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Barrio Mio. Transforming High Risk Neighborhoods in Mixco, Guatemala

Public Private Partnerships and Applicable
Financial Instruments

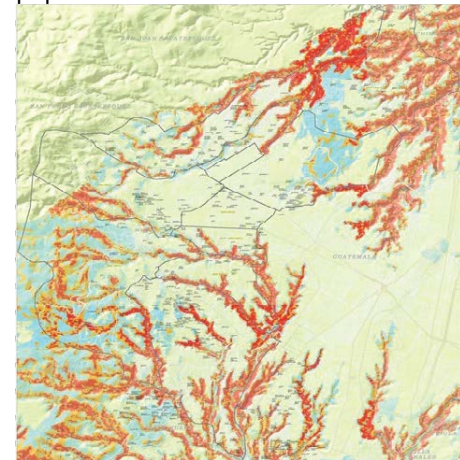


The Barrio Mio project in Mixco is redeveloping high risk neighborhoods

- Mixco is the second largest city in Guatemala with a population of 0.71 million and is considered ‘high risk profile’
 - High population density – approx. 6,000 per km²
 - 75% of Mixco’s land area is hillsides with 30% of population at high risk of landslides, erosion or flooding
 - Each year hundreds of homes on the hillsides are lost due to their vulnerability
 - Mixco sits on a fault line and is within the high-risk southern hurricane belt
- The Barrio Mio project in Mixco, developed by PCI and funded by USAID’s Office of Foreign Disaster Assistance, is developing scalable models to redevelop high risk informal urban areas into safer, healthier neighborhood
 - It’s a partnership between national ministries of Guatemala, the municipality of Mixco, private companies, local universities, local communities and PCI



Risk profile map of Mixco – the red color indicates the slopes with high density population vulnerable to disasters

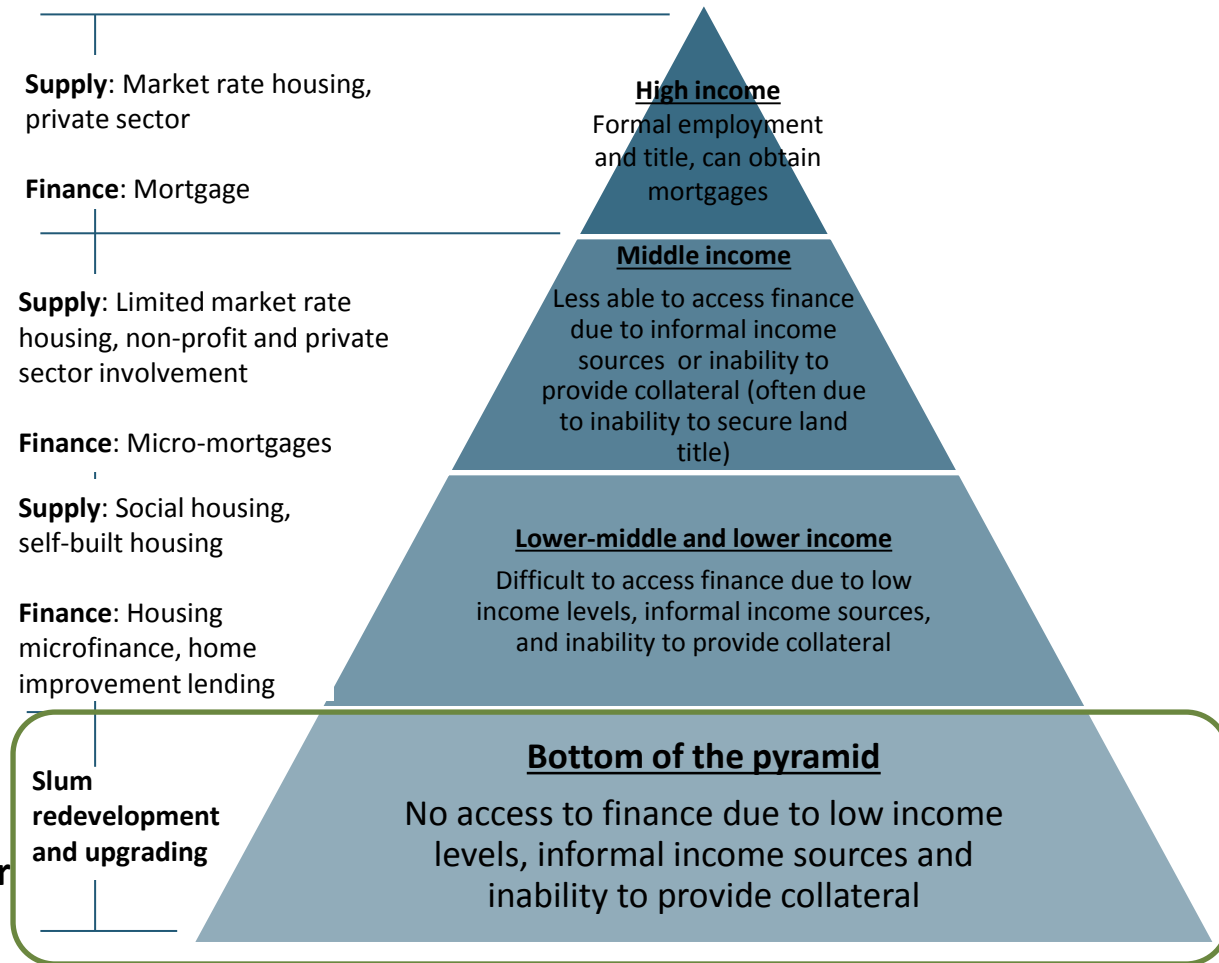
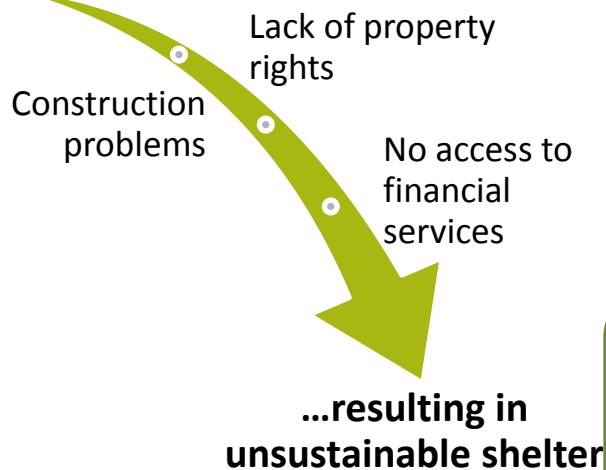


What are the primary challenges faced by the low income households?

- **Safety challenges** due to landslides, flooding, earthquakes, wind and sanitation related disasters, as well as high levels of crime as a consequence of unplanned urban growth and poverty:
 - 60% of homes were made entirely of corrugated tin sheeting and recycled materials, with little protection from rain, flooding, wind or earthquakes
 - Households in informal areas had inadequate or non-existent systems for rainwater drainage and sewage, resulting in sanitation problems and flooding
- **Financial challenges** due to the vulnerability of the households
 - Paying interest rates as high as 80%
 - Entangled in exploitive land tenure arrangements
 - Spending upwards of 65% of monthly income just for shelter costs (repaying housing loans and related services - electricity, water, trash removal)

Mixco slums are experiencing all the typical urban housing issues

All the problems of housing converge...



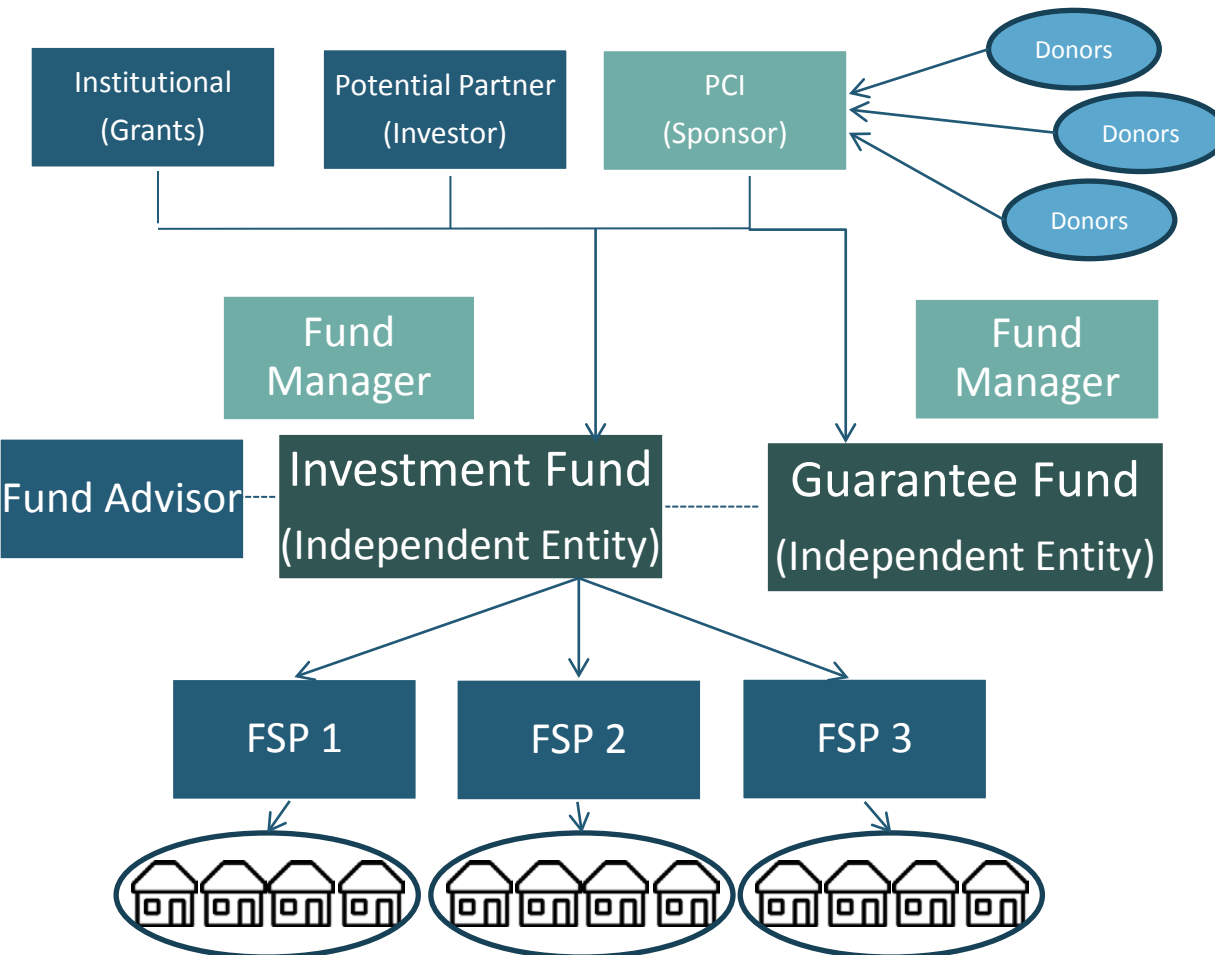
Slum redevelopment in Mixco requires active involvement of multiple stakeholders

- Incremental home construction and home improvements are a primary approach to scaling the model
 - Households will require housing microfinance for this purpose which is expected to be provided by Financial Service Providers (FSP)
- Initial assessment conducted identified major barriers
 - **Liquidity** for the FSPs to provide the relevant services to the households is insufficient
 - **Risk-sharing** by FSPs to in lending to the bottom of the pyramid borrowers requires major effort
 - **Subsidies and grants** from the government and institutional stakeholders will be critical – interest and solutions exist
 - **Capacity improvement** of financial service providers – adaptations to the segment
 - **Financial discipline** in the demand side (households) is critical - repayment capacity exists

Solutions to the gaps in housing micro finance for the slum dwellers

Lack of Liquidity & High Risk Investment Fund + Guarantee Fund

Lack of Capacity Technical Assistance



Financial Service Provider

- Product Development
- Capacity building
 - HR
 - Processes
 - Systems

Undisciplined Demand

Technical Assistance

Slum Dwellers

- Financial education
- Collective facilitation
- Technical support in home construction

Technical support to be provided to stakeholders

Stakeholders	Primary Role	Required Support
National and Municipal Government	<ul style="list-style-type: none"> • Provide grants • Issue municipal bonds 	<ul style="list-style-type: none"> • Improve outreach to target population • Structure financing instruments
Capital Market & Institutional Investors	<ul style="list-style-type: none"> • Provide equity & loans • Contribute grants & donations 	<ul style="list-style-type: none"> • Structure financing instruments • Managing funds
Financial Service Providers (FSP)	<ul style="list-style-type: none"> • Originate & process loans • Loan servicing & collection • Repayment to investors 	<ul style="list-style-type: none"> • Product development • Capacity building to provide relevant services & manage portfolio
Market (Individuals & Households)	<ul style="list-style-type: none"> • Relevant application of borrowings • Repayment of loans to FSP 	<ul style="list-style-type: none"> • Financial education • Technical support in home improvements

Public private partnerships are facilitating the slum upgrading

Working with ministries, municipalities, private sector companies, universities, NGOs and local communities, the project is developing a mechanism that will:

- Provide lower cost loans for housing, purchase of land, and retrofitting
- Community level planning and extension of basic services
- Support for establishing land title
- Access to lower cost building materials
- Technical assistance in site selection, preparation, construction, and retrofitting
- Strengthening household links to services and national housing subsidies
- financial literacy

The key to success is involvement of local stakeholders from the beginning, and providing a strong evidence base for the incentives for all parties involvement

- Municipal governments are interested in exploring options of developing the financial vehicles to facilitate liquidity and mitigate risk
 - Stakeholders recognize the relative high cost of responding to disasters rather than mitigating them
- Both households and municipalities recognize the benefits of formalization of neighborhoods and extending (and paying for) basic services
- Private sector partners, such as construction firms and FSPs, recognize the potential benefits of extending services into urban areas
- FSPs are willing to provide the services but need the liquidity and capacity

Thank you

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