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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

PANAMA - LOW INCOME HOUSING LOAN

AID-ULC/P-1023

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/F-1023

May 19, 1972

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Panama - Low Income Housing Loan

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$15,000,000 to the Government of Panama for the United States dollar and local costs of goods and services, including \$500,000 to be used only for technical assistance, to assist the Borrower in providing housing and sanitary services for low income families.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Thursday, May 25, 1972.

Rachel R. Agee
Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES I-XIV

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LOW INCOME HOUSING LOAN - PANAMA

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May 19, 1972

LOW INCOME HOUSING LOAN - PANAMA

PART ONE - SUMMARY AND RECOMMENDATIONS

1. BORROWER: The Government of Panama
Executing Agency: The Institute of Housing and Urban Development (IVU)
2. LOAN: a. Amount: Not to exceed fifteen million U. S. Dollars (\$15,000,000)
b. Terms : The loan will be repayable in 40 years, including a grace period of 10 years, at an interest rate of two percent (2%) during the grace period and three percent (3%) thereafter.
3. DESCRIPTION OF THE PROJECT: The proposed project will assist IVU, an intermediate credit institution, to provide long term loans under \$5,000 to low income families for housing and urban services. IVU will arrange for the housing construction and urban services in addition to managing the loan portfolio. The project is part of a broader sector program designed to reduce the housing deficit through a more efficient use of domestic resources. Technical assistance will also be provided.
4. PURPOSE: The purpose of the loan is to fill a financial gap in the GOP's newly-developed sectoral housing strategy designed to respond to total national housing requirements, to obtain better control over national financial resources which can be used to meet the housing needs of low income families, and to obtain better coordination among the several GOP housing agencies. The loan provides the GOP with the resources required for rounding out its comprehensive programs and will also induce and encourage the autonomous agencies of the GOP to move more of their resources into the low cost housing area.

5. SECTOR RATIONALIZATION:

a. The GOP's housing sector program consists of the following:

- (1) High income housing (over \$30,000) in Panama can be financed through the commercial banks.
- (2) Upper middle income housing (\$20 - 30,000) is being financed in part by the National Savings Bank (CA) and the Social Security Agency (CSS). Commercial banks and private mortgage banks are interested in handling part of this business on terms of 5 years, 10% interest for the commercial banks and conventional terms of 10-15 years for the mortgage banks. CA and CSS are public agencies, both under pressure to focus on housing needs further down the scale.
- (3) Middle income housing (\$10 - 20,000) is now served by the CA, Savings and Loan Associations (IFHA) and private mortgage banks, receiving their deposits from middle income savings. CSS has been very active in this market, but is now demonstrating willingness to make a major shift into low-income housing.
- (4) Lower middle-income housing (\$7 - 10,000) is now financed mainly by public and private non-profit mortgage agencies. Housing investment guaranty financing - existing and future - is a major factor administered largely by the savings and loan associations, and the urban cooperative program of FUNDAVICO, the housing cooperative finance agency, also functions in this range.
- (5) Low-income housing (less than \$7,000) is financed only by IVU in Panama City, both IVU and FUNDAVICO in interior cities, and FUNDAVICO in rural areas.

b. The low income group is by far the largest socio-economic group in the country, making up at least 75% of the country's population. The proposed loan would fill the gap in low-income housing and round out the sector program by supplying the following sub-groups in relation to their economic capacity and geographic location:

- (1) Urban Sub-Professional Class Families (\$4 - 7,000). IVU can provide them with a small housing unit with complete urban services. \$18,000,000 of project funds, including \$4,500,000 of AID financing (25%) will be used to finance 1,700 units of these types.

- (2) Urban Working Class Families (approx. \$3,000). IVU can provide them with a lot, including a one-room unit and with sanitary and electric services. \$10,000,000 of project funds, including \$5,000,000 of AID financing (50%) will be used to finance 3,500 units of this type.
- (3) Urban Marginally Employed Families (\$600 - 2,300). IVU will provide these families with a lot, with sanitary and electric services available for hook up. The families will provide their own shelter. Many of these families already occupy lots, and for them the project will provide sanitary services only. Over \$8,000,000 of project funds, including over \$4,000,000 of AID financing (over 50%), will be used to finance 6,800 units.
- (4) Rural Families (about \$1,200). IVU or FUNDAVICO will provide rural families with a modest housing unit located on property already in their possession. \$2,400,000 of project funds, including \$1,200,000 of AID financing (50%), will be used to finance 2,000 rural units.

AID is helping the GOP to increase the resources available for housing of low income families who make up the bulk of the Panamanian population. The upper and middle income sub-sectors are relatively well-served by the private lending agencies. The lower-middle income group is receiving adequate financing with a major assist from housing investment guaranty resources.

This loan is providing low-interest funds, which when combined with higher interest social security funds, enable the GOP to reduce interest rates on low income housing by 2 to 4%.

6. SECTOR STRATEGY: The broad policy goal of the GOP is to make its institutional framework more responsive to Panama's total housing requirements. Needs of middle income groups are largely being met through the combined action of mortgage lending agencies, both public and private, operating under market conditions without subsidies in any form. However, Housing guaranty resources will continue to be used to complement domestic resources for the lower middle income group, which had previously suffered from inadequate financing.

In relation to their capacity to pay, needs of low income groups are such that subsidies are required in the form of lower than market interest rates and subsidized administrative costs. IVU is the principal agency working with low income housing. It has received annual GOP budget appropriations as well as over \$17,000,000 in loans from international agencies. It has invested these funds in low-income housing units without being able to meet demand.

The GOP strategy is to channel a larger volume of resources to IVU so that low income demand can be met for the first time. The GOP is planning to utilize the rollover on IVU's mortgage portfolio of \$23,000,000, further annual budget appropriations, and loans to IVU from the Social Security Agency (CSS) starting at \$2.8 million per year over the disbursement period of this loan and expected to increase thereafter to about \$4.0 million per year. The GOP is calling on AID for a loan which will take up the slack in the short run until domestic resources can be increased through larger CSS annual investments, the larger IVU reinvestments from a larger portfolio, and added infusion of capital through further pooling of sector resources under arrangements to be developed in the interim.

Cash flow projections reveal that the COP will still need resources beyond those of the AID loan and the present CSS commitment if financing for low income housing is to become self sustaining in Panama after 1975. The magnitude of the gap is estimated to fall between \$2 to \$3 million a year by 1976. It should be possible to close this gap by increasing the CSS commitments and through shifts in the resources of the Caja de Ahorros. The private S&L's strengthened by AID's housing guaranty program will be devoting their resources to meeting Panama's middle income needs.

7. FINANCIAL PLAN: The proposed financial plan is the following:

	<u>A.I.D.</u>	<u>GOP</u>	<u>TOTAL</u>
Land		\$ 1,540,000	\$ 1,540,000
Urbanization	\$ 7,250,000	4,013,000	11,263,000
Construction	7,250,000	4,607,000	11,857,000
Contingency		1,133,000	1,133,000
Interim Financing		818,000	818,000
Administrative Costs		2,971,000	2,971,000
Units-AID/GOP financed	14,500,000	14,682,000	29,182,000
Units-CSS/GOP Financed		9,000,000	9,000,000
Total Units	14,500,000	23,682,000	38,182,000
Technical Assistance	500,000		500,000
TOTAL	\$ 15,000,000	\$ 23,682,000	\$ 38,682,000
Percentage of Contribution:	39%	61%	100%

8. OTHER SOURCES OF FUNDS: The IBRD, IDB, and Eximbank have been advised of this proposed loan and have indicated no interest in providing this financing.
9. STATUTORY CRITERIA: All statutory criteria, as set forth in Annex I of this paper, have been met.
10. VIEWS OF THE COUNTRY TEAM: The Country Team has recommended approval of the loan.
11. MAJOR SECTOR ACHIEVEMENTS: The following reforms within the housing sector, have been achieved by the GOP over the past several years (See Section II C, Sector Analysis):

(1) Panama has developed a full range of

agencies appropriate for a country such as Panama. These are described in II C.

- (2) Each of these agencies has demonstrated significant improvement in performance, as documented in Section II C.
- (3) Panama has made significant progress in approaching balance between supply and demand for housing in the middle income range. Middle income homebuyers for the first time have good choice of alternatives. The gap between demand and supply can be maintained, and perhaps eliminated in part through future housing investment guarantee. The Housing Market situation is also discussed in II C.
- (4) The GOP has adopted a policy of pushing more resources into housing for low income families, based on the recognition that this is where the greatest need is for GOP intervention in the form of financial resources on subsidized terms. The present project is the first significant attempt to put this new policy into effect.
- (5) In order for this policy to work, it was essential to improve IVU's administrative competence, and to exercise control over the CSS Investment policy.
- (6) IVU has convincingly demonstrated improved management by increasing its mortgage loans while reducing personnel, and by improving its mortgage collection performance.
- (7) The CSS has been prevailed upon to shift its mortgage lending from over 95% middle income housing in 1970 to mostly low income housing beginning in 1972.

- (8) The CA has independently adopted a policy of providing more financing for housing of lower income families, and significantly greater mortgage lending in the interior of the Republic. In order to enable the CA, and in general all thrift institutions (mortgage banks and S & L associations), to attract the savings of the public in greater volume, the GOP, by Decree in 1971, restricted the commercial banks interest on deposits to 1% less than that which thrift institutions may pay.
- (9) A housing sector coordinating committee has been created to create an administrative organization to carry out a plan of housing and urban development for the country. See decree attached as Annex V.
- (10) IFHA has formulated a framework for establishing a secondary mortgage market which is expected to commence functioning in the near future for middle and upper income housing.

12. LOAN
ADMINISTRATION:

Usual disbursement and procurement procedures will be followed in this loan, with one exception. IVU has been notified that its current year investment program will be recognized as a bona fide project contribution, to the extent its plans have had prior approval of A.I.D.

13. RECOMMENDATIONS:

On the basis of the conclusions of the Capital Assistance Committee that the project is technically, economically, and financially justified, it is recommended that a loan to the Government of the Republic of Panama for an amount not to exceed fifteen million dollars (\$15,000,000) be authorized subject to the usual conditions precedent and covenants.

PROJECT COMMITTEE:

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project committee.

SECTION I - SECTOR ANALYSIS

The housing and urban development sector includes those activities addressed to meeting the country's needs for housing and related urban services. These needs arise mainly from the general increase of population and its shift from rural to urban areas. However, there is also a heritage of deficient housing and services which was tolerated in an earlier period, but which is not acceptable today.

A. Background

1. Pattern of Development

Panama has followed a pattern of housing development similar to many other Latin American countries. The cities have a deteriorating inner core with new sections developing around the periphery. Outside the cities, the majority of rural houses are substandard with limited facilities and a considerable portion without flooring.

As the urban population expanded following Canal construction, over-crowding occurred and landlords exploited the situation for maximum profit. Conditions became so intolerable that beginning in the 1930's the Government issued rent control laws and other regulations and partly as a result, landlords began to neglect the low-income sector. However, rental housing continued as a profitable alternative for middle and upper income families, since such units were not subject to rent controls. In the 1940's and 1950's multi-story walk-up apartments were built in suburban areas, followed in the 1960's by the luxury high-rise apartment buildings that now dominate the skyline of Panama City.

At the time of this intensive expansion of middle and upper level housing, new rental units were not provided for low income families even though their numbers were swelling through the influx of the rural poor. Consequently, there developed the squatter *barriadas*, overcrowded shacktowns lacking services. This situation developed first in Panama City, but also exists in other cities. Thus, there arose simultaneously the extremes of luxury apartments that cover the Punta Paitilla, El Cangrejo, and La Cresta sections of Panama City and the deplorable squatter settlements on nearby hillsides and swampy lowlands which have often caught the eye of visitors.

As land prices soared, developers of middle income housing moved farther out to the expanding suburbs where services were limited. Both the national and local governments learned that regulations were necessary to require owners developing housing subdivisions to provide an increasing variety of services. By law, the urban subdivider must now provide paved streets, sidewalks, water and sewer installations, electric service and street lighting, storm drainage facilities and sites for public services. Enforcement of these standards is most strict in the capital and grades downward until in rural communities no standards exist. The high land costs, combined with high development standards, strictly enforced in the cities, have priced urban real estate completely out of reach of low and lower middle income families. As a result the Government has had to develop housing programs to meet needs of these groups for housing.

With the growth of housing construction, beginning in the 1940's the first specialized mortgage banking agencies developed in Panama under public auspices to provide home financing at lower rates of interest than commonly charged by commercial banks. In the 1950's the GOP created a special agency, the Institute of Housing and Urban Planning, to provide housing for low income families and coordinate urban development activity. More recently, a savings and loan system and a small program of cooperative housing for middle income families have been initiated. A community development approach for low income families was attempted in the late 1960's under which the Government sought to assist squatter communities to improve urban services through community self-help. Also, a pilot rural housing program was implemented.

The San Miguelito suburb of Panama City is an example of what can be accomplished by a relatively small investment in minimum housing facilities and urban services. This suburb, which is now Panama's second largest city with over 80,000 people, started out as a squatter settlement but through Government programs primarily implemented by IVU with AID and IDB financial support, it is rapidly becoming upgraded to an integrated suburban community.

2. General Housing Needs

Panama's population grows steadily at about 3.3% per year. Due to rural-urban migration, the cities average growth is 4 1/2%, while rural growth is only about 1 1/2%. Annex III contains basic population factors.

The country is now almost exactly 50% urban and 50% rural. In 1970, there were 1,428,000 people housed in 285,321 dwelling units with an average family size of 5. Panama City had nearly one-third of the country's population.

Panama requires each year 3% more houses to accommodate the population increase and about 1/2% more houses to replace units demolished or destroyed. 3 1/2% of 285,321 is approximately 10,000 units per year, and this represents the number which must be provided, one way or another. About 3/4 of this number are required in urban areas. Of the approximately 10,000 units that will be added each year to the housing supply, some will meet minimum standards and others will not. Some previously sub-standard units will be upgraded, and this will compensate for some new units that do not meet housing standards. Panama's goal for the 1970's is to build enough units so that in the 1980 census the total number of sub-standard units will not have increased over the 1970 figure. The six-year program developed by the GOP is its present estimate of what is required to meet this goal.

The GOP does not have the resources to provide massive programs of housing subsidies. In order for families to pay for their own housing to the maximum extent possible, it has been necessary to tailor housing programs to the varying economic capacities of the families. As might be expected, in Panama City incomes are considerably higher than in other urban areas of Panama and rural people have the lowest incomes of all. Therefore, there are three major market sub-sectors of concern to the Government as follows:

- a. urban middle-income
- b. urban low-income
- c. rural (low-income)

3. Problem Areas

a. Low-Income Housing Shortage

A principal sector problem in Panama as elsewhere has been the conspicuous historical failure to provide sufficient housing for low income families, in marked contrast to the relative abundance of good housing to meet the needs of upper and middle income families. Practically 100% of the housing deficit in Panama involves **lower middle and** low-income families. Based upon the official census, the urban housing

deficit in 1970 was estimated at 76,000 units. There is an even larger number of sub-standard rural units scattered throughout the country since they are poorer and have practically no urban type services.

Providing housing solutions means not only relieving the overcrowding of families by constructing new houses but also the improvement or replacement of sub-standard units. The 1970 census statistics show that out of the total 285,321 existing housing units in the country, 35.6% lack potable water, 48.2% lack electricity, 28.4% have no toilet facilities and 32.7% have no floor. Houses in the sub-standard category are included in the number of housing deficits. Estimates of sub-standard housing range from 1/2 to 2/3 of all the housing in the country.

b. Lack of Resources for Low-Income Housing

The principal reason for the severe shortage of low-income housing has been the lack of sufficient financing. Middle income housing has tended to attract virtually all private capital and entrepreneurship and also a large share of publicly controlled capital^{1/}. IVU is practically the only agency catering to the low-income segment of the population and it naturally favors those who are best able to afford regular monthly payments. For low income families with regular income, IVU has offered a limited housing program, but it has had far from enough resources to meet the demand. Moreover, it has done little in the rural areas.

The Government realizes that it has failed to develop and implement policies which would shift the impact of resources it controls toward low income housing. For example, with the same money that CA or CSS uses to finance one luxury house, it might be financing 5, 10 or 20 low income units. The Government is aware that low-income housing is a challenge it faces and that it has the resources to do much more.

c. Management

The sector agencies have suffered from management weakness. For example, top management personnel were shifted

^{1/} As recently as 1970 less than 3% of the Social Security Agency's lending went to low income families. Over 80% of funds loaned by the Social Security Agency in that year were made to families with incomes of over \$500 per month. The Social Security Agency has had as its only restriction that individual loans not exceed \$30,000.

frequently in the later 1960's due principally to incompetence; mortgage delinquency, particularly at IVU, was allowed to rise to over 90% of loan accounts; and the agencies were allowed to operate with very low productivity, i.e., the number of employees in relation to volume of loans. In the past, management weakness has been a chief drawback of the agencies in meeting their responsibilities. The administrative difficulties that IVU has undergone have limited its ability to utilize its resources optimally or to attract the capital it needed to do its job properly.

Beginning in 1969, considerable improvement has taken place in the agencies' management and administration. Personnel changes have been made, and some agencies which were in an unsatisfactory condition have been reorganized. Management has increased productivity by increasing volume without commensurate increases of personnel, and the volume of housing financed has risen. Greater detail on the improved agency management is presented in the section on institutions.

d. Coordination

The agencies involved in the sector have by and large resolved their administrative difficulties of the 1960's on an individual basis and are comparatively efficient, well-staffed and financially sound ^{1/}. But they are not coordinated. Each institution operates independently for its own best interests without due regard to the overall sector needs. The Government recognizes this problem and is in the process of creating an entity, armed with budgetary authority, to coordinate the sector.

e. Dependence on International Sources of Financing

The GOP has tended to go beyond reasonable limits in its dependence on international sources of financing. Recently and not surprisingly, it has run into increasing reluctance by AID and IDB to finance projects where the

^{1/} IVU has reduced personnel, increased its number of accounts, and lowered the mortgage delinquency rates. See the measures adopted by IVU to improve its administration, which are fully described in Section C following. The Savings and Loan System has doubled its total mortgage loans outstanding over the past 16 months, and has tripled savings in three years. New management at IFHA and all three Panama City associations have contributed to this performance.

GOP itself appears to be undercommitted. In this new climate the GOP faces the problem of having to curtail its low income housing programs unless it can obtain more international resources. However, it is finding a stiffer attitude of the international agencies, and insistence upon better self-help performance, and adequate demonstration of good management. The GOP now realizes that it is not enough to point to individual agencies doing a better job; the focus must be on government as a whole.

4. Evaluation of Prior Foreign Assistance in Housing

a. Areas of Assistance

External assistance to Panama in the field of housing has been received from AID and IDB. Assistance has been in the form of loans or housing investment guaranties and has been concentrated in projects for lower or lower middle income families. The three areas of assistance have been as follows:

(1) Urban Lower Middle Income Housing Assistance

The earliest loan in this category was the Villa Caceres Project, AID Loan 525-A-004 signed in 1962 (see attached project data in table 1 A-2). This was followed by a series of housing guaranty projects, three of which are still under construction. A seed capital loan to IFHA, AID Loan 525-L-015, financed middle income lending by the savings and loan associations. The urban sub-projects of the Cooperative Housing Loan, 525-L-027, also fall into this category. Only the latter financed units outside Panama City, at Colon and David.

On these projects, totalling over 2,500 units completed to date, external financing amounted to 80-90% of total project cost except for the loan to IFHA. Demand has been good to excellent, mortgage delinquency has been limited, and foreclosures negligible. (See table 1 A-2 following for delinquency figures of the Savings and Loan Associations and the Caja de Ahorros.

(2) Urban Low Income Housing Assistance

IDB has been the major lender for urban low income housing. Also in this category was AID's Loan 525-N-016, and several sub-projects of Loan 525-N-021. Over 10,000

units have been financed through these international loans to IVU. Besides massive construction efforts in Panama City, a considerable number of units have been built in almost every urban area of any size in Panama.

External financing has amounted to 50 to 70% of the investments in these projects, demand has been strong except in some of the smaller cities. Mortgage delinquency has been relatively high but is now being reduced quite rapidly. See table 1 A-2 on collection improvements.

The internationally sponsored projects have accounted for the vast majority of low-cost units covered by mortgage financing over the last several years.

(3) Rural Housing Assistance

FUNDAVICO has carried out a pilot project in rural housing, reaching a total of 400 units. This project was 90% financed by AID, and the results were excellent. Although there is believed to be a problem with mortgage collections of individual members on some cases, cooperatives have fully complied with their mortgage payments to FUNDAVICO.

TABLE 1 A-1 DATA ON EARLIER HOUSING LOANS

A. AID Loans

<u>Loan</u>	<u>Borrower</u>	<u>Project</u>	<u>Date of Loan Agreement</u>	<u>No. of Units Completed</u>	<u>Total Amount of Loan</u>
004	IVU/CA	Villa Caceres	1962	500	\$2.0 M
015	IFHA S&L	Seed Capital	1966	365	2.1 M
016	IVU	S.Miguelito	1966	2700 lots 1500 loans	3.0 M
027	IVU/ FUNDAVICO		1967	600 Urb. 400 Rur.	3.5 M
021	IVU/ DIGEDECOS	Community Development	1967	250	0.3 M

B. IDB Loans

<u>Borrower</u>	<u>Project</u>	<u>Yr.</u>	<u>No. of Units</u>	<u>Total Amount of Loan</u>
IVU	No. 1-TF-PN	1964	3000	\$7.6 M
IVU	No.69/SF-PN	1969	4529	9.0 M

C. Private Loans with AID Guaranty

<u>Loan</u>	<u>Project</u>	<u>Year Authorized</u>	<u>No. of Units</u>	<u>Cost</u>	<u>Total Amount of Guaranty</u>
002	La Gloria	1966	386	\$8/9000	\$2.8 M
003 (I)	Jardfn San Antonio	1967	285	7/8000	1.5 M
004	Villa Catalina	1969	378	8/9000	3.0 M
005	Jardfn Olimpico	1969	405	8/9000	3.0 M
003 (II)	Jardfn San Antonio	1970	353	8/9000	2.0 M
006	Nat'l Maritime Union (not started)	1971	500	8/9000	3.5 M

Table 1 A-2

MORTGAGE DELINQUENCIES IN PANAMA

1. IVU

	<u>No. Of Loans Administered</u>	<u>No. Up To Date</u>	<u>% Up To Date</u>
Dec. 31, 1970	8798	1051	12%
Dec. 31, 1971	10506	4306	41%
Jan. 31, 1972	10747	4852	45%

This is the most difficult mortgage portfolio to administer in Panama. IVU has been using salary withholding for about one year with good results obtained so far.

2. CA

Dec. 31, 1970	3157	2935	93%
Dec. 31, 1971	4100	3872	95%

3. IFHA/S, and L, Associations

Dec. 31, 1970	451	429	95%
Dec. 31, 1971	723	710	98%

4. Housing Guaranty Projects

Dec. 31, 1970	671	417	62%
Dec. 31, 1971	715	513	72%
Mar. 31, 1972	830	660	80%

One administrator had a chronic short-terms delinquency problem. After other remedies had proved only partially successful, this administrator imposed a late payment penalty, which had immediate favorable results.

5. General Situation

The low point on mortgage collections in Panama was reached during and after the political upheaval of 1968. Improvements began to show up across the board during 1971 and are continuing into 1972.

b. Cancelled Projects

In 1969 a new Urban Development Loan (030) for \$4,600,000 was authorized. This proposed loan had 10 sub-projects, one of which was a technical assistance component. However, it was decided to split the proposed loan into two parts (Loans 032 and 033), making the technical assistance and the construction portions separate loans. The rationale was based upon implementing the technical assistance loan (032), and then later implementing the much larger construction loan (033).

It turned out that the technical assistance project was unacceptable to the GOP and it was cancelled in January 1971, on the basis that activities contemplated might be included in the present proposal, by then under discussion. The 033 loan had been held up pending a resolution of 032, and to all intents and purposes the loan proposed herein is a larger but simpler version of Loan 033. IVU has by now received technical assistance from IDB/FCH and OAS, so that much of the intent of Loan 032 has been met. IVU demonstrates improved management performance over the past 18 months, which is documented in another section of this report.

c. Impact

Since 1965, about 14,000 low and lower middle income units have been financed in projects supported by the international agencies, or an average of 2,000 per year. However, over 3,000 per year would have been needed to meet the GOP's short range goal during the 1960's, and approximately double that figure to meet the GOP's long range goal. It is evident that international resources could not do the whole job, and Panama cannot indefinitely depend on international resources for meeting these needs. In order to supply the demand, Panama must draw increasingly upon its own resources in the housing area by channeling funds directly under its control into low cost housing and encouraging investment by the private financial sector in GOP-managed mortgage paper.

Loans 016 and 027, made by AID to IVU and FUNDAVICO, serve as clear precedents for the present proposal. The problems arising in project implementation may be summarized as follows:

1. Programming was unrealistic and targets had to be scaled down drastically.
2. Project execution was slower than anticipated, in part due to management deficiencies and in part due to unforeseen difficulties, such as the political upheaval of 1968.

3. Projects under Loans 016 and 021 have been strongly criticized where sanitary services were not provided or inadequate.
4. Client dissatisfaction or failure to cooperate has been a problem. This has been demonstrated in high rates of mortgage delinquency.
5. Administrative costs of programs have exceeded the provisions to cover them.

All these problems are being taken into account in developing the present proposal. Cost estimates include a factor for rising costs of labor and materials. Mechanisms are proposed for dealing with project execution on a year-by-year basis with alternative courses of action where intermediate targets are not met by IVU. The GOP has agreed to provide water and sewers on all urban sub-projects, or offer larger lots as an alternative where sewer connections are not possible or available. It is believed that provision of a higher standard of urban services will assuage client dissatisfaction substantially. IVU has already demonstrated its capacity to improve its collections performance on a sustained basis. On the proposed program calculations IVU is allowing 12% administrative costs, which is higher than the 6% used previously and is expected to prove adequate.

Besides the mechanism for dealing with slow implementation, other contingencies such as GOP budget insufficiencies, demand shortfalls and anticipated price increases are addressed, and specific methods for dealing with these contingencies, should they arise, are outlined in the section of project implementation.

B. Housing Supply and Demand

1. Supply

The total number of housing units in the Republic of Panama according to the 1970 census amounted to 288,633 units. This consists of 285,321 private residences, 865 hotels and boarding houses, and 2,447 units used as housing but not built for this purpose ^{1/}. There were 144,198 urban houses and an approximately

^{1/} Hotels are counted here as a unit because they are mostly small and can be regarded as a house.

equal number of rural houses. The supply of urban housing had increased at an average annual compound rate of 3.8% over the decade, while the rate of increase for rural housing was only 1.6%. The difference in these growth rates is due in large part to the rapid urbanization of the country. The data are summarized in Table 1 B-1.

TABLE 1 B-1 HOUSING UNITS ^{2/}

1960 - 1970

	<u>1960</u>	<u>1970</u>	<u>Amount</u>	<u>% 10 Year</u>	<u>% Per Year</u>
Total	<u>222,885</u>	<u>288,633</u>	<u>65,748</u>	<u>29.5</u>	<u>2.6</u>
Urban	99,076	144,198	45,122	45.5	3.8
Rural	123,809	144,435	20,626	16.7	1.6

2. Quality of the Existing Housing Stock

The inadequacy of the existing housing stock is illustrated by means of data from 1960 and 1970 housing censuses summarized in Table 1 B-2.

TABLE 1 B-2 OCCUPIED PRIVATE HOUSING
UNITS IN THE COUNTRY AND SELECTED
CHARACTERISTICS 1960 - 1970

	<u>1960</u>		<u>1970</u>	
Total Occupied Housing	<u>219,420</u>	% of Total	<u>285,321</u>	% of Total
1. Without Potable Water	94,222	42.9	101,750	35.7
2. Without Sanitary Serv.	83,023	37.8	86,656	30.4
3. Without Paved Floor	87,594	39.9	93,313	32.7
4. Without Electricity	125,701	57.3	137,202	48.1

^{2/} Includes collective housing such as hotels and boarding houses.

If the number of houses without electricity is used as the indicator of the number of houses that are deficient or sub-standard, fully 48% would be so characterized. However, such a criterion is probably too exacting in the case of rural housing. On the basis of the other three indicators, the deficiency in private housing can be conservatively estimated at 1/3 of the total. Thus, the total number of deficient or sub-standard units in the Republic in 1970 would be about 95,000 units.

In a separate study undertaken by the Pan-American Union in 1968 ("La Vivienda en Panama") the deficiency was estimated as between 28 and 55 percent of the urban housing stock, or from 40,000 to 72,000 houses. The mid-point of this range (56,000) would suggest a national housing deficiency, including both urban and rural, of over 100,000 units.

Note that the project presented in this paper does not attempt to eliminate or even reduce this existing deficiency. IVU plans to address itself to a gradual reduction of the deficiency in the existing stock only after 1977. The present project addresses itself only to meeting the projected growth of demand plus a minimum annual replacement requirement in the urban sector alone over the three-year period 1972-1974^{1/}.

3. Demand

a. Projected Urban Requirements

Projected urban housing needs to meet population growth and cover minimum replacement requirements in the urban sector over the six-year period 1972-1977 and over the three-year project period 1972-1974 are presented in Table 1B-3. This projected demand is based on the study undertaken by Marco A. Lopez Tobar for IVU^{2/}.

1/ IVU has already started the project with its own funds.

2/ Arquitecto Planificador Marco A. Lopez Tobar, Primer Informe Semestral, August, 1970 - January, 1971.

Table 1B-3

Minimum Projected Housing Needs to Meet Population Growth & Replacement Requirements in the Urban Sector over the Six-Year Period 1972-1977.

(Number of Housing Units)

	<u>New Housing</u>	<u>Replacement Demand</u>	<u>Total</u>
1972	5,895	1,231	7,126
1973	6,139	1,231	7,369
1974	6,391	1,231	7,622
1975	6,654	1,231	7,885
1976	6,929	1,231	8,160
1977	7,219	1,231	8,450
Total 1972/77	39,226	7,386	46,612
Requirement over Project Period 1972-74	18,425	3,693	22,117

The requirement for new housing was based on historical rates of urban population growth and urban housing construction. The requirement was projected to increase at an average annual rate of 4.4%, slightly above the 3.8% growth rate for urban housing that prevailed during the 1960's. The replacement demand for urban housing was projected at only 2% of the existing stock of urban houses in "good condition". This estimation is based on the assumption that the average life of an urban house is 50 years; and excludes altogether investments designed to replace the large current stock of deficient houses.

The projected growth of new housing to meet the growth requirement of the urban population might be on the high side; however, this is more than compensated by the substantial under-estimation of replacement demand, so that the total estimate of the urban housing requirement is conservative.

Income distribution data are needed for the purpose of breaking down this requirement by income group. Unfortunately, there are no reliable data on household income distribution based on recent surveys. The Lopez Tobar study estimated income distribution on the basis of a Planning Office salary study. This income distribution suffers from the basic deficiency that it is

based on worker salaries, thus excluding the self-employed as well as incomes earned by persons other than the head of household. It is, therefore, unsuitable for the present purposes. This study has used instead the household income distribution estimate for Panama City contained in the study undertaken by two PASA specialists for IVU in June 1969^{1/}. It should be mentioned that this latter study is based on an old (1962) sample survey conducted by Estadística y Censo which was "updated" through the use of data on salary increases over the period 1962-1969. Thus, the income distribution data as well as the housing demand estimates by the various income groups derived therefrom must be treated with considerable circumspection.

The urban housing requirement broken down by income groups for the six year period 1972-1977 are presented in Table 1 B-4. This breakdown was obtained by distributing the total urban housing requirement over the period (46,613 units) over the various income brackets on the assumption that an income bracket that accounts for, say, 10% of the estimated number of urban households will absorb 10% of the total urban housing requirement^{2/}. On the basis of the data presented in Table 1 B-4, it appears that the total housing requirement of households with incomes under \$400 a month accounts for 79% of the total urban housing requirement.

Of particular interest is the effective demand of lower income groups for the type of housing to be built under the proposed project during 1972-74. The relevant data collected for the purpose of estimating this demand are presented in tables 1 B-5 and 1 B-6.

Table 1 B-5 relates the monthly incomes received by the various income groups to the monthly payments requirements for the lots and housing units to be constructed under the proposed project. In this manner, the income groups that are in the market for the different types of houses can be identified and physical housing requirements can be translated into effective demand.

^{1/} Richard Metcalf and Roger A. Vonland, An Analysis of The Panama City, Panama, Housing Market, June 1969, pages 19-20.

^{2/} This is certainly not true with respect to effective demand, and an adjustment was made in deriving the latter by deducting the requirements of the households with inadequate incomes to meet the minimum monthly payments for IVU lots and houses.

Table 1 B-4
Projected Urban Housing Requirements ^{1/}
Over 1972-77 Broken Down by Income Bracket

<u>Income Bracket</u> ^{2/} (Monthly Household Income)	<u>Proportion of Family</u> <u>In Bracket</u> ^{2/}	<u>Housing Requirement</u> ^{1/} (Number of Units)
Less than \$100	12	5,593
\$100 - 199	30	13,984
\$200 - 299	24	11,187
\$300 - 399	13	6,060
\$400 - 499	8	3,729
\$500 - 699	6	2,797
\$700 or more	7	3,263
 	<hr/>	<hr/>
Total	100	46,613
Total Requirement over 1972-1974		22,117

1/ Covers only the requirement of the incremental urban population plus a minimal replacement requirement calculated at 2% of the urban housing stock in "acceptable" conditions.

2/ Family or household income distribution pattern worked out for Panama City by Richard Metcalf and Roger A. Vonland in An Analysis of the Panama City, Panama, Housing Market, June 1969, Page 19-20. These are 1969 figures and have to be adjusted for inflation.

Table 1 B-5

Relationship Between Income Levels and Monthly Payments
For Various Types of Housing to be Built by IVU-AID

(1)	(2)	(3)		(4)	(5)	(6)	(7)	(8)	
<u>Monthly Income</u>	<u>Mid- Point of Bracket</u>	<u>Estimated Availability for housing</u>		<u>Monthly Payments on IVU Housing and Lots</u>				<u>Ability to Purchase</u>	
		<u>%</u>	<u>Amount</u>	<u>Urbanized Lots</u>	<u>Rural Housing</u>	<u>Lot with Basic 18m² House</u>	<u>Lot with 36m² and 45m² House</u>		
				(a)	(b)	(c)	(d)		
Under \$80	40.00	- -	- -	7.66	16.20	12.44	23.75	40.47	None a, b a, b, c c, d d
\$81 - 99	90.00	16.0	14.40	7.66	16.20	12.44	23.75	40.47	
\$100 - 199	150.00	18.0	27.00	7.66	16.20	12.44	23.75	40.47	
\$200 - 299	250.00	18.0	45.00	7.66	16.20	12.44	23.75	40.47	
\$300 - 399	350.00	18.0	63.00	7.66	16.20	12.44	23.75	40.47	

Column 3 of Table 1 B-5 shows the monthly amount that IVU estimates the various income groups will be willing and able to spend on housing, while columns 4 through 7 show the monthly payment requirement under the terms of the IVU loans. Column 8 indicates the type of lots or housing accessible to the various income groups.

In translating requirements into effective demand, it was found that the lowest income group (with a monthly family income of less than \$80) cannot purchase any IVU housing, while the one immediately above it can purchase IVU's urban lots and rural homes. The \$100-200 income group can purchase the rural housing, urbanized lots or lots with the basic 18 m² house; while the \$200-300 group can purchase the 36 m² and 45 m² houses. Households earning over \$300 are not eligible to purchase IVU housing unless they have numerous members resulting in a low average income per family member.

The data presented in tables 1 B-4 and 1 B-5 were used to construct Table 1 B-6 which shows the projected demand by lower income groups for the project over the three-year period 1972-1974. It will be noted in Section 3 B that this projected demand exceeds the number of units IVU plans to offer over that period.

b. Rural Housing

The demand projection in Table 1 B-6 deals only with the urban housing requirement, as most of the lots and houses to be built under this project consist of urban units. The construction of only 2,000 rural units valued at \$1,200 each is contemplated under the project.

The estimated demand for rural housing is expected to be several times larger than provided for in the proposed loan. If the requirement for rural housing increases at the same rate as it did over 1960-1970, i.e. at only 1.6% a year, the expansion in the requirement between 1971 and 1974 to accommodate this growth would be 7,160 units or 3.6 times the number of rural dwelling units to be supplied under the project. The low selling price of these units, the favorable terms (\$12.44 a month), and the fact that the requirement calculated above makes no allowance for the existing housing deficiency in the rural sector, suggest that the quantity supplied constitutes only a fraction of the effective demand.

While in one sense this approach implies a failure of the GOP to fully respond to the total demand for housing, it is not believed that it can do more at this time than what the proposed loan calls for. With this loan, the GOP is laying the foundation for a comprehensive reorganization of the housing sector.

Table 1 B-6

Projected Demand by Lower Income Groups
For IVU/AID Supplied Urban Housing

Over 1972 - 1974

(Number of Housing Units)

(1) Income Bracket	(2) Housing Requirement ^{1/}	(3) Effective Demand for IVU/AID Supplied Housing		(4)
		Lots & 18 m ² House	36 m ² & 45 m ² House	
		Less than \$100	2,655	
\$101 - 199	6,637	6,637	- -	
\$200 - 299	5,310	2,655 ^{3/}	2,655 ^{3/}	
\$300 - 399	2,876	- -	2,876 ^{4/}	
Total of Above	17,478	9,823		4,093
Total for all Income groups	22,117			

- ^{1/} The requirements estimate is based on the income distribution data suggested by the Metcalf-Vonland study of the Panama City Market, and on the monthly payments required for the purchase of lots and housing units presented in Table 1 B-4.
- ^{2/} Assumes that only 20% in this group has an effective demand for lots.
- ^{3/} Assumes that the effective demand for 5,310 units break downs into 50% for lots and 18 m² house, and 50% for 36 m² and 45 m² house.
- ^{4/} While this figures represents our estimate of the effective demand of this group, in fact IVU eligibility requirements would exclude at least 50% of this group owing to high income. Only large families in this income group are considered eligible.

C. Sector Institutions

1. Institutional Development

Attention to housing needs has required the development of a considerable range of institutions which minister to specialized market sub-sectors or perform specialized functions.

a. Urban Middle Income Housing

Urban middle income housing needs are served by a range of public and private agencies which operate competitively. The Caja de Ahorros (Savings Bank) and the Caja de Seguro Social (Social Security Agency), both public agencies, are the established middle income lenders. They have recently been joined by private mortgage banks and savings and loan associations. All of these agencies have had more than sufficient demand from middle-income families to absorb all of their lendable funds. AID's housing guaranty resources have provided additional funds for loans for lower middle income housing. As their resources have grown, these agencies have turned to financing mass-produced housing. Recently this market has become highly competitive, leading to considerable efforts at cost-cutting innovations. 1/

b. Urban Low Income Housing

Urban low income housing needs are served primarily by the Institute of Housing and Urban Development (IVU), which is virtually alone in this market sub-sector. IVU is a non-profit development agency, producing and selling improved lots with housing to low income families.

c. Rural Housing

Rural housing needs have been served on a pilot basis by the Cooperative Housing Foundation (FUNDAVICO), a private non-profit cooperative housing developer. FUNDAVICO does not provide urban services. The needs of water, sewer and electricity are provided on a communal basis by specialized agencies such as the National Institute of Water and Sewerage (IDAAN) and the Institute of Hydraulic Resources and Electrification (IRHE).

1/ See Section 2-c(3), Sector Relationships.

d. Services

Minimum standards for urban subdividing are established and controlled by IVU, and related standards are administered by IDAAN for sanitary services, the Department of Roads and Docks of the Ministry of Public Works (CAM) for road improvements, IRHE for electric services and the municipalities for building standards. However, such standards are largely ignored in rural areas or where mortgage financing is not provided.

Together, all of these agencies provide a significant part of the 10,000 housing units required annually, including the vast majority of units carrying mortgage financing. The remainder of the 10,000 units produced each year are generally unrecorded. They frequently do not meet minimum standards of housing or urban services, and a large proportion go to swell the housing deficit (well over 100,000 sub-standard housing units). Each year some of these units are upgraded to meet minimum standards through home improvement and, more frequently, installation of sanitary or electric services.

The net effect of sector activity has never been great enough to produce housing and urban improvements in sufficient quantity to arrest the growth of the housing deficit. During the 1960's it came fairly close.

2. Organizations

Panama has developed a full range of institutions which individually specialize in certain aspects of the total housing programs. Altogether, they are doing most of the things that the country requires, but they have traditionally lacked enough financial resources to meet needs. There are no proposals to create new types of institutions other than a key GOP coordinating committee. Some agencies' functions should be broadened or narrowed, and there are proposals along these lines.

a. IVU - Housing and Urban Development Institute

Created in 1956, IVU's primary purpose is to help provide low cost housing by acting as a lending agency for families of low income who want to own their own homes. It has been involved chiefly in the construction of low cost

housing, reorganization and titling of squatter settlements where this is feasible and slum clearances. It also administers a limited amount of multi-family rental properties. Urban Planning has been a secondary function.

In the urban area, IVU is the only government agency devoted to providing housing assistance to low income families. Although it has experienced serious administrative problems in executing its projects, it has fulfilled a most necessary and important role in trying to help fill the wide gap in low cost housing supply. Its most conspicuous accomplishment is probably the wholesale shift of a large segment of the low income population of Panama City to suburban San Miguelito. Mainly because of the rapid rate of increase in the urban population, IVU has not been able to keep up with the expanding demand for low cost housing. IVU does not attract public savings as do other mortgage finance agencies, and must therefore depend upon budget allocations from the GOP investment budget and borrowings from international agencies. Until now the borrowings have been almost 100% from international agencies, but with this project IVU will begin to use funds on a large scale from the Social Security Agency. IVU now administers a mortgage portfolio of \$23 million, with 11,000 accounts. Arrears total less than \$500,000, and are declining across the board.

b. FUNDAVICO - Cooperative Housing Foundation

Founded in 1968, FUNDAVICO is a private cooperative housing agency, originally sponsored by IVU and AID, and specializing in providing housing assistance for lower middle income families in urban areas. It has also carried out a pilot rural housing program. In its urban program FUNDAVICO has attempted to fill a significant gap existing between the typical unit provided with guaranty financing (\$8,000-9,000) and IVU's highest cost unit in the \$5,000-6,000 range. FUNDAVICO's units cost \$6,000-7,000 in Panama City and Colon and \$5,000 in David. Demand has exceeded supply by a wide margin despite numerous eligibility requirements. FUNDAVICO remains to date the only agency which has provided rural housing assistance. The rural housing program while producing a quality product at the unbelievably low cost of \$700-900, has proven so costly from an administrative viewpoint, that FUNDAVICO does not wish to continue it except with interest-free funds. (FUNDAVICO, like IVU, functions with borrowed money). It does plan to continue developing lower middle income cooperative housing projects, catering

to the narrow subsector of the market above the level served by IVU, but below where the other agencies are operating. It has largely depended on external assistance from AID and in the future expects to rely partially on AID guaranty funds and partially on domestic borrowings. Like IVU, it tries to loan at subsidized interest rates even though the relatively small loans of its clients are more expensive to administer than middle income housing loans.

c. Caja de Seguro Social - Social Security Agency (CSS)

This agency, established in 1941 and one of the oldest in Latin America, occupies a powerful position in the governmental structure of Panama. Its resources are derived from social security contributions of all insured workers in Panama. In the housing area, it had, until 1971, provided housing loans for families in the middle and upper income strata. During 1971, CSS embarked on a new program of financing housing through IVU, which meant entering the field of low cost housing for the first time. This is appropriate since the reserves of the CSS are supplied in large part by modest and low income families. CSS loanable funds show a marked trend toward increasing, and its housing mortgage portfolio on June 30, 1971 amounted to over \$23,000,000 or slightly more than half its total investment portfolio. Its investment budget for housing in 1972 is \$4,500,000, not including \$500,000 for commercial housing (loans to landlords).

d. Caja de Ahorros - Savings Bank (CA)

The Caja de Ahorros is a large and successful GOP savings bank which finances housing mortgages mainly for families in the middle and upper income brackets. It utilizes its own resources derived from free savings by the public. CA's resources are also increasing rapidly and deposits rose more than \$10 million in 1971 to \$44.5 million. The mortgage portfolio reached \$39,000,000. Balances of delinquent loans were only \$300,000, or less than 1%. CA is now beginning to place greater emphasis than formerly on lending to lower middle income families by financing projects in this price range.

See Table 1 C-i for projections of savings deposits held by CA, mortgage banks and savings and loan associations.

TABLE I C-1

ACCUMULATION OF SAVINGS DEPOSITS BY
MORTGAGE BANKS AND SAVINGS AND LOAN ASSOCIATIONS

(Millions of Dollars)

	<u>1967</u>	<u>Projected 1972</u>	<u>Projected 1977</u>
CA	25.0	55.0	100.0
IFHA/S&L	2.0	8.0	20.0
Private Mortgage Banks	<u>3.0</u>	<u>22.0</u>	<u>50.0</u>
TOTAL	<u>30.0</u>	<u>85.0</u>	<u>170.0</u>

e. IFHA - Insured Mortgage Promotion Institute

This agency, reorganized in the mid 1960's is primarily concerned with supervising the four savings and loan associations and in providing them with liquidity in addition to what they can obtain from public savings. It insures the mortgages issued by the associations, and negotiations are now under way to cover AID-guaranteed mortgages with this insurance also. IFHA has loaned over \$5,000,000 to the associations, has purchased mortgages totalling over \$750,000 from the associations, and also is authorized to sell insured mortgages to investors. For AID guaranteed projects this would reduce the annual financing charges by 1% annually.

f. Savings and Loan Associations

The four established associations, with two more in the process of formation, collectively play an important role in the housing area, primarily for middle class families. They are administering privately-financed housing projects under the AID Housing Guaranty program in addition to their domestically financed activities. Savings in the system have passed the \$6,000,000 mark, while the total mortgage loans generated doubled over the past 16 months. These, as well as the Caja de Ahorros, will need further AID housing guaranties.

g. IFE - Economic Development Institute

Created in 1953, IFE commenced as a financial and operating agency for the development of agriculture, industry and housing. In 1956, its basic housing responsibilities were transferred to IVU, which had been established for that purpose. An initial plan to transfer all of IFE's housing functions to IVU failed to materialize and IFE is continuing to administer several rental housing projects in Panama, mostly in Panama City and Colon. Functional consolidation would be furthered by shifting the housing units to IVU. The larger volume of operations would make for more efficient administration and give IVU greater capacity to relocate families from slum areas being cleared.

h. Pribanco and Banco General

These are two medium sized private mortgage banks dedicated to attracting savings and investing them mostly in home mortgages. Under the banking laws of Panama, any commercial bank which invests more than 75% of its loanable funds in long-term mortgages is classified as a mortgage bank.

CA has this classification also. Mortgage banks are allowed to pay 1% more on savings than regular commercial banks.

The two private mortgage banks have been growing faster than any of the other mortgage institutions and they now have between them \$20 millions in savings, most of which is committed to loans for middle and upper middle income housing.

i. National Housing Commission

The National Housing Commission was set up in August 1970 for a five month period and given the task of producing a housing policy, short and long range programs, and recommendations for agency reforms. It was presided over by the Minister of Finance and had representation from IVU, IFHA, CA, CSS, FUNDAVICO, National Planning Office and the Commercial Banking Association. It did not include agencies concerned only with urban services such as IDAAN. For the first time, agency executives had an opportunity to discuss common problems and together they made considerable progress in carrying out their assigned task. Unfortunately, the National Planning Office which had provided the initiative for setting up the Commission failed to follow through, and the Commission's period terminated without its having reached the desired conclusions.

However, the value to be derived from collaboration among the agencies was demonstrated and some of them showed a willingness to cooperate and to change narrow and outmoded policies. In recognition of this, the government has decided to reestablish the Commission as the new sector coordinating Committee, a move recommended by the original Commission.

This is the only new agency required to round out the sector institutional framework. This time, the Committee is to be broadened to include agencies dealing with urban services and environmental aspects of housing besides the financial agencies. Also, the Committee is to be given a budget to permit it to employ a small staff. A decree to establish the Committee (National Committee for Housing and Urban Development) is before the Cabinet and should be approved soon. Its membership consists of the administrator of the Planning Office, CSS, CA, CAM, IDAAN, IFHA and IVU.

Its primary function is to coordinate housing and urban development agencies. This coordination will be facilitated to a great degree by the proposed concessional and guarantee loan inputs which in themselves will require close collaboration among the agencies.

3. IVU Improvement

In addition to the increased financing levels, lower delinquency rates, and greater mobilization of total resources dealt with elsewhere, IVU has taken the following measures to improve its administration since 1969:

a. General Policies

(1) Establishment of Technical Committee

This unit is comprised of the three managers, the Assistant Director General and the Department Chiefs, and acts as the advisory team to the Directorate General in matters requiring top level decision-making.

Achievements: It has brought about administrative integration and facilitated internal communications, thereby rationalizing executive decisions and insuring an acceptable degree of coherence of the various actions of the Directorate General.

(2) Preparation of a Proposed Law to Structure the Entire Housing Sector of Panama

This document was prepared by the Institution with the objective of defining the authority and functions of the housing and urban development organizations. This has been presented to the Executive Branch and is under consideration.

Achievements:

- Better understanding has been obtained among the different groupings in the Public Sector which functioned in an uncoordinated manner previously.
- The Planning Office has received greater authority to deal with the institutions involved with the housing sector.
- IVU's policies in social interest housing and the problems of obtaining financing have been made understood at the top decision-making level of the GOP.

b. Plans and Programs

(1) Creation of the Sub-Directorate General for Programming and Budgets (S.P.P.)

A new Executive Branch was established, comprised of the Program Division, Economic Advisor and the Urban Planning Department, under the direction of the Assistant Director General.

Objectives:

- Strengthen the planning of housing and urban development activities.
- Include housing investments within the broad context of urban development planning.
- Insure the most effective usage of available resources.

This unit began operations in February 1972.

Achievements:

- Formation and management of an integrated, adequately financed housing and urban program.
- Consistency between the program and handling of the budget.
- Rationalization of projects.
- Adequate project identification.
- Mechanics for control and programming.

(2) Study, Formation and Maintenance of a Triennial Plan

Through the Sub-Directorate General for Programming and Budgets (S.P.P.), a Triennial Plan has been developed based on six-year goals, along with the respective basic studies and mechanics for updating and adjustments.

Achievement:

- IVU can now establish its financial, technical and land requirements in a timely manner.

c. Implementation

(1) Reorganization of Management for Development

This has been restructured, eliminating the IVU-IDB Department and the Construction Department. Beginning with 1970 a system of project operation has been established whereby the component units are organized in accordance with the volume of work carried out annually.

Achievements:

- Considerable personnel reduction.
- Clear definition of responsibilities.

(2) Restructuring of Collection Department in Banking Management

This department has been reorganized in accordance with the new method of collecting by salary withholdings, personnel has been redistributed, and a section for cancellation of payments within the Cashier's Office has been established.

The institution of the system of collections by compulsory withholdings has made it possible for 55% of mortgage loans to be subjected to these conditions.

A good level of coordination with collection offices has also been achieved by designating an official to be coordinator of these units.

Achievements:

- Increase of \$183,550 in average monthly recoveries compared with 1969 average, which represents a 125.0% increase.
- Reduction of delinquent accounts by approximately \$140,000 over the last 15 months.

- Improved mortgage portfolio: delinquency in making mortgage payments has been reduced from 92% in 1970 to 55% in 1971. An even greater reduction is foreseen in 1972 as more mortgage payments are collected by garnishing the mortgage holder's salary. During this same period the number of mortgages has increased by 20%.
- More and better information.
- Proper utilization of data processing system.

(3) Improvement of Credit Department

Since the assignment to this unit of the Social Investigations Department, better selection of borrowers has been achieved and also greater program control.

Achievement:

- Greater efficiency in selling completed units.

(4) Establishment of Program Budget

Following instructions of the Planning Office, a technique of budgeting by program has been established within the Institution.

Achievement:

- Rationalization of expenses and clearer perspectives for investments.

d. Service

(1) Creation of an Automatic Data Processing Unit

A computerized data processing unit was started in 1970. The contract for these services covers both accounting and planning activities.

Achievements:

- Greater information for management of mortgage portfolio. Updating collection and delinquency statistics.

(2) Clearing-up of Accountability

Prior to 1969 IVU accountability had tolerated a situation that precluded any timely auditing. As of 1972 this situation has been handled in a manner which permits a division of accounting so that the new records from 1971 onward are separate from those of prior years.

Achievements:

- Maintenance of up-to-date accounting; easy certification; accurate calculation of costs.

(3) Creation of Special Notary for IVU

During 1970 a special Notary Office was established to handle property titles granted by IVU.

Achievement:

- Substantial increase in transfer of titles to borrowers.

Section 2 - SECTOR STRATEGY

A. GOALS

1. Policy Goal

The broad policy goal in the housing sector is to improve its institutional framework in order to make it more responsive to total national housing requirements. Also, through more efficient utilization of available national resources and better coordination among GOP housing agencies, particular emphasis is to be placed on meeting the housing needs of low-income families. This loan is designed to provide the GOP with the financial resources required to round out its comprehensive program and will also induce and encourage the autonomous agencies of the GOP to move more of their resources into the low cost housing area. Specific objectives and necessary actions for their achievement are listed below.

2. Priority Objectives

The priority objectives for the sector are the following:

- a. Develop a sectoral system that will effectively coordinate the activities of all institutions involved in housing and urban development.
- b. Develop methods for increasing domestic resources, so as to gradually phase out reliance on concessional borrowing in financing housing and urban services.
- c. Formulate a comprehensive sector policy, including required institutional reforms, that will make more efficient use of available resources in meeting total market demands, particularly of the low-income sub-sectors.
- d. Develop enough housing units (including improved lots) to meet the requirements of population growth and minimum replacement of obsolescent units for the low-income sub-sectors.

B. ACTIONS TO ACHIEVE OBJECTIVES

1. Proposed Courses of Action

The GOP has proposed courses of action for meeting the objectives mentioned above as presented in the corresponding sequence below:

- (a) To coordinate sector activities, the GOP has established a Coordinating Committee for Housing and Urban Development. The Committee is charged with strengthening the agencies' response to low-income housing needs. 1/
- (b) To increase the flow of resources, the GOP has already given thrift institutions a 1% differential on savings accounts vis-a-vis commercial banks. Panama's savings deposits in thrift institutions have doubled during the period 1969-71.
- (c) IFHA is prepared to offer what it considers to be the equivalent of a full faith and credit guaranty based upon its mortgage insurance program. It has agreed to extend coverage to the housing investment guaranty projects, both those completed and those under construction. If the IFHA guaranty is, in fact, determined to be a full faith and credit guaranty, this will effect a net 1% per year reduction in guaranty fees and eliminate the initial reserve fund payments. This should also be applied to the future housing guaranties needed to cope with middle and lower middle housing needs.
- d. The GOP through IVU offers to investors in projects of social interest full tax exemption on interest income. This tax exoneration currently applies to all active housing guaranty projects.
- e. To reallocate resources, the GOP has formulated a policy by which public agencies such as CA, CSS and IFHA are encouraged to limit lending for upper income housing and increase lending for lower income housing. IFHA currently limits mortgages to \$16,000 maximum and CSS to \$30,000, while CA has adopted easier terms for low cost housing than it has for higher denomination mortgages.
- f. To produce more housing, the GOP has proposed a six-year program (1972-77) which is designed to increase considerably the supply of housing for low-income families. This program is based on meeting demand traceable to population increase and minimum replacement of obsolescent units. Approval of this loan will enable the GOP to carry out this program covering 15,433 units during 1972-74.

2. Specific Institutional Reforms

Besides the general courses of action outlined above, there are several specific proposals, of short or long standing, that would assist in rationalizing sector activity.

1/ See Decree attached as Annex V

- a. IFE and CSS should complete negotiations underway with IVU to turn their rental units over to IVU for management.
- b. IFHA already limits mortgage financing to no more than \$16,000 per unit. CA and CSS have limits of \$30,000. Although the average loan value of both institutions is much below the ceiling some upper limit for at least part of their portfolios should be established.
- c. CSS should increase its commitment to low cost housing. This is expected to be a natural development from the current commitment of \$2.8 million per year for three years.
- d. Implementation of IFHA's mortgage market plans require a major source of liquidity, and the CA may be able to provide this in view of its strong cash flow. IFHA and CA should work in tandem to develop a viable secondary mortgage finance program.
- e. IVU, in addition to its major low cost housing function, should undertake the development of a comprehensive urban growth and renewal plan for the Panama City metropolitan area.

The GOP and its autonomous Agencies are already working toward the reforms listed. Some are closer to realization than others. The new Housing Commission set up, as an outgrowth of the analysis necessary to support the application for the loan, is designed to provide the institutional framework for working out inter-agency problems associated with these reforms.

C. SECTOR RELATIONSHIPS

1. The Role of the Various Agencies Involved in the Sector in Achieving Sector Objectives.

The necessary reforms within each of the institutions involved in the housing sector and their future role will be established in detail by the Housing Sector Coordinating Committee. A preliminary analysis has revealed two major problems: (1) a serious lack of investment in low cost housing, and (2) failure to adequately control domestic resources through lack of a central institution to establish policy and coordinate the various agencies involved in the housing sector. This project is aimed at helping to solve the problem of low income housing created by the increase in population and migration to urban areas. In conjunction with the project the GOP is establishing the Coordinating Committee.

In part, loans for housing construction of high and upper middle units exceeding \$20,000 will be available from private banks. Government associated institutions will concentrate on financing housing units under \$20,000; this would include the Caja de Seguro Social, Caja de Ahorros, and IFHA. The lower middle income area will also be supported by FUNDAVICO and AID's housing guaranty program. In addition to its presently approved projects, AID is being asked to approve guaranty authorization for a \$9,000,000 IFHA proposal to finance about 1,200 lower middle income units on a sector-wide basis. These units will cost under \$8,500 in Panama City, and a lower figure in the smaller cities of the Interior. IFHA plans to function as a housing bank providing a guaranty of repayment to investors based on its mortgage insurance coverage and lending the funds through mortgage lending agencies acting as sub-administrators. The availability to the sector of the guaranty financing will enable the CSS to make a corresponding transfer of its resources from middle income into low income housing in the amount of \$8.4 million during the next three years to finance quadruplex units in the \$6,000 range.

Aside from AID, no other international development agencies have expressed a current interest in financing institutions which lend for housing construction. IDB has been approached by IVU and its representatives have indicated that IDB is not interested in financing housing construction, although it is considering financing a feasibility study for the urban renewal of Marañon, a slum area within Panama City under IVU jurisdiction.

Table 2 C-1 presents a projection of total housing sector activity in relation to the current program. Table 2 C-2 presents data on the different income groups in the country. Table 2 C-3 represents the agencies providing mortgage finance according to identified market sub-sectors.

2. The Role of the Project in the Sector

The sector analysis has revealed a serious lack of investment in low cost housing. The upper income areas of housing construction are being served adequately by the existing institutions. But mainly because of higher administrative costs, it is not as profitable for the housing institutions to provide financing for housing loans below \$5,000. Consequently, the lower income families which form the majority of Panama's population cannot purchase adequate housing because the existing institutions are not willing to deal with them. IVU, the government agency responsible for financing low-income housing does not possess sufficient funds to satisfy the demand. This project is designed to

TABLE 2 C-1
TOTAL HOUSING SECTOR ACTIVITY

AGENCY	M O R T G A G E T E R M S			FIVE-YEAR INVEST- MENT 1968-72 ^{1/}		PROJECTED FIVE-YR. INVESTMENT 1973-77	
	Interest	Max. Loan	Max. Term	No. Loans	\$Millions	No. Loans	\$Millions
CA	9%	30,000	20 yrs.	4,858	44.8	10,000	90.0 ^{2/}
CSS	7%	30,000	25 yrs.	958	11.5	1,500	17.5 ^{3/}
IFHA/S&L	9%	16,000	25 yrs.	835	9.2	2,000	26.8 ^{2/}
HG/AID	9%	9,000	25 yrs.	1,388	8.1	4,000	30.0
FUNDAVICO	7%	7,000	25 yrs.	967	4.0	500	3.5
IVU (AID, IDB, CSS)	7%	6,000	20 yrs.	12,403	26.6	20,000	55.9
				21,409	104.3	38,000	223.7
				4,300 per year		7,600 per year	

^{1/} Projected for 1972

^{2/} Assumes further AID housing guaranty support.

^{3/} This figure does not include funds loaned to IVU, which are projected at an additional \$18 million, and included under IVU.

TABLE 2 C-2

INCOME GROUPS IN PANAMA

Average Annual Per Capita Income	\$ 700.00
Average Annual Family Income	3,500.00

<u>Population Distribution</u>		<u>Estimated Average Family Income</u>
Panama City	32%	\$6,500.
Other Urban	18%	3,900
Rural	50%	1,300

<u>Monthly Income</u>	<u>Panama City</u>	<u>Other Urban</u>	<u>Rural</u>
Above \$2,000	Upper Income	- -	- -
\$1,000-2,000	Upper Middle Income	Upper Income	- -
\$ 400-1,000	Middle Income	Upper Middle Income	Upper Income
\$ 250- 400	Lower Middle Income	Middle Income	Upper Middle Income
\$ 100- 250	Low Income	Lower Middle Income	Middle/Lower Middle income
Below \$100	Very Low	Low/Very Low Income	Low/Very Low Income

TABLE 2 - C-3

HOUSING INSTITUTIONS PROVIDING MORTGAGE
FINANCE IN PANAMA

	<u>PANAMA CITY</u>	<u>OTHER URBAN</u>	<u>RURAL</u>
Upper Income	CA, Mortgage Banks Commercial Banks	CA, Commercial Banks	--
Upper Middle Income	CA, CSS, Mortgage Banks	CA, CSS, IFHA/ S&L	--
Middle Income	CA, CSS, IFHA/S&L Mortgage Banks	FUNDAVICO	FUNDAVICO
Lower Middle Income	FUNDAVICO, CA, CSS, IFHA//S&L	IVU, IVU/CSS	FUNDAVICO
Low Income	IVU, IVU/CSS	--	--
Very Low Income	--	--	--

alleviate the low income housing deficit through providing additional funds to IVU's mortgage portfolio and with the GOP's establishment of a coordinating agency to channel additional domestic resources into financing housing loans under \$7,000.

3. The Rationale of the Proposed Housing Program in Relation to Possible Alternatives

The housing program to which this loan is geared is entirely for families having an income below that needed to pay for a minimum housing unit produced by conventional technical and financial methods. By definition the AID loan will respond to that part of the GOP housing program that can serve only families who have nowhere else to turn. (See Section 1B-3 and Table 1 B-5 regarding low income families' ability to make monthly payments for housing). For this reason, alternatives to the proposed program are limited, as pointed out below.

a. Housing Guaranty Units

As a part of its overall sector program of which the proposed loan is part, the GOP has pending a request for an authorization of an additional \$9 million for AID guaranty funds to be used in its lower middle income housing program. The low income families to be assisted under the proposed project cannot afford to purchase homes at market rates of interest to subsidize these units because of the large numbers required. There may well be a need for further AID housing guaranties.

b. Rental Units

Private rental housing, capable of generating a minimum acceptable economic return after providing for property maintenance, costs more than \$80 per month per unit, which is even further removed from the financial capacity of the low income families. No adequate rental housing is being built today to rent at under \$100 per month. Even if it could be built, demand for such housing would quickly drive up the price and the typical landlord, operating with a profit motive, would acquiesce to market logic by charging more. IVU has chosen to allow low income families to purchase their own homes, rather than renting the units. Low Income rental housing programs in the U. S. in which the government has been the landlord have suffered serious problems of rent collection and maintenance. A mortgage provides fixed, foreseeable monthly costs plus an ever mounting equity while rents are subject to increase and yield nothing towards transferring ownership. Raising the rents to cover increased costs has proven difficult and politically unpopular. The Mission supports IVU's home ownership policy as being far more efficient than renting.

c. Technical Innovation

Another alternative for meeting low cost housing needs is technical innovation, especially prefabrication. With rapidly rising labor rates, Panamanian home builders are already using two prefabricated systems, both inaugurated in 1972 on the Bello Horizonte and Jardin San Antonio projects, and another is projected for the National Maritime Union project later this year. This type of innovation is believed to have the potential to reduce labor costs by more than 50% with high-volume construction. However, the promoters of prefab housing are hoping merely to counteract rising prices; they do not expect to be able to lower prices appreciably. A 50% reduction in labor costs in Panama represents only a 15% reduction at most in the price of a house, which counteracts exactly two years of price rises at the anticipated inflation rate of 7-1/2% per year. The prefabricated methods are being applied to the large projects of lower middle income housing, including those financed through the housing guaranty program.

These highly significant innovations will most likely be applied to the proposed low income housing program by private contractors who will be bidding on major sub-projects. They will hopefully contribute to keeping unit costs within programmed limits. Use of these methods is compatible with the proposed program and does not amount to an alternative.

d. Mass Production, Competition and Lower Profit Margin

The proposed project will benefit from several other innovations introduced by the housing guaranty program. The first of these is the housing guaranty policy of financing projects of several hundred units, which ushered in the practice of mass production in Panama. A second innovation has been competition between builders, each bidding against the others. As long as financing was limited, there was no need to compete because almost anything could be sold with a comfortable profit margin. A third innovation has been a reduction in traditional profit margins. By now, the modern private enterprise concept of volume sales and low profit margins has been understood and adopted by several Panamanian construction firms and financial institutions, among them Playco, Diaz y Guardia and ANAP Savings and Loan Association.

Up to this point, aggressive competition has occurred only in the narrow range of \$8-10,000 houses, and this is also where the technical innovation is taking place. It is crucial that the flow of guaranty financing for units of middle income housing be continued over the near term in order to consolidate the gains already made and extend them to other market sub-sectors.

e. Cooperatives

Another significant innovation occurring in the lower middle income range of houses in Panama has been the housing cooperative movement led by FUNDAVICO. However, the housing cooperative is not seen as an alternative to the proposed program, but rather as one of the instruments in carrying it out. FUNDAVICO is basing its future plans on the availability of additional housing guaranty financing and is expected to be a participating user of the funds requested by IFHA in its \$9 million proposal. FUNDAVICO's projects have enjoyed a high level of public acceptance, but it must increase its volume considerably if it is going to be a truly efficient agency.

The Mission's view is that FUNDAVICO should actively continue its urban lower middle income program with funds to be obtained through IFHA's guaranty package, and should continue its rural program utilizing funds derived from this loan as an IVU sub-borrower. FUNDAVICO has functioned as an IVU sub-borrower on the 027 loan and this appears to be a workable arrangement. Should FUNDAVICO not be interested in continuing its own rural program, IVU has demonstrated interest in taking over the responsibility.

SECTION 3 - PROJECT ANALYSIS

A. DESCRIPTION

1. Program

This loan is designed to increase the supply of low income housing and services through supporting the GOP's existing mortgage fund to provide housing loans to the lower income sector of the Panamanian population. The loan of \$15 million will be borrowed by the GOP and administered by IVU, the agency designated by the GOP to direct the low income housing program in Panama.

Presently, IVU has \$23 million in outstanding mortgages to low income families. The mortgage payments made by these families are available to make additional loans for low income housing. The mortgage portfolio turns over in approximately 12 years. The bulk of these repayments will serve to increase the amount of capital to finance loans for housing solutions in the under \$7,000 dollar category. The agency administering the funds, IVU, will provide all the additional supporting services required ranging from housing design, contracting for construction and client selection to payment collection.

In support of the program the GOP has established a Housing Committee to coordinate the sector and establish policies which will assure a continuous flow of funds into the low income sector during the period in which A.I.D. funds are expended and repayments have not reached levels to satisfy existing demand. All institutions involved in the housing sector are participating in an effort to avoid duplication and to rationalize their activities further.

The program will begin with the phased construction of a planned 13,245 housing solutions comprising 11,245 urban and 2,000 rural units and their supporting services, roads, sewerage and water, and, in addition, provide urban services for 2,188 existing units. 15,433 low income families, or 75,000 people, will benefit from the initial stage of the program. Their mortgage repayments will finance new housing solutions benefiting an additional 10,000 families every 18 years. As further refinements of exact cost estimates are reached, the number of units mentioned herein may be increased or decreased within reasonable limits (10 - 15%).

The total project is broken down in the following table:

1972 - 74 Project for the Low - Income Sub-Sector

<u>Sub Program</u>	<u>Number of Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>	<u>Distribution of Financial Support</u>	
				<u>A.I.D.</u>	<u>GOP</u>
<u>A. Housing Units</u>					
1. a. Minimum improved lots	2,370	\$1,120	\$ 2,654 M	\$ 1,327 M	\$ 1,327 M
b. Minimum higher standard	2,220	\$1,610 - 2,300	\$ 4,099 M	\$ 2,049 M.	\$ 2,050 M.
2. Minimum improved lots with core units (18 m ²)	3,460	\$2,920	\$10,103 M	\$ 5,051 M	\$ 5,052 M
3. Fully improved lots with housing units of 36 m ²	1,695	\$5,200	\$ 8,814 M	\$ 4,407 M	\$ 4,407 M
4. Multifamily units of 45 m ²	1,500	\$6,000	\$ 9,000 M	--	\$ 9,000 M
5. Rural units on existing sites	2,000	\$1,200	\$ 2,400 M	\$ 1,200 M	\$ 1,200 M
6. Improvements of occupied sites in San Miguelito	2,188	\$ 600-1,100	\$ 1,512 M	\$ 0.866 M	\$ 0.646 M
<u>B. Technical Assistance</u>	-	-	\$ 0.100 M	\$0.100 M	-
TOTAL	15,433		\$38,682	\$15,000 M	\$23,682 M
PERCENTAGE			100%	39%	61%

2. Construction Components

Construction of the 13,245 housing solutions and the installation of water and sewers for 2,188 already existing houses will take place over a three year period. Because of the variety of needs and incomes within the low income sector of the population desiring housing, there are six components within the project. The first two components are for families with an average monthly income between \$100 and \$300. Components 3 through 5 are for families whose average monthly income is between \$200 and \$400. The components will be located on several large tracts of land. A description of each component follows:

Component 1. - Sites and Services

(a) The first portion of the program is aimed at that section of the population too poor to make regular payments on a complete house, but able to construct their own home if given the opportunity to purchase their own land. Several tracts containing 2,370 lots of approximately 160 sq. meters each will be provided at a unit cost of \$1,120 resulting in monthly payments of approximately \$11 per month. The price of the lot will include access to water, sewerage and gravel streets. The lots can be built upon immediately with any type structure the purchaser can afford and then gradually be improved. The periods of financing the land are deliberately kept short in order to offer, once the lot is paid for, the option of obtaining another loan to improve the initial structure erected on the site. Interest rates will be from 2 to 4 percentage points below the market rate of 9%.

(b) An additional 2,220 lots of slightly larger size (250-300 sq. meters) will be provided at \$1,610-2,300 per unit and a monthly charge of about \$17-\$23.

Component 2. - Minimum Improved Lots with Core Units

These units are designed for families with incomes slightly higher than those of the families of the previous component. Tracts accommodating a total of 3,460 units, which will be constructed at a unit cost of \$2,920 on lots of 160 sq. meters, served with gravel street, water and sewerage. The basic house of 18 sq. meters, with services, termed a core unit, is designed so that it can be expanded with additional rooms as the family grows. Terms are slightly longer than in the first component, but again the period of the loan is shorter than for a full size house to encourage the house owner to obtain a second loan for home improvements once the first is paid for. Also, at least 2 percent below market interest rates will be used. Monthly payments will be about \$24.

Component 3. - Lots with Housing Units of 36 m²

1,695 units will be constructed at a cost of \$5,200 per unit on lots of 160 sq. meters. This component represents a permanent housing solution to families that can afford the higher monthly payment of \$40. It is a further step forward in comparison with the foregoing components. It provides a fully improved lot with urban services and a minimum house. No additional home improvements are necessary. The period of financing (20 years) is considered normal in Panama. The interest terms are 7-1/2%. The lots will include an asphalt street, water and sewerage.

Component 4. - Multifamily Units of 45 m²

As many slum families demonstrate strong preferences to remain in central locations due to the nature of their employment or other personal factors, IVU has devised a solution for them, at a cost of \$45 per month. These units will consist of 1,500 quadruplexes at a cost of \$6,000 per unit located on some of the land made available by people moving out of the slums. These units are to be financed wholly by the GOP, mainly utilizing CSS funds, at 7-1/2%.

Component 5. - Rural Units on Existing Sites

Approximately 2,000 units will be constructed in the rural areas and small town upon existing sites at a cost of \$1,200 per unit. These units will be scattered throughout the communities where the sub-projects are undertaken and will use existing services. As nothing will be spent for acquiring and very little on improving sites, the full amount will be available for house construction. No interior plumbing will be required as the rural custom is to cook in a separate building and to use outdoor toilets. 400 units of this type construction have already been constructed under Loan 525-L-027, Cooperative Housing Program, with very satisfactory results. The interest rate is 5%.

Component 6. - Improvements of Occupied Sites in San Miguelito

In the suburban low-income community of San Miguelito, there is a mixture of housing types with standards varying from frame houses built on land seized for that purpose and having practically no services to quite spacious masonry houses with full services. Families lacking sewer and water are clamoring for installation of these services, and they indicate a willingness to pay the cost. IDAAN has installed trunk sewers to serve a portion of the area that now receives water from the Canal Zone, and is in the process of increasing availability of water. Much of this area cannot be provided with sewers until the new water system is constructed, which will take two years.

Under this sub-program, IDAAN will install water and sewers in areas, most of which started out as squatter communities, but which have been physically reorganized to allot each family its own parcel of land. 2,188 families will be assisted at a total cost of \$1,512,000. The unit costs range between \$600 and \$1,100. The monthly charge is estimated at approximately \$12.00, and collections will be administered by IDAAN as part of its normal billing for sanitary services. This sub-program is considered extremely important as the existing situation creates a serious health hazard.

3. Technical Assistance

Although all agencies operating in the housing sector have greatly improved their performances in recent years, certain technical assistance requirements were identified during intensive review which are proposed for loan financing. A basic need for urban planning is evident as is assistance for instituting a capability for continuous evaluation and analysis of project progress. Certain assistance to IVU in management will be required also.

a) National Committee for Housing and Urban Development - Creation of this Committee will be made a condition precedent to first disbursement of the loan. The Committee will need technical assistance in development of a National Urban Development and Housing Plan. Specifically, assistance will be required initially for developing preliminary policy parameters, objectives and criteria, and then later, for actually carrying out the study. In addition, the Committee may require assistance in developing an internal management capability (including a review and approval process for expeditious fund allocation and decision making as well as for developing a methodology for assessing money markets and housing demand). An estimated \$200,000 will be required for this assistance.

b) IVU - IVU management has indicated a need for assistance in formulating a rational urbanization plan for Panama and for improving internal management. A preliminary definition of these needs has been made, as follows:

- Formulation of an action-type metropolitan and city plan to provide a comprehensive framework for housing, urban renewal, and related infra-structural construction;

- Creation of an unsophisticated information system for keeping abreast of trends influencing the market in each price range of housing normally handled by IVU.

- Management support for

- award and administration of contracts
- major housing maintenance
- collection and accounting of mortgage payments
- staff tenure, training and management development

- Identification of

- low cost and labor-intensive construction technologies
- linked Program-Planning-Budgeting-Construction system
- land development planning

An estimated \$250,000 will be required for this phase.

c) IFHA - The IFHA has requested technical assistance in secondary mortgage financing. An estimated \$50,000 will be required for this activity.

A covenant will be included in the loan agreement requiring the Borrower to submit a time-phased plan for technical assistance requirements within six months of the creation of the National Housing Committee. This plan will be the basis for utilizing the funds set aside in the loan for technical assistance.

Any portion of the funds not utilized for technical assistance during the disbursement period will be deobligated. These funds will not be transferable to cover any portion of the construction program.

4. Provision of Community Facilities and Services

During the planning of each sub-project IVU will coordinate with the appropriate agencies of the GOP to ensure the maximum feasible provisions of other essential community services such as schools, health clinics, telephones, police sub-stations, etc. The existing AID education sector loan and the proposed AID/UNICEF Health and Nutrition loan will be coordinated in their implementation to provide some resources for this effort.

B. Economic Justification

1. Summary

a. The primary purpose of the project is to rationalize the physical program of housing construction, achieve a better control over available domestic financial resources which should be responding more to lower income housing requirements and to rationalize the functions for duplicating agencies. Within this overall purpose, this loan will assist IVU in meeting the basic housing needs of the lower income groups— which are not able to purchase lots or houses on commercial terms. This project will help provide the lower income group with the housing needed to keep up with the increase in population and migration to the metropolitan areas.

b. The construction of new units will in part provide accommodations for families which the GOP is planning to remove from existing slum and squatter areas in Panama City, including the Marañon, Hollywood, and Loma La Pava districts.^{2/} In other areas, where people are already squatting on lands owned by IVU or other public agencies, the program calls for providing basic water and sewerage services to these lots and selling them to their present occupants on easy terms.

By providing housing to meet the growth requirements of the urban population (and to a much lesser extent of the rural population), and by assisting IVU to solve its slum clearance and squatter problems, the project is expected to make a substantial contribution toward assuring a more stable and better integrated population. Through more widely disseminated home ownership the project will give to the lower income groups in the urban sector a stake in their society. Other beneficial social implications include better health and increased productivity.

^{1/} Excluding those unable to make the minimum payments required by IVU, i.e. households with a monthly income of less than B/80 or B/100.

^{2/} IDB is considering the financing of a study on the re-use of Marañon area once the slum buildings have been removed.

c. This loan is designed to act as a catalyst to promote the further development of the institutions aimed at increasing the volume of private and public savings available for low income housing. Emphasis has been placed on the need for the GOP to reform its institutional structure so that it will be able to meet the housing needs of the lower income groups and permit the gradual reduction of the dependence of the housing sector on foreign concessionary financing. The creation of a National Committee on Housing and Urban Development to integrate the sector's activities is one of the reforms encouraged by this loan.

d. The project enrolls the lower income groups in a long term savings program by which they acquire wealth in the form of real property.

e. The project will generate a considerable amount of income and employment during the construction period. While important, this is a temporary side benefit of the project and is not presented as its major justification.

The following section elaborates on three points of this justification: (1) meeting minimum urban housing requirements 1/; (2) promoting saving by the lower income groups; (3) the project's income and employment effects over the construction period. The need for institutional reforms has been discussed in some detail elsewhere in this paper.

2. Meeting Minimum Urban Housing Requirements

The minimum requirements and effective demand for urban housing over 1972-1974 were developed in the sector analysis (Section 1B) and will be briefly recapitulated here.

The first step in this analysis involved the estimation of the minimum housing requirement to accommodate the increase in population of the urban sector and to provide for a minimal replacement demand 2/. The second step was to distribute this

1/ Rural housing is not an important part of the IVU program. The existence of an ample market for IVU built rural housing has been established under section 1-B - 3 -b.

2/ Replacement demand was limited to replacement of housing in "acceptable" condition, and was calculated at 2% of the existing stock of such houses.

requirement among the various income groups on the basis of the estimated household income distribution for Panama City. The third step involved the determination of the extent to which the housing requirements of these various groups constituted effective demand. This was done by estimating the amounts that the various income groups could spend for housing and by relating these amounts to the monthly payments for IVU lots and houses, (see tables 1 B-5 and 1 B-6 in Section 1 B. Table 3 B-1, carried over the urban demand schedule of the lower income groups derived in the sector analysis and related this demand to the supply of urban lots and houses to be built by IVU.

The conclusions are as follows: Households with a monthly income of less than \$80 are not able to purchase any IVU lots, but there will be some effective demand on the part of the \$80 to \$100 income group for the lower priced lots. It was assumed that 20% of the total housing requirement of the group earning less than \$100 translates itself into effective demand for IVU lots. The demand of the \$100-199 group for urban lots and lots with a minimum 18m² house can be met in full. Since the total supply of such houses over the three year period is equal to 8,050, this will leave 882 to meet the demand of the next higher income bracket (\$200-299). It was assumed that the demand of this latter group, estimated at 5,310, will break down into 50% for lot with 18 m² house and 50% for the more expensive 36 m² and 45 m² houses. On these assumptions, IVU will be able to meet the full demand of this group for the more expensive houses (2,655 units), but will be able to meet only about 29% of this group's demand (882 units) for the 18 m² house. (See Table 3B-1).

Households with a monthly income of \$300 to \$399 are estimated to have an effective demand of 2,876 units (for 36 m² and 45 m² houses). IVU will be able to supply only 19% (540 units) of this demand. Note that in this income bracket, only households with a large number of members are eligible to purchase IVU housing as most are presumed to be able to purchase housing from private sources. The latter benefit from coverage under the AID housing guarantee program. Thus, under IVU's present eligibility rules, the unsatisfied demand of the \$300-399 income bracket is not as large as the figures in Table 3 B-1 would suggest.

Table 3 B-1
Projected Requirements and Effective Demand
of Lower & Lower Middle Income Groups
for IVU Supplied Urban Housing over 1972-74

(Number of Housing Units)						
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Income Bracket (Monthly House- hold income)	Housing Require- ment ^{1/}	Effec- tive Demand	Effective Demand for and Supply IVU Housing			
			Lot & 18 m ² House Demand	Supply	36 m ² & 45 m ² House Demand	Supply
Under \$100	2,655	531	531	531	-	-
\$101 - 199	6,637	6,637	6,637	6,637	-	-
\$200 - 299	5,310	5,310	2,655 ^{2/}	882 ^{3/}	2,655	2,655
\$300 - 399	2,876	2,876	-	-	2,876 ^{4/}	540 ^{3/}
Total	17,478	15,354	9,823	8,050	5,531	3,195

^{1/} The requirements estimate is based on the income distribution data suggested by the Metcalf-Vonland study of the Panama City Housing Market, and on monthly payments required for the purchase of lots and housing units presented in Table 1 B-5.

^{2/} Assumes that the effective demand for 5,310 units breaks down into 50% for lots and 18 m² house, and 50% for 36 m² and 45 m² housing.

^{3/} Equal to the difference between the total projected supply and the number of units supplied to the lower income brackets.

^{4/} It is estimated that no more than half of the effective demand of the \$300-399 income group will be considered eligible for IVU housing under IVU rules. Only large families in this income bracket are admitted.

It must be emphasized that the demand estimates shown in Table 3 B-1 are based on soft data because (a) there are no reliable data on household income distribution, and (b) a number of assumptions had to be made in order to translate urban household incomes into effective demand. These qualifications apply only to the precise quantification of the breakdown of the demand for housing by income group and type of housing. We are quite confident that there is a vigorous overall demand for the IVU lots and houses, not only because of the results of the above analysis, but also because of the substantial backlog in deficient or substandard housing which the project is not even attempting to meet. Moreover, the speed with which IVU has been able to sell all of its available lots this year and the backlog of unsatisfied effective demand supports their contention that they will have no difficulty in selling the planned supply of lots^{1/}. This demand should be further strengthened by the existence of definite plans for slum clearance in large central slums and squatter areas and by IVU's decision to make squatters on IVU lots purchase the lots they are occupying.

The flexibility of the construction program will insure against the risk that the demand for a particular type of house might have been overestimated. IVU has agreed to alter the composition of its program if it should appear that the demand for certain types of lots or houses is weaker than expected. For example, if it should have difficulty in selling the 36 m² or 45 m² house, it will immediately divert its resources towards lots or lots with 18 m² houses. With respect to the disposition of unsold houses already constructed, the excess could be easily sold by temporarily relaxing the eligibility requirements for the purchase of such housing, through lower down payments or temporarily reduced monthly payments.

2. Stimulating the Savings of the Lower Income Groups

A significant contribution of the project is its anticipated effect on saving. First, the beneficiaries will be required to make down payment of approximately 10%. Second, they will repay the full investment over a period of 10 to 20 years, thus increasing their equity in the property at the rate of 5 to 10% a year. Third, they will be making an investment in

^{1/} IVU sold 2,000 lots during the last year alone. Sales were limited by the exhaustion of supply, not demand.

building, expanding or otherwise improving their housing. Such improvements are likely to be substantial in the case of the lots on which the houses must be constructed and on the 18 m² house which obviously fails to provide a desirable minimum space. The expectation of such improvement is in line with past experience. The fourth aspect of the saving is the incremental value of the property. While not a saving from the viewpoint of society as a whole, the increase in land values over time nonetheless represents additional wealth accruing to the owners. The sum of all such savings is estimated to fall within the range of 9% to 17% a year of the value of the original investment over the period of the loan 1/.

From the social point of view, the various savings described above are especially significant because they are being generated by the lower income groups that ordinarily have little capacity to save. For these groups the execution of the project not only raises their living standards but also enrolls them in a long term savings program. The resulting acquisition of wealth tends to effect over time a redistribution of wealth in favor of these groups, which is in harmony with the objective of GOP/AID policy.

4. Contribution to Income and Employment

The project makes a direct contribution to employment in the construction industry as well as to industries fabricating construction materials. It is estimated that each \$7,500 spent on construction per year results in the creation of one position in the construction industry and that each \$15,000 results in the creation of one position in the construction materials industry. Thus, the expenditure of \$38.6 million (\$12.87 million per year over the three-year construction period) will result in the creation of about 1,720 jobs in construction and of about 860 jobs in

1/ Estimated as follows:

(Annually over period of loan)

Rate of amortization	5% to 10%
<u>Less</u> Depreciation of site improvements and house	- 2% to 3%
Appreciation of land	3% to 5%
Value of improvements made by owner	<u>3% to 5%</u>
Total	9% to 17%

in materials fabrication, or a total of almost 2,600 jobs over the three-year construction period. 1/

On the assumption of an expenditure of \$12.9 million per year over three years, the project is estimated to raise GDP by about \$21 million a year over this period, which constitutes about 1.7% of the total 1971 GDP, but could represent 15 to 16% of the expected average annual increase of GDP over this period 2/. The procedure used to estimate the employment and income effects of the project is necessarily crude. It is based on a number of assumptions with respect to the behavior of unknown factors, and should be used only for the purpose of gaining a very rough idea of the general order of magnitude involved. There can, however, be no doubt that the expenditure of so large a sum on a labor intensive activity will have a significant impact on both income and employment over the next 3-4 years.

1/ If the construction period is stretched out over four years, the employment impact would be about 1,285 jobs in the construction industry plus 645 in the construction materials industry, for a total of approximately 1,930 jobs over the four-year period.

2/ Estimated as follows:

Total annual expenditure	\$ 12.9 million
Estimated spent on locally produced goods and services, 80%	10.3
Income multiplier effect with multiplier of 2.0 : $\$10.3 \times 2.0$	20.6
Average annual increase in GDP projected over 1972-74 (10.5% annual rate of increase in current prices, which might correspond to 7.0% in constant prices)	132.7
Income generated by project as % of projected increase in GDP ($20.6/132.7$)	15.5%

If disbursements under the project were stretched over a four-year period, annual expenditures would be \$9.7 million, and the contribution of the project to GDP would be in the order of \$15.4 million a year (instead of the \$20.6 million calculated above) on the basis of this estimating procedure.

5. Rate of Return

The rate of return on the owner-occupant housing project is difficult to calculate owing to the absence of rental data on the units that IVU is proposing to construct, and also because such data, even if they could be obtained, would not adequately reflect the full benefits accruing either to the owners or to society.

Nevertheless, a rough estimation of the minimum rate of return accruing to society from this housing project has been made on the assumption that the benefits are, at the very least, equal to the value of the housing services that the owners derive from IVU-built houses over their useful life. The minimum value of these housing services to society was estimated on the basis of the rental that the owner-occupiers would have to pay if they were renting their property on non-subsidized terms. If an owner is prepared to pay a rent of, say, \$40 a month for a dwelling, then it can be assumed that the benefits that he expects from his house must be at least equal to that sum.

The calculation of minimum social benefits and rate of return, summarized in Table 3B-2 is based on the following assumptions:

- a. The opportunity cost of money is 9% a year ^{1/};
- b. The useful life of the houses and improvements is 40 years ^{2/}.

^{1/} Since the calculation here involves the rate of return to society as a whole (and not to the owner-occupiers) it is the opportunity cost of capital (or the market rate of interest) which is relevant, and not the subsidized interest rate at which IVU lends its funds to its clients.

^{2/} The life assumed by various financial institutions in the housing field varies between 25 and 40 years. IVU uses 40. It is believed that 40 more adequately reflects the actual useful life of the average house and site improvements even though the market value of the former is admittedly very low after 25 years.

Table 3B-2

ESTIMATED MINIMUM RATE OF RETURN

(1) <u>Description</u>	(2) <u>Investment</u>	(3) <u>Imputed Rent^{1/}</u> <u>Monthly</u>	(4) <u>Annual</u>	(5) <u>Present Value Factor^{2/}</u>	(6) <u>Investment^{3/} Yield^{2/}</u>
Urbanized Lots (9% - 40 years)	1,150	8.91	106.95	10.75	10%
Urbanized Lots with basic housing units of 18m ² (9% - 40 yrs)	2,920	22.62	271.44	10.75	10%
Single-Family Units of 36m ² (9%-40 years)	5,200	40.30	483.60	10.75	10%
Rural Housing Units (9% - 40 years)	1,000	7.75	93.00	10.75	10%

^{1/} The imputed rent approximates (but falls somewhat short of) the estimated value of uniform periodic benefits which the investment would yield on commercial terms. An opportunity cost of 9% was assumed over an estimated 40-year life of the project. The imputed rent includes both amortization and interest, but excludes insurance, taxes and the profits that a landlord normally expects to make from the rental.

^{2/} The present value factor is simply the investment divided by the annual rent. The concept of present value reflects the time value of money in that it assumes that the value of money at the present time exceeds the value of money at some future date. The present value factor enables us to compute the discount rate at which the value of future benefits would be equal to the present value.

^{3/} The investment yield is the estimated internal rate of return of the project. The internal rate of return is nothing more than the discount rate that equalizes the present value of an investment with the sum of the expected future receipts. It is read off a "Present Value" table which shows the implicit rate of return that corresponds to the "present value factor" calculated in column 4. For a detailed description of the methodology used, see for example Erich A. Helfert, Techniques of Financial Analysis, Page 164 and Table C-4.

Column 2 shows the value per unit of the major type of lots and houses to be constructed by IVU. Columns 3 and 4 calculate the periodic payments (interest plus amortization) on the basis of the opportunity cost of money (9%) and the assumed life of the houses and improvements (40 years). Column 5 shows the present value factor which is simply the ratio of the value of the original investment divided by the annual benefit. Column 6 shows the annual rate of return over the life time of the project as given by the present value table. The calculation yields a minimal annual rate of return of 10% over the life time of the assets and improvements.

This rate of return is a minimal rate accruing to society as a whole. It is minimal because it makes no allowance for intangible social benefits resulting from improved housing such as better health, lower crime rates, increased productivity, and a more stable and better integrated population. Nor does it make allowance for the employment and income effects over the construction period.

This rate of return calculation is likely to understate just as significantly the benefits accruing to the individual owners (as opposed to society as a whole) because the calculation of the benefits fails to take account of a number of elements which represents additional benefits to the owners but which cannot be meaningfully quantified. These include:

- a. The appreciation in the value of urban properties over time which has been very substantial in recent years and is likely to continue;
- b. The opportunity to make improvements, which is likely to be particularly important in the case of the urban lots and for the minimal 18 m² house;
- c. Safety from eviction;
- d. The amount of their own capital that the owners invested in the house or lot will be only a fraction of the total cost of construction during the first several years of the loan. This would mean a higher rate of return to the owners than the 10% suggested by our calculation.
- e. The owners will be receiving loans at subsidized interest rates of 5-7% in lieu of the 9% rate assumed in our calculation.

C. ENGINEERING ANALYSIS

1. General Description

The engineering and construction phase in which AID is expected to participate encompasses relatively simple and routine planning, design and construction of low-cost housing developments in urban and rural areas. The work would include the preparation of the housing tract, the installation of basic services and the construction of a variety of types of one-family housing units.

Site development contemplated would include earthwork and grading, subdividing into lots, the construction of streets and sidewalks, storm water drainage, water supply and distribution systems, and sewage collection and disposal. Housing solutions contemplated consist of six different types, five of which will have AID participation. These housing solutions consist of:

- (1) graded lots with sites and services on which individual owners may erect their own housing units within guidelines provided by IVU, solution (1);
- (2) urbanized lots with a basic 18 M² one-family unit, solution (2);
- (3) urbanized lots with a 36 M² one-family unit combining two basic units, solution (3);
- (4) urbanized lots with a multi-family structure containing four family units (this will not have any AID participation), solution (4);
- (5) a rural one-family unit with limited urbanization as appropriate with its rural locale, solution (5).

In addition to this basic countrywide outline, the general project will include a special sites and services program for lots within the special district of San Miguelito in Panama City. The work required under this San Miguelito program includes:

- (1) graded 300 M² lots with sites and services, (solution (1));
- (2) graded 250 M² lots with varying degrees of accessibility, also with sites and services, (solution 1A, 1B, 1C);

- (3) provision of services (water and sewerage) to lots of 260 M², 230 M² and 220 M² now occupied by squatters. These squatters are legalizing their claim to their lots by a special purchase agreement with IVU. (solution (6))

The houses contemplated will consist of a reinforced concrete frame, a concrete slab floor, concrete block walls, and corrugated metal roofing on light metal or wood trusses. There may be a departure from this style whenever the availability of native building materials in the interior of the country deems it feasible and practicable.

Preliminary sketches showing basic building layouts and dimensions are shown in Annex IX. Proposed urbanization and site development standards, including the layout of utilities (water, sewerage, electricity) typical sections of proposed streets, and storm drainage improvements are shown in Annex X.

2. Technical Feasibility

The project is based on a housing plan for low-income families developed by IVU. The planning and proposed construction are based upon standards developed and modified by IVU through its experience in this field, particularly under IDB and AID financed projects, (AID loan 525-N-016 and other AID grant-financed technical assistance).

Cost data for this work are based upon the aforementioned experience and include a nominal allowance for escalation of construction costs and also reflect recent changes in the Panamanian Labor Code. Detailed planning for the different projects will be performed by IVU during the implementation period of this loan, based upon the general standards included in Annex X.

It is considered that the technical and engineering requirements of Section 611 of the Foreign Assistance Act have been met.

3. Estimates of Cost

Preliminary estimates of cost for land, site development and construction is tabulated below for the different types of housing units envisioned. This estimate, developed by IVU, is based upon a preliminary projection of the anticipated distribution of housing units within the country. The cost includes a nominal allowance for minor type changes to allow project flexibility for adapting to varying local conditions and requirements. The estimate is based upon current prices of building construction

in Panamá, with an escalation allowance of 7-1/2% per year in accordance with recent experience. Estimates are based upon on loan-funded construction beginning January 1, 1973, and continuing for two years as shown in the breakdown. Delays in the start of construction or expansion of the time for completion could require supplemental funding above and beyond that shown. Also shown in the estimate is a contingency allowance of 5%. The use of loan funds will be for construction services, site preparation, installation of streets and services and the construction of houses to be solicited through public bidding (see par. 4d following), and no loan funds are contemplated for financing the acquisition of land, A&E services and related interest charges or 1VU overhead costs. These estimates reflect only utility service costs (streets, water, sewerage, lights) within the housing tracts on the basis that such services will be connected to existing such service networks immediately contiguous to the tract. As a result, they do not reflect any allowance for lengthy off-site utility service connections to provide needed access, electric, water and sewerage service facilities to the housing tract. Similarly, no allowance has been made for waste water disposal by treatment. It is projected that tract analysis and selection will consider these items. However, should added costs to off-site service connections be required, these will be assumed by the GOP. The rural solution estimate reflects only the cost of the housing unit and septic tank waste water disposal, and here again grading and streets and any other extensive urbanization improvements will be financed from sources other than loan funding. Following is a table showing a breakdown of the preliminary estimate of cost of each type of housing solution contemplated under the program.

4. Project Planning, Design and Construction Implementation

a. Site Selection

Some of the areas to be used for housing development sites financed under this loan are already owned by IVU, and others will be selected during the course of the project implementation. Areas to be selected will be subject to a comparative analysis when more than one site is available at a desired location, and IVU will endeavor to select the most favorable sites. In the selection of these sites, such general criteria as projected development plans within the different cities involved and IVU's own housing guidelines for low-income families will be taken into consideration. The desirability of the site itself in terms of availability of public utilities and community services, such as electricity, water, sewerage, transportation, education; the physical characteristics of the site, such as topography and soils to minimize grading and earth-moving costs in developing the site; and the cost of acquisition will be considered in the comparative analysis between alternative sites in the same area. Site selection shall be subject to the approval of AID.

b. Preparation of Plans, Specifications and Contract Documents

IVU has an engineering staff of 12 civil engineers, 15 architects, five site planners, and a varying number of subprofessional personnel, such as draftsmen, surveyors and construction inspectors. It is considered that this staff has the competence to undertake the collection of field data, perform site investigations, prepare plans, specifications, cost estimates, and other construction contract documents. IVU, at times, contracts specialized engineering services as it may need from among the local professional community.

IVU will also receive and evaluate bids in all cases.

No expansion of IVU's current staff is projected as a result of the additional engineering workload generated by this loan, and any such expansion, if it should become necessary, will be financed by IVU. No loan funds will be utilized for architectural-engineering services in any form.

c. Approvals of Contract Documents

Prior to advertising for bids, IVU shall obtain prior approval of all plans from all national and local entities as may be required through the procedures governed by Panamanian law. GOP entities involved would include public service ministries and agencies, such as IDAAN, IRHE and the street department of the Ministry of Public Works, as well as local municipalities within the Republic of Panama. Plans, specifications, estimates and all other contract documents would also be subject to review and approval by AID. Each of these agencies will review the plans to ascertain that they are in conformance with national accepted standards of design and that services provided by these agencies are available or can be incorporated into the work. The procedure for securing approvals from these agencies is established and is now followed by IVU which, in fact, is the Panamanian agency responsible for basic subdivision and urbanization layout approvals.

d. Public Bidding

Public bids will be solicited for each of the housing projects to be financed under this loan in accordance with the Panamanian fiscal code. The scattered, relatively simple and diversified nature of the work is not expected to attract U.S. or other qualifying country interest in the bidding. Nonetheless, when the loan agreement is signed, a description of the contractual work to be financed will be disseminated through the Commerce Business Daily so that interested U.S. firms may contact the Panamanian agency handling procurement and qualify to receive invitations to bid. The number of contracts contemplated is not known at this time, but several will be most likely awarded, and may be advertised and bid concurrently.

In the event that no response is received for publicly advertised projects, especially for those scattered in the interior, then IVU will strive for another bid by including such projects with other more favorably located construction packages. If no response is then received, or an acceptable bid presented, then IVU may undertake

construction by other methods, including force account, subject to AID review and approval.

e. Construction

It is anticipated that actual construction will take approximately three years. Following is a construction schedule showing the number of units that are planned for construction in each one of these years.

The construction schedule shown is necessarily crude, and will need be updated as implementation of the project progresses.

Inspection of construction shall be carried out by IVU's staff, with a resident inspector assigned to each project. The inspector shall perform the traditional construction inspection services, will validate quantities of work completed, certify vouchers for payments and submit progress reports to both IVU and AID.

f. Final Acceptance of the Project

Upon completion of an individual housing contract, final inspection will be accomplished and the project accepted, and the contractor notified in writing of the acceptance of the completed work. Only after such final acceptance in writing by IVU of the total work will it turn over the housing units to their prospective owners and retained payments be released.

5. Maintenance

Maintenance of public facilities such as streets, water systems and electrical equipment shall be turned over to the appropriate agencies of the GOP.

For multifamily units, IVU normally undertakes everyday maintenance for the building for the first three months following occupation. Maintenance during this period consists of general cleaning and repair of communal areas. During this three month period, IVU conducts meetings of the tenants and assists them as a group in selecting a suitable maintenance system for their building.

IVU has no maintenance responsibility for individually owned housing units, but it will review the owner's maintenance practices. Those unifamily units owned by the IVU, but rented, undergo the normal maintenance expected of an owner.

These maintenance guidelines will be adopted for all new construction under the new loan with IVU's present inspection and maintenance department assuming responsibility.

CO'NTRYWIDE PROGRAM

	(1) 160M ² lot services only	(2) 160M ² lot services 18M ² house	(3) 160M ² lot services- 36M ² house	(4) Multi- family 1/	(5) Rural House only	Total
(a) Land acquisition	160	160	210			
(b) Site development includes grading, streets stormwater drainage, water, sewerage, electricity	790	790	1,090		180	
(c) Contingency-5% site development	40	40	50		10	
(d) Interest charges-Site Development-2½% during construction plus 1% service charge=total 3½%	30	30	40		10	
(e) Housing-construction-complete unit		1,500	3,060		740	
(f) Contingency-5% housing construction		75	150		40	
(g) Interest charges-Housing construction- 2½% Interest during construction plus 1% service charge= total 3½%		50	110		20	
(h) IVU costs-A&E, administrative- 12% of b + e	100	275	500		200	
Cost estimate per unit	1,120	2,920	5,200	6,000 1/	1,200	
Total Units planned	2,370	3,460	1,695	1,500	2,000	10,435
Program estimated cost	2,654 M	10,103	8,814	9,000	2,400	32,971
AID Loan (countrywide)	1,327 M	5,051	4,407		1,200 M	11,985
San Miguelito AID Loan (see breakdown Page)						2,915
Total Construction - AID Loan						14,900

1/ No loan financing will be involved in this multifamily unit. It consists of a 400 M² lot with 4-multifamily units 45 M² area each.

CONSTRUCTION SCHEDULE

<u>Type of Solution</u>	<u>Total Units</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
1. <u>Lots, 160M² with Min. Development</u>	<u>4,590</u>	<u>590</u>	<u>1,890</u>	<u>2,110</u>
1.1 San Isidro (new settlers) ***	400	400	--	--
1.2 San Isidro (Resettle Loma La Pava) ***	190	190	--	--
*1.3 Samaria (new settlers)	1,887	--	1,000	887
*1.4 Gelabert	333			333
1.5 Sites to be selected	1,780		890	890
2. <u>Lots 160M² Min.Dev, 18M² Basic Unit</u>	<u>3,460</u>	<u>1,220</u>	<u>1,120</u>	<u>1,120</u>
2.1 San Isidro (resettle Loma La Pava) ***	600	600	--	--
2.2 Pedregal (resettle Marañón)	520	520	--	--
2.3 Cativá (resettle Rio Alejandro)	100	100		
2.4 Sites to be selected	2,240	--	1,120	1,120
3. <u>160M² Lot with 36M² one family house</u>	<u>1,695</u>	<u>447</u>	<u>543</u>	<u>705</u>
3.1 Rio Alejandro	200	200		
3.2 Pedregal	247	247		
3.3 Sites to be selected	1,248	--	543	705
***4. <u>Multifamily units</u>	<u>1,500</u>	<u>500</u>	<u>500</u>	<u>500</u>
4.1 Santa Maria (52M ² ea.unit)	180	180		
4.2 Barraza (36M ² shared sanitary facilities, resettle Marañón)	320	320		
4.3 Sites to be selected	1,000		500	500
5. <u>Rural units (sites to be selected)</u>	<u>2,00</u>		<u>900</u>	<u>1,100</u>
6. <u>Water & Sewerage to Existing Lots</u>	<u>2,188</u>		<u>875</u>	<u>1,313</u>
*6.1 Altos de Monte Oscuro	298		120	178
*6.2 Las Quinientas	247		100	147
*6.3 Nuevo Veranillo	1,643		655	988
<u>TOTAL PROGRAM</u>	<u>15,433</u>	<u>2,757</u>	<u>5,828</u>	<u>6,848</u>

* San Miguelito program components.

** No loan funds involved.

*** It is planned to shift as much as possible of the San Isidro project to Pedregal, where abundant water is immediately available.

D. FINANCIAL ANALYSIS

1. Funding Requirements

The total cost of the overall project by off-shore and local costs is presented in the following table:

<u>Description</u>	<u>C O S T</u>		
	<u>Off-Shore</u>	<u>Local</u>	<u>Total</u>
Minimum Improved lots	\$133,000	\$2,521,000	\$2,654,000
Minimum Higher Standards lots	205,000	3,894,000	4,099,000
Minimum Improved Lots with Core Units (18m ²)	1,515,000	8,588,000	10,103,000
Fully Improved Lots with Housing Units of 36m ²	1,322,000	7,492,000	8,814,000
Rural Units on Existing Sites	360,000	2,040,000	2,400,000
Improvements of Occupied Sites in San Miguelito	76,000	1,436,000	1,512,000
Units - AID/GOP Financed	3,611,000	25,971,000	29,582,000
Units - GOP Financed	1,350,000	7,650,000	9,000,000
Total Units	4,961,000	33,621,000	38,582,000
Technical Assistance	100,000	-	100,000
Total	\$5,061,000	\$33,621,000	\$38,682,000
Percent	13%	87%	100%

Contingencies, to cover delays due to weather factors, strikes, change orders, and material and skilled labor shortages, have been estimated at 5% of urbanization and construction costs and are included as part of the total amounts for each type of solution.

The amount set aside for contingencies is \$1,133,000 of the AID/GOP financed portion of the project cost or 4%. Estimates include per annum price escalation allowances of 7 1/2% over the three year construction period. All funds are expected to be disbursed within three years of the date of the first disbursement.

2. Sources of Financing

The following three tables show, respectively, the proposed sources of financing, timing of projected funds disbursements and costs of individual projects by sources of funding.

<u>Source</u>	C O S T			
	Off-Shore	Local	Total	%
AID	\$1,906,000	\$13,094,000	\$15,000,000	39
GOP	3,155,000	20,527,000	23,682,000	61
Total	\$5,061,000	\$33,621,000	\$38,682,000	100

<u>Source</u>	C O S T			
	Year 1	Year 2	Year 3	Total
AID	\$3,100,000	\$5,513,000	\$6,387,000	\$15,000,000
GOP	6,480,000	8,139,000	9,063,000	23,682,000
Total	\$9,580,000	\$13,652,000	\$15,450,000	\$38,682,000

<u>Description</u>	C O S T		
	AID	GOP	Total
Minimum Improved Lots	\$ 1,327,000	\$1,327,000	\$2,654,000
Minimum Higher Standard	2,049,000	2,050,000	4,099,000
Minimum Improved Lots with Core Units (18m ²)	5,051,000	5,052,000	10,103,000
Fully Improved Lots with Housing Units of 36m ²	4,407,000	4,407,000	8,814,000
Rural Units on Existing Sites	1,200,000	1,200,000	2,400,000
Improvements of Occupied Sites in San Miguelito	866,000	646,000	1,512,000
Units - AID/GOP Financed	14,900,000	14,682,000	29,582,000
Units - GOP Financed	-	9,000,000	9,000,000
Total Units	14,900,000	23,682,000	38,582,000
Technical Assistance	100,000	-	100,000
Total	\$15,000,000	\$23,682,000	\$38,682,000
Percent	39%	61%	100%

The total cost of the project is estimated at \$38,682,000. AID will fund not to exceed \$15,000,000 through the subject loan and the balance of \$23,682,000 which amounts to 61% of the estimated total will be financed by the Government of Panama.

AID will not participate in the financing of the 45m² multi-family units. Exclusion of these units increases the AID portion of project financing to 50%

The various cost components of the project are shown in the following table:

Description	C O S T			%
	AID	GOP	Total	
Land		1,540,000	1,540,000	6
Urbanization	7,250,000	4,013,000	11,263,000	42
Construction	7,250,000	4,607,000	11,857,000	35
Contingency		1,133,000	1,133,000	4
Interim Financing		818,000	818,000	3
Administrative Costs		2,971,000	2,971,000	10
Units - AID/GOP Financed	14,500,000	14,682,000	29,182,000	100
Units - GOP Financed		9,000,000	9,000,000	
Total Units	14,500,000	23,682,000	38,182,000	
Technical Assistance	500,000		500,000	
Total	\$15,000,000	\$23,682,000	\$38,682,000	

The GOP contribution above includes project costs for all units within IVU's overall three year program of 15,433 units including certain units started in 1972 but before the loan agreement signing date. See Annex XIII for the understanding between AID and IVU as to acceptance procedures of GOP contribution for these units started before loan agreement signing date.

The sources of GOP financing of \$23,682,000 are as follows:

Social Security Loans, 20 years at 5%	\$ 8,400,000
Down Payments	1,950,000
IVU: Land	1,540,000
Net Working Capital 1/1/72	3,668,000
1972-74 Net Losses Before Depn	(1,000,000)
1972-74 Rollover of Mort.Princ	1,765,000
Payments net of L-T Debt Repaym.	5,973,000
GOP: General Support	4,837,000
Rent Board Subsidy	2,250,000
Beer Tax Subsidy	1,050,000
Total Sources	<u>8,137,000</u>
Total Required	24,460,000
Invested In Working Capital	<u>23,682,000</u>
	\$ 778,000

Down payments run from 0-10% depending on individual project and resources of purchases. In some instances IVU will also finance the purchaser's down payment.

IVU, at the present time, is owner of approximately \$1,140,000 of the land to be used in the project. An additional \$400,000 of land will be purchased.

AID funds will be used exclusively to finance urbanization and construction costs and technical assistance.

3. Financial Condition

a. Historical Data

Comparative financial statements of IVU (GOP Housing Institute and Implementing Agency under the loan) for the years 1969-1971 are presented in Annex VI.

The main assets of IVU as of 12/31/71 consist of the following, in order of magnitude:

	<u>Amount</u>	<u>% of Total Assets</u>
Mortgage Loans (net of allowance for doubtful accounts -\$161,000)	\$23,392,000	42
Land Held for Development	12,798,000	23
Rental Units (including land)	6,753,000	12

The amount of mortgage loans outstanding has increased by \$5,542,000 since 12/31/69 while the number of mortgage loans outstanding has increased from 8,018 as of 12/31/69 to 10,506 at 12/31/71. Although IVU is still experiencing collection problems, statistics indicate a marked improvement in delinquency rates.

At 12/31/69 only 16% of borrowers were current, while at 12/31/71 the percentage stood at 41%. A recent report of FCH International also indicates the progress being made by IVU in collections. A comparison (extracted from Report #14, FCHI/BID Contract) between 1/31/71 and 1/31/72 indicates the following:

<u>Date</u>	<u>Loans Outstanding</u>	<u>Loans Delinquent</u>	<u>Amount Delinquent</u>
1/31/71	8,919	8,170	\$656,400
1/31/72	10,747	5,895	517,100

A comparative aging reveals the following improvement:

Date	# of Loans	Current	Delinquent		
			1-3 mos.	4-6 mos.	7 mos.
1/31/71	8,919	749	4,516	1,578	2,076
1/31/72	10,747	4,852	2,990	999	1,906

As the statistics indicate, IVU is working diligently to bring the delinquency problem under control. Preliminary reports by the IVU collection department and FCHI technician indicate that the percentage of current accounts to total accounts have reached 50% as of March 31, 1972. A system of mandatory payroll deductions which was enacted by the GOP approximately 1 1/2 years ago is one of the principal causes responsible for the above performance.

Land held for development consists mainly (approximately 90%) of land donated to IVU by the GOP to utilize in its role as the national agency for low-cost housing. Periodic revaluations of land have been made by IVU. The revaluations are included in the balance sheet of IVU. The last revaluation of land was made in 1966 based on an official GOP cadastral survey, which would indicate an undervaluation of the market value of the land with the large increases in land value over the last five years in Panama.

Rental units consist of apartment buildings deeded to IVU by GOP or constructed in Panama City and Colon during 1966 to 1969. The land portion represents approximately 25% of net book value of rental units at 12/31/71. Rental units produced \$717,000 gross income before rent board subsidies of \$569,000 in 1971. No new rental units have been planned for construction by IVU in accordance with the new administration's philosophy; however, IVU plans in 1972 to trade land for a rental unit owned by CSS in an attempt by the GOP to have one agency responsible for housing. The capital structure of IVU at 12/31/71 consists of long term debt of \$23,715,000 and equity of \$27,258,000. Principal components of long term debt are as follows:

BID Loans, 1961-96, 2-3%	\$14,599,000	L-T Portion Outstanding
AID Loan, 1966-96, 3 1/2%	2,763,000	" " "
DIGEDECOM Loan, 1970-85, 3%	274,000	" " "
Bonds, 1960-86, 5-6%	<u>6,079,000</u>	" " "
Total	<u>\$23,715,000</u>	

IVU has timely met all of its repayment commitments on long term obligations.

Equity over the past three years has been increased by the following means:

	<u>1969</u>	<u>1970</u>	<u>1971</u>
Beginning Equity	\$19,727,000	\$20,463,000	\$24,648,000
Loss	(1,998,000)	(921,000)	(301,000)
Beer Tax	348,000	375,000	281,000
Rent Board Subsidy	825,000	825,000	569,000
GOP Support	1,678,000	2,790,000	2,200,000
Social Security Subsidy		750,000	
Other	(117,000)	366,000	(138,000)
Ending Equity	<u>\$20,463,000</u>	<u>\$24,648,000</u>	<u>\$27,259,000</u>

The debt-equity ratio has decreased from 1.1:1 at 12/31/69 to .9:1 at 12/31/71.

On the operating side, volume increases, coupled with administrative reform, have substantially reduced IVU's losses over the past three years from \$1,998,000 in 1969 to \$301,000 in 1971.

IVU's administrative costs charged to operations were as follows:

<u>Year</u>	<u>Amount</u>	<u>Increase</u>	<u>Increase %</u>
1969	\$2,275,000		
1970	2,320,000	\$45,000	2%
1971	2,460,000	140,000	6%

These increases in administrative costs were held to a minimum primarily through a reform program of general reduction and upgrading of the IVU staff. The number of IVU employees has decreased from an average of 825 employees in 1969 to an average of 589 employees during 1971.

Reductions were achieved during period of increasing operating volume as shown by the increase in number and amount of loans outstanding over the 1969 to 1971 period.

b. Forecasted Data

Projected financial statements and cash flows for 1972-76 and analysis of loan fund rollover for reinvestment in housing for ten years grace period are presented in Annex XV.

A brief comparative summary of the balance sheets at the end of 1971 and 1976 is scheduled below:

	12/31 (\$000's Omitted)				Increase	
	1971	%	1976	%	Amount	%
Mortgage Loans	\$23,392	42	\$75,122	77	\$51,730	221
Other	31,902	58	22,412	23	(9,490)	(30)
Total Assets	\$55,294	100	\$97,534	100	\$42,240	76
L-T Liabilities	\$25,475	46	\$55,883	57	\$30,408	119
Equity	27,258	49	39,520	41	12,262	45
Other	2,561	5	2,131	2	(430)	(17)
Total Liabilities & Equity	\$55,294	100	\$97,534	100	\$42,240	76

Over the five year period the total assets of IVU are estimated to almost double from an amount of \$55,294,000 as of 12/31/71 to \$ 97,534,000 at 12/31/76. The gain is attributable to the increase of \$51,730,000 in mortgage loans outstanding which amount represents 77% of the projected 12/31/76 total assets.

The increase in total assets is financed mainly through new long-term debt. The proposed AID loan of \$15,000,000, projected loans of \$13,139,000 from CSS net of amortization and new IDB financing, programmed for 1975 and later for the Marañon urban renewal, are the major sources of new debt financing.

Equity increases of \$12,262,000 are the other main sources of financing the expansion of IVU over the next five years. Projected GOP support for 1972-76 is shown below.

(\$000's Omitted)

	<u>General^{1/} Support</u>	<u>Rent Board Subsidy</u>	<u>Beer Tax Subsidy</u>	<u>Total</u>
1972	\$704	\$750	\$350	\$1,804
1973	2,067	750	350	3,167
1974	2,066	750	350	3,166
1975	2,065	750	350	3,165
1976	2,063	750	350	3,163
Total	\$8,965	\$3,750	\$1,750	\$14,465

Debt equity financing over the five years approximates 70:30 resulting in an increase of debt-equity ratio from 48:52 at 12/31/71 to 59:41 at 12/31/76.

A summary of actual and projected operating data, presented below, shows volume increases for each of the five forecast years and also the effect on administrative costs.

(\$000's Omitted)

<u>Year</u>	<u>Sales</u>	<u>Administrative Costs</u>
1971	\$6,146	\$2,460
1972	10,668	2,497
1973	12,715	2,748
1974	15,588	2,797
1975	16,141	2,848
1976	13,665	2,900

Administrative costs are projected to increase 10% in 1973 with nominal increases of approximately \$50,000 per year in all other years. Sales are important only as volume indicators as it is the policy of IVU to price units to allow full recovery of costs only and realization of funds flow is determined by mortgage terms.

The following table compares projected mortgage loan amortization including interest (subject to a slow pay factor) with debt service requirements and out of pocket administrative costs not recovered through sales over the next five years.

<u>1/ General Support</u>	<u>Investment</u>	<u>Operating</u>	<u>Total</u>
1972	704,000		704,000
1973	1,425,000	642,000	2,067,000
1974	1,266,000	800,000	2,066,000

1975 and 1976 are projections only based on previous support levels.

<u>Year</u>	<u>Mtg. Loan Amort. & Interest</u>	<u>Debt Service</u>	<u>Times Debt Service</u>	<u>Debt Service & Admin. Costs</u>	<u>Time Debt Service & Admin. Costs</u>
1972	\$2,770	\$1,952	1.4	\$3,906	.7
1973	3,250	2,219	1.5	4,357	.7
1974	4,283	2,735	1.6	4,915	.9
1975	5,058	3,043	1.7	5,258	1.0
1976	6,098	3,431	1.8	5,700	1.1

The necessity of continued support by the GOP at amounts indicated earlier is apparent from this analysis.

Mortgage amortization and interest from the AID financed portion of the project create an additional \$10,383,000 reinvestment in housing after loan interest payments through the end of the grace period. Considering both the AID and CSS loans over the three years of the project, the amount reinvested in housing after debt service requirements for the first ten years of the project reaches \$12,014,000. See Annex XIV.

4. Alternative Sources of Financing

The conclusion of the Country Team is that suitable financing from other lending agencies is not available for this project. See Section 2-C, Sector Relationships.

5. Prospects of Loan Repayment

The financial analysis of IVU's operations for the period 1972-76 indicate favorable prospects of loan repayment. Loan repayment can be made from the resources projected to be available to IVU. Continued government support will be required; however, projections of this support in the financial statements of IVU are at approximately the same levels as government support over the last three years.

SECTION IV - LOAN ADMINISTRATION

A. PROJECT EXECUTION

1. General Guidelines:

To achieve the objectives of the project, the following activities will be undertaken:

a. Technical Assistance - Two specialists presently financed by IDB and OAS will continue to work with IVU personnel in improving the administration of the agency. Funding to cover a continuation of these services will be provided under the loan. Loan funding will also be available to finance the broader technical assistance requirements of the entire housing sector including any of its component agencies. The Housing Committee will decide on the types of technical assistance to be provided, and contracting will be done by the agency which is to receive the technical assistance.

b. Construction - Overall plans and general specifications are being prepared by IVU's engineering department and will be approved by USAID. Approval by USAID of each tract where housing solutions are to be constructed and its corresponding development plan will be a prerequisite for proceeding with the taking of bids and construction itself being financed from the loan.

c. Evaluation and Review - The project will be evaluated annually jointly by IVU and USAID to measure progress and determine future courses of action to achieve the objectives of the project. In addition quarterly progress reports regarding construction and financing will be submitted for AID approval.

2. Execution Plan:

Prior to the initiation of activities within any component of the project, the Borrower will meet the standard conditions precedent to initial disbursement. The Borrower will submit overall plans and contracts for A.I.D. approval prior to disbursement on all project components. The guidelines for preparing project plans are contained in Annex

Concurrent with the AID financed construction phase of the project, the Borrower will continue its IDB assisted program of administrative reorganization and improvement. A new department of Planning and Coordination will be staffed and begin functioning.

The principal components of the initial stage of project execution are the urban sub-projects. Some tracts of land where these sub-projects will be located are already identified and shown in the following table together with critical dates for plan approval, initiation of construction and termination of construction. The programming is based on year of completion of the units.

1972 Construction Program

1. IVU budget appropriation, already secured. Construction has been started on some elements.
2. Plans for 590 units, Type 1
1,220 units, Type 2
447 units, Type 3
500 units, Type 4

To be approved in May 1972, on sites already selected.

3. Contracts signed by July 1972.
4. Down payments completed in December 1972.
5. Construction completed by December 1972, but this will probably run over into 1973 in view of the late start.

1973 Construction Program

1. Site selection by August 1972.
2. Approval of plans by October 1972 for:
1,890 units Type 1
1,120 units Type 2
543 units Type 3
500 units Type 4
900 units Type 5 Rural
875 units Type 6
3. IVU obtains budget appropriations required for 1973 in December 1972.

4. Contracts signed in December 1972.
5. Down payments completed December 1973, (urban) December 1972 (rural)
6. Construction completed December 1973.

1974 Construction Program

1. Site selection in August 1973.
2. Approval of plans by October 1973 for:
 - 2110 units Type 1
 - 1120 units Type 2
 - 705 units Type 3
 - 500 units Type 4
 - 1100 units Type 5
 - 1313 units Type 6
3. IVU obtains budget appropriations required for 1974 in December 1973.
4. Contracts signed in December 1973.
5. Down payments completed in December 1974 (urban), December 1973 (rural)
6. Construction completed December 1974.

a. Basic Ordering of Responsibilities

1. Tract selection will be made by the Technical Division of IVU and submitted by IVU's General Manager to USAID for approval.
2. Tract development plans will be prepared by the Technical Division of IVU and submitted by IVU's General Manager to USAID for approval.
3. IVU's Administrative Division will prepare budgets for presentation via the GOP budget process. It will assure that other required resources are programmed effectively. In December of the prior year, IVU's General Manager will notify USAID by letter that all financial measures have been taken and that the required resources are available for the yearly campaign.

4. Construction contracts will be drafted by the Technical Division, and submitted to USAID for approval by IVU's General Manager, prior to ongoing out for bids.

5. IVU's Banking Division will announce sub-projects, accept applications, screen them, approve applicants, and receive down payments. It will provide USAID with information on status of applications and down payments for all sub-projects, number of units occupied, and status of monthly payments, on a quarterly basis, using forms provided by USAID for that purpose.

6. IVU's Technical Division will inspect all projects under construction and provide USAID with quarterly reports showing general advance of work, major problems encountered, solutions proposed, and recording number of units started, under construction, and completed.

7. IVU's Administrative Division will keep all records of project expenditures, make all payments, and present vouchers to USAID documenting all project expenditures. USAID will advance IVU up to \$500,000 for establishment of a revolving fund.

b. Major Contingencies Foreseen

The major contingencies foreseen in project execution are listed below, along with proposed methods for dealing with them:

1. Shortfall of GOP Financing

In the event the GOP does not provide adequate funding to IVU as of the first of the year to proceed with the full year's construction program, implying a non-utilization of a portion of loan funds allocated for that year, IVU will immediately enter into an agreement with one or more eligible sub-borrowers (sector agencies) to carry out the unfunded portion of the program. If this cannot be done by March 31 of the corresponding year, AID will consider the loan reduced proportionally in amount.

2. Inordinate Price Rise

In the event prices should rise in excess of the allowances in the cost estimate, the annual construction program may be readjusted in one of two ways at the option of the GOP.

i. If the GOP wants to dedicate additional resources to the annual construction program to cover increased costs, there is no reason not to carry out the program as planned.

ii. In the event the GOP does not elect to dedicate additional resources, the necessary adjustments will be made to the program by reducing the number of more expensive units and adding to the number of less expensive units in proportion, so that the total funds required is reduced without reducing the total number of units.

3. Failure to Complete an Annual Construction Program

In the event IVU cannot complete its construction program during any one year, the annual IVU USAID review will focus on how responsibility for the uncompleted portion or its equivalent can be shifted to other sector agencies, so that the lost time can be made up in the succeeding year.

4. Insufficient Demand in One Area

In the event IVU meets customer resistance to one of its sub-program designs and cannot sell as many units as planned, and if this is counterbalanced by greater demand than anticipated in another category, IVU may propose to USAID a modification of the distribution of units in the project. Such an eventuality would doubtless oblige IVU to change the total number of units in the project, and this will be considered normal in this contingency.

5. Desire to Change Sub-Program Norms

In the event IVU develops a better solution for one of its sub-program types, it may formally propose to USAID a modification of the project plan to take this into account. For USAID review, IVU will present full documentation and will not initiate construction on the basis of the new plans without notification of AID approval.

3. Operating Criteria

The operating criteria proposed by the Borrower are set out in detail in Annex VII. The relationships with other agencies, the clients and contractors are described briefly below.

(a) Relationships with Sub-Borrowers

Where other agencies function as sub-borrowers, IVU will enter into a sub-agreement, the text of which will require prior USAID approval. The sub-borrower will be required to respect all of the operating norms of IVU except insofar as exception is specifically made.

(b) Relationships with Investors

AID is the major foreign investor in the project. The relationships between IVU and AID will be spelled out in the AID-IVU loan agreement, in an implementation plan to be presented and approved prior to the first disbursement, and in implementation letters issued by USAID.

CSS is the major Panamanian investor in the project. The relationships between IVU and CSS will be spelled out in an IVU-CSS loan agreement, which will be formalized prior to the IVU-AID agreement. If there are any other investors in the project, similar agreements may be required.

(c) Relationships with Technical Review Agencies

A number of public agencies normally approve development plans for technical correctness. Since USAID will also review such plans, it will assure that the other agencies have approved the plans before giving its own approval.

IVU normally enjoys the full cooperation of the other agencies, since IVU itself is one of the group of technical review agencies.

(d) Relationships with Clients

The proposed Borrower, IVU, has well-established operating criteria, under which it receives applications, screens applicants, establishes priorities and approves applications for provision of housing facilities under its various programs. Its rules also cover granting of mortgage contracts, mortgage collections procedures, and terminating mortgage contracts for due cause. All of

these rules are presented in Annex VII to this Loan Paper. No USAID approval is involved.

In the event that sub-borrowers carry out portions of the project, their operating procedures will be governed by their sub-agreements with IVU.

(e) Relationships with Contractors

Essentially all of the work to be carried out on the project will be done under contract. IVU will put the sub-contracts out to bid after obtaining all required approvals including that of USAID.

B. ADMINISTRATIVE PROVISIONS AND RESPONSIBILITIES

1. Project Management will be composed primarily of personnel from IVU who will be provided policy guidance from the Planning Office of the Presidency and the National Housing Commission. IVU will appoint a project manager and an assistant project manager to coordinate the project and devote full time to its execution.

2. Technical Assistance is being provided by IDB. Additional technical assistance will be contracted by the National Housing Committee or the recipient agency as required. The monitoring of the implementation of recommendations made through technical assistance will be the responsibility of the Committee. Up to \$500,000 of loan funds may be used to finance technical assistance. For strengthening IVU's urban planning capability as well as for other assistance which may be identified by the National Housing Commission.

3. Loan Disbursements will be made through direct disbursement to IVU or establishment of a revolving fund. AID and IVU will participate in the financing of the project in equal proportions. Recognized expenditures, related to project execution fall into the following four categories:

- (1) Expenditures for purchase of sub-project sites. (IVU)
- (2) Expenditures for site improvement, normally by contract construction. (AID)
- (3) Expenditures for housing construction, also by contract in most cases. (AID)
- (4) Administrative charges of IVU, covering all of its costs, which amounts to 12% of (2) and (3). (IVU)
- (5) Interim financing costs covering interest which has to be paid during the construction period, estimated at 3 1/2% of (2) and (3). (IVU)

For each subproject proposed and accepted under this loan:

- (1) Land costs will be financed by the Borrower.
- (2) Overhead and interim finance charges will be financed by the borrower and will be applied at 12% and 3 1/2% respectively of estimated construction contract amounts.
- (3) Construction contract amounts will be financed by AID to the extent of 50% of the total subproject cost, including land cost and overhead.

- (4) The Memorandum of Agreement (MOA) will be used as the basic supporting document.

4. Construction will be undertaken by IVU. It shall submit to AID for approval all construction plans and specifications and all contractual arrangements. The plans and specifications should be prepared in consultation with advisors made available through technical assistance. The USAID project coordinator will have the responsibility of monitoring the general operation of the project.

5. Maintenance of the units constructed will be the responsibility of each purchaser. IVU may make periodic inspections to insure that the housing units are being properly maintained until all mortgage payment have been made. If the unit is not being maintained adequately, IVU may cancel the mortgage contract and demand immediate payment of the remaining balance.

6. USAID Monitoring Responsibilities - the Chairman of the USAID Project Team, who is the head of the Housing and Urban Development Sector, will have primary monitoring responsibility. This will include coordinating Mission monitoring efforts, responding to correspondence, resolving problems, and insuring that the Borrower complies with the Loan Agreement. The Project Team consisting of members of Capital Development, Development Planning, Engineering, Public Administration and the Controller, will assist the Project Manager.

USAID's Engineering Division will be relied upon for the following types of technical review and inspection:

- a. Review of submissions of sub-program types and their respective cost estimates.
- b. Review of submissions of site development plans (sub-projects) and their respective cost estimates.

This includes site approval.

- c. Review of contract documentation
- d. Periodic inspection of all active sub-projects.

USAID's Controller's Office will be relied upon for the following functions:

- a. Review of vouchers and supporting documentation
- b. Review of periodic financial reports
- c. Inspection of accounting records

d. Disbursements.

7. Target Dates

- a. Loan Authorization - June 1972
- b. Notification to GOP - June 1972
- c. Loan Negotiations - July 1972
- d. Loan Agreement signed - August 1972
- e. Implementation Letter No. 1 issued - August 1972
- f. Overall Plans and General Specifications approved -
June 1972
- g. Conditions Precedent met and
Disbursements begin - October 1972
- h. Construction completed - June 30, 1975
- i. Terminal Disbursement Date - December 31, 1975

C. CONDITIONS AND COVENANTS

A. Conditions

The loan shall be conditioned upon -- (a) establishment of a National Committee for Housing and Urban Development to coordinate the activities of the various agencies financing housing; and (b) a firm commitment of \$8.4 million of CSS funds to IVU for low income housing over the next three years.

B. Covenants

The Borrower shall agree to:

1. Make timely and adequate provision of funds in conformance with the financial plan contained in the Loan Agreement.
2. Submit within six months of the formation of the National Committee for Housing and Urban Development a plan setting forth technical assistance requirements proposed for loan funding.

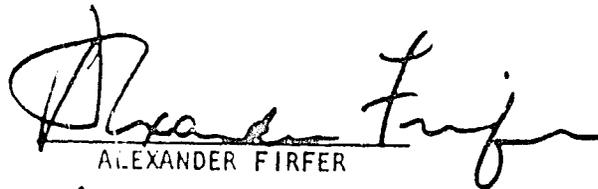
- d. Yearly budgets certified by IVU's General Manager, prior to January 1 of each year.
- e. Quarterly reports from IVU's Banking Division regarding status of applications, down payments, number of units occupied and monthly payments.
- f. Quarterly reports from IVU's Technical Division regarding construction progress.
- g. Vouchers to document all expenditures.

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Alexander Firfer the principal officer of the Agency for International Development in Panama, having taken into account among other things, the maintenance and utilization of projects in Panama previously financed or assisted by the United States, do hereby certify that in my judgement Panama has both the financial capacity and the human resources capability to effectively maintain and utilize the capital assistance project for assisting low income housing and urban services in Panama.

This judgement is based on the Mission's over-all experience with the Instituto de Vivienda y Urbanismo of Panama and experience with loans to other autonomous and semi-autonomous agencies of the Government of Panama.

The Capital Assistance Paper certifies that the statutory criteria as applied to Panama have been met. Discussion in the capital assistance paper has clearly demonstrated the capability of Panama and the Borrower to effectively maintain and utilize the project.


ALEXANDER FIRFER

May 4, 1972
DATE

AID 1240-2 (4-7)

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1972.

MMA - Merchant Marine Act of 1936, as amended.

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA § 208; §.251(b).

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

While the gross figure for growth of Panama's agricultural production (1960-71) is 5.2%, this includes bananas which are exported. Much needs to be done to improve production and distribution.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

The climate for foreign and domestic private enterprise and investment is favorable.

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(3) Increasing the public's role in the developmental process.

The present underway revisions of the constitution, the proposed popular elections in August, the plan (gran Tarea) for making developmental institutions more responsive to publicly perceived needs, all go in this direction.

(4) (a) Allocating available budgetary resources to development.

During the 1960-70 period, public sector real investment amounted to about \$293.5 million or 27.4% of estimated total public expenditures (\$1,070.5 million).

(b) Diverting such resources for unnecessary military expenditure (See also Item No. 16 and intervention in affairs of other free and independent nations.) (See also Item No. 14.)

Panama's expenditures for military purposes have been a small percentage of total government expenditures and Panama has not intervened in the affairs of other free and independent nations.

(5) Willing to contribute funds to the project or program.

The Borrower's contribution to this project is substantial, being approximately two thirds of total estimated project costs.

(6) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

Panama has made substantial progress in social, economic and political reforms. It has reformed the tax laws and improved tax administration substantially. As a result, 1971 tax income receipts totaled \$60 million, nearly four times the 1963 total of \$15.5 million. Although there is press censorship under the provisional government, it is moving in the direction of restoring constitutional rights and national elections are scheduled for this summer. The provisional government has emphasized the concepts of self-help and individual initiative in its civic action programs and has given support to private enterprises.

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(7) *Adhering to the principles of the Act of Bogota and Charter of Punta del Este.*

Panama is adhering to the principles of the Act of Bogota and is working to achieve the objectives of the Charter of Punta del Este. In practically every category Panama is ahead of the targets set by the Charter or approaching them.

(8) *Attempting to repatriate capital invested in other countries by its own citizens.*

Panama's banking system is a repository for flight capital for other countries. Efforts are underway to create an over-the-counter securities market in Panama, but the smallness of the Panamanian private economy will continue to force investments off-shore.

(9) *Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.*

See answer to (6) above.

B. *Are above factors taken into account in the furnishing of the subject assistance?*

Yes.

Treatment of U.S. Citizens

No such case is known.

2. FAA § 620(c). *If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?*

AID 1240-2 (4-72)

3. FAA § 620(e)(1). *If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?* Panama is not known to have taken such action.
4. FAA § 620(o); Fishermen's Protective Act. § 5. *If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,*
- a. *has any deduction required by Fishermen's Protective Act been made?*
- b. *has complete denial of assistance been considered by A.I.D. Administrator?* No such seizures or sanctions are known.

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Relations with U.S. Government and
Other Nations

5. FAA § 620(d). If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan? Not applicable.
6. FAA § 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property? No.
7. FAA § 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason? Panama has since 1967 stood ready to institute the full range of guaranties and insurance. OPIC is expected to respond to this in May.
8. FAA § 620(q). Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country? No.

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9. FAA § 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No.
10. FAA § 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? Panama is not delinquent with respect to dues, assessments or other obligations to the U.N. for the purposes of Article XIX of the Charter.
11. FAA § 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba? No.
12. FAA § 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement? Yes.

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13. FAA § 620(f). Is recipient country No.
a Communist country?
14. FAA § 620(i). Is recipient country No.
in any way involved in (a) subver-
sion of, or military aggression
against, the United States or any
country receiving U.S. assistance,
or (b) the planning of such
subversion or aggression?
15. FAA § 620(n). Does recipient No.
country furnish goods to North
Viet-Nam or permit ships or
aircraft under its flag to
carry cargoes to or from North
Viet-Nam?
16. FAA § 482. Has the government of
recipient country failed to take
adequate steps to prevent narcotic
drugs and other controlled sub-
stances (as defined by the
Comprehensive Drug Abuse Prevention
and Control Act of 1970) produced
or processed, in whole or in part,
in such country, or transported
through such country, from being
sold illegally within the juris-
diction of such country to U.S.
Government personnel or their
dependents, or from entering the
U.S. unlawfully?
- The Government of Panama has
taken steps to cooperate in
the prevention of narcotics
and other controlled substances
being produced or processed in
or transported through Panama,
or sold illegally there, or
entering the United States.
These steps are not now re-
garded as inadequate.

Military Expenditures

17. FAA § 620(a). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)
- (a) Less than 1% of 1971 budget
 - (b) Less than 1% of foreign exchange resources.
 - (c) No purchase of sophisticated weapons systems has been made.

CONDITIONS OF THE LOAN

General Soundness

18. FAA § 201(d). Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.
- The terms are both legal and reasonable under the applicable U.S. and Panamanian standards.
19. FAA § 251(b)(2); § 361(a). Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?
- The economic and technical soundness of the project is discussed in Section 3 of Part II.
20. FAA § 251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.
- There are reasonable prospects of repayment of this loan.

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21. FAA § 611(a)(1). Prior to signing of loan will there be
(a) engineering, financial, and other plans necessary to carry out the assistance and
(b) a reasonably firm estimate of the cost to the United States of the assistance?
Yes.
22. FAA § 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?
The decree establishing a committee to coordinate housing agencies should be promulgated prior to this loan agreement being signed.
23. FAA § 611(a). If loan is for Capital Assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?
Yes, see annex.
24. FAA § 251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
Financing from other free-world sources, including private U.S. sources, is available for other parts of the housing sector, but not for the low-income part toward which this loan is directed.

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Loan's Relationship to Achievement
of Country and Regional Goals

25. FAA § 207; § 251(a). Extent to which assistance reflects appropriate emphasis on: (a) encouraging development of democratic, economic, political, and social institutions; (b) self-help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntray Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws.
- (a) Home ownership is one of the basic institutions in building a democratic society. In addition to improving political stability through involving the homeowner with an investment, community involvement and the opportunity for democratic participation is often increased as the homeowner attempts to improve community services and improve and protect his property.
- (b) N.A.
- (c) This project will require the services of 10,000 trained workers. Because of the shortage of workers additional personnel will be trained on the job to meet this need.
- (d) This project is aimed at improving health needs by providing improved housing including clean water and sewerage for 40,000 people and sanitary services to an additional 20,000 Panamanians suffering from polluted water and the dangers of open sewers.
- (e) This project is in direct response to the important need of urban development and responding to the basic human need for decent housing.
26. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?
- No.
27. FAA § 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.
- The project is consistent with other development activities and contributes to long-range objectives. Improving housing and sanitary services contributes to development through answering basic human needs, improving the productivity of the population through improving health, and stimulating the Panamanian economy.
28. FAA § 251(b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.
- The project fosters the development of self-sustaining mechanism to provide low income housing on a long term basis through the shifting of government controlled resources.

AID 1240-2 (4-72)

29. FAA § 281(a). Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.
- This project is designed to provide over 8,000 families with their own homes. Home ownership is a basic foundation stone in the development process and a democratic institution is its own right. More importantly, the loan is designed to encourage the CSS to shift its investments in housing to the low income group, leaving the other levels of housing to private sources of financing encouraged by governmental measures such as mortgage insurance.
30. FAA § 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.
- Proving housing for the low income portion of the population is answering one of the most urgent of Panama's basic human needs. Panama's own intellectual resources are being utilized in reorganizing the housing institutions.
31. FAA § 601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.
- This project will (a) increase the flow of international trade indirectly through the purchase of imported elements in construction and home furnishing; (b) foster private initiative through encouraging home ownership; (c) encourage the use of housing cooperatives, credit unions and savings and loan associations; (d) through individual home ownership and contracting with a variety of housing contractors discourage monopolistic practices; (e) improve the technical efficiency of housing construction through introduction of the most modern methods; and (f) encourage free labor union activity by providing 10,000 jobs open to labor union members.

AID 1240-2 (4-72)

32. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate? Panama is not newly independent.
33. FAA § 251(h). Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities. This activity is consistent with the findings and recommendations of the 1971 CIAP review.
34. FAA § 251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America. This loan will assist the cooperative movement in Latin America through encouraging the participation of FUNDAVICO, the Cooperative Housing Foundation, in the construction of the rural portion of this program.
35. FAA § 209; § 251(b)(8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America. N.A.

Loan's Effect on U.S. and A.I.D. Program

36. FAA § 251(b)(4); § 10B. Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position. Loan is not detrimental to the U.S. economy. Loan funds will be used to procure materials, equipment and services available in Panama. 69% of Panama's imports come from the U.S.

37. FAA § 601(b). Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
- This project will encourage domestic institutions and private entrepreneurs to participate in low income housing construction. These institutions will be encouraged to utilize financing and services of U.S. private investors and housing institutions in areas more appropriate for their investment
38. FAA § 601(d). If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?
- Yes.
39. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.
- When the loan agreement is signed, a description of the proposed construction will be disseminated in U.S. so that interested U.S. firms may contact IVU to qualify and be notified of invitations for bids.
40. FAA § 620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?
- No

41. FAA § 621. If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Technical assistance will be provided primarily by private sources.

42. FAA § 252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.

The total amount of the loan is being provided to IVU, a government housing bank, which in turn will provide individual housing loans, thus serving as an intermediate credit institution.

Loan's Compliance with Specific Requirements

43. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?

Yes

44. FAA § 608(a). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

The loan agreement will include the standard provision so requiring.

45. FAA § 604(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President?
- No commodity procurement will be directly financed under this loan.
46. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?
- No such procurement is contemplated.
47. FAA § 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan?
- Yes.
48. FAA § 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?
- No such procurement to be financed by the loan.
49. FAA § 611(b); App. § 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?
- Not applicable; no such program or project is to be financed by the loan.

AID 1240-2 (4-72)

50. FAA § 611(a). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable? Competitive bidding will be required.
51. FAA § 620(g). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property? No loan funds will be used for acquiring land. The GOP either owns the site for the proposed construction or will purchase it.
52. FAA § 612(b); § 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services. The Borrower will contribute to the local costs of the project.
53. App. § 104. Will any loan funds be used to pay pensions, etc., for military personnel? No.
54. App. § 106. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms? The loan agreement will so require.
55. App. § 108. Will any loan funds be used to pay U.N. assessments? No.

56. App. § 109. Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (A.I.D. Regulation 7).
- Capital Assistance Guidelines under Implementation Letters will so provide.
57. FAA § 636(i). Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?
- No.
58. App. § 501. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by the Congress?
- No.
59. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million?
- No.
60. FAA § 618(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?
- No.

61. MMA § 901.b. Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

Requirement will be complied with.

POPULATION FACTORS

Population Trends

The 1970 Census showed that Panama's population increased 33% to 1,428,082, in comparison with 1960. The rate of increase was slightly lower than during the 50's. Projections for the 70's indicate a further decrease of the rate below that of the 60's.

	<u>POPULATION OF PANAMA</u>			
	<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>Projected 1980</u>
Total Population from Census Data	805,285	1,075,541	1,428,082	1,860,000
Percentage increase over earlier Census	29%	34%	33%	30%

The Census also showed that the total number of occupied dwelling units was 285,321, indicating an average family size of almost exactly 5 persons. This shows a slight decrease in family size relative to the earlier census and this trend is expected to continue during the 70's.

	<u>OCCUPIED DWELLING UNITS IN PANAMA</u>			
	<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>Projected 1980</u>
Number of Occupied Dwelling Units	166,241	211,068	285,321	390,000
Persons per family	4.8	5.1	5.0	4.8

The population distribution between urban and rural continued to demonstrate a shift from rural to urban, and this trend was anticipated to continue during the 70's. The 1980 census will undoubtedly show for the first time that urban population exceeds that of rural areas. At the same time Panama City population continued to grow even faster than did urban population, so that the percentage in Panama City (including San Miguelito) also increased in relative terms. This trend is expected to be reversed as areas outside of the City prosper and San Miguelito share in the metropolitan growth.

DISTRIBUTION OF PANAMA'S POPULATION

	<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>Projected 1980</u>
Urban	289,697	446,213	679,418	1,000,000
Urban Percentage	36%	42%	48%	54%
Rural	515,588	629,328	748,664	860,000
Rural Percentage	64%	58%	52%	46%
Panama City and San Miguelito	127,874	273,440	455,027	630,000
Panama City and San Miguelito %	16%	26%	32%	34%

These projected trends indicate approximate average annual growth rates for each sector of the population as indicated in the following table. The big expected change is a relative slackening of Panama City's growth as against a marked quickening of growth of the other cities of the Country. The Rural Population growth rate is expected to decline slightly.

AVERAGE ANNUAL GROWTH RATES FOR THE 60's AND 70's

	<u>1960</u>	<u>1970 (estimated)</u>
Rural Population	1.5%	1.25%
Panama City and San Miguelito	5.0%	3.5%
All Urban Population	4.0%	4.0%
Urban except Panama City	2.5%	5.0%

Republic of Panama
Office of the President
Planning Office

Note # 6-DPL
Panama, January 11, 1972

Mr. Alexander Firfer, Director
Agency for International Development (AID)

Dear Mr. Firfer:

The Planning Office, which I am honored to manage, formally requests from the Agency for International Development (AID), the granting of a loan for completing the funding needed for the "Minimum National Program for Housing with a Social Interest for the years 1972-1974". The annual schedule has been set forth from the goals of the six-year plan (See Annex 1) for the whole sector. These goals exceed the present financial capabilities of the country for housing programs with a social interest. Therefore the loan requested will concur to reduce partially that financial deficit.

The application is submitted in the understanding that the funds to be obtained will be channeled directly through IVU, which will have the government guarantee and will be responsible for the programming, administration and control of the resources.

The program will produce 8.925 urban and 2,000 rural solutions within the three years.

The average unit costs by line of program estimated, in Balboas of 1971, and under the corresponding standards will be the following:

1. Lots with minimum urbanization	B/. 820.00
2. Lots with minimum urbanization plus construction of a 18 m2 unit	1,765.00
3. One-family housing unit, 36 m2	5,200.00
4. Housing units in multifamily buildings 45 m2 (average)	6,000.00
5. Rural housing units	1,000.00

The program might be subjected to annual adjustments according to the increase or decrease of the national contributions.

The tentative schedule for the three-years period, by line of program, is the following:

TABLE 1

<u>Line of Program</u>	<u>No. of Solutions</u>	<u>Cost</u>
1. Lots- minimum improvement	2,370	1,935.948
2. Lots-minimum improv. † 18m2 unit	3,360	5,705.379
3. One-family unit-36 m2	1,695	8,546.823
4. Multifamily unit-45 m2	1,500	8,921.850
5. Rural	2,000	2,000.000
Total	10,925	27,200.000

IVU will put FUNDAVICO in charge of placing credits and eventually of the construction of the units in rural areas, setting up an annual schedule for it.

The total cost of the three-year program will be B/. 27.2 million (See Annexes 2 and 3).

As the projected financial capability of the central Government and its agencies (Caja de Seguro Social* and IVU, see Table 1) indicate that B/. 19.2 million will be available, we are requesting from AID a loan for B/. 8.0 million for complementing the funding needed for the implementation of the minimum program. For the purpose of the loan requested, our country commits itself to contribute as a local counterpart not less than B/. 8.0 million, during the minimum program implementation period.

Table 2 shows the distribution of AID and local funds, both in money and percentages, by line of programs.

The excess amounts from domestic contributions has been considered for future credit negotiations with the Interamerican Development Bank or other lending institutions.

TABLE 2

	Domestic Funding (B/. million)	%	AID Funding (B/. million)	%
1. Min. Improv. lots	0.94	50	1.0	50
2. Min. Improv. lots plus 18 m2 unit	2.89	50	2.9	50
3. One-family units, 36 m2	3.67	36	2.6	30
4. Multi-family units, 45 m2				
5. Rural housing	0.50	25	1.5	75
Total	8.0		8.0	

* T.N. Social Security Bank

In order to ensure the implementation of the program, the schedule for disbursement must be the following:

TABLE 3

	<u>1972</u>	<u>1973</u>	<u>1974</u>
Urban Programs 1,2,3	1.6	2.2	2.7
5 rural programs	—	.7	.8
Totals	<u>1.6</u>	<u>2.9</u>	<u>3.5</u>

We suggest the following loan terms:
 a.- Repayment period 40 years
 b.- Period of grace 10 years
 c.- Interest rate 2% per annum

Table 4 shows the estimated resources that will be available to meet the total amount of the program.

TABLE 4

<u>URBAN HOUSING</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
AJD	1.60	2.20	2.70
Social Security (S.S.)	2.80	2.80	2.80
Central Government (C.G.)	.60	1.00	1.40
IVU	3.50	2.15	2.00
Sub total	<u>8.15</u>	<u>8.15</u>	<u>8.90</u>
<u>RURAL HOUSING.</u>			
A.I.D.	—	.70	.80
C.G.	—	.20	.30
Sub total	<u>—</u>	<u>.90</u>	<u>1.10</u>
Grand total	<u>8.15</u>	<u>9.05</u>	<u>10.00</u>

The requested funding will go as overall resources to IVU for the program and will be assigned to lines 1,2,3 and 5 (rural) of program, as already established. The interest rates to be paid by users will be computed later on, according to the financial flows from each source of funding.

During 1972, as the projects making up

the minimum program have been defined and approved, the loan resources, estimated at B/. 1.6 million, will finance the program lines 1 and 2 for the construction and lot improvement items. IVU has already the required land available.

Projects from lines 3 and 5 will be brought in during 1973 and 1974.

The geographical distribution of the program will be established by IVU according to its studies on development by urban centers and computation of the theoretical demand. A tentative geographical distribution is made in Annex 4.

The individuals to benefit from the program will be selected according to their payment capabilities and to the compliance with the deposit system to be established by IVU.

On the basis of the foreseeable operating conditions for the sector for the next few years, and pursuant to government policies on social development, it is estimated that both IFHA* and Caja de Ahorros** will be able to discount a sizable volume of the mortgages to be generated by the program, thereby furthering the process of reinvestment of the program funds.

As already stated, the administration of program funds and the scheduling of investments will be IVU's responsibility. IVU in turn will put FUNDAVICO in charge of placing the sub-loans and carrying out the construction of units in rural areas.

The borrower will be the Institute of Housing and Urbanization (IVU) an autonomous GOP agency, empowered through Law No. 17 of January 29, 1958 to contract loans for up to B/. 40 million with international agencies, with the approval of its Board of Directors. This loan would be moreover guaranteed by the central government.

The IVU Board is made up of representatives from both the public and the private sectors, namely:

* Guaranteed Mortgages Institute
** National Savings Bank

1. Representative of the Ministry of Finance and Treasury:
Lic. Jose Guillermo Aizpu
2. Representative of the Ministry of Public Works:
Eng. Ulises Levy
3. Representative of the Institute of National Water &
Sewerage works (IDAAN): Eng. Arnulfo Arjona
4. Representative of the National Bank (Banco Nacional):
Mr. Rogelio Benitez
5. Representative of the Colon Urban Real Estate Chamber:
Mr. Jose Enrique Jaramillo R.
6. Representative of the Workers: Mr. Francisco Rivera
7. Representative of the Industrials: Eng. H. Testa
8. Representative of the Professional: Lic. Manuel M. Moreno

This agency, together with IVU, will provide AID with all the information required to support and justify this program. We hope this information will be full enough for your requirements and we are ready for any additional classification or information needed.

Sincerely yours

Rigoberto Paredes
Director General

c.c. Eng. Juan Abad, Director General
Institute of Housing and Urbanization (IVU).

ANNEX 1

51. YEAR PLAN-1972-1973

Type of Program	No. of Solutions	%	Total Cost (By millions)*
A. <u>Rural Housing</u>	4,000	8.6	4.0
B. <u>Housing with Social Interest</u>			
1. Min. Improv. lots	12,600	27.0	10.33
2. Min. Improv. lot plus 18 m2 unit	9,600	20.6	16.32
3. One-family Unit, 36 m2	9,000	19.3	15.00
4. Multifamily apart. 45 m2	<u>5,400</u>	<u>11.6</u>	<u>31.32</u>
Sub totals	36,600	78.5	102.97
C. Housing Units up to 70 m2	4,812	10.3	18.00
D. Housing Units up to 100 m2	<u>1,200</u>	<u>2.6</u>	<u>19.20</u>
Sub totals	<u>6,012</u>	<u>12.9</u>	<u>67.20</u>
TOTALS	<u>46,612</u>	<u>100.00</u>	<u>174.17</u>

ANNEX 2

Physical Program, 1972-1974

Lines of Program	1972	1973	1974	Total
I. URBAN HOUSING				
1. Lots with low cost improvement				
1.1 San Isidro (settlement)	400			
1.2 San Isidro	190			
1.3 San Cristobal	<u>200</u>			
Sub totals	790	790	790	2,370
2. Lots with 1-c improvement plus 18 m2 basic unit.				
2.1 San Isidro	600			
2.2 Tocumen	350			
2.3 Panama	<u>170</u>			
Sub totals	1,120	1,120	1,120	3,360
3. One family Unit 36 m2				
3.1 San Pedro (Panama)	68			
3.2 Rio Alejandro (Colon)	200			
3.3 Tocumen	<u>247</u>			
Sub totals	515	515	665	1,695
4. Multi-family				
4.1 Santa Maria (48 m2)	180			
4.2 Patio Pinel (36 m2)	<u>320</u>			
Sub totals	500	500	500	1,500
Totals	<u>2,925</u>	<u>2,925</u>	<u>3,075</u>	<u>8,925</u>
II. RURAL HOUSING				
Type Unit		900	1,100	2,000
GRAND TOTAL	<u>2,925</u>	<u>3,825</u>	<u>4,175</u>	<u>10,925</u>

ANNEX 3

FINANCIAL SCHEDULE - 1972-1974
 (Balboas of 1971)

Lines of Program	1972	1973	1974	TOTALS
I. URBAN HOUSING				
1. Lots with low-cost improvement				
1.1 San Isidro (settlement)	327,063			
1.2 San Isidro	155,354			
1.3 San Cristobal	163,531			
Sub -totals	<u>645,948</u>	<u>645,000</u>	<u>645,000</u>	<u>1,935,948</u>
2. Lots with 1-c imp. plus 18m2 basic unit				
2.1 San Isidro	1,011,769			
2.2 Tocumen	616,919			
2.3 Panama	299,661			
Sub total	<u>1,931,379</u>	<u>1,932,000</u>	<u>1,932,000</u>	<u>5,795,379</u>
3. One family units 36m2				
3.1 San Pedro (Panama)	361,981			
3.2 Rio Alejandro (Colon)	991,150			
3.3 Tocumen	1,215,689			
Sub total	<u>2,598,823</u>	<u>2,599,000</u>	<u>3,349,000</u>	<u>8,546,823</u>
4. Multi-family units				
4.1 Santa Maria (48m2)	1,176,266			
4.2 Patio Finer (36m2)	1,797,584			
Sub totals	<u>2,973,850</u>	<u>2,974,000</u>	<u>2,974,000</u>	<u>8,921,850</u>
Totals	<u>8,150,000</u>	<u>8,150,000</u>	<u>8,900,000</u>	<u>25,200,000</u>
II. RURAL HOUSING				
Type Unit		900,000	1,100,000	2,000,000
GRAND TOTAL	<u>8,150,000</u>	<u>9,050,000</u>	<u>10,000,000</u>	<u>27,200,000</u>

ANNEX 4

TENTATIVE GEOGRAPHICAL DISTRIBUTION
 FOR THE MINIMUM HOUSING PROGRAM
 (B/.1.000.-)

Line of Program	Panama City	Other major Centers	Rural Centers	TOTALS
1.- Lots with min. improvement	1,185	1,185	--	2,370
2.- Lots with min. improv. plus 18m2 basic unit	2,350	1,010	--	3,360
3.- Standard 36m2 unit	1,000	695	--	1,695
4.- Multi-familiy unit 48 - 36 m2	1.200	300	--	1,500
5.- Rural units	-----	-----	2,000	2,000
TOTAL	5,735	3,190	2,000	10,925
%	52.5	29.2	18.3	100

Republic of Panama
Office of the President
Planning office*

Panama, April 27, 1972
Note # 228-DPL

Mr. Alexander Firfer, Director
Agency for International Development (AID)

Ref.: Letter # 6-DPL of Jan.,
11, 1972.

Dear Mr. Firfer:

Following the agreements reached among the AID Director's office and the Directorates of both the Planning Office and the Housing and Urbanization Institute, I am sending you this amendment letter as a complement to the note in reference.

The agreements reached are basically the following:

- a) The loan will cover the sector
- b) The total amount of the loan will be B/. 15,000,000
- c) To the lines 1 and 2 of programs, water supply and sewerage will be added, the total cost of these utilities to be financed by AID.
- d) The lotification and subdivision of the farms Samaria & Gelabert (San Miguelito) are added.
- e) Provision of water supply and sewerage services is added for the existing lots in "Altos de Monte Oscuro, Las quinientas and Nuevo Veranillo" (San Miguelito)
- f) The Government Agency responsible for the administration of the loan funds will be the IVU, but for the III line of programming (Improvement of existing lots in "Altos de Monte Oscuro, Las quinientas and Nuevo Veranillo" through water supply and sewerage services), to be managed by IDAAN.

The whole program will generate 15,433 solutions, namely 11,245 urban, 2,000 rural and 2,188 provision of services for existing lots.

*T.N. The complete name is General Directorate for Planning and Administration, Revolutionary Government

The cost estimates by lines of programs, computed for the middle period of the program are:

1.-	Lot with low-cost improvement	
	a) Lots of 160 square meters (m ²).....B/	1.108.00
	b) Lots of 300 m ² (Gelabert)	1.700.00
	c) Lots of 250 m ² (Samaría)	1.590.00
2.-	Lot with low-cost improvement plus a 18 m ² Basic Unit 2.053.00
3.-	36 m ² one-family housing unit 5.200.00
4.-	45 m ² unit in a multi-family housing ..	6.000.00
5.-	Rural Units 1.000.00
6.-	Water supply, sewerage for existing lots	.597.00

The tentative program for the 3-year period, by line of program, is the following:

Table 1

Line of Program	No. of Solutions	Cost
1. Lots + low-cost improvement	4.590	6.193.669
2. Low-cost imp. lot + 18 m ² unit	3.460	7.103.380
3. 36 m ² one-family unit	1.695	8.546.823
4. 45 m ² unit in Multi-family housing	1.500	8.921.850
5. Rural housing	2.000	2.000.000
	Sub-Total	13.245
6. Water supply/sewerage for lots	2.188	1.307.071
	Total	15.433
		34.072.951

In order to ensure the implementation of the Program the schedule for disbursements will be the following.

Table 2

	1972	1973	1974
Urb. Program, lines 1,2,3	2.10	4.40	5.20
Lot. improvement	—	60	80
Rural	—	70	80
Unforeseen expenses	<u>10</u>	<u>15</u>	<u>15</u>
Totals	2.20	5.85	6.95

The rural program will be carried out using standards similar to those worked out by FUNDAVICO in preceding programs. It will be implemented by IVU or FUNDAVICO under the most favorable cost conditions.

The program for improving existing lots (III) will be carried out by IDAAN. This agency will be also in charge of preparing the design of the utilities for the Gelabert and Samaria projects.

All the provisions established in the original letter referred to above consistent with this amendment are deemed in force.

Sincerely yours

for Rigoberto Paredes
Director General,

Jose B. Sokol.

cc Eng. Juan Abad-IVU
Eng. Adan A. Arjona-IDAAN
Mr. Jose G. Arrocha - Mayor, S. Miguelito

Attached: Physical Programming.

I V U
Minimum Program for Housing with a Social Interest
1972 - 1973 - 1974

Physical Program

I. Urban Housing.

<u>Lines of Program</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>Total</u>
<u>1. Lots with low-cost improvement</u>				
1.1 San Isidro (settlement)	400	—	—	
1.2 San Isidro (erradication Loma La Pava)	190	—	—	
1.3 Samaria (settlement)	—	1,000	887	
1.4 Gelabert	—	—	333	
1.5 Unidentified	—	890	890	
Sub total	590	1,890	2,110	4,590
<u>2. Lots with low-cost imp. + 18 m2 basic unit</u>				
2.1 S. Isidro (errad. Loma la Pava)	600	—	—	
2.2 Pedregal (errad. Marañon)	520	—	—	
2.3 Cative (errad. Rio Alejandro)	100	—	—	
2.4 Unidentified	—	1,120	1,120	
Sub total	1,120	1,120	1,120	3,460
<u>3. 36 m2 One-family units</u>				
3.1 Rio Alejandro	200	—	—	
3.2 Pedregal	247	—	—	
3.3 Unidentified	—	543	705	
Sub total	447	543	705	1,695
<u>4. Apartments, Multi-family Units</u>				
4.1 Santa Maria (52 m2)	180	—	—	
4.2 Barraza (36 m2), room with common bathrooms (Marañon)	320	—	—	
4.3 Unidentified	—	500	500	
Sub total	500	500	500	1,500
Grand Sub total	2,757	4,053	4,435	11,245

II RURAL HOUSING

1. Type Unit	—	900	1,100	2,000
Total lots & housing units	2,757	4,325	5,395	13,245

III IMPROVEMENT OF EXISTING LOTS (URBANIZATION)

<u>1. Water Supply and Sewerage</u>				
1.1 Altos de Monte Oscuro	—	120	178	
1.2 Las Quinientas	—	100	147	
1.3 Nuevo Veranillo	—	655	988	
Sub total	—	875	1,313	2,188
Grand Total of solutions				15,433

Project

Cabinet Decree No. _____

May 2, 1972

The Temporary Government Board.

Considering:

- a. The urgent need for programs of Housing and Urban Development of the Government to be implemented with maximum utilization of the technical and financial capacity of public agencies.
- b. That the Government has adopted a medium-term Housing Plan which requires that projects be carried out in coordinated fashion by the various technical agencies of the State in order to assure that the programs meet housing needs promptly and efficiently.
- c. That it is convenient to establish a Temporary Committee for the Housing Sector, while study and discussion are completed on the plan to create in final form the "Administrative Organization for Urban Development", in order to carry out the plan of housing and urban development of the country.
- d. That at the present time housing programs are hindered by lack of adequate sites at reasonable prices.
- e. That the basic problems of housing are directly related to conditions of sanitation and urban services of the community.

Art. 1 Decrees: By means of this decree, the Committee of the Plan of Housing and Urban Development is created on a temporary basis under the immediate control of the President of the Republic, known as the

- 2 -

Committee, with the purpose of assuring that the National Plan of Housing and Urban Development will be carried out, and to plan and program urban development on a national scale.

Art. 2 The Committee will be composed of the following members :

- a. The Director General of Planning and Administration of the Presidency, who will preside over and be the legal representative of the Committee, or the official of this agency designated by the D. G. to represent him.
- b. The Director General of the Social Security Agency.
- c. The Director General of the Savings Bank.
- d. The Executive Director of the Road Department of the Public Works Ministry.
- e. The Executive Director of IDAAN.
- f. The General Manager of IFHA.
- g. The Director General of IVU.
- h. The Director of the Planning Department of the Health Ministry.
- i. A representative from the private banking community.

Art. 3 The Committee will have the following functions :

- a. Coordinate the policy, plans and specific activities carried out or to be carried out by public and private agencies in the field of housing, in order to achieve integrated action in solving housing problems.
- b. Recommend to the Executive Organ the measures that may be necessary to resolve the problem of use and holding of urban land, in order that it may comply with the social function assigned to it in

- 3 -

relevant constitutional provisions.

c. Recommend to the Executive Organ the proper housing policy for the Country, following the provisions set forth in the National Plan of Housing and Urban Development.

d. Approve the overall programs of the agencies represented on the Committee so as to contribute directly to the execution of the policies and the National Plan of Housing and Urban Development.

e. Recommend the investments of public funds that should be made by the departments and agencies which are in charge of the execution of the urban development programs of the Country.

f. Promote the investment of capital for the financing of housing and urban development in general.

g. Recommend the contracting of loans for housing by the departments and agencies of the sector.

h. In general, to adopt the measures that are deemed convenient to strengthen the process of urban development, taking into account the urgency of providing housing of social interest for the people of the country.

Art. 4 The Committee, in order to carry out the functions established in the foregoing article, will have the following powers:

a) To delegate to the member institutions the conduct of all of the studies and investigations that are deemed convenient for putting the policy and plan of housing and urban development into effect.

b) To coordinate with other institution, both public and private,

- 4 -

the plans and programs of housing and urban development through agencies belonging to the Committee.

- c) To determine the urban centers and areas within them where programs of housing and urban development should be located.
- d) To prepare and recommend to the Executive Organ the legislation believed to be necessary for the success of the national plan of housing and urban development, and laws that will contribute to improving generally the health and urban conditions of the country.
- e) To establish the standards of health, urban development and housing which should be met by national programs of housing and urban development.

Art. 5 The Committee will have a Technical Secretariat for the preparation of studies, plans, programs and projects prepared by the Office of Program and Budget of IVU. For the preparation of annual programs for the sector each agency represented on the Committee will contribute the efforts of its own department of planning or programming, the personnel of which will work as an integral part of the Technical Secretariat.

Art. 6 The functioning and procedures to be followed by the Committee will be subject to rules developed and approved by the members.

Art. 7 This decree will enter into effect immediately on approval.

I. V. U.

Balance Sheets (\$000's omitted)

As of 12/31

	<u>1969</u>	<u>1970</u>	<u>1971</u>
Assets			
Current Assets			
Cash	\$ 1684	\$ 1406	\$ 3801
Accounts Receivable	1407	3212	2267
Inventory	72	65	161
Government Bonds	37		
Total Current	<u>3200</u>	<u>4683</u>	<u>6229</u>
Fixed Assets			
Completed Houses to Close	247	443	309
Mortgage Loans	17970	19505	23392
Insurance Receivable	137	277	147
Land & Urbanizations	12996	13939	12798
Buildings	8256	7487	7354
Houses in Process	3163	3596	4833
Furniture & Equipment	174	132	195
Deferred Charges	17	31	25
Deposits			12
Total Fixed	<u>42960</u>	<u>45470</u>	<u>49065</u>
Total Assets	<u>\$ 46160</u>	<u>\$ 50153</u>	<u>\$ 55294</u>
Liabilities & Equity			
Current Liabilities			
	<u>\$ 1990</u>	<u>\$ 3301</u>	<u>\$ 2561</u>
Long-Term Liabilities			
Bonds	7398	6522	6555
BID Loan	11448	12261	15167
AID & Digedecom Loans	2588	2876	3059
Deposits	245	362	471
Deferred Credits	133	183	223
Other	653		
Total Long Term	<u>22465</u>	<u>22204</u>	<u>25475</u>
Equity	<u>21705</u>	<u>24648</u>	<u>27258</u>
Total Liabilities & Equity	<u>\$ 46160</u>	<u>\$ 50153</u>	<u>\$ 55294</u>

I. V. U.
BALANCE SHEET (\$000's omitted)
As of 12/31

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Assets					
Current					
Cash	\$ 1701	\$ 1151	\$ 223	\$ 234	\$ 126
Accounts Receivable	2021	2635	3403	3266	3000
Inventory	130	78	110	61	98
Total Current	<u>3856</u>	<u>3864</u>	<u>3736</u>	<u>3561</u>	<u>3224</u>
Fixed Assets					
Completed Houses to close	184	259	320	105	705
Mortgage Loans	32153	41962	54036	66681	75122
Insurance Receivable	145	94	187	238	211
Land & Urbanizations	11010	10724	10371	9848	9558
Buildings	8743	8582	8421	8260	8098
Houses in Process	4286	3542	2658	1653	478
Furniture & Equipment	200	164	172	154	106
Deferred Charges	19	20	20	11	20
Deposits	12	12	12	12	12
Total Fixed	<u>56752</u>	<u>65359</u>	<u>76197</u>	<u>86962</u>	<u>94310</u>
Total Assets	<u>\$60608</u>	<u>\$69223</u>	<u>\$79933</u>	<u>\$90523</u>	<u>\$97534</u>
Liabilities & Equity					
Current Liabilities	<u>\$ 2464</u>	<u>\$ 2807</u>	<u>\$ 3145</u>	<u>\$ 3011</u>	<u>\$ 2131</u>
Long-Term Liabilities					
Bonds	6082	5585	5060	4504	3917
BID Loan	15862	15343	14816	17586	20868
AID & Digedecom	4424	8412	14528	17618	17483
Social Security Loans	2800	5517	8157	10696	13139
Deposits	476	476	476	476	476
Deferred Credits	76	51			
Total Long Term	<u>29720</u>	<u>35384</u>	<u>43037</u>	<u>50880</u>	<u>55883</u>
Equity	<u>28424</u>	<u>31032</u>	<u>33751</u>	<u>36632</u>	<u>39520</u>
Total Liabilities & Equity	\$60608	\$69223	\$79933	\$90523	\$97534

I. V. U.

PRO FORMA INCOME STATEMENTS (\$000's omitted)

FOR YEARS ENDED

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Sales-Houses & Lots	10668	12715	15588	16141	13665
Cost of Sales	<u>10647</u>	<u>12688</u>	<u>15559</u>	<u>16104</u>	<u>13645</u>
Gross Margin	<u>21</u>	<u>27</u>	<u>29</u>	<u>37</u>	<u>20</u>
Other Income					
Gross Rental Income	779	1011	1012	1012	1012
Mortgage Loan Interest	1422	1631	2187	2448	2699
Other	<u>119</u>	<u>120</u>	<u>120</u>	<u>120</u>	<u>120</u>
Total Other Income	2320	2762	3319	3580	3831
Administrative Expense	2147	2363	2405	2440	2494
Interest Expense	<u>833</u>	<u>984</u>	<u>1389</u>	<u>1460</u>	<u>1633</u>
Net Loss	<u>639</u>	<u>558</u>	<u>446</u>	<u>283</u>	<u>276</u>

I. V. U.

PRO FORMA SOURCE & APPLICATION OF FUNDS (\$000's omitted)

FOR YEARS ENDED

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Sources:					
Loan Financing:					
BID	1207			3400	4000
AID	1500	4123	6252	3225	
CSS	2800	2800	2800	2800	2800
Subsidies:					
Beer Tax	350	350	350	350	350
Rent Board	750	750	750	750	750
GOP General Support	704	2067	2066	2065	2063
Down Payments & Land Sales	321	800	805	1105	900
Loan Amortization	1348	1616	2096	2620	3399
Land/Building Trade	1500				
Land	288	286	353	523	290
Other (Net)	84	488	466		945
Total Sources	10852	13280	15938	16838	15497
Applications:					
Project Costs	9976	12019	14765	14921	13090
Loan & Bond Amortization	1119	1235	1346	1583	1798
Inv. in Equip. & Bldgs.	87	28	72	46	15
Net Loss After Dep'n	446	333	221	58	51
Building/Land Trade	1500				
Other (Net)				271	
Total Applications	13128	13615	16404	16879	14954
Change in Working Capital	(2276)	(335)	(466)	(41)	543
Beginning Working Capital	3668	1392	1057	591	550
Ending Working Capital	<u>\$ 1392</u>	<u>\$ 1057</u>	<u>\$ 591</u>	<u>\$ 550</u>	<u>\$ 1093</u>

IVU

Comparative Operating Statements
(\$000's omitted)

	<u>FOR YEARS ENDED</u>		
	<u>1969</u>	<u>1970</u>	<u>1971</u>
Sales			
Houses	\$ 1490	\$ 2020	\$ 5299
Lots	636	606	847
Material	27	10	
Total Sales	<u>\$ 2153</u>	<u>\$ 2636</u>	<u>\$ 6146</u>
Cost of Sales:			
Houses	1410	1747	4617
Lots	593	533	925
Materials	59	2	
Total Cost of Sales	<u>\$ 2062</u>	<u>\$ 2282</u>	<u>\$ 5542</u>
Gross Profit	<u>\$ 91</u>	<u>\$ 354</u>	<u>\$ 604</u>
Other Income:			
Rents	648	687	707
Subsidies	933	825	569
Interest	871	939	1197
Other Financial Income	42	92	
Miscellaneous	17		
Extraordinary Income	<u>681</u>	<u>17</u>	<u> </u>
Total Other Income	<u>\$ 3192</u>	<u>\$ 2560</u>	<u>\$ 2473</u>
Gross Profit	3283	2914	3077
Admin. Expenses and Interest	<u>3100</u>	<u>3009</u>	<u>2935</u>
Net Profit (Loss)	<u>\$ 183</u>	<u>\$ (95)</u>	<u>\$ 142</u>

OPERATING CRITERIA PROPOSED BY BORROWER

With the purpose of arriving at a rapid solution to the housing problem in Panama through broader home ownership, IVU grants loans under the conditions of its Mortgage Lending Rules, developed by the agency and approved by its Board of Directors.

All loans that IVU grants are guaranteed by a first mortgage on the respective property until the debt is paid. These loans that IVU grants are amortized according to a schedule of equal monthly payments and covered by a collective life insurance policy in case the mortgagor dies his family may enjoy the property as a debt-free inheritance. Moreover, the buildings are protected by fire insurance.

The debt contracted by the mortgagor may be transferred to another interested party when the latter meets the conditions normally required for obtaining mortgage loans including approval of the Board of Directors. In view of the fact that IVU resources are insufficient to cover all mortgage requests, IVU has developed a strict system of priorities based on the following considerations:

- (a) A married applicant will have preference over a single person.
- (b) An applicant with more children will have preference over one with a smaller number of children in a dependent status.
- (c) An applicant who lives under conditions that more urgently require his removal will be given preference over another whose urgency is less.

In granting mortgages, IVU considers the need of the family as well as the security of the investment. Thus, IVU pays special attention to the payment capacity of the applicant, his social condition, character, customs and previous credit record.

Monthly Payments on the Mortgages

The monthly loan payment is the amount which the applicant must pay to cover interest and principal, as well as applicable insurance premiums. The mortgage loans IVU grants carry an interest rate set in accord with the conditions and characteristics of the loan,

which is normally 7% per year. The loans may have a period of from 5 to 25 years according to the type of construction and the payment capacity of the borrower. The payments are monthly and are payable at IVU collection offices when due.

Without prejudice to IVU's capacity to establish other requirements at its convenience, every borrower who has a salary, whether from a private employer, from a national government agency, a municipality or an autonomous or semi-autonomous institution of the Government, is obliged to sign an authorization, approved by his employer, or if he is employed in a public or municipal agency, by the Controller, or the Municipal Treasurer, or the Board of Directors of the agency, that his monthly payment may be withheld and paid directly to IVU in accordance with his mortgage contract. In case of transfer, IVU may require a similar authorization of the new employer.

In order to enforce salary withholding, the Central Government passed Cabinet Decree No. 101, on April 29, 1970, that establishes this requirement as a legal condition for IVU's mortgage lending activities.

RULES FOR APPROVAL OF APPLICATIONS AND SALE OF HOUSING

In compliance with its charter, the Institute for Housing and Urban Development has developed regulations covering procedures for the approval of applications and sale of houses built by IVU, as well as their resale or transfer. IVU's guiding principle is to make a maximum contribution to solving the serious social problem created by the lack of adequate housing for families of low income and, in a technical, orderly, and impartial manner, carry out the sale, resale and transfer of housing units according to the needs of applicant families. The procedure followed for achieving the above-mentioned objective is established in 11 articles, under the following headings:

I Publicity

- A. Public Announcement of the Program

II Receipt of Applications

- A. Procedures
- B. Terms
- C. Application Forms

III Classification of Applications

- A. Basic Requirement
- B. Home Visits
- C. Declaration of Eligibility

IV Approval of Applications

- A. Initial Down Payment

V Resale and Transfer

VI Delivery and Occupancy of Housing Units

VII Transfer Documents

VIII Collections

- A. Monthly Payments
- B. Monthly Billings
- C. Delinquency
- D. Pre-Payments

IX Maintenance and Use of Housing

- A. Improvements and Additions
- B. Maintenance of Housing
- C. Claims due to Faulty Construction
- D. Social Orientation
- E. Sub-letting of Housing Units
- F. Use of the Housing

X Causes for Termination of the Contract

- A. Causes
- B. IVU's Rights to Terminate the Contract

XI Prohibition of Liens

Article I - Publicity

- (a) The publicity regarding the program must be ample, utilizing all publicity media available and requesting collaboration

from local civic organizations in promoting the program.

- (b) Focus action on those communities with a high growth rate where the housing problem is more acute.
- (c) Carry out housing market studies to find out the characteristics of demand such as the number of members per family, payment capacity, use and customs pertaining to the disposition and dimensions of the lots required, area required for construction, and number of bedrooms.

A. Public Announcement of the Program:

Prior to initiating the public information campaign the following material is required:

1. Descriptive prospectus of the program showing the site of the project, types of units, plans, design, etc.
2. Cost of purchase, the down payment and approximate monthly payments, interest rate and terms of credit as well as any other additional expense that the borrower must undertake as a condition for receiving the house, such as; installation of light and water meters, etc.
3. Installation of an office, adequately located and managed by capable personnel, which will receive the applications.
4. The period of public announcement of the program begins with the announcement of the contract bidding for the project. The publicity plan is implemented continuously thereafter until units are fully subscribed.
5. The promotion must include ample information regarding the date when receipt of applications will begin.

Article II - Receipt for Applications

A. Procedures:

Two procedures have been established for the inscription of applicants depending on whether the projects are located in the City of Panama and its suburbs or in the Interior of the Country.

1. For projects in the City of Panama, capital cities in the Provinces or the suburbs, the opening of inscription of applicants must be carried out before calling for bids for the respective project construction.
2. For projects in the Interior of the Country, such opening is held at least 90 days before taking bids for respective project construction.

B. Terms

The period of inscription has a set term of no less than 15 days and no more than 60 days. The institution, according to its needs, reserves the right to establish a second inscription period of equal length with more extensive publicity.

C. Application Forms

The application forms include, at least, the following information to be provided by the applicant:

1. Name, age, sex, nationality, marital status, address, occupation.
2. Number of persons in the family, and classification by age and sex of each member of the family.
3. Family income.

4. Business address of each family member that has an income.
5. Rent paid by the applicant (if he pays rents)
6. Name and address of primary or secondary school attended by children and grade level.
7. Job certificate stating pending obligations.
8. A sworn statement to the effect that the data provided by the applicant may be considered trustworthy.

Article III - Classification of Applications

A. Basic Requirements

In order that an application may be considered satisfactory for proceeding with a domiciliary visit, it must fulfill the following basic requirements:

1. The applicant must be the head of a family including children under age or other dependents. It is understood that a dependent is a person who receives direct financial support from the applicant, under one of the following categories:
 - (a) Students under 25 years of age.
 - (b) Physically handicapped.
 - (c) Wife, mother, etc.
2. A Panamanian citizen by birth or naturalization, a foreigner married to a Panamanian, or a foreigner with a minimum residence in Panama of five consecutive years.
3. (a) The applicant, spouse and children or minor dependents shall not possess adequate housing or real estate in the city or surrounding areas where the program is being implemented.

- (b) The applicant shall have resided for at least two years in the city or the surrounding area where the project is being implemented. This requirement may be waived when the applicant, due to his occupation, health or condition of employment, must travel from one place to another. A certificate to this effect is mandatory.
4. The incomes of the applicant and spouse, duly certified by job certificate, fall within the minimum and maximum limits established by the Institution.
5. The age of the applicant plus the term of the debt must not exceed 70 years in total.

B. Home Visits

As soon as the application has been approved, a visit to the premises is effected, and a report is submitted within a week thereafter. This visit is performed by a Social Investigator with enough experience to check the information contained in the application and analyze the condition of the family and its housing according to the following norms:

1. Verification of family composition.
2. Lack of privacy.
3. Extent of overcrowding.
4. Appraisal of the family health.
5. Appraisal of the habits of the husband and wife.
6. Appraisal of the physical conditions of the house.

7. Appraisal of the cleanliness and order within the house.
8. Appraisal on the economic situation of the applicant.
9. Appraisal on the urgency of removal from the present house.
10. Information relevant to the neighborhood, considering the following:
 - (a) Danger of flooding.
 - (b) Sanitary condition.
 - (c) Availability of water.
 - (d) Sanitary sewerage facilities.
 - (e) Availability of electricity.

C. Declaration of Eligibility

Applications which fulfill the following requirements are declared eligible for obtaining a housing unit:

1. Complies satisfactorily with the basic requisites of the Institution, contained in Insert A of Article III of this Regulation.
2. The necessity of the housing unit duly verified by the report of the Social Investigator after domiciliary visit.
3. Verification of the financial capacity of the applicant according to the report submitted by the Social Investigator based upon the following rules:
 - (a) Verification of the declared income.
 - (b) Type of employment (permanent - temporary).

- (c) Total amount of family debt, form of payment, and extent of compliance with payments.
- (d) Capacity and habit of saving.

The declaration of eligibility of each application for participating in the Institution's program will be made as soon as the investigation is completed. The application declared eligible receives a priority number and awaits its turn for action.

Article IV - Approval of Application

- (a) The approval of sale of housing units is made by a committee made up of: Banking Manager, Head of the Social Assistance Dept., Credit Manager, Sociologist and Legal Advisor.
- (b) Approval of sale of the units is initiated at the same time the projects are being built with the purpose of delivering them to the purchasers as soon as they are finished.
- (c) Other things being equal, the units are awarded to the applicants declared eligible in the order in which the applications were received. By participant is meant that person whose application was declared eligible for receiving a unit. In no instance can more than one unit be granted to a single participant.
- (d) The numerical priority can be altered in case of an emergency or when a certain zone has to be cleared. Any alteration of place must be authorized by the Director General of IVU.

A. Initial Down-Payment

Due to the fact that the approval of the application is carried out simultaneously with the implementation of the project, every person favored with a unit will have 15 days for accepting the award and to pay 25% of the initial down payment, with the remainder payable in six monthly installments without interest. In every case, the initial payment must be completed before the project is finished.

Article V - Resale and Transfer

Any time the Institute proceeds with a resale of units or authorizes a transfer, the second recipient must meet each and every one of the requisites established in Insert C of Article III of this Regulation for the sale of housing.

Article VI - Delivery and Occupancy of Housing Units

The Institution will deliver the unit to the beneficiary in the areas where the water, sewerage, electricity and streets are in service.

Upon receipt of the unit, the beneficiary will sign a document to confirm receipt to his entire satisfaction. From that date on the purchaser will be responsible for taking care and maintaining his unit.

The grantee must occupy the quarters within 30 days after receipt; the monthly payments are due beginning with the date of possession of the keys. Upon request of the interested party, IVU may extend the terms if it considers this justifiable.

Article VII - Transfer Documents

Preferably, the quarters are delivered to the grantee with the signing of the deed. In case the deed is not ready, a provisional document is signed by the Institution and the grantee to be in effect until the corresponding deed has been signed.

Article VIII - Collections

A. Monthly Payments

The monthly payment is level (equal payments during the life of the loan).

The payments include:

1. Interest
2. Principal
3. Life Insurance
4. Fire Insurance

B. Monthly Billings

The billing of the monthly payments begins on the first day of the month following the date on which IVU has delivered the quarters, even though the grantee does not move in immediately. The days between the date of the delivery of the quarters and the first billing must be paid for by the grantee before receiving the quarters.

C. Delinquency

Failure to pay three (3) consecutive monthly payments gives IVU the right to declare the obligations assumed by the grantee under the deed overdue, and enables IVU to proceed judicially against the debtor. If the delinquency is of five months or more this declaration and procedure are obligatory for IVU.

IVU reserves the right to proceed legally to collect the amounts owed.

D. Pre-Payments

The debtor may make pre-payments, which will be credited toward his outstanding debt. Pre-payments under \$200.00 are not accepted.

Article IX - Maintenance and Use of Housing

A. Improvements and Additions

The applicant who has obtained a house in accordance with rules and regulations is obliged, upon receipt of same, to maintain the property in good condition and carry out the repairs that are necessary to that effect.

The grantee is not permitted to make additions to the house, which exceed the limits of same, until he has signed the corresponding deed. He will only be authorized to proceed with the erection of interior divisions with the previous authorization of IVU.

The debtor must refrain from introducing modifications in the construction which could compromise the security of the property and which could adversely affect its commercial value, in accordance with IVU's criteria. The Deed points out the procedures and norms that the applicant must comply with regarding additions and/or modifications.

B. Maintenance of the Quarters

IVU has the right to make periodic inspections of the property to make sure that the maintenance of the house is adequate and to demand that the debtor make repairs and corrections according to need, granting the debtor a time limit that is convenient to carry out any required improvement. In case the debtor fails to comply with this requisite within the time limit set, this is sufficient reason to consider the Loan Contract null and void and to demand immediate payment of the balance due.

C. Claims Due to Faulty Construction

Within a time limit of not less than three (3) days from the date of delivery of the house, IVU sends an inspector to interview the occupant and prepare a detailed list of the claims of faulty construction should there be any. Within a lapse of time of not longer than 8 days after the inspection, IVU

must begin to take measures towards answering the claims considered justifiable. Claims for faulty construction are resolved between IVU and the contractor that built the houses within the period of the warranty provided to IVU by the contractor.

D. Social Orientation

IVU, through the officers appointed for this purpose, interviews the new grantees periodically within the three initial months after the granting of the quarters, and, at least, once a year for five years to advise them regarding the following:

1. Maintenance and use of the quarters.
2. Adaptation of the family to the community.
3. Adaptation of the quarters to the needs of the family.

E. Sub-letting of Housing Units

The debtor is not allowed to rent the house, or part of same, until the loan has been totally paid. Nevertheless, in special cases, the Board of Directors may authorize the rental for a lapse of time not longer than one year and subject to the rental contract not being registered in the Public Register. Prior to the signing of this rental contract, the grantee must provide IVU with his request and copy of the projected contract which cannot be signed without the authorization of the Board of Directors. The grantee must deposit with IVU a signed copy of the corresponding contract. In said contract, the lessor must commit himself to pay IVU the monthly payments on the loan.

In cases of rentals, paragraph C of Article VIII of this Regulation is applied to the rentor.

When the mortgage grantee infringes the terms of paragraph E, IVU may declare the contract terminated and demand immediate payment of the loan.

In like manner, IVU may authorize the occupation of the quarters by third parties for a period not longer than one year, provided that strict compliance of rules and regulations is observed, as well as compliance with the responsibilities contained in the loan contract.

In all the cases foreseen above, the grantees must be up to date in their monthly payments.

F. Use of the Housing

The quarters must be occupied by the grantee and his immediate family.

At no time may the grantee alter the residential character of the house he has purchased, and he cannot establish any type of business there. Nevertheless, in special cases, IVU may consider requests of grantees who wish to establish a small business or craft activity.

Article X - Causes for Termination of Contract

A. Causes

Termination of the contract may result when the borrower incurs in any of the following:

1. Is in arrears according to paragraph C of Article VIII of the rules and regulations.
2. Damages to the property by the occupants with no satisfactory explanation as to the cause of damage.
3. Infringement of the clauses and rules contained in the aforementioned article as well as the failure to comply with orders of Directorate General based upon the rules and regulations of the contract.

4. Use of the house for other than residential purposes, for purposes prohibited by these regulations, or failure to observe the rules of good conduct.
5. Bad conduct by the buyer, or of the persons under his responsibility that provokes conflicts or trouble in the community.
6. Failure to allow the representatives of the Institution the right to inspect the quarters or obstruction of their work with difficulties of any type in the compliance of their job of supervision carried out at all times during working hours.
7. Evidence that the information provided by the grantee in his application was false.
8. Failure of the grantee, without due cause, to occupy his quarters within three months following the delivery of the housing.

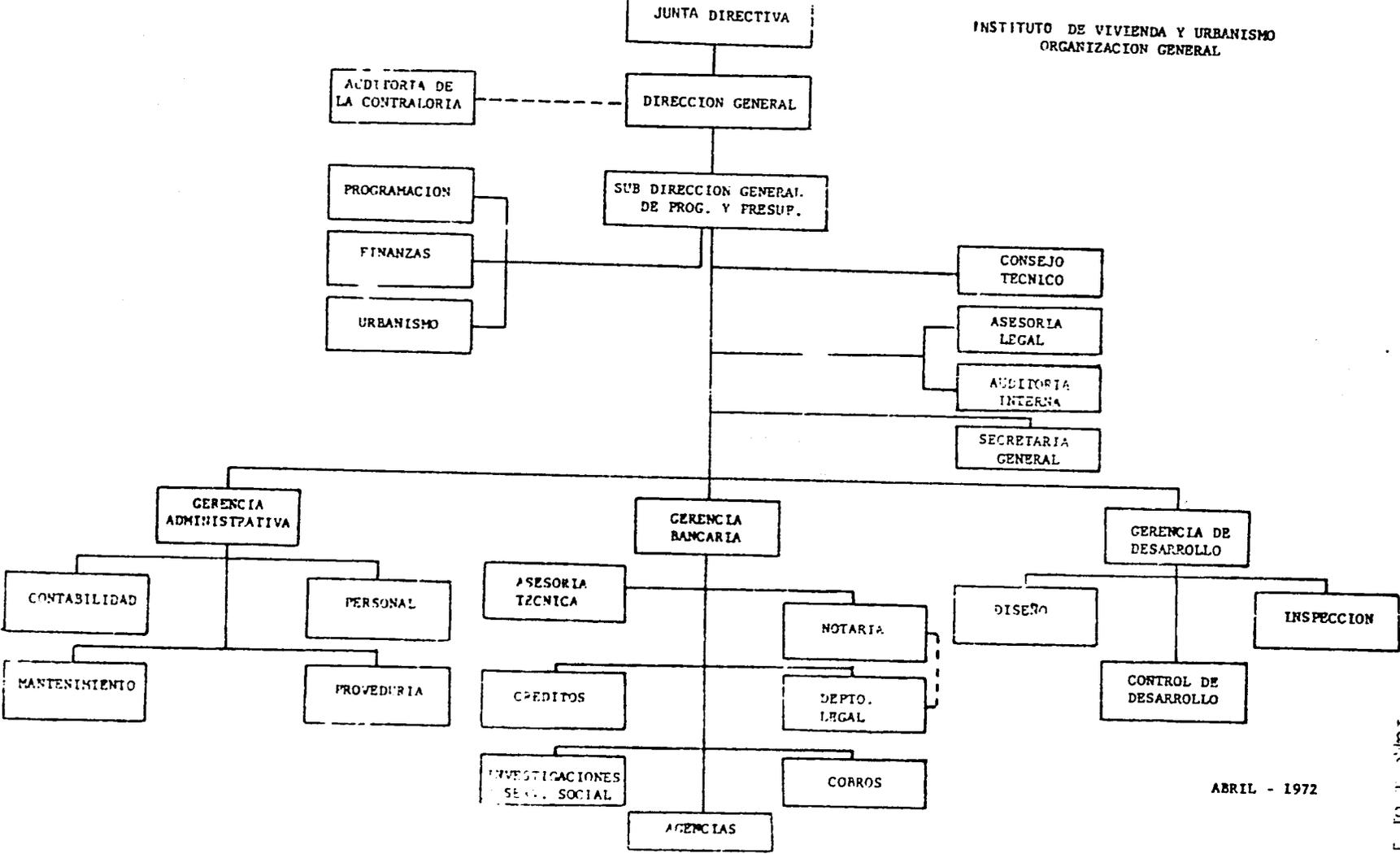
B. IVU's Right to Terminate

The dissolution of the contract due to cause does not give the grantee any right to demand the return of principal payments.

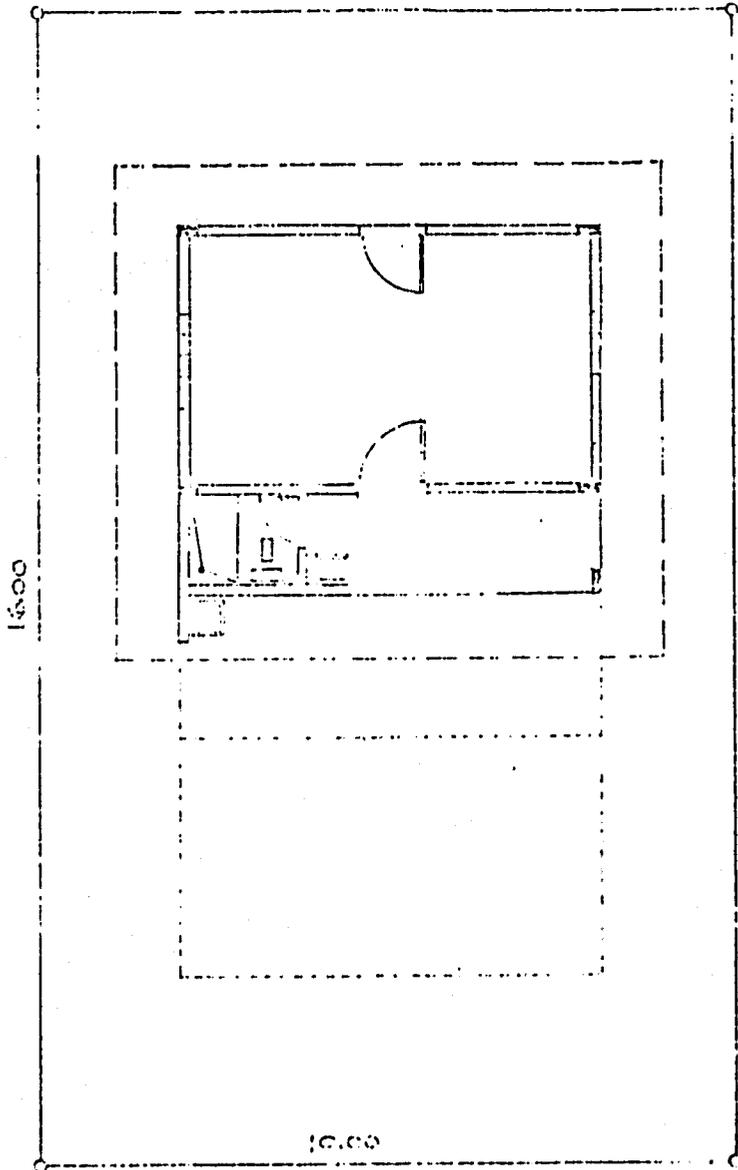
Article XI - Prohibition of Liens

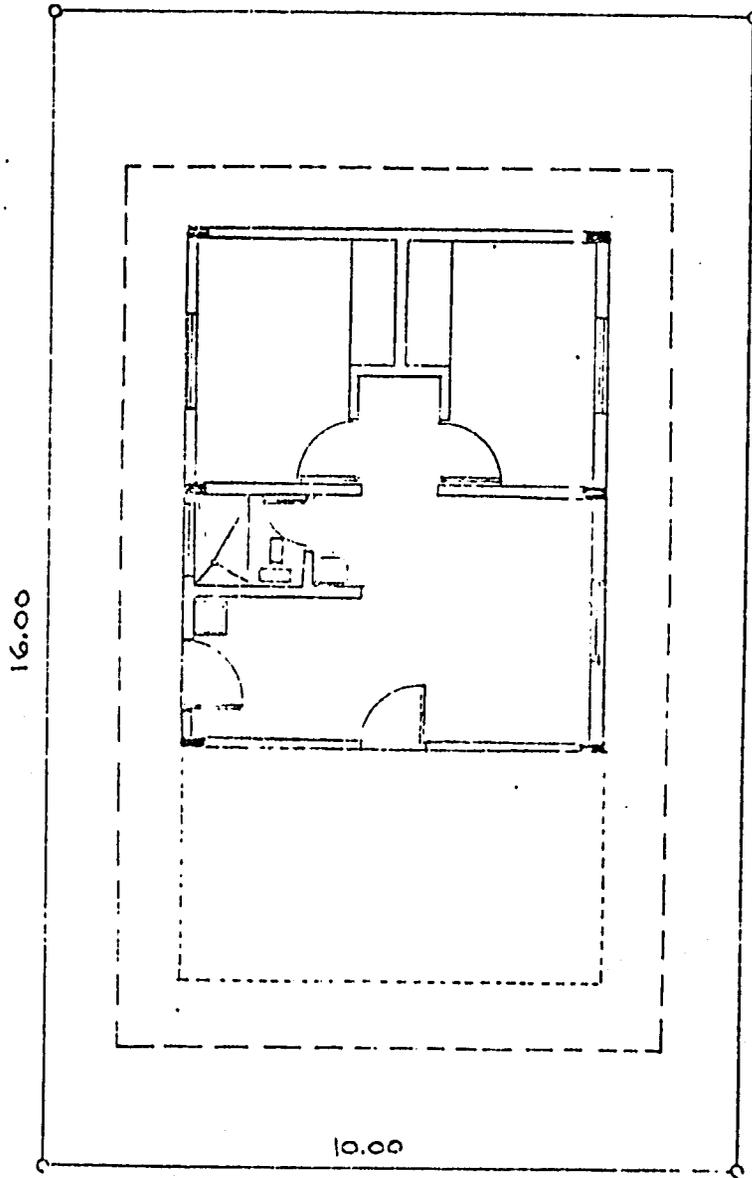
The quarters granted by IVU cannot be encumbered in favor of third parties, nor sold or transferred on any basis, except to those persons who have a right to buy according to the Rules of the Institution or that have complied with this Regulation. Every transfer is subject to the approval of the Board of Directors.

INSTITUTO DE VIVIENDA Y URBANISMO
ORGANIZACION GENERAL

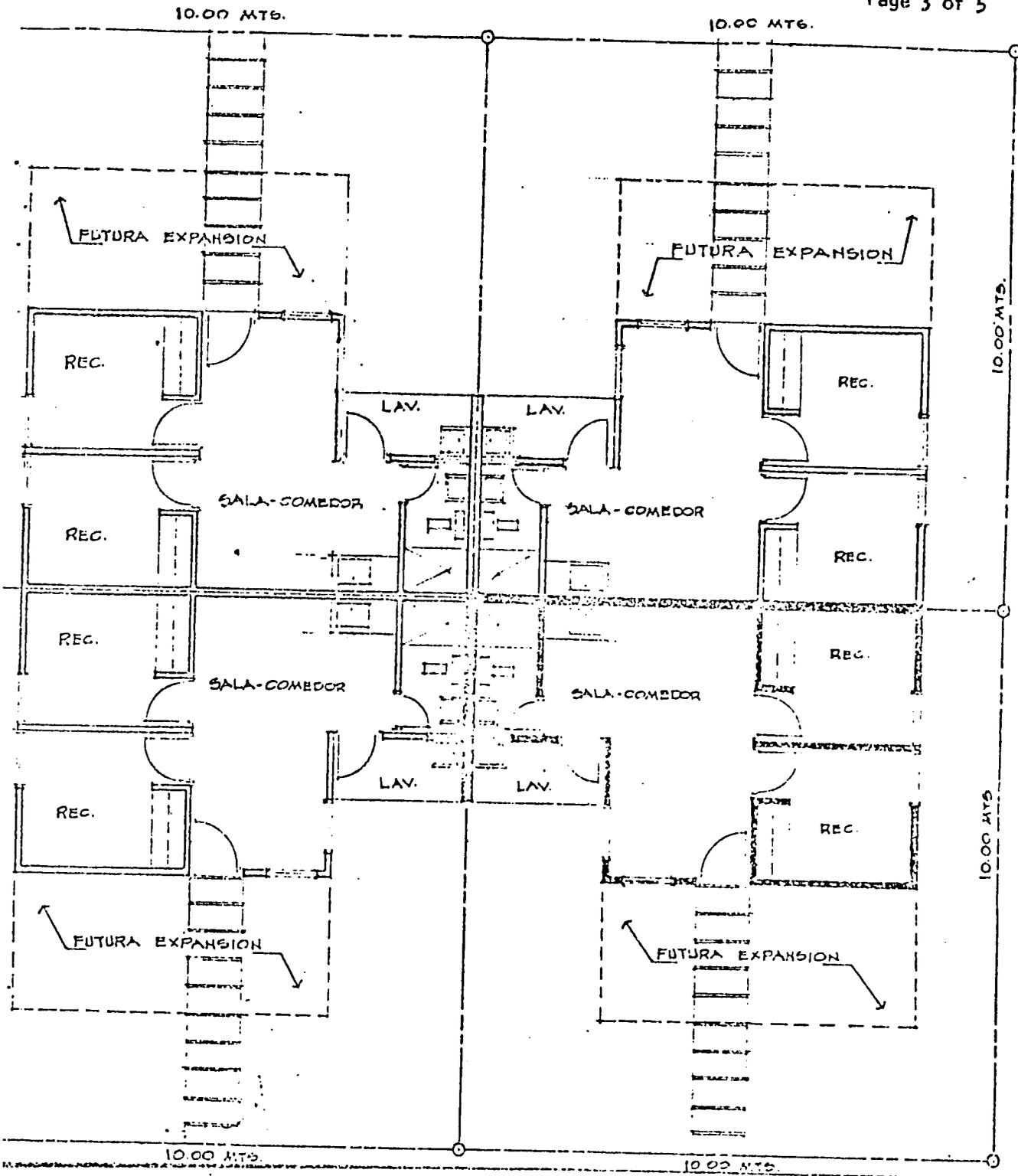


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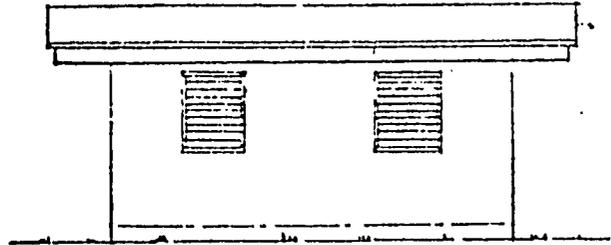
INSTITUTO DE VIVIENDA Y URBANISMO

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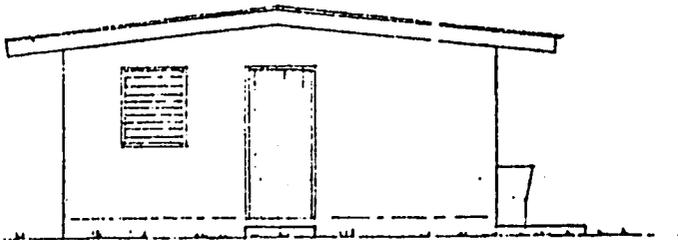
VIVIENDA TIPO CUADRUPLE

ANNEX IX
TYPE 4
Sheet 3 of 5

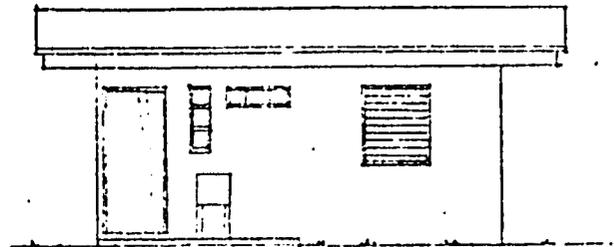
PLANTA esc. 1:100



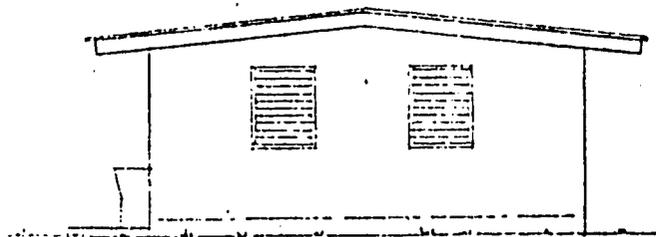
ELEV. LATERAL IZQUIERDA esc. 1:100



ELEV. PRINCIPAL esc. 1:100



ELEV. LATERAL DERECHA esc. 1:100



ELEV. POSTERIOR esc. 1:100



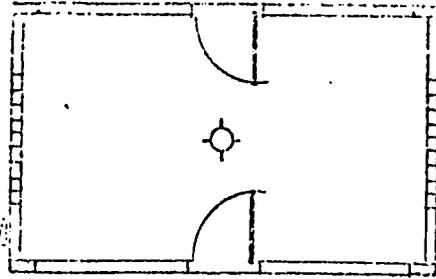
INSTITUTO DE VIVIENDA Y URBANISMO

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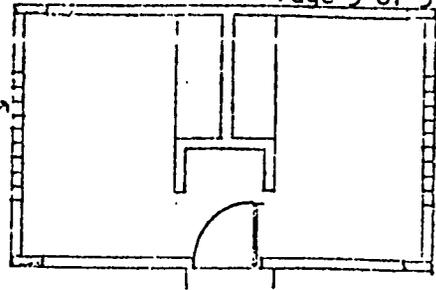
UNIDAD DE VIVIENDA

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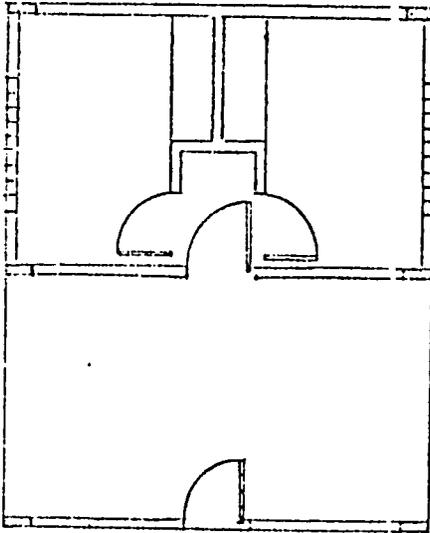
ANNEX IX
TYPICAL ELEVATIONS
TYPE 3
Sheet 4 of 5



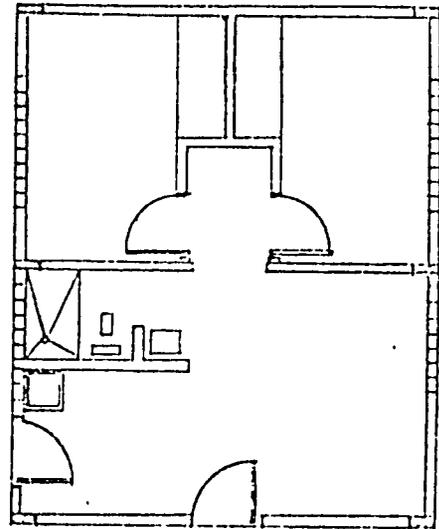
PRIMERA ETAPA



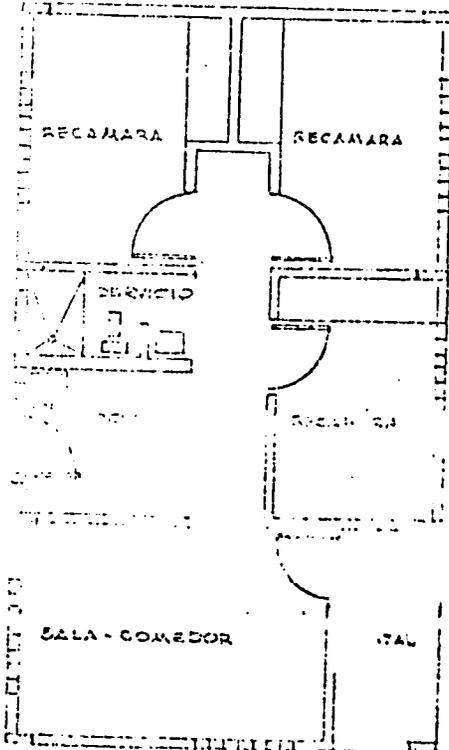
SEGUNDA ETAPA



TERCERA ETAPA



CUARTA ETAPA



QUINTA ETAPA

INSTITUTO DE VIVIENDA Y URBANISMO

UNIDAD DE VIVIENDA

PISO TECHO

ANNEX IX
PROPOSED EXPANSION
OF CORE UNIT
Sheet 5 of 5

SITE DEVELOPMENT STANDARDS

TYPE 1

Type 1 is a 160M² (varies from 250-300 M² for lots in San Miguelito) lot with access to water, sewerage and electricity.

- a) Areas for Public Use: An area equivalent to 7.5% of the total net area of the lots in any developed tract (excluding street R/W and utility easements), will be reserved for public use, such as parks, playgrounds, schools, community service buildings and neighborhood commercial establishments. The location and layout of these public areas will be subject to the approval of Institute of Housing and Urbanization (IVU) and the municipality in question.
- b) Water and Sewerage: Water mains and sewage lines will be constructed within the street right-of-way or within easements between lots as may best suite the particular tract. Determination of such location and width of easement will be determined by the National Institute of Water and Sewerage (IDAAN).
- c) Storm Water Drainage Systems: Adequate storm water drainage systems will be included in all developed tracts. The system will consist of open-ditch drainage for all streets, and storm water will be channeled through concrete drainage pipe under streets and sidewalks.
- d) Streets and Sidewalks: Streets will be surfaced with tosca (shale) or other select material. Basic street plans, including dimensions, grades and construction materials will be subject to the approval of the street department of the Ministry of Public Works. Sidewalks will be 4" concrete slabs.
- e) Electricity: Electric lines will be installed in all tracts, and ~~service~~ will be available to all lots.

TYPE 2

Type 2 consists of a 160 M² lot with an 18 M² housing unit with plumbing and electricity and suitable for future expansion.

- a) Areas for Public Use: Same as Type 1.
- b) Water and Sewerage: Water mains and sewer lines will be constructed as described in Type 1. House connections will be made to the basic housing unit for both water and sewerage.

- c) Storm Water Drainage Systems: Same as Type 1.
- d) Streets and Sidewalks: Same as Type 1.
- e) Electricity: Same as Type 1. House connections will be made to the basic unit.

TYPE 3

Type 3 consists of a 160 M2 lot with a 36 M2 house with plumbing and electricity. This type is considered a complete housing unit, and no expansion will be required or contemplated.

- a) Areas for Public Use: An area equivalent to 15% of the total net area in any developed tract (excluding street R/W and utility easements) will be reserved for public use, such as parks, playgrounds, schools, community service buildings and neighborhood commercial establishments. The location and layout of such areas shall be subject to the approval of IVU and the municipality in question.
- b) Water and Sewerage: Water mains and sewer lines will be installed as described for types 1 and 2. House connections will be made.
- c) Storm Water Drainage System: Adequate storm water drainage and disposal systems will be included for each developed tract. The system will consist of runoff to streets with curbs and gutters, inlets and underground drainage pipe as required.
- d) Streets and Sidewalks: Streets will be surfaced with either concrete, asphalt concrete, or asphalt treatment. Streets will include concrete curbs and gutters, and a 4" concrete slab sidewalks. All street plans and details will be subject to the approval of the Department of Streets, Ministry of Public Works. The gross acreage of areas devoted to streets in any tract will not be less than 15% of the total tract area.
- e) Electricity: Same as type 2.

TYPE 4

Type 4 will not involve any loan financing. It consists of a quadruplex (4 attached units) on a gross area of 400 M2 (20 Mx 20M), and a housing area of 45 M2 per unit. The house area may vary from 36 M2 to 52 M2 in special cases.

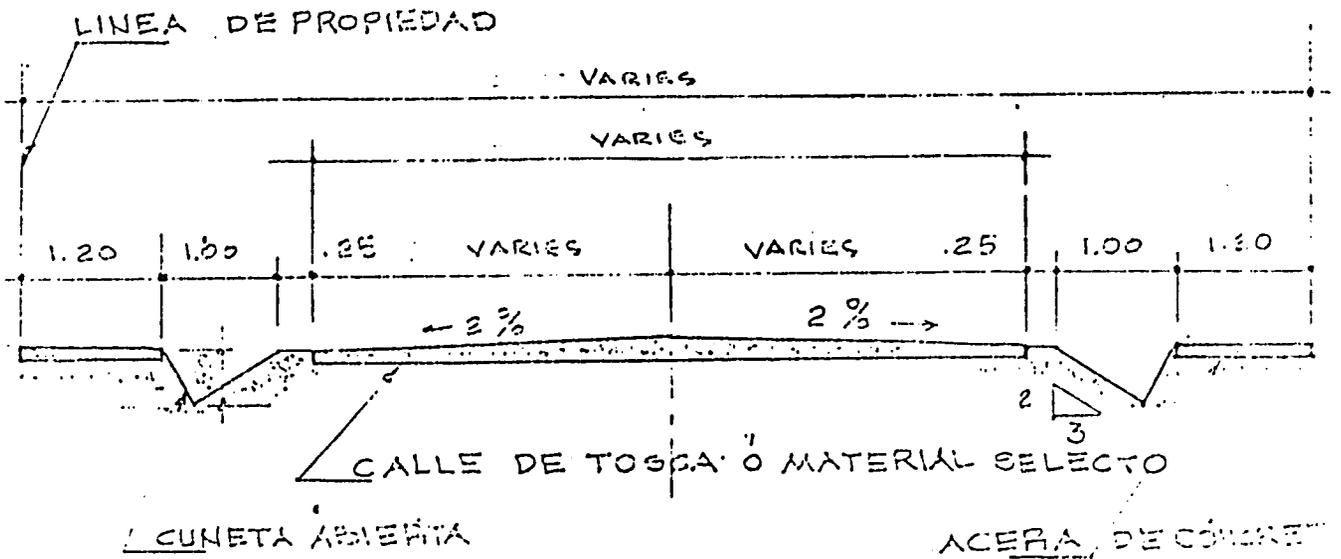
Same as Type 3 in all other aspects.

TYPE 5

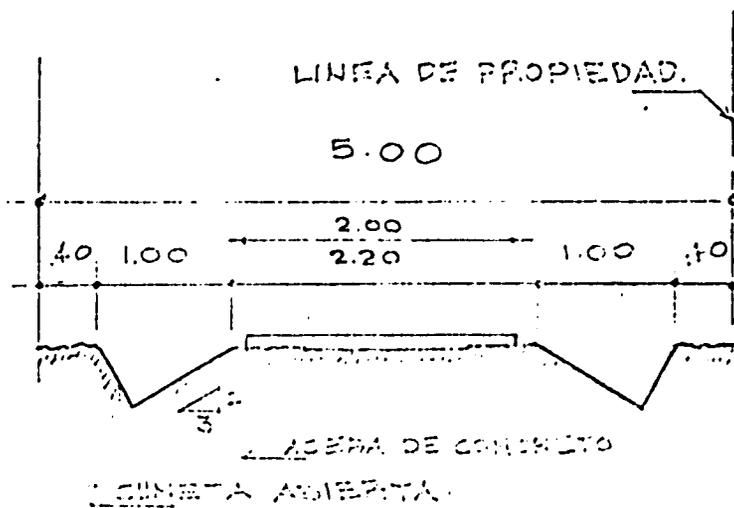
Type 5 is a rural housing unit that will be constructed in scattered non-urban areas. Site development standards will vary, but they will be in general harmony with those standards of the rural area in question.

TYPE 6

Type 6 consists only of the introduction of water and sewerage services to existing lots and/or housing units. Water and sewerage connections will be made to existing houses.



CALLE



ANNEX X
Street Sections
Types 1 & 2

VEREDA

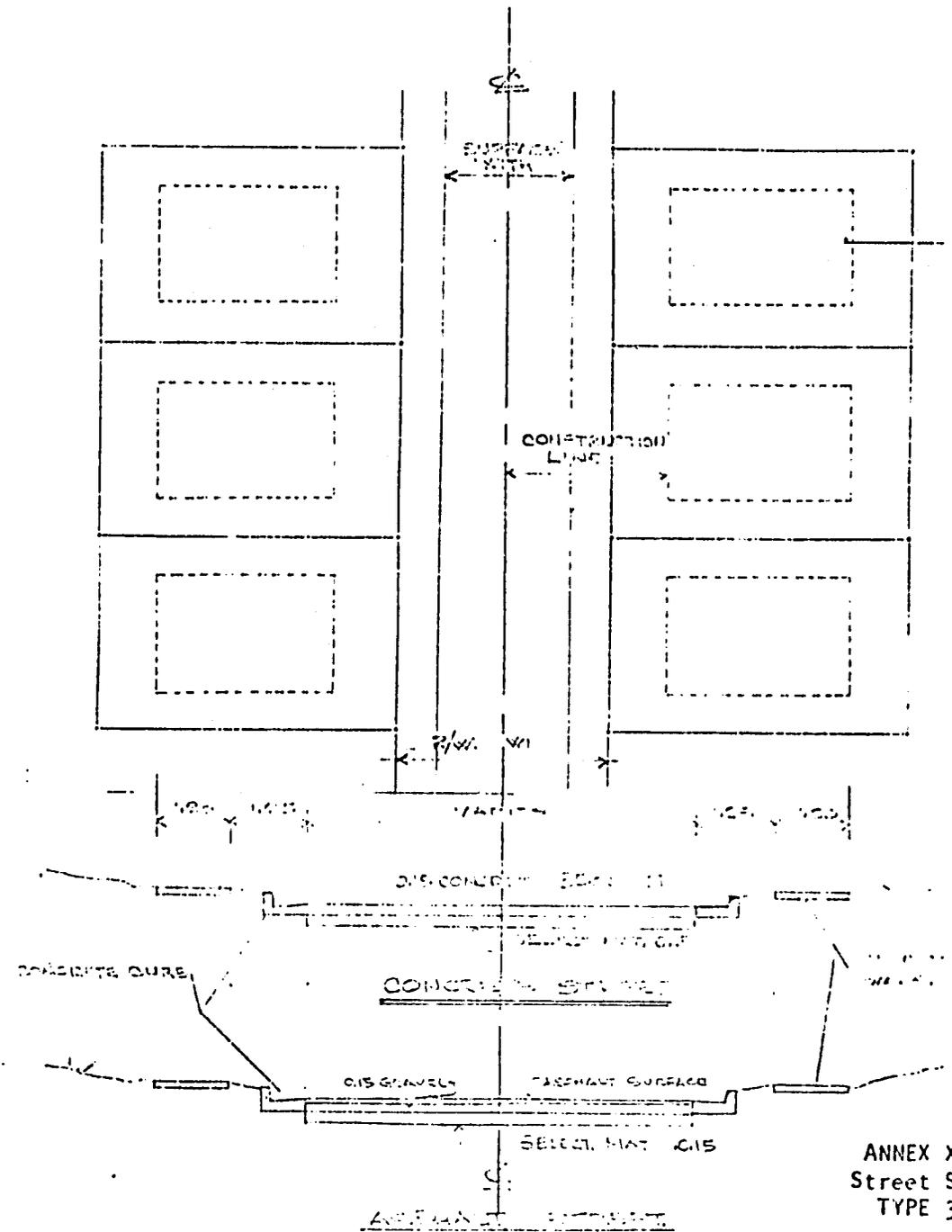
INSTITUTO DE VIVIENDA Y URBANISMO
PANAMA REPUBLICA DE PANAMA

SECCION TIPICA DE CALLE Y VEREDA PARA LOTES
CON OBRAS MINIMAS DE URBANIZACION

STREET DIMENSION GUIDE

The following table illustrates the general street dimensions within a tract:

<u>Street Type</u>	<u>No. Lots Served</u>	<u>R/W Width</u>	<u>Surfaced Width</u>	<u>Construction line to street</u>
Main Artery	Over 400	25.00 M	9.10 M	20.00 M
Collectors	200 - 399	15.00 M	7.20	15.00
Locals	100 - 99	11.10 M	6.10	12.50
Dead end street (23.0M turning radii)				
(cul de sac)	31 - 99	11.10	6.10	10.50
Walks (no vehicle access)	30 or less	5.00	2.00	7.50



ANNEX X
Street Sections
TYPE 3

Annex

Guide for Presentation of Proposed Housing and Site
Development Standards

(Information Required on each Type of Housing that is
Proposed to be Built)

A. Specifications, Sub-Program Type

1. Typical Plot Plan

- a. Typical plot plan of one lot, showing minimum dimensions.
- b. Scale 1:200
- c. Show the location of proposed construction and complete dimensions.
- d. Location and dimensions of all the proposed improvements, such as sidewalks, median walls.
- e. Typical section of street, sidewalk or other access, showing dimensions, materials, elements.

2. Floor and Roof Plans

- a. Floor plan at 1:50, indicating future extensions.
- b. Location, size and spacing between structural members such as columns, if any.
- c. Location of walls, indicating sizes of doors and direction of door swing.
- d. Location of permanently installed elements such as closets, plumbing, fixtures, etc.
- e. Location and symbols of all electrical equipment to be installed.

3. Exterior Elevations

- a. Elevations at 1:100; front, rear and both sides.
- b. Doors and windows, indicate dimensions in a separate table.
- c. Materials to be used in the walls.
- d. Depth of wall footings.
- e. Finish floor level.
- f. Finish grade lines at buildings.

4. Details and Sections

- a. A section through the house showing the walls from the footings to the highest point of the roof at 1:50 minimum.
- b. Structural details of the roof framing showing trusses, columns, materials, etc. at 1:40.
- c. Plumbing diagram and layout.
- d. Sections and details of all critical construction points at 1:40.

-2-

- e. Door and window schedule, including dimensions, materials and structural design.
- f. Finish schedule, including material and type of finish of walls, floors and ceilings.

B. Unit Cost Estimates

- 1. Cost estimates per lot
- 2. Detail of the average improvement cost corresponding to each lot.

- a. Earth movement
- b. Water supply and distribution.
- c. Collection and treatment of sewage wastes.
- d. Storm drainage.
- e. Electric services.
- f. Paving of streets and sidewalks, etc.
- g. Other

3. Sub-Total (Improved lot)

4. Details of Construction Cost by Element

- a. Excavations
- b. Footings
- c. Walls (wet)
- d. Structures
- e. Carpentry
- f. Floors
- g. Roofing
- h. Plastering
- i. Painting
- j. Sanitary
- k. Electric
- l. Other

Sub-Total (House)

Note: If not applicable, say \$0. Closely related elements may be combined with an appropriate explanation.

-3-

5. Total Direct Cost of House and Improved Lot
6. Administrative Costs Charged by IVU
7. Other Costs
 - a. Interim financing
 - b. Legal costs
 - c. Other
8. Total Selling Price Per Unit

GUIDE FOR PRESENTATION OF PROPOSED SITE DEVELOPMENT PLANS

A. Specifications, Sub-Project

1. Cover Sheet

- a. Name of sub-project, location identification number
- b. Index of drawings with titles and consecutive numbering.
- c. Tabulation of number of units by type, and the total number of units in the entire sub-project.
- d. Names of architects and engineers who have made the plans.

2. Site Development Plan

Scale 1:500 or greater, showing the following elements:

- a. Site boundaries, dimensions and angles.
If only a portion of a site is to be used, this area will be defined, and its area given.
- b. Identification of adjoining property.
- c. Proposed access to site
- d. Existing topography with contours at least each 50 cm.
- e. Location and width of streets and sidewalks, and dimensions of areas destined to public use.

- f. Cross sections of streets and sidewalks, with details of construction, and ^{location of} construction set back lines.
 - g. Dimension of each lot and identifications by sector (block) and lot numbers.
 - h. Tabulation, presented separately, of the sections and lots, and the type of development proposed (sub-program) for each sector/lot.
 - i. Site development schedule
 - j. Title scale, north arrow and date
3. Grading and Drainage Plans
- Scale 1:500
- a. Plan of grading contours showing the relation of the new contours (solid lines) to original contours (dotted lines)
 - b. Plan of storm drainage, profiles, and design criteria.
 - c. Details for inlets, manholes, catch basins headwalls, and surface drainage channels.
 - d. Adjacent contributory drainage area, if affecting the site, indicating structural design, calculations details. The total area drained and slope of land.

- e. Downstream facilities, if required, including plans, Profiles, sections and details.
 - f. Specifications
4. Water Supply System
- a. A water distribution plan showing pipe sizes valves, hydrants and off-site connections to supply.
 - b. Specifications
 - c. Where an independent source of supply is to be used, complete plans and details of the facilities to be installed.
5. Sewage Disposal System
- a. A sewerage plan showing collection system, direction of flow, pipe sizes, manholes, and off-site connection to public system if any.
 - b. Specifications
 - c. Where an independent treatment facility is contemplated, complete plans and details of facilities should be presented.
6. Electric Lighting Plan
- a. Complete plan showing locations of posts and electric lines, etc.
- B. Cost Estimates
- 1. Costs of Land

2. Budget for Site Improvements
 - a. Earth movement
 - b. Water supply and distribution
 - c. Collection and treatment of sewage wastes
 - d. Storm drainage
 - e. Electric services
 - f. Paving of streets and sidewalks, etc.
 - g. Other
3. Total Cost of Improved Site
4. Administrative Costs of IWU
5. Other Costs
 - a. Interim Financing
 - b. Legal Costs
 - c. Other
6. Total Selling Price
 - a. Saleable Area (m²)
 - b. Price per m²

DRAFT
LOAN AUTHORIZATION

Provided from: Alliance for Progress
PANAMA: Low Income Housing Loan

Pursuant to the authority vested in the Administrator, Agency for International Development, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, of said Act to the Government of Panama ("Borrower") of not to exceed fifteen million dollars (\$15,000,000) for the United States dollar and local costs of goods and services, including five hundred thousand dollars (\$500,000) to be used only for technical assistance, to assist the Borrower in providing housing and sanitary services for low income families. This loan is to be subject to the following terms and conditions:

1. Interest and Terms of Repayment

Borrower shall repay the loan to the Agency for International Development ("A.I.D.") in United States Dollars within forty (40) years from the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States Dollars on the disbursed balance of the loan interest of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Source and Origin

All goods and services financed under the loan shall have their source and origin in A.I.D. Geographic Code 941 countries or the country of the borrower.

3. Local Currency

United States dollars utilized under the loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D.

4. Other Terms and Conditions

- a. As conditions precedent to the signing of the loan, the Borrower shall:
- (i) Establish a National Committee for Housing and Urban Development to coordinate the activities of the various agencies financing housing; and
 - (ii) Commit \$8.4 million of Caja de Seguridad Social (Social Security) funds to Instituto de Vivienda y Urbanismo for low income housing over the three year period following the signing of the loan agreement.
- b. Borrower shall covenant in the loan agreement as follows:
- (i) To make timely and adequate provision of funds in conformance with the financial plan contained in the loan agreement; and
 - (ii) To submit within six months of the signing of the loan agreement a plan setting forth technical assistance requirements in the Panama housing sector including a schedule by which those requirements will be met.
- c. The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Analysis of Loan Funds Available
For Reinvestment in Housing
(000's omitted)

1. AID Loan Funds Only

<u>Year</u>	<u>Interest Paid on AID Loan</u>	<u>Amortization and Interest Rec'd</u>	<u>Available for Reinvestment</u>	<u>Factor</u>	<u>Funds Reinvested</u>
1	\$ 50	\$ 69	\$ 19	1.74	\$ 33
2	147	420	273	1.64	448
3	270	970	700	1.54	1,078
4-10	302/yr.	1,386/yr.	1,084/yr.	8.14	8,824
					<u>\$10,383</u>

- A. Mortgage Loan Terms - 18 years, 6%
- B. Reinvestment at 6%
- C. Down Payments not included in analysis
- D. Use of a 10% Bad Debt Factor Reduces Funds Reinvested amount to \$9,029
- E. Includes Time to End of Grace Period on AID Loan

2. AID & C.S.S. Loan Funds

<u>Year</u>	<u>Interest Paid on AID Loan</u>	<u>Interest and Amortization on C.S.S. Loan</u>	<u>Amortization and Interest Rec'd</u>	<u>Available for Reinvestment</u>	<u>Factor</u>	<u>Funds Reinvested</u>
1	\$ 50	\$114	\$ 134	\$ (30)	1.74	\$ (52)
2	147	352	980	481	1.64	789
3	270	614	1,811	927	1.54	1,428
4-10	302/yr.	752/yr.	2,264/yr.	1,210/yr.	8.14	9,849
						<u>\$12,014</u>

- A, B, C, and E - See Above
- D. Use of a 10% Bad Debt Factor Reduces Funds Reinvested Amount to \$9,711