loan portfolio, but PRODEL's portfolio was highly rated according to different in-

ternational parameters and standards (see Boman and Rahman et al., 2007; OPM 2009). The policy implications of this on-going debate on financial sustainability however represented a serious conceptual challenge for both Sida's urban division and especially for PRODEL.

By simplifying and reducing the debate on the development outcomes of PRODEL to the narrow concept of financial sustainability as the main parameter to measure what a successful housing micro-finance programme might be, the criterion in itself became a limiting factor that did not permit analysis of other important dimensions: especially the processes by which the urban poor built and accumulated their physical assets over long periods of time. Additionally, it did not allow studying how these forms of social housing finance (co-finance for infrastructure, and the small and repetitive loans for housing improvements) strengthened capacities within households and opened new opportunities to include urban poor households into the housing financial market of the MFIs. Thus, the possibility of understanding the infrastructure component as a fundamental ingredient of the microfinance scheme and of the possibilities of increasing the client-base of the MFIs was never seriously analysed. The resources for the co-finance mechanism were considered as a 'subsidy' or a 'burden' that therefore had to be assumed by others, not by Sida.

Finance sources for infrastructure

For almost 15 years, Sida provided about US\$8.9 million for PRODEL's co-finance mechanism for infrastructure. This amount represented approximately 2.3 per cent of the total volume of Swedish bilateral cooperation with Nicaragua, which for the period 1998–2008 totalled more than US\$ 380 million (see <http://www.sadev.scb.se>). If the total cooperation for the entire period 1994–2008 is considered, then the proportion invested in the infrastructure component of PRODEL represented less than 2 per cent of the total Swedish bilateral cooperation with Nicaragua over a period of 15 years. Given the outcomes generated in each city (described in Chapter 6 of this thesis) the co-finance mechanism was efficient according to at least three criteria currently used by international aid donors to evaluate the impact of their work (for more on this criteria see Tjønneland et al., 2008: 17). First, PRODEL represented an innovation in developing new approaches for urban poverty reduction and financial inclusion. Second, it was a catalytic initiative capable of unlocking local resources (for every dollar that Sida provided through PRODEL, municipal governments and communities also provided one dollar). Finally, in terms of capacity building, PRODEL played a key role in strengthening the capacities of local governments to deliver services and physical infrastructure with participatory methods in these cities through co-finance mechanisms, as well as its role in strengthening the capacities of MFIs to establish a new form of social housing finance: the small and repetitive loans for housing improvement accompanied by technical assistance.

Fiscal resources for infrastructure

As the resources for the co-finance mechanism were considered by Sida as 'subsidies' or 'grants', it followed, that it was not feasible that

the onus for securing sustained provision for these types of resource in the future should be the responsibility of an external bilateral donor. This argument was highlighted in the context in which the Swedish government decided in 2008 to finalise its bilateral cooperation with Nicaragua by the year 2011 (see Sida 2009). The contention of several interviewees from Sida, PRODEL, local governments, and other international aid agencies, was that the provision of these subsidies should be mainly the responsibility of the national government which had to allocate fiscal resources for this purpose. However, the allocation of fiscal resources not only in Nicaragua but also in other parts of the world on a sustained basis was one of the most complex and difficult issues to achieve as this required “political sustainability and a continued political commitment and support” (see Hanson, Worrall and Wiseman, 2007).

Based on the findings of several studies in the developing world, Hanson, Worrall and Wiseman (2007) concluded that, “the more efficiently and well-designed and managed a targeting programme” was, the more difficult it was for a central government to use and manipulate it for political purposes. Based on the Nicaraguan experience it is possible to add, that the more efficient and well designed a targeting programme was, the more difficult it was for that programme to access fiscal resources from central government.

The relationship between fiscal and political sustainability, and the possibility of politically manipulating a targeting programme, was one of the main reasons that helped to understand why it was extremely difficult for an institution like PRODEL to access fiscal resources for the co-finance mechanism. Indeed, the four national governments that were in power during the period of 15 years analysed in this thesis, used the scarce fiscal resources available for infrastructure and basic services more according to their political priorities and agendas than to the need of a sustained and coherent social policy for poverty reduction and social inclusion.

When PRODEL started operations in 1994, the Nicaraguan Emergency Social Investment Fund (FISE) was the main source of funding for infrastructure, although it was used more as a compensation fund to alleviate the consequences of structural adjustment policies than as a developmental tool for poverty eradication. In the second half of the 1990s and beginning of the 2000, PRODEL’s model attempted to influence FISE in an effort to decentralise the management of the project cycle and post project maintenance to the municipal governments and rural communities and urban neighbourhoods. Although FISE made important advances on these matters, the mechanism no longer exists (conversation with Omar Moncada in March 2009).³⁷

Additionally, the manipulation of fiscal resources was particularly evident in the case of President Aleman’s administration in the late 1990s, as well as in the second Sandinista government, in which the

³⁷ Moncada, ex-mayor of the municipality of Masatepe, participated in designing and implementing the decentralisation of FISE’s project cycle to municipal governments and the establishment of a preventive maintenance fund for primary schools and health clinics based on the experience of PRODEL’s co-finance model.

mechanisms for accessing fiscal resources were highly politicised (Spalding, 2009 in print). According to Martí i Puig (2009), the majority of the poverty-oriented social policies set out by the Ortega administration in 2008: *Hambre Cero* (Zero Hunger), *Usura Cero* (Zero Usury), *Calles para el Pueblo* (Streets for the People) and *Desempleo Cero* (Zero Unemployment) had more of a clear 'cronism rationale' than logic to focus resources to fight poverty or to strengthen decentralised and autonomous civic organisations (Martí i Puig, 2009:10–11). This was just the situation generated after the creation of the *Consejos de Poder Ciudadano* (CPC) (Citizen Power Councils) by the ruling FSLN party which resembled, more or less, the *Comités de Defensa Sandinista* (Sandinista Defence Committees) used by the regime during the 1980s, although the CPC were used more as a means of targeting public resources to widen the Sandinista political base (see Spalding, 2009; Martí i Puig, 2009).

In interviews with households in Estelí and PRODEL's personnel in March 2009 it was evident that these CPC had become parallel structures to the long and proven model of community organisation structures that PRODEL required under the logic of its co-finance mechanism for infrastructure, especially during the micro-planning and implementation stages. Although it was premature to know what impact it could have on the long term sustainability of the co-finance mechanism, PRODEL was aware of the risks it entailed and it was assessing how the CPC mechanism fitted into its consultation process. This process was not a simple task. An important point of digression between PRODEL's model and the model adopted by the CPC related to the way that communities had to identify and prioritise their problems and solutions. Under the CPC model this was achieved through a simple exercise of 'raising hands' among participants in a meeting called by the CPC together with the municipal authorities to establish priorities, without any of the sequences followed by PRODEL's micro-planning process. According to one social promoter of the Estelí's municipality "the way of identifying priorities, strategies and solutions in the PRODEL micro-planning model was too complicated and sophisticated and a waste of time and resources for the communities involved, as more or less the same results can be achieved in a less complicated sequence of steps used by the CPC".

In the municipality of Ocotol, for example, the Sandinista mayor established in an open assembly with representatives of all the communities of the city, that there was no need for community counterparts in projects that would be implemented with resources from PRODEL or from other sources or from the municipality.

The paradox was that the majority of fiscal resources to implement these social policies based on partisan politics came from loans and grants provided by bilateral donors and multilateral financial agencies in the framework of the poverty reduction strategies that the successive governments in Nicaragua tried to implement during the 15 year period. The Paris Declaration for harmonisation among donors in countries such as Nicaragua called for budgetary support and sector support as part of these poverty reduction strategies. However, it was quite evident that it was difficult to trace in what ways

this support translated to tangible results. The mechanisms to measure outcomes and accountability in this type of budgetary support were still lacking or not sufficiently developed (see SADEV 2008; Vos and Cabezas, 2006). In this context it was more difficult for PRODEL to access these fiscal resources.

In summary, the mechanism by which PRODEL reached the poor did not have enough resources, and the difficulties to access fiscal or international resources for this purpose was becoming increasingly more complicated. At the end of the day, this situation represented a serious challenge for the entire rationality of PRODEL's urban poverty reduction and social inclusion model.

The limits of PRODEL's model

The challenge for PRODEL was therefore to sustain the co-finance mechanism for infrastructure in a context where international donor resources for this type of intervention diminished and the potentially scarce fiscal resources available for this purpose were heavily politicised and difficult to access.

The way PRODEL decided to face this challenge was to finance the infrastructure component by using part of the surplus generated by its micro-credit loan portfolio as well as the investment returns of its liquid assets in other financial high-yielding instruments. From this annual surplus, half served as equity to capitalise the loan funds so that they continued expanding to new municipalities; a quarter of the surplus was set aside as an institutional asset reserve to consolidate PRODEL; and the other 25 per cent financed the infrastructure component. According to calculations made by PRODEL's Executive Director, in order to generate US\$ 1 million for the co-finance mechanism, the volume of the credit portfolio and the liquid assets that PRODEL managed had to be at least US\$ 40 million (interview with Marlon Olivas, March 2009).

Contrary to the arguments within Sida that considered that the infrastructure component would contaminate the loan portfolio, PRODEL was able to complement market products with technical assistance, and the co-finance mechanism. And more importantly, by expanding its microcredit components, it retained a social product that allowed urban poor communities to be incorporated and consolidate and accumulate their collective physical assets.

The limits of the co-finance mechanism for infrastructure

Here lies the second incongruity produced by the tension between the goal of achieving financial sustainability and financial inclusion. As seen before, PRODEL institutionally matured and became a well-established second tier finance institution complying with international standards set for the microfinance industry. Additionally, its loan portfolio was highly rated by international finance institutions (see PRODEL 2009a).

For the loan portfolio to be profitable and highly rated, it required large volumes of loans, acceptable margins of intermediation, as well as a rapid turnover of the loan portfolio, accompanied by sound methods of cost recovery. This thesis found that the MFIs reached

more clients and invested a greater volume of resources each year for housing improvements through the following methods. First, they refinanced good clients, and provided larger volumes per client (although this practice faced contextual difficulties given the political measures taken by the Sandinista government vis-à-vis the micro-credit industry) (see Chapter 7). Second, they worked with clients who, although they had low income levels, were permanent employees (teachers, nurses, factory workers, and other national employees, etc). Therefore, loan recovery was virtually secured because the repayments for the loan were deducted from their monthly salaries. Finally, judging by the increased average size of housing improvement loan, the MFIs were reaching a higher-income segment for which they provided higher value loans. Thus, the paradox was that the only possible way that PRODEL had available to generate additional resources to finance and sustain its co-sharing mechanism for infrastructure and basic services, was by accepting that the segment of the market that the MFIs were serving through the small and repetitive loans for housing improvement drifted towards higher income level households (see Table 6.4 and Figure 6.1).

The way to resolve this paradox has clear policy and programmatic implications for international development aid agencies, as well as for the future of housing finance in Nicaragua. Indeed, PRODEL managed a wide variety of sophisticated financial products and instruments to ensure the continuity of its poverty reduction and social inclusion model while it became simultaneously financially sustainable. PRODEL generated two new forms of social housing finance that were nonexistent in the context of Nicaragua in the 1990s and transformed them into massive investment schemes that continued for 15 years and were recognised internationally. PRODEL invested part of its surplus in a mechanism with profound social returns in terms of asset accumulation and financial inclusion but not financial returns according to the criteria of self-sustainability set by donors, especially by international organisations such as CGAP. Yet, given the political and structural institutional constraints mentioned above, there were no partners at the international, or at the national level, that invested in this non-reimbursable fund. Nor there were partners willing to invest sufficient volume of resources in the loan portfolio to generate a critical mass that enabled the generation of a surplus of such a dimension that could allow financing the co-finance mechanism in a sustained manner in the cities where the MFIs were lending with PRODEL resources.

Thus, the possibility of using the integrated development mechanism in the same territories decreased, and financial exclusion probably deepened, although not as consequence of mission drift by PRODEL. This was the result of a combination of external and internal conditions which included among others the way fiscal resources were manipulated on a partisan basis by the Nicaraguan government; the constraints that international aid imposed on this type of non-reimbursable operation; and how the criteria of financial sustainability managed by international aid agencies imposed a narrow understanding of the social and financial results of PRODEL's operation.

The limits for the small and repetitive loans for housing improvements

In terms of finance for housing improvement, the practice of multi-lateral aid agencies in Nicaragua like the IADB, the World Bank and UNDP privileged the establishment of a system of demand-driven subsidies for the construction of new housing combining savings, subsidies and mortgage lending (IADB, 2002; UNDP, 2007). The subsidies served as incentives for private developers to supply new housing. As the practice in Nicaragua and other parts of the world showed, these resources ended filtering up to upper-middle income groups and not necessarily to the population that PRODEL worked with – even if these households were considered non-poor according to their income levels. Thus housing subsidies in Nicaragua were not targeted at poorer groups. In this sense, public resources for housing played a more substantive role in enabling a housing market for middle-income groups and not necessarily the segment of the market that the MFIs served with PRODEL resources, even if they belonged to a relatively higher income bracket. The limits for housing improvement also related to the accessibility of funds, as international donors providing resources for housing prioritised financing subsidies for new housing, and private banks were reluctant to channel resources through PRODEL at rates that allowed MFIs to intermediate funds at reasonable and affordable interest rates for their clients.

The limits of land issues

An issue that emerged from this study relates to the limits that regularisation of land tenure had as a precondition for inclusion in the small and repetitive loans programme for housing improvement. In the early 1990s, when the centre-right government of Barrios de Chamorro took over (see Chapter 4), the problems regarding the possession and ownership of land became a contentious issue with critical implications for the social and political stability of Nicaragua, as many of the previous owners returned to Nicaragua from their exile and demanded either compensation or a devolution of their lands, including urban lands that had been occupied. In spite of the difficulty of this land issue, the majority of households that gained access to land during the Sandinista regime or immediately after the elections of 1990, through land occupation (as seen in the case of Estelí) were not evicted. Judging by the interviews in Estelí, Ocotal and Somoto, these households did not feel threatened by eviction (either because the local governments were during the 15 year period of analysis in the majority of cases ruled by the Sandinista party, or because the centre-right or the more rightist administrations understood the risks and potential political and social conflictive situation that could generate if these evictions took place).

In spite of the indeterminate legal status of land tenure, the BCP, and later on the MFIs did not make land tenure the critical condition for lending for housing improvements purposes. It was in the atmosphere of world economic crisis and of confrontation of the current Sandinista administration with the MFIs that the issue of land titling resurfaced and became a critical problem. On the one hand, re-

questing a land title acted as a sort of psychological guarantee for the MFIs in case the economic conditions of their clients deteriorated or if their clients decided to participate in the non-payment movement. On the other, by providing land titles, the current Sandinista government wanted to show that only they could politically solve the complexity of land titling in Nicaragua. Thus, at least in the cities where PRODEL worked, evidence showed that land tenure was not as de Soto's (2000) contended, the result of dysfunctional land markets, and that land titling was an important precondition for accessing housing improvement loans. Land titling was not a prerequisite for lending in a time where the status of ownership over the land was more blurred than today. Once land tenure had become clearer, it became a prerequisite for accessing a loan, but for reasons really relating to the prevailing political situation of the country. More than dysfunctional markets, the case of PRODEL in Nicaragua proved that the core problems of land tenure for the urban poor related to political conditions, the same political conditions that sent mixed signals to the housing market.

Conclusions

The chapter has shown the limits of PRODEL's model in terms of financial inclusion in the co-finance mechanism for infrastructure, and the small and repetitive loan programme for housing improvement. In the cities where PRODEL operated with the three components over long periods of time, social and financial inclusion undoubtedly was achieved. However, as the lending model expanded successfully at the national level, the possibility of integrating the three components in the same territory faced new obstacles that made social inclusion less feasible.

The lack of international resources to invest in PRODEL's model as well as the politicised way by which fiscal resources were used for infrastructure, became the main challenge that the co-finance mechanism faced. PRODEL faced this challenge by using part of the surplus generated by the loan components to finance the co-finance mechanism. This, however, was still insufficient to bridge the gap. Additionally, lending for housing improvement was also reaching sectors with higher levels of income. The paradox was clear, the resources required to make inclusion possible through the co-finance mechanism were not available and the possible way to make them available was by serving a segment of the market that had higher income levels.

In terms of financing the housing improvement component, it was also difficult to find new sources that were willing to invest in the model, especially resources coming from international aid cooperation agencies. As seen in the chapter, land tenure was not a limitation, except when external political and macroeconomic factors intervened. An all-inclusive programme like PRODEL was limited by the lack of understanding by international aid donors, as well as by national political factors and actors. The refusal to acknowledge that financial inclusion through proven methods of participation was as equally important as financial sustainability for the sustainability of

the model *per se* also contributed to lay the conceptual and operational foundations for this exclusionary process. Therefore, if exclusion occurred in PRODEL it could occur elsewhere.

Conclusions and recommendations

The objective of this chapter is to present the main conceptual, methodological and empirical conclusions of the thesis. Additionally, it identifies relevant policy issues that can inform key international players, especially from the donor community, as well as decision makers and practitioners in low-income and middle-low income countries engaged in urban poverty reduction programmes. Finally, the chapter offers a series of recommendations for future research.

Main findings and conclusions

As stated in the introductory chapter, the purpose of this thesis was to understand key conceptual and operational challenges that international donors, as well as public and private financial institutions, faced while designing and implementing alternative forms of social housing finance which aimed to be inclusive for the urban poor. Additionally, the thesis aimed to answer the following research questions: What are the constraints the urban poor face in financing the incremental way they build their individual housing and neighbourhood assets? Why does housing microfinance not always enhance inclusion of the urban poor? How does the tension between the goal of achieving financial sustainability and increasing financial inclusion affect the policy of international donors and governments, and the practice of financial institutions?

Conceptual framework

To address these questions, the thesis articulated an interpretative framework based on the concepts of 'social exclusion' developed by Sen (2000), and 'asset accumulation' proposed by Moser (2007; 2009). This framework allowed a better understanding of poverty beyond the narrow and static analysis of poverty usually defined and measured through household income and consumption (e.g. Ravallion, Chen and Sangraula, 2007), and more importantly, achieved a more robust analytical way of looking into the nature, causes, and possible ways to overcome urban poverty (see Chapter 2).

By focusing on small and repetitive loans for housing improvements, as well as on the co-finance mechanism for the introduction of infrastructure and basic services, promoted by PRODEL in different cities of Nicaragua over 15 years, the thesis illustrated the diverse opportunities and constraints that urban poor households faced when being financially included or excluded. It also identified the role that these two forms of social housing finance played in consoli-

dating what Rust (2007, 2008a, 2008b) defined as ‘the multi dimensions of housing as an asset’ (see Chapters 6 and 7). The concept of ‘financial exclusion’, suggested by Pouliquen (2000) for infrastructure, and Solo (2008) for low-income housing in developing countries, meant that the concept of ‘social exclusion’ (in the context of the financial and social model articulated by PRODEL) could be made operationally understandable. Equally, the ‘forms of social housing finance’ used by Renaud (2003), became a suitable concept to synthesise the financial instruments promoted by PRODEL, to consolidate the individual and collective physical assets of the urban poor.

This explains the recurrent use throughout the thesis of the concepts ‘social exclusion’, ‘financial inclusion’, ‘asset accumulation’, ‘multi dimensions of housing as an asset’ and ‘forms of social housing finance’. Indeed, these concepts led to the reinterpretation of PRODEL’s model of intervention, as one that sought to reduce urban poverty by strengthening the capacities and opportunities of urban poor households and communities to accumulate assets by enhancing their inclusion in different social and financial schemes.

Research methodology

Following the critical reasoning approach proposed by Hinkelamert (1984), Sayer (1999), and Serrano (2006); combined with a research strategy based on case-study methods applied to social sciences (e.g. George and Bennett, 2005; Yin, 2003), (see Chapter 3), the thesis made an in-depth analysis of PRODEL’s institutional, social and financial model, to reconstruct its origins and evolution during a 15-year period, from 1994 to 2008 (see Chapters 4 and 5 of this thesis). The analysis however, did not set out to predict the future (e.g. Sayer, 1999). This exercise aimed to provide a reasoned summary of the tendencies and contradictions the PRODEL social and financial model experienced, given the political, social, and economic conditions that prevailed in Nicaragua during the last couple of decades (see Chapter 8).

Inspired by Flyvbjerg’s (2006) notion that ‘a least-likely case-study method’ represented an innovative way of understanding and learning about real phenomena from an action-oriented perspective, in order to clarify the deeper roots of a problem, especially given the proximity of the researcher to the reality investigated, the thesis explored the limits of PRODEL’s institutional, social and financial model. To do this, it used an argument in the form of a proposition, not a hypothesis, as suggested by Walliman (2005) and Yin (2003). In PRODEL’s case, the proposition was the following: if social exclusion occurs here, then it could happen elsewhere (see Section 3.2).

Fieldwork study techniques in the cities of Estelí, Somoto and Ocotal included transect walks through communities, direct observations, and semi-structured and open-ended interviews (see Appendix A). These techniques, especially in the city of Estelí, provided an in-depth understanding of the perceptions that different individuals held on the evolution of their households’ socio-economic conditions, as well as on the impact that their inclusion in PRODEL’s two

forms of social housing finance had in strengthening their individual household and neighbourhood physical assets during those 15 years (see Chapter 7).

Semi-structured interviews with key informants (ex-mayors, members of the municipal technical units, members of the MFIs, and PRODEL personnel, as well as external international consultants and staff from donor agencies) were used to analyse the evolution of the PRODEL model and its impact in addressing the broad problems of how institutions may deal with urban poverty and exclusion in the cities of Estelí, Somoto and Ocotal (see Appendices B). These interviews were complemented by a critical review of secondary sources of information regarding the evolution of PRODEL's institutional, social and financial model (see References). To avoid biases, snowball and triangulation and validation techniques were used (see Yin, 2003).

Limitations of the methodology

The study suggests that PRODEL was a unique case, and therefore it is impracticable to generalise from a single case. However, the thesis identified a number of important tendencies that might be not valid everywhere, but might reflect similar trends and situations from which valid lessons and conclusions regarding urban poverty, financial exclusion and asset accumulation could be drawn. In this sense, the critical reasoning approach, the critical case-study method, and the fieldwork techniques adopted during this study, constituted a valid research methodology replicable elsewhere. Also, analysing the way urban poverty, financial exclusion, and asset accumulation evolved in a specific urban context, over a relatively long period of time (15 years) added validity to the study.

A methodological lesson learned during this research is the importance of having a longitudinal knowledge of the national, institutional and local contexts in which the case study took place. This knowledge fostered a deeper understanding of trends and processes that otherwise would have been complicated to reconstruct. However, the first-hand knowledge that the researcher might have on these processes needs to be complemented with reliable base-line socio-economic data from the households and communities being studied. In this sense, the lack of this base-line data constituted the main methodological constraint of this research, as it impeded having a solid point for comparison for different socio-economic variables, at least for a 10-year period. This would have led to more robust findings regarding the accumulation of other tangible and intangible assets besides those that were referred to as the individual household and collective physical assets of the urban poor, which were easier to track and reconstruct.

Quantitative findings

To address the main proposition that guided the research, the thesis revised, reconstructed, and assembled a number of historical accounts of PRODEL's main quantitative, financial, and social outputs over a 15-year period. Additionally, the study generated a realistic profile of the types of household that accessed and participated in

these components during the period 1994–2008, and compared them with existing national benchmarks, especially for the cities of Estelí, Somoto and Ocotal (see Chapters 6 and 7).

The thesis found that for this 15-year period, more than 100,000 micro-credits totalling about US\$ 44 million, were disbursed for economic activities (see Chapter 6). According to estimates, more than 22,000 micro entrepreneurs accessed these financial resources, probably benefiting 25,000 households. Approximately 76 per cent of the borrowers were women, and 54 per cent of the small businesses were home-based microenterprises. This explains the importance that this component had for the financial inclusion of women-headed households. About 66 per cent of the microenterprises funded with PRODEL resources engaged in trading activities; 20 per cent in services, and only 13 per cent in productive activities; a similar trend was experienced by the microfinance industry in other countries in the Central American region.

During the same period, the MFIs disbursed, with PRODEL resources, more than 43,500 small and repetitive loans for housing improvement, totalling US\$ 42.6 million. About 34,760 households (involving more or less 180,000 people) improved their homes (see Chapter 6). The number of people represented six per cent of the total urban population in Nicaragua. In Estelí and Ocotal, more than 20 per cent of the housing stock was improved with PRODEL's loans; while in Somoto it was about 45 per cent. Approximately 52 per cent of the borrowers for housing improvement were women, and 43 per cent of these were household heads (see Section 6.2.2 of this thesis). During this 15-year period, 23 per cent of the clients had household incomes of less than US\$ 200 per month; 44 per cent had incomes between US\$ 201 and US\$ 400, and the rest had monthly incomes higher than US\$ 401.

From 1994 to 2008, PRODEL co-financed together with local governments and urban poor communities, 659 infrastructure and basic services projects, the majority in the eight cities where PRODEL worked from its inception. (In the city of Estelí 95 projects were implemented and reached 69 per cent of the total population; 95 projects in Ocotal reached 70 per cent of the total population of that city, and in Somoto 82 projects reached 90 per cent of the total population of the city.) The total investment in the different cities where this financial component of the framework was developed was US\$ 17.8 million, of which PRODEL provided approximately 50 per cent of the financial resources; local government 34 per cent; the urban poor communities 14 per cent; and other sources gave the remaining two per cent. About 20 per cent of the projects were for potable water and sewerage systems; 35 per cent for drainage and storm water systems; six per cent for elementary schools; 10 per cent for electricity; 20 per cent for street and path improvement; and the remaining nine per cent were projects for community centres, parks and land management (see Chapter 6).

Perception of poverty, assets and technical assistance

Using the data base from a survey made by FIDEG in 2005, the thesis analysed the self-perceptions of poverty by participants in PRODEL's components, and found that 57 per cent of the microenterprise clients considered themselves as 'poor'; and while 68 per cent of the clients from the housing improvement component saw themselves as 'poor', over 80 per cent of those participants in the infrastructure component perceived themselves as 'poor' (see Section 6.3). When these perceptions of poverty were cross-tabulated with the vision they had of their future, 77 per cent of those micro entrepreneurs that perceived themselves as poor, considered themselves as future 'winners'; while in the housing improvement component, 72 per cent of those that saw themselves as poor, saw themselves as 'winners'; and only 66 per cent of those in the infrastructure component that regarded themselves as poor, saw themselves as 'winners'.

The in-depth interviews with different participants in Somoto, Estelí and Ocotal, helped to clarify this apparent inconsistency between the perceptions that households had about their present and future conditions. The first issue to become evident was that poverty was defined by the interviewees not simply as lack of income to enjoy appropriate levels of consumption. In fact the socio-economic conditions in a city like Estelí had improved over recent years as the tobacco industry had created hundreds of new jobs in the area. So, in many cases, the perception of poverty related more to the social conditions prevailing in a neighbourhood (family disintegration; lack of education; or the recent growth of delinquency, for example), or the fact that members of a family migrated to other countries in search of a better future given the lack of opportunities offered at home. The perception of poverty could also be linked to a permanent sense of helplessness, given the recurrent political and economic crises the country had been subjected to in recent years.

The second issue that emerged was that self-esteem, as well as social capital within and between households, had been strengthened, as people felt included in these two forms of social housing finance, and as they perceived tangible improvements in the condition of their housing and neighbourhood (see Chapter 7). A prominent contribution to this process related to the role that technical assistance played in the small and repetitive housing loan component. This assistance was particularly critical for women as it made the self-help building process, including the buying and management of building materials, as well as the supervision of masons, more structured and understandable. Through the interviewees it became clear that it was not so much low income levels that sometimes pre-empted their participation in housing loan schemes but the lack of reliable information, the 'fear of the unknown', the lack of knowledge on how MFIs operated, or the attitude they perceived from the MFIs towards them, and doubt as to whether the MFIs understood the different 'life cycles' as well as periodical crises urban poor households experienced.

Land issues

Contrary to many of de Soto's (2000) arguments, the thesis showed that the non-existence of formal land titles did not constitute an impediment for the inclusion of urban poor households in the small and repetitive loans for housing improvement component, even during the second half of the 1990s when the legal problems of land possession and ownership became a contentious issue with critical implications for the social and political stability of Nicaragua (see Chapters 5). Paradoxically, populist policies adopted by the neo-Sandinista government (see Spalding, 2009) generated a fertile ground for the creation of a debtors' non-payment movement, and this in itself brought back the issue of using formal land titles as collateral for accessing a housing improvement loan (see Chapters 7 and 8). In essence, this was more a response of the MFIs to a political conjuncture, than the result of the existence of dysfunctional land markets, or a means to minimise the risk of loan defaults given the household income levels of their client base.

Financial sustainability and financial inclusion

The reconstruction of PRODEL's origins, described in detail in Chapter 4 of this thesis, was used to analyse what the contextual and institutional conditions taking place were at the time, in what del Castillo (2001) calls a 'triple transition' (from civil war to peace agreements; from centralised planned economies to market-oriented economies; and from centralised political administrations to democratic elected, and decentralised governance structures). The thesis allowed understanding how a programme like PRODEL, set up in a polarised and adverse environment such as the one Nicaragua was experiencing at the time, became, in the long term, both financially and institutionally sustainable, as well as socially inclusive. In other words, as González (2009) paraphrasing Alan Watts suggests: "it is not the past that shapes our present, but the present that gives meaning to our past".

From this reconstruction exercise, there are sufficient elements to conclude that without the long term commitment to urban poverty reduction from an international funding agency like Sida it was unlikely that this process would have taken place. During the 15-year period analysed, Sida's financial and technical support to the institutional strengthening of PRODEL, irrespective of the political changes that occurred nationally and locally in Nicaragua, was instrumental in consolidating the model. In this sense, the PRODEL case shows that international aid donors can produce effective long-term outcomes, and not just create programmes, and then stop giving support, expecting that the processes will continue working once the donor goes.

In addition to this external support, the internal organisational transformations and reforms that PRODEL underwent from 2001 onwards provided the institution with the appropriate governance structures, as well as the administrative and follow-up systems, for modern supervision, control and monitoring of the financial resources it channelled through the different MFIs and local govern-

ments it worked with. An external evaluation of the Third Phase of Sida's support to PRODEL concluded that the institution had efficient, accountable, and transparent information systems, as well as management and administration structures (see OPM, 2009). Although these external and internal factors were crucial, there were other core elements that helped to explain PRODEL's long-term sustainability, and more importantly, the limits of its financial and social model.

The first of these issues relates to the contradictory outcomes that the debate on the goal of achieving financial sustainability and social inclusion through microfinance lending programmes had on the policies of an international donor such as Sida, as well as in the practice of microfinance institutions, especially in a second tier institution like PRODEL. The thesis demonstrated that by simplifying and reducing the debate on the development outcomes of PRODEL's model to the narrow concept of financial sustainability as the main parameter to measure what a successful housing microfinance programme is, the criterion in itself became a limiting factor. In this way, it excluded analysis of other social, economic and financial dimensions, especially the processes by which the urban poor build, strengthen, and accumulate their individual and collective physical assets over long periods of time. Additionally, the thesis showed that the concept of financial sustainability, as used in the discourses of international donors (see CGAP, 2004 for example), does not accommodate studying how, and under what circumstances, certain components, such as the co-finance mechanism for infrastructure, not only strengthened the capacities of urban poor households, but, more importantly, opened new opportunities for their inclusion into the MFIs' micro-lending programmes.

Several interviewees during this study stressed how housing improvements were linked and reinforced by the introduction of infrastructure and basic services, with, or even without, the loans available from the MFIs. In this sense, understanding the co-finance mechanism for infrastructure, as a rational component that complemented and reinforced the micro-lending scheme for housing improvement, that enabled the MFIs to increase their clients' base in urban poor neighbourhoods, was never seriously considered by some of the international microfinance experts that analysed the case of PRODEL (see Chapter 5). Therefore, the resources for this co-finance mechanism were considered a 'social investment', a 'subsidy' that in the long term had to be supported by resources from central government, and certainly not by donor agencies (see Chapter 8). The exception to this approach was PRODEL which allocated part of the revenues generated by its loan portfolio to co-finance the infrastructure and basic service component. However, as Chapter 8 showed, these resources were insufficient, and therefore the possibilities of social exclusion remained in those cities where the infrastructure component had not been implemented.

In this sense, the internal debates within Sida regarding PRODEL reflected the somewhat narrow approach that the concept of financial sustainability represented within the international aid donor community, especially when it judged and rated the work, as well as

the performance of microfinance institutions in the developing world (see Chapters 2, 5 and 8). The fact that PRODEL was no longer a pilot programme, but an institution that was highly rated according to financial international standards, leads to the conclusion that sustainability in development projects, including those in which microfinance was a key component, cannot be measured strictly on how a programme becomes financially and institutionally self-sustained, once the resources from an international donor agency are finalised. This case clearly suggests that the term sustainability may also be related to the inclusion, financially and socially, of urban poor households and their communities, as part of a sustained effort, leading to the strengthening and accumulation of their individual and community assets as a means to reduce poverty.

Spaces of negotiation, assets, and financial inclusion

The thesis found that the participatory methodology, promoted by PRODEL through the co-finance mechanism for infrastructure and basic services, played a key role in opening what Hamdi (2006) called, 'spaces of negotiation' for problem-solving between the municipal authorities and urban poor communities. In this sense, the co-finance mechanism became an important tool for social inclusion, both for those urban poor households that could not, as well as those that could, afford a housing improvement loan. A critical review of the micro-planning exercise, the main instrument used to ensure this participatory process, looked at identifying the limits, and the potentials, that this tool had for urban poverty reduction and financial inclusion. As Chapter 8 points out, one of the risks that the co-finance mechanism faced related to the political environment in which the populist policies taken by the neo-Sandinista government through the *Consejos de Poder Ciudadano* (CPC), jeopardised the sequence of the participatory methods and community structures that PRODEL utilised, including the micro-planning exercise, as well as the concept of co-financing in-kind, monetary, and labour contributions by the communities, and local governments.

A critical re-examination of the internal logic of the micro-planning exercise also points out another type of risk that might limit its effectiveness. As promoted by PRODEL, the micro-planning exercise started with a participatory process in which representatives of a community and the local government identified and prioritised problems according to a series of negotiating techniques (see Chapter 7). Sequentially, this led to the next phase, in which a number of strategies and concrete solutions to these problems were identified, prioritised, negotiated and agreed. The representatives of communities and local government knew beforehand that one of these prioritised solutions could be chosen to be transformed into a concrete project that could be financed from the existing menu of infrastructure and basic service projects co-financed by PRODEL, if certain conditions were met. The conditions included community contributions, community participation in the implementing and preventive maintenance

nance stages, as well as the corresponding approvals from the municipal council.

A potential risk embedded in the way the micro-planning exercise was designed, implemented, and institutionalised was that to a certain extent it had become an almost 'automatic' procedure to legitimise the decisions taken by the communities together with the representatives of local government, in order to satisfy an institutionalised procedure required by PRODEL. Partly, this was also the unforeseen result of the problem-solving logic that constituted the core and basis of the micro-planning exercise. A possible way to overcome this limitation is to focus the micro-planning exercise, not only on the identification of problems, but also mainly on the identification of tangible and intangible assets already existing at individual, household, as well as at the collective community level. This might allow the micro-planning exercise to explore in depth the array of social and economic problems existing in a community; expand the types of project that PRODEL co-finances today; and more importantly, to strengthen and adapt those resources that individuals and communities have already accumulated to deal with adverse recurrent emergencies and vulnerabilities that are too urgent to wait until there are resources available from PRODEL and the municipality to resolve them.

Further research

Based on the theoretical, methodological and empirical findings of this thesis, the following are considered as possible areas for further research.

The thesis showed the importance of undertaking longitudinal studies to obtain more reliable observations on the impacts that multilateral and bilateral aid might have on addressing the social, political and economic complexities existing in urban areas, and especially those linked to urban poverty. In this sense, future studies need to go beyond the narrow exercises that international aid donors periodically carry out through the external evaluations of their programmes in which social, financial and operational results are compared with the project proposal.

Even if Sida discontinues its work in Nicaragua, it would be important from a donor's perspective to revisit in coming years and track the same households, communities, and cities studied during this research, to fully understand how social exclusion, and asset accumulation evolved from an inter-generational perspective (see Moser, 2009), and to assess what new opportunities and possibilities as well as constraints these households and communities faced to overcome the multi dimensions of urban poverty. Only by having this longitudinal perspective will international donors fully understand their contribution to poverty reduction and social inclusion in low- and middle-low income countries.

Additionally, it would be important to have a longitudinal perspective on the evolution of PRODEL's institutional, social and financial model to reassess the concept of sustainability. It would be especially important to find out what would happen to the co-finance

mechanism for infrastructure and basic services. Tracking the issue of land titles as a condition for access to housing finance is also critical, as the political conditions in Nicaragua continue to change.

Finally, similar longitudinal studies should be undertaken in the other Central American programmes that Sida funded, as a way of complementing and comparing the concepts of social and financial exclusion/inclusion and asset accumulation in different contexts and to compare these with the experience of PRODEL. This could have important policy implications for the work that international development cooperation agencies are developing in urban areas of countries with characteristics similar to those in Central America.

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Appendix A

Guide for interviews

A-1

General guidelines to the questions used during the semi-structured interviews with **household members that accessed the small and repetitive housing improvement loans** in the cities of Estelí, Somoto and Ocotal. Not all questions necessarily followed the order presented here. However, the majority of issues were addressed during the interviews.

<i>Main concepts addressed</i>	<i>Broad issues and questions addressed during interview</i>
<i>General data</i>	<p><i>General information on interviewee and household</i></p> <ul style="list-style-type: none"> – Name of interviewee – Address and name of barrio – Names of people living in the house and relationship with interviewee – Main occupation of interviewee
<i>Financial exclusion and inclusion</i>	<p><i>Access to housing improvement loans:</i></p> <ul style="list-style-type: none"> – How did you learn about the housing improvement loans? – What year did you receive your first housing improvement loan? – What MFI gave you the first housing improvement loan? – What was the process followed to obtain the first loan? – Was accessing the loan a relatively 'easy' process? – What were the requirements established by the MFI for that first loan? <ul style="list-style-type: none"> In terms of your individual and household income; In terms of the collateral and guarantees requested and provided: <ul style="list-style-type: none"> Land (registered title or other form of ownership document, or nothing at all) Assets provided as collateral (electrical appliances, furniture, car, others) Other types of collateral (income from other persons, fiduciary signatures?) – Have you received loans from other MFIs? – What were the requirements of the MFI you are involved with today for accessing a housing improvement loan? – Did you face obstacles complying with some of these requirements? <ul style="list-style-type: none"> Then (for the first loan) Afterwards (for the second and successive loans) Today (with the MFI you are currently working with) – Do you remember what the financial conditions of the first loan were? <ul style="list-style-type: none"> Period of repayment (years, months?)

Interest payments or charges?

- What were the financial conditions of the loans you accessed afterwards, and the one you have today?

Period of repayment (years, months?)

Interest rates?

Commissions paid?

Access to technical assistance

- How important was the technical assistance for you, before receiving the housing improvement loan?
- In what ways did the technical assistance facilitate your inclusion in the financial loan scheme of the MFI?

**Asset Building
and Asset
Strengthening**

Place of origin and reasons for moving to the city

Where you born in this city? If not, where were you born?

When did you arrive in this city? What reasons brought you here?

Access to land:

- How did you access the plot of land where you live? Could you please specify:

How was occupation of the land organised?

How did you purchase the land?

How did the local authorities allocate the land?

What other means did you use to purchase the land?

With what resources did you pay for the land?

What type of document do you currently have regarding land tenure?

Building the house:

- With what resources did you start building the house?
- Did you save building materials before accessing the housing improvement loan?
- How much do you think you saved in building materials before the loan?
- Did someone else help you in the building process?
- How did you pay for the labour force used to build the house?
- Did you and other members of the household participate in the building process?

Access to basic services and infrastructure

(drinking water, sanitation, electricity, streets, others)

- When were they introduced?
- How were they introduced?
- Did you participate in their introduction?
- What types of contribution did you provide for the introduction or improvement of these services (in-kind, money, labour, other)?
- What was the role of the local authority and of other funding agencies, including NGOs, in the provision of these services?

**Asset
Accumulation**

- How important was the housing loan for improving your house?
- What other resources did you use for improving your house (in kind, monetary or labour)?
- Where there any external resources used for improving your house?
- How did you improve your house during the last few years?
- Besides housing improvements, what other things have improved during the years since you first came to live on this plot of land?

Physical assets: (TV sets, and other electrical and non-electrical devices)?
 Health?
 Education level of other household members?
 Relations with neighbours?
 Relations with public and private institutions?
 Financial assets? (Income, access to financial services?)

Urban Poverty

- Do you consider yourself and the rest of the household members as being poor?
- Do you consider your neighbourhood (barrio) to be poor?
- What are the main characteristics of being an urban poor in this city and in Nicaragua?
- Is your poverty condition determined by your household income?
- What other factors determine who is poor?

**Long term
 perspective on
 housing improve-
 ment loans**

Overall assessment of housing improvement loans

- What have been the most positive outcomes of having accessed housing improvement loans?
- What possible negative outcomes did the housing improvement loans have for your household?
- Do you consider that the terms and conditions used by MFIs were reasonable:
 - Financial conditions (repayment period and interest rates and other commissions)
 - Collateral and guarantees required
 - Household income levels
 - Screening, approval, disbursement and follow-up process
 - Treatment of arrears and payment default
 - Overall approach to the segment of the market the MFI is working with
- What would you recommend the MFIs to do differently in each of the areas already mentioned above?

Final thoughts

Long term process

- Final thoughts on your individual and household process during the last 15 years?

A-2

General guidelines to the questions used during the semi-structured interviews with **members of MFIs working with the small and repetitive housing improvement loans**. Similar questions were made to PRODEL's technical assistance personnel. Not all questions necessarily followed the order presented here. However, the majority of issues were addressed during the interviews.

<i>Main concepts addressed</i>	<i>Broad issues and questions addressed during interview</i>
<i>General data</i>	<p><i>General information on interviewee</i></p> <ul style="list-style-type: none"> – Name of interviewee – Position held – Since when? – Name of MFI – When was the MFI created? – What are the main lines of business (including credit lines)? – Main source of funds? – Relation to PRODEL's lending components? – Amount of resources intermediated from PRODEL? – Conditions for the intermediation of these resources?
<i>Financial Exclusion and Inclusion</i>	<p><i>Access to housing improvement loans:</i></p> <ul style="list-style-type: none"> – When did the MFI start working with housing improvement loans? – In which municipalities are these loans being disbursed? – What is the process followed by the MFI so that households can access a housing improvement loan? – What are the requirements established by the MFI for accessing these loans? <ul style="list-style-type: none"> In terms of individual and household income; In terms of the collateral and guarantees requested: <ul style="list-style-type: none"> Land (registered title or other form of ownership document, or nothing at all) Assets provided as collateral (electrical appliances, furniture, car, others) Other types of collateral (income from other persons, fiduciary signatures?) – What are the financial conditions: <ul style="list-style-type: none"> Period of repayment (years, months?) Interest rates? Financial commissions? Arrears commissions? – Have there been changes in these requirements and conditions during the last few years? – What have these changes been? <p><i>Access to technical assistance</i></p> <ul style="list-style-type: none"> – Does your MFI provide technical assistance to loan users? – Who provides this technical assistance? – How important is it to the MFI for technical assistance to be provided before a household receives a housing improvement loan, and during the process of construction?

-
- In what ways does the technical assistance improve the inclusion of different households in the financial loan scheme of the MFI?
-

**Asset Building
and Asset
Strengthening**

Building the house:

- What are the main uses of the loan by households?
 - Do they make good use of the loans?
 - Are loans usually deviated from their original purpose?
 - Does the MFI consider the saving that the families have in building materials?
 - How much do you think households save before the loan?
-

**Asset
Accumulation**

- What are the main assets that the MFI considers when:
 - Screening a potential client
 - Approving the loan
 - What is the importance of remittances in this process?
 - Beside the housing improvement, what other things does the MFI consider have improved during these years with their clients?
 - Physical assets: (TV sets, and other electrical and non-electrical devices)?
 - Health?
 - Education level of members of the family?
 - Relations with neighbours?
 - Relations with private and public institutions?
 - Financial assets?
-

Urban Poverty

- Do you consider that the segment of the market reached through the housing improvement loans is poor?
 - What are the main characteristics of being an urban poor in this city and in Nicaragua?
 - Is poverty determined by household income?
 - What factors determine who is poor?
-

**Long term
perspective on
housing improve-
ment loans**

Overall assessment of housing improvement loans

- What have been the most positive outcomes for the MFI of the intermediation of the housing improvement loans?
- What possible negative outcomes did the housing improvement loans have for the MFI?
- Do you consider that the terms and conditions currently used by MFIs are reasonable:
 - Financial conditions (repayment period and interests)
 - Collateral and guarantees required
 - Household income levels
 - Screening, approval, disbursement and follow up process
 - Treatment of arrears and defaults on payments
 - Overall approach to the segment of the market the MFI is working with

- What would you recommend your MFIs do differently in each of the above mentioned areas?
 - How are the following conditions in Nicaragua affecting the lending process?
 - Donor conditions
 - Political
 - Economic
 - Social
 - Financial crises
 - What is your MFI doing to confront these challenges?
-

Final thoughts

Long term process

- Final thoughts on changes you have seen in the city and with the segment of the market you are working with during the last 15 years?

A-3

General guidelines to the questions used during the semi-structured interviews with **household members that participated in the co-finance mechanism for the introduction of infrastructure and basic services** in the cities of Estelí, Somoto and Ocotal. Not all questions necessarily followed the order presented here. However the majority of issues were addressed during the interviews.

Main concepts addressed	Broad issues and questions addressed during interview
General data	<p>General information on interviewee and household</p> <ul style="list-style-type: none"> – Name of interviewee – Address and name of barrio – Name of people living in the house and relationship with interviewee – Main occupation of interviewee
Asset Building and Asset Strengthening	<p>Place of origin and reasons for to moving to the city</p> <ul style="list-style-type: none"> – Where you born in this city? If not, where were you born? – When did you arrive in this city? What reasons brought you here? <p>Access to land:</p> <ul style="list-style-type: none"> – How did you access the plot of land where you live? Could you please specify: <ul style="list-style-type: none"> How was the occupation of land settlement organised? How did you purchase the land? How did the local authorities allocate the land? What other means did you use to purchase the land? With what resources did you pay for the land? – What type of document do you and the rest of households in the neighbourhood currently have regarding land tenure? <p>Building the house:</p> <ul style="list-style-type: none"> – With what resources did you start building the house? – Did you have any housing improvement loan? – Did you save building materials before accessing to the housing improvement loan? – Did someone else help you with the building process? – How did you pay for the labour force used to build the house? – Did you and or other members of the household participate in the building process? <p>Access to basic services and infrastructure (<i>drinking water, sanitation, electricity, streets, others</i>)</p> <ul style="list-style-type: none"> – When were they introduced? – How where they introduced? – Did you participate in their introduction? – What contributions did you make to the introduction or improvement of these services? – What was the role of the local authority and of other funding agencies, including NGOs, in the provision of these services?
Financial Exclusion and Inclusion	<p>Access to co finance mechanism:</p> <ul style="list-style-type: none"> – How did you learn about PRODEL's infrastructure and basic services component?

- Do you remember in what year the infrastructure project took place, and what was the project all about?
 - Water
 - Electricity
 - Improvement of streets
 - Sanitation
 - Drainage
 - Schools
 - Health clinics
 - Other
- What process was followed to obtain the project?
- Was accessing the resources for the project a relatively 'easy' process?
- What were the requirements established by the municipality to participate in the project?
 - In terms of micro-planning and budgeting
 - In terms of implementation
 - In terms of contributions
 - In terms of administrating the project
- Have there been other projects aside from the PRODEL one in your neighbourhood?
- What were the requirements made by these other projects?
- Did you face obstacles complying with some of these requirements?
- Do you remember how families in your neighbourhood participated in PRODEL's project, and in other projects?
- Is there still an organisation in the neighbourhood (barrio) that deals with these infrastructure and basic service issues?

Access to technical assistance

- How important was the technical assistance provided by the municipality for deciding and implementing the project?
- In what ways did the micro-planning exercise and the contributions you gave allow your family to be included in the project?

Asset Accumulation

- How important was the infrastructure project for improving your
 - House?
 - The street where you live?
 - Neighbourhood?
- How did you improve your house during the last few years?
- Besides the infrastructure and possible housing improvements, what other things have improved during the time since you came to live on this plot of land?
 - Physical assets: (TV sets, and other electrical and non-electrical devices)?
 - Health?
 - Education level of members of the family?
 - Relations with neighbours?
 - Relations with private and public institutions?
 - Financial assets?

Urban Poverty

- Do you consider yourself and the rest of your household members to be poor?

-
- Do you consider your neighbourhood to be poor?
 - What are the main characteristics of being an urban poor in this city and in Nicaragua?
 - Is your level of poverty determined by your household income?
 - What factors determine who is poor in this city?
-

**Long term
perspective on
housing improve-
ment loans**

Overall assessment of the infrastructure component

- What have been the most positive outcomes of having access to the infrastructure component?
 - What possible negative outcomes did the co-finance mechanism for infrastructure have in your household?
 - Do you consider that the terms and conditions set by the municipality for the participation of the neighbourhood were reasonable:
 - What would you recommend the municipality and PRODEL to do differently?
-

Final thoughts

Long term process

- Final thoughts on how you, your family and the neighbourhood have changed during the last 15 years?

A-4

General guidelines to the questions used during the semi-structured interviews with **members of the municipalities** of the cities of Estelí, Somoto and Ocotal to understand the co-finance mechanism as well as the rest of PRODEL's model of intervention. Not all questions were followed in the order presented here. However, the majority of issues were addressed during the interviews.

Main concepts addressed	Broad issues and questions addressed during interview
General data	Background information on interviewee <ul style="list-style-type: none"> – Name of interviewee – Position held: <ul style="list-style-type: none"> If Mayor (during what years?) If a member of a municipal technical unit (please explain): – If current occupation is outside the municipality please explain your position – Could you explain what your role in the municipality was/is? <ul style="list-style-type: none"> In general More specifically, linked to PRODEL's experience
Social Exclusion and Inclusion	Access to the co-finance mechanism for infrastructure and basic services <ul style="list-style-type: none"> – What were and have been the general conditions in the city: <ul style="list-style-type: none"> During the 1980s During the 1990s Since 2000 to 2008/2009 – What are in your opinion the main reasons or causes by which certain urban communities and households were or are currently excluded from accessing certain basic services and infrastructure? – How has the municipal government dealt with these problems over the last 15 years? – How did the co-finance mechanism for infrastructure from PRODEL contribute to solving these problems? – Could you describe what in your opinion were/are the main contributions of PRODEL to the development of the city? – Could you describe how PRODEL strengthened the following capacities of the municipality? <ul style="list-style-type: none"> Social Technical Financial Administrative Implementing policies and projects Others that you consider important – In terms of including low-income communities in the co-finance mechanism for infrastructure: – What was the role micro-planning played in this process? – What has the municipal government gained from the co-finance mechanism? – In what aspects is the PRODEL model different from other models of intervention used by other external funding agencies operating in the municipality?

**Asset Building
and Asset
Accumulation**
Asset strengthening in communities

- Have communities changed as the consequence of the co-finance mechanism
 - In physical terms (please describe)?
 - In social terms (please describe)?
 - In the way they perceive their relation with local authorities?
 - How did the other PRODEL components contribute to this process:
 - Housing improvement loans
 - Loans for economic activities
 - What are the main obstacles to the process of social participation and to the physical improvement of urban poor communities?
-

Urban Poverty
Causes and characterisation of poverty in the city

- Who are the urban poor in your city?
 - What are the main causes of urban poverty?
 - What can be done to overcome it?
 - What can organisations like PRODEL and the municipality do?
-

**Long term
perspective on
the city and the
PRODEL model**
Long term process

- Final thoughts on how the city has changed during the last 15 years?
- Main contribution of PRODEL to this process?
- If PRODEL stops its support to the city, what will happen?

Appendix B

Institutions and places visited

People interviewed, and institutions and sites visited in the framework of this research (2004–2009). Names of people interviewed or participants in focus groups from the communities are omitted and are categorized as interviewees.

	<i>Name</i>	<i>Post/Participant/Client</i>	<i>Institution/Community</i>	<i>City/Country</i>
1	Martha Adriana Peralta	Ex-Mayor	Municipality of Ocotal	Ocotal/Nicaragua
2	Arnulfo Aguilera	Ex-Mayor	Municipality of Ocotal	Ocotal/Nicaragua
3	Indalecia Rodríguez	Ex-credit promoter BCP and current credit promoter	FODEM	Ocotal/Nicaragua
4	Marciano Berrios Sevilla	Mayor	Municipality of Ocotal	Ocotal/Nicaragua
5	Miriam Balladares	Responsible Human Development	Municipality of Ocotal	Ocotal/Nicaragua
6	Carmen Aurora Jiménez	Social Promoter	Municipality of Ocotal	Ocotal/Nicaragua
7	Interviewee A	Teacher/Housing improvement loan client	Barrio Danilo Ponce	Ocotal/Nicaragua
8	Interviewee B	Nurse/Housing improvement loan client	Barrio Monseñor Madrigal	Ocotal/Nicaragua
9	Interviewee C	Elementary teacher/Housing improvement loan client	Barrio Yelba María Antunez	Ocotal/Nicaragua
10	Interviewee D	Elementary teacher/ Housing improvement loan client	Barrio Nora Astorga	Ocotal/Nicaragua
11	Interviewee E	Infrastructure project	Barrio Anexo Yelba María Antunez	Ocotal/Nicaragua
12	Interviewee F	Infrastructure project	Barrio Anexo Yelba María Antunez	Ocotal/Nicaragua
13	Interviewee G	Infrastructure project	Barrio Anexo Yelba María Antunez	Ocotal/Nicaragua
14	Interviewee H	Infrastructure project	Barrio Anexo Yelba María Antunez	Ocotal/Nicaragua
15	Interviewee I	Infrastructure project	Barrio Anexo Yelba María Antunez	Ocotal/Nicaragua
16	Interviewee J	Infrastructure project	Barrio Anexo Yelba María Antunez	Ocotal/Nicaragua
17	Interviewee K	Infrastructure project	Barrio Danilo Ponce	Ocotal/Nicaragua
18	Interviewee L	Infrastructure project	Barrio Danilo Ponce	Ocotal/Nicaragua
19	Interviewee M	Infrastructure project	Barrio Danilo Ponce	Ocotal/Nicaragua
20	Interviewee N	Infrastructure project	Barrio Danilo Ponce	Ocotal/Nicaragua
21	Interviewee O	Infrastructure project	Barrio Danilo Ponce	Ocotal/Nicaragua

22	Interviewee P	Infrastructure project	Barrio Danilo Ponce	Ocotal/Nicaragua
23	Marcio Ariel Rivas	Mayor	Municipality of Somoto	Somoto/Nicaragua
24	Osmin Torres	Responsible Technical Unit	Municipality of Somoto	Somoto/Nicaragua
25	Amparo Espinoza	Social Promoter	Municipality of Somoto	Somoto/Nicaragua
26	Douglas Prado	Ex-Mayor	Municipality of Somoto	Somoto/Nicaragua
27	Interviewee A	Infrastructure Project	Barrio Feliciano Ramos II Etapa	Somoto/Nicaragua
28	Interviewee B	Infrastructure Project	Barrio Feliciano Ramos II Etapa	Somoto/Nicaragua
29	Interviewee C	Infrastructure Project	Barrio Feliciano Ramos II Etapa	Somoto/Nicaragua
30	Interviewee D	Infrastructure Project	Barrio Villa Solidaridad	Somoto/Nicaragua
31	Interviewee E	Infrastructure Project	Barrio Villa Solidaridad	Somoto/Nicaragua
32	Interviewee G	Infrastructure Project	Barrio Villa Solidaridad	Somoto/Nicaragua
33	Interviewee H	Infrastructure Project	Barrio Villa Solidaridad	Somoto/Nicaragua
34	Interviewee I	Infrastructure Project	Barrio Mauricio Cajina	Somoto/Nicaragua
35	Interviewee J	Infrastructure Project	Barrio Mauricio Cajina	Somoto/Nicaragua
36	Interviewee K	Infrastructure Project	Barrio Mauricio Cajina	Somoto/Nicaragua
37	Interviewee L	Infrastructure Project	Barrio Carlos Fonseca	Somoto/Nicaragua
38	Interviewee M	Infrastructure Project	Barrio Carlos Fonseca	Somoto/Nicaragua
39	Alvaro Isaac Barreda L.	Technical Assistance	Fundación PRODEL	Estelí/Nicaragua
40	Rúbida Amaya Benítez	Technical Assistance	Fundación PRODEL	Estelí/Nicaragua
41	Otoniel Cruz	Branch Manager	FINDESA	Estelí/Nicaragua
42	Johnny Arevalo	Credit Officer	FJN	Estelí/Nicaragua
43	Mario Flores	Regional Manager	FDL	Estelí/Nicaragua
44	Ulises González	Ex-Mayor	Municipality of Estelí	Estelí/Nicaragua
45	Francisco Valenzuela	Mayor	Municipality of Estelí	Estelí/Nicaragua
46	Yadira Olivas	Branch Director	FODEM	Estelí/Nicaragua
47	Interviewee A	Teacher, Housing Loan Client	Barrio Oscar Gámez	Estelí/Nicaragua
48	Interviewee B	Baker, Micro entrepreneur	Barrio Oscar Gámez	Estelí/Nicaragua
49	Interviewee C	Micro entrepreneur and housing loan client	Barrio Oscar Gámez	Estelí/Nicaragua
50	Interviewee D	Housewife and housing loan client	Barrio Noel Gámez	Estelí/Nicaragua
51	Interviewee E	Taxi driver and housing loan client	Barrio Noel Gámez	Estelí/Nicaragua
52	Interviewee F	Credit Promoter and housing loan client	Barrio Noel Gámez	Estelí/Nicaragua
53	Interviewee G	Municipal worker, infrastructure project	Barrio Betania	Estelí/Nicaragua
54	Interviewee H	Teacher, housing loan client	Barrio Oscar Turcios	Estelí/Nicaragua
55	Interviewee I	Micro entrepreneur, housing loan client	Barrio Los Angeles	Estelí/Nicaragua
56	Interviewee J	Housewife and housing loan client	Barrio Los Angeles	Estelí/Nicaragua

57	Interviewee K	Teacher, housing loan client	Barrio Los Angeles	Estelí/Nicaragua
58	Interviewee L	Micro entrepreneur/ housing loan client	Barrio El Rosario	Estelí/Nicaragua
59	Interviewee M	Community leader/ infrastructure project	Barrio Leonel Rugama	Estelí/Nicaragua
60	Interviewee N	Infrastructure project	Barrio Noel Gámez	Estelí/Nicaragua
61	Interviewee O	Worker/ infrastructure component	Barrio Panamá Soberana	Estelí/Nicaragua
62	Interviewee P	Community leader/ infrastructure project	Barrio Panamá Soberana	Estelí/Nicaragua
63	Interviewee Q	Housing loan client	Barrio Oscar Gámez	Estelí/Nicaragua
64	Interviewee R	Housing loan client	Barrio Los Angeles	Estelí/Nicaragua
65	Interviewee S	Housing loan client	Barrio Los Angeles	Estelí/Nicaragua
66	Interviewee T	Community leader	Barrio Noel Gámez	Estelí/Nicaragua
67	Marlon Olivas Altamirano	Executive Director	Fundación PRODEL	Managua/Nicaragua
68	Elizabeth Campos Figueroa	Financial Manager	FDL	Managua/Nicaragua
69	Ismael Rodríguez	Responsible Credit Manager	Fundación PRODEL	Managua/Nicaragua
70	Zulma Espinoza	Responsible Technical Assistance Housing Improvement	Fundación PRODEL	Managua/Nicaragua
71	Jessica Medina	Responsible Infrastructure Component	Fundación PRODEL	Managua/Nicaragua
72	Elizabeth Edwards	Responsible MFIs	Fundación PRODEL	Managua/Nicaragua
73	Manuel de Jesús Espinoza Téllez	Technical Assistance Infrastructure	Fundación PRODEL	Managua/Nicaragua
74	Tomás Rodríguez	Coordinator	Programa Misión para Centro América	Managua/Nicaragua
75	Ligia Gómez	Senior Researcher	NITLAPAN/UCA	Managua/Nicaragua
76	Eloísa Ulibarri	Executive Director	FUPROVI	Costa Rica
77	Carmen González	Development and Research Manager	FUPROVI	Costa Rica
78	Yesenia Morales Sibaja	Coordinator Unit of Methodologies and Research	FUPROVI	Costa Rica
79	Francisco Coccozza	Technical Assistant	FUPROVI	Costa Rica
80	Rafael Elías	Ex-social Promoter	FUPROVI	Costa Rica
81	Interviewee A	Community Leader	Barrio Las Luisas	San José/Costa Rica
82	Interviewee B	Community Leader	Barrio Mansiones	San José/Costa Rica
83	Interviewee C	Community Leader	Barrio La Floresta	San José/Costa Rica
84	Interviewee D	Community Leader	Barrio La Floresta	San José/Costa Rica
85	Interviewee E	Community Leader	Barrio La Floresta	San José/Costa Rica
86	Luis Castillo	Executive Director	FUSAI	El Salvador
87	Silvia Melendez	Housing Credits	Apoyo Integral	El Salvador
88	Mauricio Salazar	Technical Responsible	FUSAI/Integral	San Vicente/El Salvador
89	Omar Corpeño	Branch Manager	Integral	San Vicente/El Salvador
90	Tony Castillo	Technical Supervisor Communal Housing	FUSAI	San Vicente/El Salvador

91	Interviewee A	Housing loan client	Cañaverales Project	San Vicente/El Salvador
92	Interviewee B	Housing loan client	Cañaverales Project	San Vicente/El Salvador
93	Interviewee C	Housing loan client	Cañaverales Project	San Vicente/El Salvador
94	Eberto de León	External Consultant	Sida	Guatemala
95	Teresa Nowell	Hábitat Coordinator	FDLG	Guatemala
96	Maritza Canek	Executive Director	FDLG	Guatemala
97	Luis Zamora	Executive Director	Génesis Empresarial	Guatemala
98	Edgar Juárez	Technical Assistance	Génesis Empresarial	Guatemala
99	Interviewee A	Branch Manager	Génesis Empresarial	Escuintla/Guatemala
100	Interviewee B	Branch Manager	Cooperativa Guayacán	Guastatoya, Guatemala
101	Interviewee C	Finance Manager	Cooperativa Guayacán	Guastatoya, Guatemala
102	Interviewee D	Housing Improvement Loan	Guastatoya Barrio	Guastatoya, Guatemala
103	Interviewee E	Housing Improvement Loan	Guastatoya Barrio	Guastatoya, Guatemala
104	Interviewee F	Housing Improvement Loan	Guastatoya Barrio	Guastatoya, Guatemala
105	Interviewee G	Housing Improvement Loan	Guastatoya Barrio	Guastatoya, Guatemala
106	Edgar Búcaro	Micro finance Manager	Banco G&T Continental	Guatemala
107	Dinoska Muñoz	Credit Manager	FUNDEVI	Tegucigalpa/Honduras
108	Rafael Madrid	Credit and Portfolio Manager	FUNDEVI	Tegucigalpa/Honduras
109	Marcelo Zabalaga	External Consultant	GITEC/FUNDEVI	Tegucigalpa/Honduras
110	Luis E. Trundell	Consultant	GITEC/FUNDEVI	Tegucigalpa/Honduras
111	Samuel Ayala	External Consultant	GITEC/FUNDEVI	Tegucigalpa/Honduras
112	Mario Navarro	External Consultant	GITEC/FUNDEVI	Tegucigalpa/Honduras
113	Imelda Flores	Ex-member of Staff	FUNDEVI	Tegucigalpa/Honduras
114	Alicia Villar Landa	Ex-National Coordinator	FUNDEVI	Tegucigalpa/Honduras
115	Emilio Rodríguez	Responsible for Central Zone	FUNDEVI	Tegucigalpa/Honduras
116	Irene Vance	Consultant	Sida	Managua/Nicaragua
117	Mary Ellsberg	Ex-programme officer	Sida office in Managua	Washington, DC, US
118	Kristina Boman	Consultant	Boman & Peck	Stockholm/Sweden
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122	Per Fröberg	Senior Officer	Sida	Stockholm, Sweden
123	Göran Tannerfeldt	Ex Urban Division Director	Sida	Stockholm, Sweden
124	Ina Eriksson	Ex Counsellor Cooperation in Honduras	Sida	Stockholm, Sweden
125	Margareta Grape	Director International Affairs	Church of Sweden	Uppsala, Sweden
126	Carlos Rivas	Programme Officer	Sida	Tegucigalpa/Honduras
127	Christy Stickney	Director Housing Finance	Habitat for Humanity	Costa Rica
128	Minor Rodríguez	Project Manager	Habitat for Humanity	Costa Rica
129	David Satterthwaite	Senior Fellow, Human Settlements Programme	IIED	London/UK
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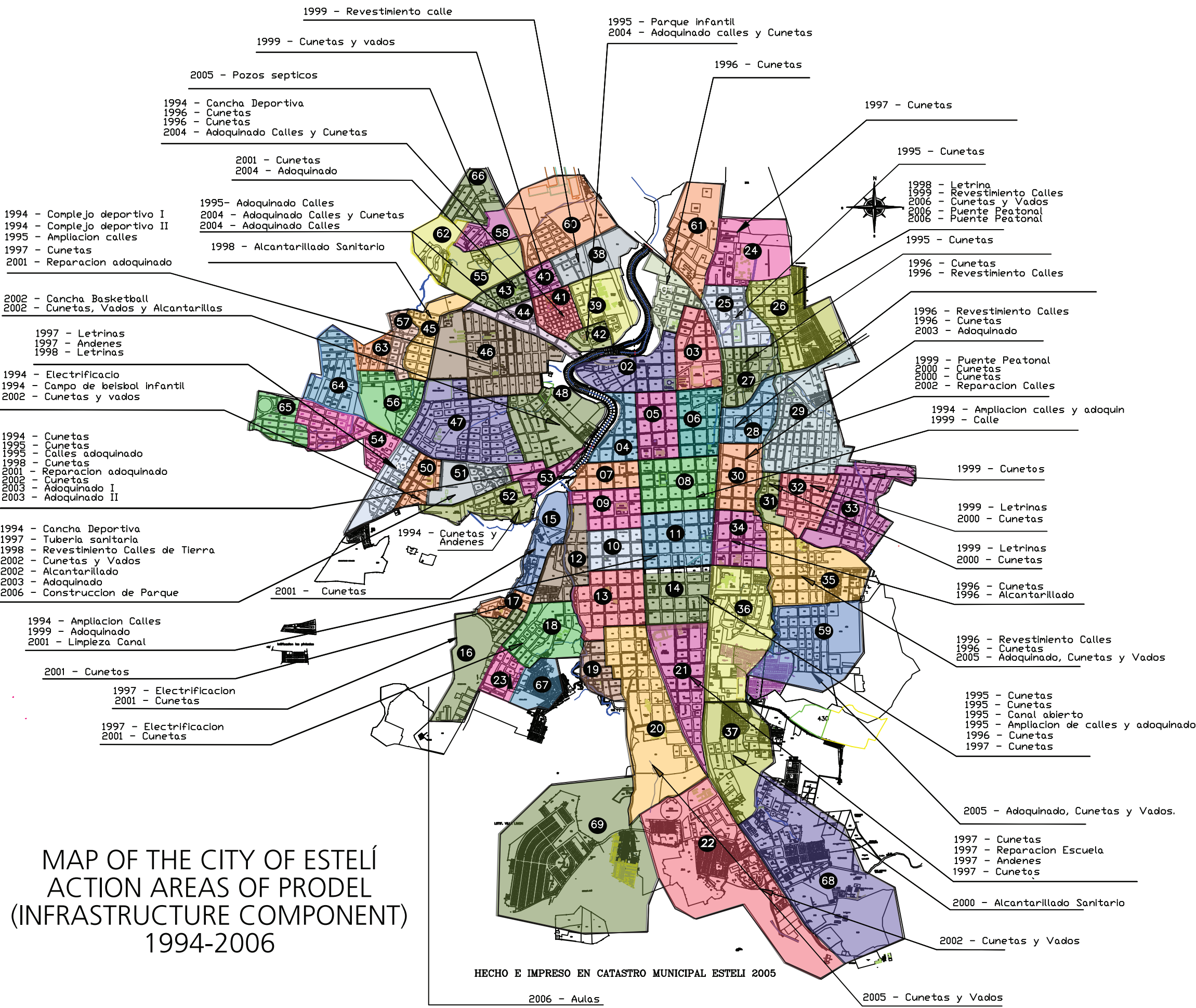
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Appendix C

The annexed Maps of Estelí, Somoto and Ocotal identify by year, and neighbourhood the type of project executed through PRODEL's co-finance mechanism for infrastructure and basic services. The following list provides the term in Spanish and English for each type of project.

Alcantarillado sanitario	Water-borne sewerage pipeline system
Alumbrado Público	Public lighting
Andenes	Sidewalks
Caja Puente	Small box bridges
Campañas preventivas	Preventive health campaigns
Canal pluvial	Rain canal
Cancha deportiva	Sports court
Construcción cauce	Coating of river bed and river banks
Construcción comedor	Public dining room construction
Cunetas y vados	Street gutters and small fords
Drenaje pluvial	Drainage and storm water systems
Embolonado calles	Cobblestone paving
Letrinas	Pit latrines
Manejo desechos sólidos	Solid waste management
Mantenimiento escuela	School maintenance
Mantenimiento preescolar	Pre-school centre maintenance
Mejoramiento calles	Street improvements
Muros de contención	Contention walls
Parques	Public squares, small community parks, playgrounds, and sport venues
Pavimentación calles	Street paving
Pozos	Water wells
Puentes peatonales	Pedestrian bridges
Puentes vehiculares	Vehicular bridges
Reordenamiento urbano	Land management (urban land planning and basic infrastructure)
Reparación escuela	School repairs
Salón multiusos	Multipurpose centres
Sendero peatonal	Pedestrian path
Sistema agua potable	Potable water supply systems
Tanques sépticos	Sceptic tanks

Appendix C



MAP OF THE CITY OF ESTELÍ
 ACTION AREAS OF PRODEL
 (INFRASTRUCTURE COMPONENT)
 1994-2006

HECHO E IMPRESO EN CATASTRO MUNICIPAL ESTELI 2005

BARRIOS DISTRITO 1:

1. OMAR TORRIJOS
2. ELIAS MONCADA
3. JAIME UBEDA
4. ORLANDO OCHOA
5. RENE BARRANTES
6. PAULA UBEDA
7. MILENIA HERNANDEZ
8. HERMANOS CARCAMO
9. IGOR UBEDA
10. OSCAR BENAVIDEZ
11. JUNO RODRIGUEZ
12. FILEMON RIVERA
13. EL CALVARIO
14. HEROES Y MARTIRES
15. WILLIAM FONSECA
16. VIRGINIA QUINTERO
17. LINDA VISTA
18. MIGUEL ALONSO
19. BORIS VEGA
20. ALFREDO LAZO
21. JUAN A. BLANDON
22. JUSTO FLORES
23. EL PARAISO
67. MONTE SINAI
69. EL LIMON

BARRIOS DISTRITO 2:

24. RONALDO ARAUZ
25. AUGUSTO C. SANDINO
26. LOS ANGELES
27. JOSE SANTOS ZELAYA
28. CAMILO II
29. OSCAR TURCIOS
30. JUANA E. MENDOZA
31. MICHIGUISTE
32. 1 DE MAYO
33. VILLA ESPERANZA
34. ARISTEO BENAVIDEZ
35. JOSE BENITO ESCOBAR
36. CENTENARIO
37. BOANERGES LOPEZ
59. SANTO DOMINGO
61. VILLAS DE LA RIVIERA
68. SANTA ELENA

BARRIOS DISTRITO 3:

38. 16 DE JULIO
39. ARLEN SIU
40. ALDEAS EMAUS
41. ESTELI HEROICO
42. CARLOS NUNEZ
43. OSCAR A ROMERO
44. EL ROSARIO
45. NOEL GAMEZ
46. 14 DE ABRIL
47. OSCAR GAMEZ # 2
48. LA COMUNA
49. LA UNION
50. LEONEL RUGAMA
51. OSCAR GAMEZ # 1
52. 29 DE OCTUBRE
53. PANAMA SOBERANA
54. Nvo Amanecer (La Porra)
55. EL JAZMIN
56. Ma ELENA CUADRA
57. BELEN
58. Bo CID DINAMARCA
60. DIOS PROVEERA
62. GERARDO BROOKS
63. OASIS DE BENDICION
64. EX COMBATIENTES 18 DE MAYO
65. BETEL
66. BETANIA

SOURCE:
 Based on a map prepared by
 Jessica Medina, PRODEL

1994 - Muro de Contencion.
 1994 - Reemplazo Preescolar
 1998 - Cunetas
 1999 - Adoquinado
 2001 - Adoquinado
 2002 - Mantenimiento Preescolar

1996 - Caja Puente
 1996 - Vados
 1996 - Cauce
 1996 - Canal Pluvial

1994 - Muro de Proteccion.
 1995 - Puente
 1996 - Caja Puente
 1999 - Adoquinado
 2004 - Cunetas y Vados
 2005 - Obra Hidraulica.

1994 - Acondicionamiento Parque Comunal
 1995 - Salon Multi uso
 2001 - Mantenimiento Salon Multi uso

1994 - Instalacion Electrica

2005 - Cunetas y Vados
 2006 - Instalacion Alcantarillado Sanitario
 2007 - Alcantarillado Sanitario II

2005 - Preescolar

1996 - Canal Pluvial
 2005 - Electrificacion

2005 - Red de agua potable
 2005 - Ordenamiento Urbano
 2006 - Reordenamiento urbano y Cunetas
 2007 - Reordenamiento Urbano III
 2008 - Reordenamiento Urbano IV
 2008 - Mirador I

2007 - Alcantarillado Sanitario I
 2007 - Alcantarillado Sanitario II
 2008 - Mejoramiento Vial

1994 - Drenaje Pluvial
 1994 - Drenaje Pluvial II
 1995 - Cortina Hidraulica
 1998 - Caja Puente

1998 - Cunetas
 1998 - Remodelacion Preescolar
 2007 - Cunetas y Andenes y Vados

1997 - Cunetas
 1997 - Adoquinado
 1999 - Adoquinado

1994 - Reparacion y Ampliacion Preescolar
 2000 - Adoquinado y encunetado calle
 2002 - Encunetado calle
 2003 - Adoquinado
 2004 - Adoquinado
 2004 - Adoquinado

1994 - Muro Contencion
 1995 - Cunetas
 1997 - Adoquinado
 2000 - Adoquinado
 2000 - Adoquinado y Encunetado
 2003 - Adoquinado
 2003 - Adoquinado y Cunetas

1997 - Preescolar
 2002 - Mantenimiento Preescolar
 2002 - Mantenimiento de Preescolar
 2005 - Cunetas y vados
 2006 - Cunetas y Andenes

1994 - Adoquinado
 1995 - Mejoramiento Parque central
 1995 - Adoquinado

1994 - Ampliacion Alcantarillado Sanitario
 1994 - Reparacion Alcantarilla Pluvial
 1995 - Canal Pluvial
 1997 - Tunel Pluvial
 1997 - Tunel Pluvial
 1998 - Tunel Punto critico
 1999 - Adoquinado
 2000 - Cauce
 2000 - Adoquinado y Encunetado
 2001 - Cunetas
 2002 - Adoquinado y Encunetado
 2003 - Adoquinado
 2004 - Adoquinado y cunetas

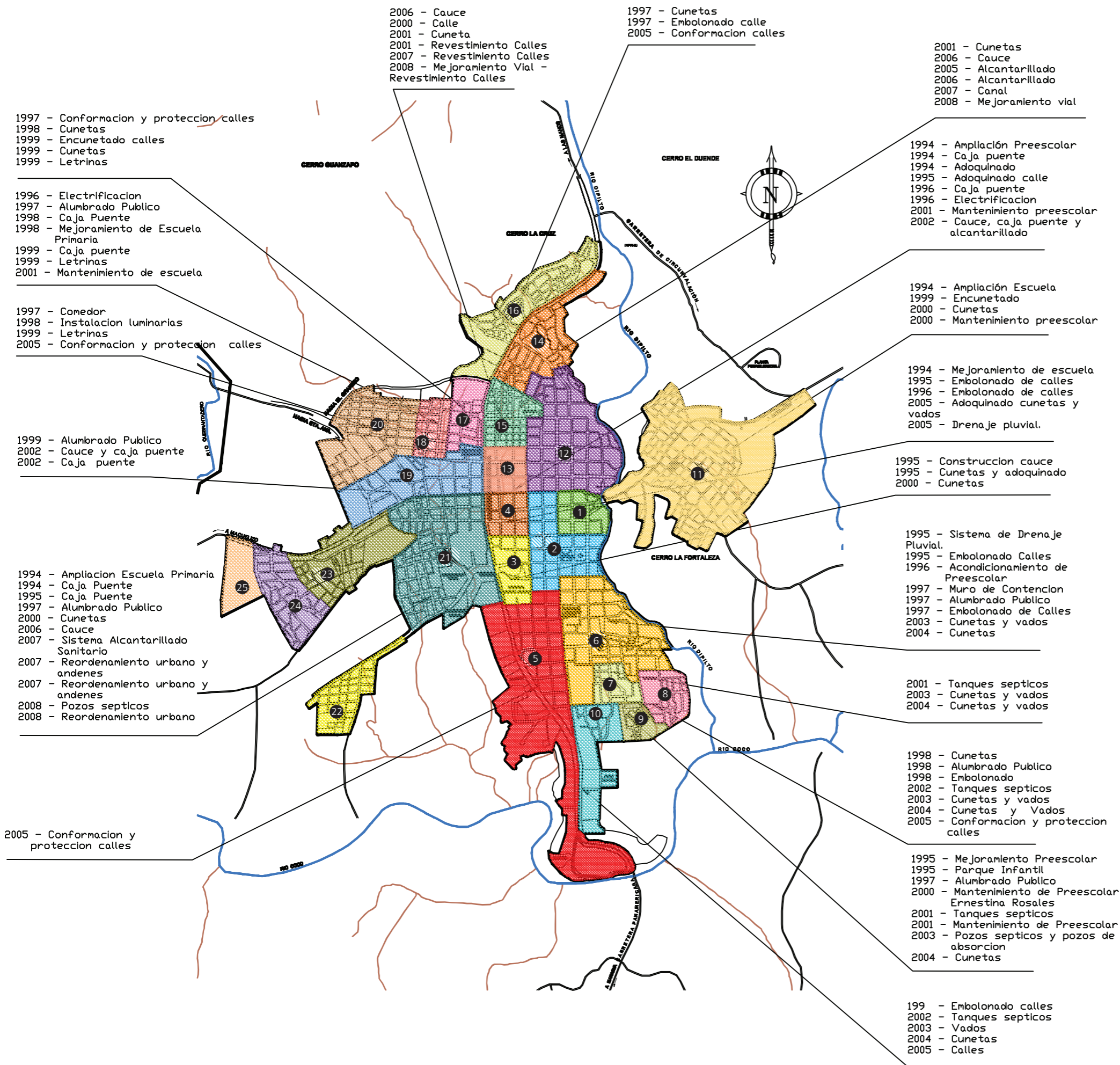
2001 - Cunetas y Andenes
 2002 - Adoquinado

- BARRIOS:
1. PANCASAN
 2. MAURICIO CAJINA
 3. PEDRO J. CHAMORRO
 4. ORLANDO LOPEZ
 5. VICTOR M. RIVAS
 6. AUGUSTO S. PINEL
 7. CONSTANTINO MALDONADO
 8. RAUL ZAPATA
 9. CALOS SALGADO
 10. LUIS ALFONSO VELASQUEZ
 11. CARLOS FONSECA
 12. JULIO MALDONADO
 13. FELICIANO RAMOS
 14. JULIO RAMOS MILLER
 15. AMADO PALMA
 16. JUAN CARLOS ESPINOZA
 17. CARLOS NUÑEZ
 18. VILLA LIBERTAD
 19. COLONIA DEL MAESTRO
 20. VILLA SOLIDARIDAD
 21. LINDA VISTA
 22. SANTOS MOLINA
 23. BUENOS AIRES
 24. 25 DE DICIEMBRE

MAP OF THE CITY OF SOMOTO ACTION AREAS OF PRODEL (INFRASTRUCTURE COMPONENT) 1994-2008

SOURCE:
 Based on map prepared by
 Jessica Medina, PRODEL

MAP OF THE CITY OF OCOTAL ACTION AREAS OF PRODEL (INFRASTRUCTURE COMPONENT) 1994-2008



Central: ORGANIZACION ADMINISTRATIVA POR ZONAS Y BARRIOS

PLAN DE ORDENAMIENTO Y DESARROLLO URBANO DE OCOTAL



ALCALDIA MUNICIPAL DE OCOTAL

- BARRIOS:
1. CARLOS MANUEL JARQUIN
 2. LACAYO FARFÁN
 3. RAMÓN AGUSTO LÓPEZ
 4. LEONARDO MATUTE
 5. MONSEÑOR MADRIGAL
 6. HERMANOS ZAMORA
 7. NOEL WEELOCK
 8. ROBERTO GÓMEZ
 9. 26 DE SEPTIEMBRE
 10. CRISTO DEL ROSARIO
 11. SANDINO
 12. JOSE SANTOS RODRIGUEZ
 13. LAURA SOFIA
 14. YELBA MARÍA ANTUNEZ
 15. DANILO PONCE
 16. JOSE SANTOS DUARTE
 17. NICARAO
 18. NORA ASTORGA
 19. ANEXO LAURA
 20. SANTA ANA
 21. TEODORO LÓPEZ
 22. NUEVO AMANECER
 23. DINAMARCA
 24. PUEBLOS UNIDOS
 25. COLONIA MAESTRO

— Límite Urbano
— Límite de Ciudad
— Límite de Zona

SOURCE:
Based on map prepared by
Jessica Medina, PRODEL

The purpose of the thesis is to further understand key conceptual and operational challenges that international aid donors, and public and private institutions, face while designing and implementing alternative forms of social housing finance which aim to be inclusive for the urban poor. Based on an in-depth study of the work of the Foundation for the Promotion of Local Development (PRODEL) in three cities in Nicaragua during a period of 15 years, the thesis tries to answer three research questions: What are the constraints the urban poor face in financing the incremental way they build their individual housing and collective assets? Why does housing microfinance not always enhance inclusion of the urban poor? How does the tension between the goal of achieving financial sustainability and increasing financial inclusion affect the policy of international donors and governments, and the practice of local financial institutions?

To answer these questions, the thesis adopts a realist approach as well as a critical case study method as used in disciplines such as political science and history to explain the trends and complexities of the phenomena investigated, and formulates an argument in the form of a proposition: if financial exclusion occurs in PRODEL it might also occur elsewhere. Qualitative and quantitative research techniques helped to assess the perceptions of stakeholders that participated in PRODEL's small and repetitive housing improvement loans and in the co-financing mechanism for basic infrastructure components.

The thesis shows significant improvements in the living conditions of the urban poor as result of PRODEL's investments. Although income levels and external political and macroeconomic constraints are significant factors, understanding the different assets that the urban poor possess, has a critical effect on the ways individual households are included in micro-lending schemes. Interviewees considered that their poverty situation related more to the conditions prevailing in their neighbourhood and city than to their household income levels. Family breakdown; lack of education; insecurity; the lack of opportunities in the city; or a permanent sense of helplessness given the recurrent political and economic crises were more important than their monetary consumption levels. Increased self-esteem from being included in financial schemes that improved their homes and neighbourhood was equally important. Interviewees expressed that it was not the lack of income that pre-empted their participation in housing loan schemes, but the lack of reliable information; their fear of the unknown; and the lack of knowledge on how microfinance institutions operated. Additionally, the thesis shows that financial inclusion increases when accountable and transparent participatory methods of negotiation and co-financing mechanisms between urban poor communities and local governments to improve the provision of infrastructure and basic services are in place. Finally, the thesis offers new insights on how the concept of financial sustainability narrowed the approach and policy of international aid donors and governments, and the practice of financial institutions, when seeking financial inclusion. These findings shed light on the theoretical and practical limits of up-scaling housing improvement schemes as part of wider urban poverty reduction strategies in low-income countries such as Nicaragua.

Thesis 7

Urban poverty, social exclusion and social housing finance

The case of PRODEL in Nicaragua

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