PROBLEMS OF COST RECOVERY IN HOUSING PROJECTS:

"LA PIMIENTA, A CASE STUDY"

by

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This thesis analyzes a site and services project, developed by a local housing agency, IVZ (Zacatecas Housing Agency) and financed by a national agency, FONHAPO (National Fund for Low-Income Housing). This program was implemented in Zacatecas City in Mexico, between September 1983 and August 1985, in a site known as 'La Pimienta'. The analysis focuses on the cost-recovery process and the way it was implemented. This paper analyzes the reasons for the high rate of default in loan repayments experienced during the cost recovery stages of this project, one year after its completion. This analysis also focuses on the way in which community participation contributed to the low rate of cost recovery. As a guideline, five topics were used to evaluate the requirements suggested to achieve an acceptable rate of repayment: (i) the affordability of the project; (ii) the participants' understanding of the nature of their financial obligation; (iii) the efficiency of collection systems; (iv) the efficacy of the incentives and sanctions; and (v) the consistency of political support for cost recovery. This thesis concludes that although these requirements were followed to some extent, the key element in the low recovery was the organized opposition of the community explaining the way it evolved.
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CHAPTER I  INTRODUCTION

This thesis analyzes a site and services project, developed by a local housing agency, IVZ (Zacatecas Housing Agency) and financed by a national agency, FONHAPO (National Fund for Low-Income Housing). The program was implemented in Zacatecas City in Mexico, between September 1983 and August 1985. The analysis focuses on the cost-recovery process and the way it was implemented.

The high rate of default in loan repayments experienced during the cost recovery stages of this project, one year after its completion, intrigued and induced me to study the reasons for such a phenomenon. Also, the way in which community participation contributed to the low rate of cost recovery, make this particular project worthy to analyze. Usually, community participation is considered a positive element in bolstering housing programs; it is my intent to analyze and explain the conditions that led to a negative result in the case of this project.

A program of this magnitude was not implemented by any housing agency in Zacatecas, until the new policies of decentralization of housing programs in Mexico were in effect in
1982. Therefore, this is an interesting case to analyze in terms of efficiency and replicability possibilities within a perspective of future programs in Mexico. The relevance of cost recovery for a local housing agency grows, as the scarcity of fiscal resources for housing finance deteriorate day by day, under the harsh impact of economic crisis in developing countries.

As a guideline, this paper evaluates the five requirements suggested to achieve an acceptable rate of repayment: (i) the affordability of the project; (ii) the participants understanding of the nature of their financial obligation; (iii) the efficiency of collection systems; (iv) the efficacy of the incentives and sanctions; and (v) the consistency of political support for cost recovery (Sanyal, 1987).

Information for this paper was gathered from files at IVZ - the local agency, in Zacatecas City and FONHAPO’s - the national agency, regional offices in Durango City during the summer of 1987. Interviews with FONHAPO and IVZ personnel, municipal authorities, and users were conducted during the same period.

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1 The housing units constructed from 1984 to 1986 by IVZ in Zacatecas City (1,800) doubled the amount of units constructed by the other two national agencies operating in this city from 1980 to 1986.
This study is divided into four chapters. The first one introduces the scope of the research and its objectives. The second chapter describes the project components: the arrangements and responsibilities among the participant institutions; the different phases the project was divided; how affordability was calculated; and the scheme for repayments - the amount of monthly payments, the collection system, the sanctions and incentives. The third chapter assesses the main problems faced during cost recovery. It describes the magnitude of the problem, the changes in the composition of the different phases, the adverse changes in the national economy and its effect at the micro level; the uneven relationship between IVZ and FONHAPO responsibilities and the unique nature of community involvement in the problem. The fourth and final chapter provides some recommendations for improvement in project development and management that would facilitate a satisfactory performance in cost recovery.
II. DESCRIPTION OF THE PROJECT

This project was implemented in 1983 by IVZ, a decentralized body of the government of the State of Zacatecas in Mexico. It was first intended to cover the housing needs of those low-income people, working in the informal sector, unattended by the housing agencies operating at the national level. It was also an attempt by the state government to slow down the number of illegal settlements in the capital city, through the provision of serviced plots -water supply, electricity, sewerage, and paved roads, and through the provision of land tenure.

Zacatecas is the capital city of the northern state of Zacatecas. Formerly an important mining city, Zacatecas experienced a prolonged stagnation after the Mexican revolution in 1910, due to the decline of the mining activity and the decline of the rural structure of the 'Hacienda System'. Beginning in 1960, Zacatecas experienced a reactivation in its economy as a consequence of its increasing importance as an administrative center with growing commercial activity -basically as a center for distribution of agricultural products, and as an educational center.

Zacatecas City population grew from 72,124 people in 1960, to 144,079 in 1970, to 160,778 in 1980 and to 186,326 in 1984 (INEGI, 1986). This considerable increase in its population
raised the demand for public services and for housing. The insufficient supply of housing and the high cost of housing units provided by the commercial financial system pushed the state government to look for affordable housing alternatives.²

In 1982 the government of Zacatecas received from the federal government about 200 hectares of urban land in different parts of the state formerly owned by INDECO (Institute for Community Development). These land reserves and monetary resources allocated by the state government constituted the seed capital to initiate the operations of a local housing agency.

The administrative structure of the agency consisted of an executive council, and a technical council. The first one was presided by the State Governor as an honorary Chairman, a Technical Director, and different members of the state cabinet — Finances, Public Works, Planning as counselors. This group was responsible to determine and authorize the programs proposed by the technical body, and authorize the annual budget and to evaluate the programs developed by the agency. The technical council headed the Technical Director consisted of a Department of Construction, a Department of Administration and a Department Social Work and Promotion of Programs. Among its tasks were to

² The first illegal settlements appeared in Zacatecas City in the mid 70’s, and were a continues discomfort for the state and municipal governments, since their dwellers grouped often in opposition political parties, being active demanders for public services.
promote, implement and administrate housing programs.

In 1983 IVZ worked out with a national housing agency -FONHAPO, a loan for the construction of a sites and services project in Zacatecas City. This national agency operates with fiscal resources provided by the federal government as well as with funds recovered from its credit repayments. FONHAPO, in addition to being a direct financing agency for housing development, also provides loans to public agencies operating at a local level. Projects financed by FONHAPO are intended mainly for those working in the informal sector.

2.1 INSTITUTIONAL ARRANGEMENTS AND RESPONSIBILITIES

The financial schemes were formulated by the main financial source -FONHAPO, and by IVZ, the financial intermediary and the credit warrantor. IVZ provided the land, carried out the selection of beneficiaries, the selection of building contractors, the allotment of housing units and credit recovery to be repaid to FONHAPO. FONHAPO on the other hand, provided the necessary financial resources for the different phases of the project and established the guidelines for cost recovery and credit regulations.

In addition to financial capital provided by the housing agencies, the state and the municipal governments contributed to
the program with complementary services. For example a primary school was built at the site; a market was built next to it and a bus route extended to the site. The city waterworks agency contributed in increasing the water supply to the site.

Under FONHAPO regulations, community participation was to be fostered through a 'support committee'. It consisted of users who were elected as representatives by the prospective dwellers from each program financed by FONHAPO. The task of the support committee was to provide a communication link between users and the agency. Its role was to help the applicant in the selection process and in monitoring the project. Once the plot allotment was completed, the committee was to promote community development and help the agency in identifying problems related to the evolution of the project.

2.2 'LA PIMIENTA'

From the IVZ land reserve, a 30 Ha. site known as 'La Pimienta', was chosen for the sites and services project. The site, located at the north of the city, was accessible by public transport. Infrastructure services -water, sewerage and electricity were available from the adjacent residential areas.

3 FONHAPO strongly encouraged community participation as a mean to strengthen the social component for housing programs. Under contract regulations a support committee is to be elected once the demand is consolidated, as requisite to proceed for any credit application (FONHAPO, 1984)
Its location, in an area populated basically by low income families, was suitable for a project of sites and services.

The project initiated in 1983, originally had a specific financial policy regarding disbursement and recovery arrangements. It was also to be based on a physical development process of sites and services. The average plot size was 120 square meter with water supply, sewerage and electricity. Other urban services were street lighting and asphalt-paved roads. A total of 1,236 serviced plots were to be built in 'La Pimienta'. However before the construction stage for this project was completed, a new component for 300 core houses was added.

However, the original scheme was changed. While classifying the demand for the sites and services program, IVZ identified families interested in having access to a program with a higher level of services. Considering that a program offering finished housing units would attract a broader social component, and could have a greater social and political impact,* IVZ solicited and obtained from FONHAPO a new credit for 300 core-house units. As the sites and services project neared completion, both agencies decided to take advantage of the fact that services provisions were nearly complete and hence decided to incorporate the new 300 units within the project area.

* The agency by this time had only two years of operation and was willing for an opportunity to be known in the local scene.
consisted of a loan for 300 core houses, to be built in plots which should have been allocated according to the first program. As a consequence, the initial plots for the sites and services project, was reduced by 300 plots.

In September 1984, and under very special circumstances, a new component was agreed by IVZ and FONHAPO. By this time FONHAPO had organized a competition for low-income housing design alternatives. As part of the competition, two of the winning designs were to be constructed at two different cities. FONHAPO was to provide the required financial resources but the land was to be supplied by two local agencies. When one of the local agencies failed to provide the necessary land, FONHAPO was forced to look for a suitable site to build one of the winning designs. 'La Pimienta' seemed like an appropriate site because the sites and services construction phase was nearly completed. In September 1984 IVZ and FONHAPO signed a new credit agreement for 800 additional core houses, to be constructed on plots from the first program. Thus, the original scheme for sites and services reduced again -this time by 800 plots. As we will see later, these changes in the project during its implementation, posed crucial problems in cost recovery.

5 Both agencies considered that a positive political impact for this program was granted, since the advanced development of the serviced plots project, would decrease considerably the construction phase for the housing program.
To sum up, once the program was completed, the first phase ended with 136 serviced plots, 80% of which were financed by FONHAPO. IVZ provided the rest as well as the land for the project. The second phase included 300 core-houses units financed by 80% FONHAPO capital and 20% of IVZ resources respectively. The third phase of 800 core units was constructed with 90% FONHAPO contribution and 10% of IVZ resources.

Table 1
The composition of 'La Pimienta' project

<table>
<thead>
<tr>
<th>Contract Date</th>
<th>Type of Unit</th>
<th>No. of Units</th>
<th>Cost of Project Component (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/24/83</td>
<td>Sites and Services</td>
<td>136</td>
<td>19,955</td>
</tr>
<tr>
<td>06/21/84</td>
<td>Core-Houses</td>
<td>300</td>
<td>174,474</td>
</tr>
<tr>
<td>08/20/84</td>
<td>Core-Houses</td>
<td>800</td>
<td>863,967</td>
</tr>
</tbody>
</table>

(1) In thousand Mexican Pesos
Source: IVZ annual report, September 1985

2.3 AFFORDABILITY

In ensuing full cost recovery, each applicant was asked to submit (i) proof of income, (ii) proof of one or more years of residence in the area and, (iii) testimony that they did not own a home. Preference was given, particularly for the first two phases of the program, to families with three or more members and
to the self-employed. These criterion were established by the agencies in order to create access of families with a proven record of residence in the area, and who were normally excluded from other housing programs. Affordability level was calculated for every phase, and varied accordingly and the particulars are as follows:

A. 'La Pimienta', PHASE I

This project consisted of serviced plots, of an average size of 120 square meter, with water supply, sewerage and electricity at each plot. Other urban services were street lighting and asphalt-paved roads. The cost of the plot was 158,350 Mexican pesos. The income required to apply for a house was from 0.5 to 1.5 times the minimal wage. The financing to the household was based on 10% interest rate per year, increased by 10% every year. The down payment was 10,800 pesos and was payable within a period of six months before the lots were occupied. The loan term was ten years.

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6 FOVISSSTE and INFONAVIT are the other two national agencies operating in Zacatecas. The former promotes programs for state employees and the latter, for people working in the formal sector.

7 The credit cost was calculated by the agencies to take no more than 20% of the users monthly income, in order to maintain the program in an affordable level.

8 As 12.5% of the minimal wage accumulated in six months.
B. 'LA PIMIENTA', PHASE II

The core-house units of Phase II were built at a cost of $584,900 Mexican pesos per unit. Size of the units ranged from 32 to 38 square meter. The revised financial arrangement was based on a 10 year loan term and 11% interest rate with 10% of yearly increase rate. Income requirements for this phase ranged from 1.6 to 2.0 times the minimal wage. Affordability rate was calculated on the basis of 25% of monthly income for housing. 10% of the unit price was required as a down payment.9

C. LA PIMIENTA, PHASE III

The sale price was 1,079,960.00 pesos per core-house unit. The loan term for the credit was 20 years with a 10% down payment10. Households with incomes from 2.1 to 2.5 times the minimal wage were eligible for a core-house unit. This project presented a significant difference in terms of interest rates and cost recovery criteria when FONHAPO changed its policies for cost recovery. Interest rates for monthly payments were increased up to 15% per year, based on an annual increase according to the economic indices set by the Bank of Mexico. These increases were set to compensate for the declining conditions in the national economy.

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9 As 30% of the accumulated salary for six months.
10 As 15% of monthly salary.
The basis for monthly payments under these new dispositions, also had to be in accordance with the increases for minimal wage determined by the federal government. Under the new policy, up to 45% of the monthly salary was to be dispensed for repayment for the 800 units program. These changing conditions forced IVZ to change its eligibility criteria and decided to allow participants with income above what was originally decided upon. On the other hand, some participants had withheld of their income particulars, in order to maintain the eligibility status.

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11 The growing inflation rate was a key element behind these changes. Inflation rate jumped from 42% in 1984, to 73.7% in 1985 and to 105.7% in 1986% (Banco de Mexico).

12 From IVZ's files, it was possible to find more then 120 families for the third program, with monthly incomes well above the maximum established for this program -2.5 times the minimal wage.
Table 3.  
Affordability Levels for 'La Pimienta' Housing Projects

<table>
<thead>
<tr>
<th>Program</th>
<th>Income for Eligibility (1)</th>
<th>Annual Interest Rate on Loan (2)</th>
<th>% Salary Required for Monthly Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pimienta I</td>
<td>0.5-1.5</td>
<td>10%</td>
<td>20</td>
</tr>
<tr>
<td>Pimienta II</td>
<td>1.6-2.0</td>
<td>11%</td>
<td>25</td>
</tr>
<tr>
<td>Pimienta III</td>
<td>2.1-2.5</td>
<td>15%</td>
<td>55</td>
</tr>
</tbody>
</table>

(1) Times the minimal wage
(2) For Pimienta I & II, there was an additional 10% increase annually; for Pimienta III, the interest rate was indexed.
Source: Instituto Zacatecano de Vivienda

2.4 COLLECTION OF PAYMENTS

Collection of repayments was carried out directly by IVZ through a system similar to the collection of fees for electricity and water. Through a computerized accounting system, invoices were issued to the users every month, indicating previous balance and amount to be paid. Payments were to be made at IVZ offices located in the center of the city or at a commercial bank.

Information on repayment were propagated in different ways. For the first phase of the project prospective beneficiaries were contacted for meetings organized by the municipal authorities and IVZ. In those meetings, most of which were held at the City
Hall, the credit conditions were explained by IVZ personnel. That included discussions on: income requirements, loan terms, interest rates, monthly payments, cost per unit, etc. For the 300 core-house units in the second phase, information was advertised in the local newspapers and radio stations. For the remaining 800 core-house units, three informational meetings were organized by IVZ under FONHAPO supervision. More than 400 families attended each of the sessions. Under such circumstances it was difficult for the project beneficiaries to establish a one to one dialogue with the agency personnel.

2.5 SANCTIONS AND INCENTIVES

There was no special incentive designed for early payments or payments in advance. Sanctions for arrears were to be according to the legal dispositions of the State of Zacatecas established when the Zacatecas Housing Agency was founded (IVZ, 1983). According to that law, households with arrears of three or more months were to be evicted, and subject to legal procedures under the State Law.

\[13\] A total of 2136 families were recorded as the audience for those meetings. (IVZ, Meeting Minutes)
CHAPTER III. COST RECOVERY: WHAT WENT WRONG?

Cost recovery began a month after plot allocation for every phase. As the project was developed in three different phases, plots and housing units were allocated at different times. The serviced plots were the first to be allocated. From February to March 1985 all the 136 plots were assigned and allocated. By September of 1985, from information at the IVZ records, 131 (97%) of the serviced plots showed building in progress. Two months later 32 of this plots (24%) had families living there.

Housing units for the second phase were assigned between February and April of the same year and a period of one month was given to families to occupy houses. By September of 1985, 5% of the housing units for this phase were still unoccupied. The allocation of housing units included in the third phase took place between April and July of 1985. In September of the same year 89% of such houses was occupied and the repayment by beneficiaries went according to schedule.

Arrears in repayments first became known in March 1986. About 35 accounts (4.3%) from the third program showed three months in arrears by that time, increasing to 4.4% by April and 9.0% by May. At this point, a group of 63 families (7.8%) from
the third program appealed to the court for a freeze on increases in monthly payments and started depositing rents in an escrow account. By August, this group grew to 322 families (26.8% of the total of beneficiaries for the program), and included participants from the first and second phases, who also made a parallel request for a freeze on monthly payments to IVZ authorities.

Table 3. REPAYMENT ARREARS IN 1986

<table>
<thead>
<tr>
<th></th>
<th># of Units</th>
<th>MAR</th>
<th>APR</th>
<th>MAY</th>
<th>JUN</th>
<th>JUL</th>
<th>AUG</th>
</tr>
</thead>
<tbody>
<tr>
<td>LA PIMIENTA I</td>
<td>136</td>
<td>1.4</td>
<td>2.1</td>
<td>2.9</td>
<td>5.4</td>
<td>8.8</td>
<td>9.5</td>
</tr>
<tr>
<td>LA PIMIENTA II</td>
<td>300</td>
<td>2.6</td>
<td>5.6</td>
<td>9.6</td>
<td>16.0</td>
<td>33.3</td>
<td>38.6</td>
</tr>
<tr>
<td>LA PIMIENTA III</td>
<td>800</td>
<td>4.3</td>
<td>4.8</td>
<td>9.0</td>
<td>16.3</td>
<td>22.8</td>
<td>29.3</td>
</tr>
</tbody>
</table>


This process initiated a serious decline in cost recovery which, so far, had been relatively satisfactory. By August 1986, accounts with three or more months in arrears reached a peak of 32.6% for the second phase and 27.1% for the third phase. This sharp increase in arrears in a short period of time seriously undermined the IVZ and caused major problems in the repayment of its loan to FONHAPO.
What were the causes behind this sharp decline in cost recovery? Was it caused by the changes in the composition of the program, involving different house units and different credit conditions? or, was it a decline in the affordability of the users due to adverse and unexpected conditions - high inflation rate, lower wages increases?. Was it a consequence of the failure of the collections systems or a result of the inexperience of the newly created housing agency? or, was it an outcome of conflicting interests among public agencies and vested government interests? These concerns are to be addressed in the rest of the chapter.

Looking at the way in which cost recovery arrears developed, it is noteworthy that a higher number of households with arrears in repayment were the users for the 300 and 800 core-house units. More importantly, it was not a 'typical' default crisis where users ceased to pay at all. The situation in this project evolved in a quite different way. A number of users refused to pay for the increase in the monthly payment which was stipulated under contractual conditions, but continued to pay to an escrow account.
Table 4. HOUSEHOLDS MAKING MONTHLY PAYMENTS IN AN ESCROW ACCOUNT

<table>
<thead>
<tr>
<th></th>
<th># of Units</th>
<th>(cumulative)</th>
<th>Number of Households (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>MAR</td>
<td>APR</td>
</tr>
<tr>
<td>LA PIMIENTA I</td>
<td>136</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>LA PIMIENTA II</td>
<td>300</td>
<td>1.3</td>
<td>3.6</td>
</tr>
<tr>
<td>LA PIMIENTA III</td>
<td>800</td>
<td>2.5</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Source: Instituto Zacatecano de Vivienda

Once again, the highest number of defaulting households belonged to the second and third phases of the project. Could it be possible that the increase in monthly payments were higher for these groups, making the credit unaffordable to them?. This is an unlikely situation since the second phase of the project was based on softer credit characteristics and, in the selection process for the third phase, a good number of applicants with incomes well above the limits established for affordability were accepted. Conversely, households in the sites and services program who were relatively poor had a higher repayment rate. Hence, the decline in income, though important may not have been a decisive element for this unsatisfactory rate of cost recovery.

Could it be that the collection system collapsed or suddenly deteriorated?. Looking again at the numbers, for more than half a year the cost-recovery operated quite efficiently. Problems
emerged first after the first increase in monthly payments of the second and third phases. Once the first instances of arrears were spotted, IVZ sent warning notices to the delinquent households. In several cases debtors were contacted personally by IVZ workers to give them advise and to negotiate repayment plans. No eviction was made however. Although by June 1986 three families from the second phase and fifteen from the third one moved out in their own, requesting for credit cancellations. Nine of them were moving out of town and three other families attributed their decision to financial difficulties and asked for the authorized refund.

3.1 COMMUNITY PARTICIPATION: THE KEY TO LOW REPAYMENT

The way in which the households requested for a legal solution to monthly payments freeze, and the increasing number of families that joined this alternative, seems to be a critical factor in explaining repayment problem. This can be explained, to a larger extent, by the way in which community participation evolved in the 'La Pimienta' project area.

The first elected community committees acted in a regular basis until the house allotment for the third phase was carried out. They were a key element in lobbying for the construction of a primary school at the site, in supporting the agency in organizing information meetings, and in advising families in the
allocation process. These committees continued to function till
to the appearance of a 'splinter' group which emerged in response
to shortages in water supply and to oppose the first increases
for monthly payments and interest rates.

Housing units and plots were affected by water supply
shortages and deficiencies in street lighting during the first
six months of operation of the project. These events affected
units in all three phases of the project. Water supply problems
were caused mainly by delays in increasing the supply from the
municipal network. The provision of water was irregular and when
the shortages were critical, for instance two weeks without
water, the waterworks agency provided the service through water
tanks. This situation lasted until the site was finally
integrated to the new municipal water supply network.

The municipal authorities responsible for the operation of
the lighting system, refused to accept the street lighting system
arguing inconsistencies in relation to standards set for the rest
of the city. As a consequence, serious deficiencies in operation
and maintenance occurred. Furthermore, disagreeing with the
standards in the level of other services provided in the project
-paved roads and side walks, the municipal authorities refused
to take over the site for its overall maintenance. This resulted
in the lack of municipal services such as street cleaning and
maintenance.
The community organization turned in a different direction after these incidents. The once cooperative support committees started moving away from the IVZ authorities, unable to satisfy the users' demand for the regular provision of public services. These events acted as a catapult for the formation of a 'splinter group' which took the lead in organizing the residents. At this point, the original committees broke up and the splinter group assumed a 'de facto' leadership.

Crucial to the evolution of the 'new' committee was the prior experience of some of its leaders as activist. Three of them were professionals working at the local university, and were active members of opposition parties. The local university, with its strong opposition to the ruling party and its institutions, was active supporter of peasants and squatters movements. The organizational skills of this group was quite effective in the way they used the media and the way they mobilized the users when shortages in water supply and irregularities in public services surfaced.

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14 For a detailed illustration of the active role of Mexican university leaders in urban conflicts, see "The Social Basis of Urban Populism: Squatters and the State in Latin America" in M. Castells, 1983.

15 Regularly, the local newspapers reported the irregularities in the new project. Users were organized to demonstrate on downtown streets also.

25
The group managed to operate directly, lobbying municipal authorities in its demand for better services. This activity increased the distrust of the city authorities towards the housing project, who feared that once the municipality assumed the control and responsibility for maintenance of the public services of the project it will become a political issue to be used against the municipal authorities.

The political awareness of the splinter group can be identified by their clear understanding of the major changes in the government machinery. By September 1986 in Zacatecas, a new state administration had to be inaugurated. As part of the changes in the state machinery, IVZ also had to change its administrative staff. The executive council compound by members of the state government cabinet and its chairman the Governor had to step down. The technical council appointed by the governor had to step down too. At this juncture the 'splinter' group started negotiations with the authorities with the hope of receiving better financial terms once the administration was to leave.

The first outcome of these negotiations was the freezing of monthly repayments, until the credit scheme was reviewed by FONHAPO. IVZ was unable to decide the monthly payments since the credit conditions were determined by FONHAPO. While recognizing the need to review the variations in financial terms between the
different phases, no changes were accepted by FONHAPO for the original credit conditions, because they were convinced that the household incomes were still above the affordability levels. The users, however, refused to accept this and continued to pay their old amount to the escrow account.

The users committee showed then a clear understanding of the legal system. Instead of withholding payments, they opted for the legal procedure of depositing in the escrow account, until a final decision was made by the court. They knew that time would eventually work in their favor because of the slow nature of the legal system. In doing so they avoided the possibilities of eviction since payments, though low, were continued to be deposited. In addition, while waiting for the court decision, the new administration when it assumed responsibility, found the project beneficiaries in a strong position to renegotiate the monthly increases.

This situation continued until February 1988 when FONHAPO and IVZ reached a compromise in negotiating the credit conditions. IVZ with the financial support from the state government assumed full responsibility for defaults in credit repayments to FONHAPO. As a result, IVZ set lower monthly payments conditions, subsidizing the payments to FONHAPO with its own resources. FONHAPO, in turn, authorized the re-sale of vacant units, setting housing unit prices according to actual
market prices.
Looking at the evolution of the 'La Pimienta" housing project it is not possible to isolate one single aspect of the program as the cause for the poor cost recovery. But it is a combination of several aspects that took place over the period of implementation. The key aspects can however summarized as follows:

4.1 AFFORDABILITY

Although the project was affordable for most of the participants, it created some problems. High income requirements for the last two phases meant elimination of the original target group. This process of "gentrification" has been identified as common in the housing programs for low income groups (Swan et.al. 1983). When there is a subsidy, as in the case of 'La Pimienta' -through credits well below the commercial interest rates, market and political mechanisms may easily cause the expulsion of poor.(Rodell, 1983) Moreover, the sharp increases in the interest rate created some problems for even the relatively upper income project beneficiaries.

4.2 ARBITRARY VARIATION IN THE SCOPE OF THE PROJECT

A restraint in the attitude of the public agencies to
achieve visible and impressive results could have avoided the shift from sites and services projects towards projects with higher standards. Such restraints could have well avoided the harmful changes in the composition of the project and, more importantly, the managerial difficulties arising from them, especially monitoring different credit conditions within a project. Even though variations are often necessary, they have to be in consultation with the community. Such consultation did not take place in La Pimienta.

4.3 EFFECTIVE COMMUNICATION

As part of the project there was no clear process of communication and dissemination of information. Such deficiencies often lead to unilateral decisions without the knowledge of the project beneficiaries. A year after they had occupied the housing units in La Pimienta, diffusion of information and the channels of communication between the users and the agency deteriorated. But by then, the users had a clear understanding of the nature of the program and its implications. As I have shown earlier, such an understanding, however, was used against the agency.
4.4 ENFORCEMENT OF SANCTIONS AND INCENTIVES

This is the issue of whether effective measures, in the form of incentives and sanctions were used to promote cost recovery. Mechanism of incentives and sanctions are complex tools which require an efficient administration and adequate political will which involve a continued commitment. Unfortunately in Zacatecas, changes in state administration and the conflicts of interest between the municipal administration and the housing agency, became key factors that adversely affected the normal provision of public services and the enforcement of sanctions and evictions. For example, the municipality clearly showed its unwillingness to be involved in resolving any conflict in 'La Pimienta' at the risk of losing its popularity.

IVZ on the other hand, did not have sufficient political backing for strict collection of payments and also to enforce sanctions. When the first few defaulters were not evicted, it set a bad precedent for other defaulters to follow; and, once the repayment arrears rocketed, it was impossible for the agency to take any legal measure for eviction against such a large number of families.

As a means to encourage early repayments, more emphasis should have been placed on incentives for timely repayments. The project from the beginning had no mechanism to encourage early or
on-time payments. Since the economic conditions for dwellers vary, chances are that dwellers in relatively better economic conditions would be willing to pay in advance or pay-off their credits earlier. That create a good opportunity for the agency to recover funds in advance and special consideration should be given to this issue in future project design.

In the case of La Pimienta the local agency being practically an extension of the state government, and subject to the credit conditions of FONHAPO, had little room to negotiate the demands with the users. More autonomy for the local agency, in negotiating terms of repayment, could increase the effectiveness of the agency to devise a better credit management system and to improve the mechanisms for cost recovery. In addition, it is a good way to encourage institution building which is so important in the strengthening of any public agency.

4.5 BASIS FOR COMMUNITY PARTICIPATION

The most influential factor in cost recovery for this case was the way in which community participation evolved. This element in housing programs has been continuously addressed and encouraged as a means to improve the management and the outcome of the program. From the point of view of the housing agencies there is a strong resistance against the sharing of control and also as a result of the political system needs (Gilbert and Ward,
In contrast there had been successful programs with strong community participation, such is the case of the El Salvador Sites and Services project (Bamberger, 1982). This program in order to succeed required a lot of managerial involvement to monitor the evolution of the project.

In 'La Pimienta' the agency approach for community participation was one with a rigid and vertical scheme. Decisions were made from the top to the bottom, which impeded an active participation of the users and often blocked the feedback from the beneficiaries.

The more flexible and direct organization of the community group and its rewards, attracted people to actively participate in key issues: firstly, demanding the regular supply of public services, and secondly, once they recognized the strength of unity, against the agency demanding the freezing of the increase in monthly repayments. This demands, severely affected the agency's economic situation and hampered the progress of the program.

Major lessons can be now drawn on the need for an effective participatory basis for the community and to maintain a steady course of project implementation without arbitrary changes. Besides, a strong commitment, backed by political will, to enforce sanctions and incentives, recognizing the capacities and
deficiencies of the participants is equally important. The experiences from La pimienta, point to the integration of these vital elements of the beneficiaries and its replicability.
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