

AIRGRAM

DEPARTMENT OF STATE

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TO - AID/W CAPTO A- 18

FROM - ROCAP/Guatemala

SUBJECT - Project Evaluation Report 78-6: 596-0058
Housing Technical Assistance

REFERENCE - CAPTO A-46 (June 1976)
FOR MO/PAV

1. The attached final project evaluation prepared by a consultant to the Foundation for Cooperative Housing (FCH), is submitted in its second revision. The report suffers somewhat from poor organization and does contain some inaccuracies. Moreover, the report does not adequately address one of the project's objectives of developing a secondary mortgage market. SER/H and ROCAP have accepted this report which, along with the prior evaluation (refair) and internal review of June 1977, present a fair review of the activity. In certain cases we have inserted clearly identified clarifications. The report's conclusions, with which we concur, are quite favorable.

2. ROCAP believes that technical assistance provided under this activity contributed to the increasing participation by National Savings & Loan Systems, CABEI, cooperatives and other institutions in LCH with less reliance on concessional funds, as can be determined by comparing pre and post project LCH production. The activity has also had significant impact on helping the region redefine national housing policies and LCH standards. This final evaluation and the interim evaluation (refair) confirm these conclusions.

BOSTER

Attachment: a/s

PAGE 1 OF 1 PAGES

DRAFTED BY	OFFICE	PHONE NO.	DATE	APPROVED BY:
RHechtman:aba	Program	42	4/28/78	ADIR:RVenezia <i>[Signature]</i>

A. I. D. AND OTHER CLEARANCES
RHIDD:DDriver (substance)
RHIDD:PHansen (draft) UNCLASSIFIED
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PROJECT EVALUATION 596-0058
HOUSING TECHNICAL ASSISTANCE

1. MISSION OR AID/W OFFICE NAME ROCAP		2. PROJECT NUMBER 596-0058	
3. PROJECT TITLE Housing Technical Assistance			
4. KEY PROJECT DATES (FISCAL YEARS) a. Project Agreements signed FYs 75-77 b. Final Obligation: FY 77 c. Project Terminated June 1977		5. TOTAL U.S. FUNDING - LIFE OF PROJECT \$278,000	
6. EVALUATION NUMBER 78-6	7. PERIOD COVERED BY THIS EVALUATION From: May 1976 To: June 1977		8. DATE OF THIS EVALUATION REVIEW April 28, 1978
9. ACTION DECISIONS REACHED AT EVALUATION REVIEW The variable quality of consultant's report, and the need to insert corrections and clarifications cause ROCAP not to desire his services in the future. The evaluation conclusions, except where noted in this report, are accepted.	10. OFFICER OR UNIT RESPONSIBLE FOR FOLLOW-UP: SER/H, RHIDD- Tegucigalpa, ROCAP	11. DATE ACTION TO BE COMPLETED	

12. SIGNATURES:

Project Officer

(draft)

Fredrick Hansen

Program Officer

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I. INTRODUCTION

This final evaluation of the Non-Capital Project Paper (PROP) covers the life of the project focusing on activities between May 1976 and the end of the project, in June 1977. An interim Project Appraisal Report was prepared in April of 1976.

The purpose of the evaluation is to determine the degree to which the project achieved its objectives and to identify those problems underlying any shortfalls in its achievement.

The primary objectives of the PROP are: to redirect and strengthen efforts of housing institutions (public and private) towards replicable low-cost housing for low income families; the development of a self-sustaining housing finance system; the development (or improvement) in institutional capacities for analyzing housing requirements; and the actual promotion (project development) of low-income housing projects.*

Upon arrival in Tegucigalpa (RHIDD Office), the evaluator prepared an evaluation methodology (see Addendum for details). The purpose of the methodology format was to define the PROP priority objectives, determine consultant responsibilities by country, obtain specific data requirements, and discuss staff impressions of the PROP effectiveness prior to launching the regional evaluation.

The PROP priority objectives and a summation of their fulfillment in Central America is provided the reader both in this introduction and within the section titled, Summary, Conclusions and Recommendations.

*Additional specificity of the PROP objectives are outlined in the adjoining summary table.

PROP PRIORITY OBJECTIVES AND THEIR FULFILLMENT IN CENTRAL AMERICA

3 To Redirect and Strengthen Efforts of Housing Institutions Towards Replicable LCH

	<u>Honduras</u>	<u>Guatemala</u>	<u>Nicaragua</u>	<u>Costa Rica</u>	<u>El Salvador</u>	<u>C.A.</u>
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A. <u>Establish Nat. Housing Policy</u>	Completed	Deferred for U.N. Team	BAVINIC contracted Canadian consultant Firm.	Not interested at this time.	Deferred for World Bank Study	Model established
B. <u>Initiation of Nat. Housing Plan</u>	Yes (new PADCO cont.)	N.A.	N.A.	N.A.	N.A.	One of five
C. <u>Initiation of S&L System</u>	Seed capital 1965-System Dev. & Implemented through PROP	Standing (legal assist.)	N.A. Seed capital 1969 before project began	N.A. (Seed capital 1974 before project began	N.A. (Seed capital 1970 before project began	Major effort
D. <u>Housing Conference (COPVIDU)</u>	On-going. Directed organization of Conf. 1976. Effort underway to achieve permanent status. AID Housing should have a well-prepared presentation for each Conference.					
18	<u>Development of a self-sustaining Housing Finance System</u>					
ROCAP/Guatemala CAPTO A	A. <u>Dev. of Secondary Mortgage Market</u>					
	Assist. granted to CABEI. As of late <u>Secondary Mortg. Market system is faltering</u> due primarily to high liquidity in many countries accompanied by lower regional consciousness and greater domestic concern. Inasmuch as <u>S&L's and FHA systems are supported in each country mortgage financing on the micro scale have been enhanced.</u> ROCAP comment: The project did provide substantial assistance to improve the technical capability within CABEI to promote, review and implement projects, especially LCH projects for which new standards were jointly developed. End Comment.					
	B. <u>Dev. FHA Type Insurance</u>	Dev. & Implemented thru PROP	Exists	Exists	Exists	Provision for FHA thru FNV not used up to '76 (PROP assist.)

PROP PRIORITY OBJECTIVES (CCNT'D)

	<u>Honduras</u>	<u>Guatemala</u>	<u>Nicaragua</u>	<u>Costa Rica</u>	<u>El Salvador</u>	<u>C.A.</u>
4 C. Elimination of Govt. Subsidies	Encouraged (INVA)	Encouraged	Encouraged	Encouraged	Encouraged	Minimal Impact
D. Coordination of Housing Institutions	Extremely effective	Marginal	Nearly non-existent	Extremely effective	Nearly non-existent	On-going demand

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Develop Institutional Capacity to Analyze Housing Requirements

In that National Housing Policy Development was encouraged and analysis of effective housing demand improved, there has been marginal gain. However, the RHIDD office is not setting a good example in this area vis-a-vis their own inadequate data base. With the recent AID Housing mandate toward LCH development some entities both public and private are interested in examining "new mechanisms" (Planning, Programming, Financing, Construction) to deliver housing to "low-income" families, and the pressure for the RHIDD office to supply relevant information is more acute.

ROCAP/Guatemala CAPTO A 1B

Low-Income Housing Project Initiation, Participation and/or Implementation

1,410 units	2,000 units	\$2.4 m planned	2,700 units 5,900 Indiv. rural credits	--	6 m of 7.5% money avail. for LCH: CABEI
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"Spin-Offs"

Positive: Assist in the disaster relief program in Guatemala. Model developed in the formulation of National Housing Policy (well received if not implemented). PROP afforded good follow-up of earlier S&L and FHA (also financial packaging assist.) program development. Negative: The workings of CABEI (and their costs) while better understood are generally regarded as an unnecessary and costly bottleneck.

ROCAP comment: Consultant debriefing revealed this view based upon limited interviewing. In our view, CABEI's ability to mix funds from different sources enhances the resources available within the region. End comment.

II. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

A. The Impact of the PROP

The PROP is a comprehensive technical assistance program which was initiated in Central America soon after the Congressional mandate to promote low-cost housing. The content of the program, its timing, and overall impact are considered very good.

The consultants involved in the PROP (PADCO and FCH) were praised repeatedly by housing officials in Central America for their dedicated efforts. The consultants worked extremely well with both the RHIDD/ROCAP/USAID staff and host national development staff.*

An overall shortcoming of the PROP concept will be the apparent inability of the RHIDD Office to continue the promotion of low-cost housing (LCH) development without the technical-project oriented personnel afforded by the PROP to assist in this effort.

The socio-economic and political conditions prevailing in Central America have strained the potential of developing a viable, public sector, secondary mortgage market. In addition, the real costs of housing development (land, building materials, labor, and infrastructure) are rising rapidly in Central America. To continue to promote non-government assisted LCH development will become increasingly difficult through HG-CABEI financing arrangements and/or true LCH will not be delivered to the target population.**

*The consultants for the PROP are Planning and Development Collaborative Inc. (PADCO) and the Foundation for Cooperative Housing (FCH). The AID-housing officer personnel who worked with the consultants and coordinated the PROP were from the Regional Housing Institution Development Division (RHIDD) in Tegucigalpa, Honduras and the Regional Office for Central American Programs (ROCAP) in Guatemala City, Guatemala.

**Prevailing interest rates of HG-CABEI financing are 10 5/8% (HG-00/2), this does not include over \$6.0 million mixed funds which are available at 7.5%. The HG-CABEI financing translates to an interest rate of nearly 14% to the mortgagor in Honduras. The difference of P+I monthly payments (not including FEA insurance fees) on a \$4,000 mortgage between 9.5% and 13.75% is nearly ten dollars. To be eligible for the higher rate loan translates to an additional disposable income of approximately \$40 per month. This factor alone can effectively alter the target population definition.

While the author does not pretend to understand the intricacies of the financial or administrative workings of CABEI, it seems apparent that alternative financial mechanisms need to be explored on both the macro and micro scale.

On the macro scale of financing low-cost housing development, bilateral HG loans mixed with concessional loans channelled directly to an "accredited" or "bonded" public or private institutions should be explored. In addition, based on discussions with numerous housing institution personnel throughout Central America (including personnel within CABEI), it seems evident that a comprehensive evaluation of CABEI's mechanisms, both financial and administrative, leading to recommendations to strengthen CABEI's low-cost housing development role, is in order prior to and a part of any revamping of the housing program of Central America. ROCAP comment: The new Bank President, at the request of the Board of Governors of CABEI, is reexamining the future role of CABEI's housing programs. End comment.

On the micro scale, AID Housing/Consultant staff need to concentrate their talents more on institutional development, where they have accomplished a rather remarkable success record, and less on pushing HG-CABEI financing. Savings and Loan systems can be introduced to rural areas and expanded in low-income urban communities. Variable interest rate mortgages and non-level payment mortgages should be experimented with especially in cooperative organizations in Central America. Taxing techniques (e.g. municipal cost valorization systems) on infrastructure development to spread fiscal costs among area land owners rather than to just a single project site need extensive work and project application.*

Clearly, in order to continue institutional development and technical assistance toward delivering LCH to the below median income target group, the RHIDD Office needs to develop a base line of data. For starters, the RHIDD staff should have readily available the following data by country:

1. The median income of urban and rural populations (reasonably updated),

*Efforts are underway to develop such a taxing program in the AID urban environment project in Costa Rica.

2. Definition of the target population by income and estimates on their allocation of income shelter,

3. Housing project information to include but not necessarily limited to LCH units started, completed or contracted by intended income category recipients, and actual recipient, development institution, line and cost of financing, cost per unit to construct, price paid and record of mortgage payback, etc., and

4. Where possible, the RHIDD Office should record some of the major economic impacts of LCH project development such as the promotion of personal savings and employment, etc.

ROCAP Comment: When not already available, this information is generated for inclusion in housing sector analysis prior to presentation of HIGs. End comment.

While assistance in developing base line data could come from the institutions involved in LCH and AID financing, the responsibility properly rests with the regional office to gather this information.

The Central American Housing and Urban Development Conference (COFVIDU) is an important platform for promoting low-cost housing development. The base line data necessary to verify low-cost housing development objectives and cost effectiveness of individual projects could also be utilized to present the economic impacts of LCH development. AID Housing should remain active in the workings of the Conference and have a well prepared presentation for each annual meeting.

B. Technical Assistance and Follow-Up

1. Establish National Housing Policy

The PROP was successful in establishing a working model of National Housing Policy development in Central America. Although it was successful in its application only in Honduras, the Guatemalan UN Program ought to have AID representation and input. ROCAP Comment: In Guatemala the project helped initiate a national housing committee whose work plan is being supported by UN financed technical

assistance. End Comment. Both Costa Rica and El Salvador should be closely monitored and assistance given in developing their policies when the political climate is right.))

2. Initiation of Savings and Loan Systems

Probably one of the most successful technical assistance and institutional development programs of AID in all of Latin America, the Central America program should be encouraged to expand into the rural areas as well.

Under the PROP, the Savings and Loan system was implemented in Honduras, and the ground work has begun in Guatemala. The other three countries had already received AID seed capital and technical assistance prior to the PROP and their Savings and Loan systems are in operation.

3. Development of FHA Type Mortgage Insurance

The PROP developed and implemented the FHA program in Honduras. The remaining countries of Central America already had developed their respective FHA type mortgage insurance systems. As with the Savings and Loan system development, the FHA type insurance program has most likely had the greatest single impact in expanding the housing mortgage market to the low income population. ROCAP Comment: The sentence should indicate that FHA impact was on expansion of the secondary mortgage generations of national housing mortgage markets. End Comment. The programs are generally operated very well and little follow-up appears necessary.

4. Elimination of Government Subsidies

This objective will sooner or later clash with that of delivering LCH under existing institutional (mainly financial) arrangements. As discussed further, the outcome of this effort should be monitored. To monitor the outcome of non-subsidized LCH projects by definition means the RHIDD Office must initiate efforts to develop base line data (socio-economic and LCH project performance information).

5. Coordination of Housing Institutions

An overall good performance by the RHIDD/Consultant team, the coordination of housing institutions is greatly facilitated

by developing national housing policies. Generally this coordination is an on-going requirement to get LCH projects on the ground and the RHIDD Office has successfully concentrated their efforts in this field.

6. Develop Institutional Capacity to Analyze Housing Requirements

Technically, the RHIDD Office and the PROP have assisted in this effort through policy planning and project planning, its design and implementation. As suggested earlier, a real void in this area (Housing and related socio-economic data) exists in the RHIDD Office.

7. Low Income Housing Project Initiation

The PROP was instrumental in achieving the LCH development illustrated within the adjoining PROP priority objective table.

8. PROP Spin-Offs

Beyond the primary objectives reported in this evaluation, the assistance afforded to AID in their disaster relief program in Guatemala (Nicaragua to a lesser extent) by PROP-FCH consultants is considered excellent. The Housing Policy development model has been well received and a workable approach in bringing the various institutions together and setting-out a strategy for addressing the problems of shelter development has occurred beyond the work scope of the PROP. ROCAP Comment: Development of LCH policies is not a "spin-off." End Comment.

III. CONSULTANT EVALUATION

A. Scope of Work

The Foundation for Cooperative Housing (FCH) was the lead consulting firm utilizing \$215,000 of the total \$235,000 consultant allocation. FCH provided two full-time resident advisors through the life of the project. Planning and Development Collaborative Inc. (PADCO), provided technical services in the area of national

housing policy development. PADCO provided four-person months with three specialists utilizing the remaining \$20,000 of the PROP funding.

One of the FCH advisors focused on providing the technical assistance required in packaging low-cost housing projects for public and private development entities. Assistance was given in performing project design and infrastructure standard review and pre-project financial planning and analysis, etc. The second consultant assisted in the development of mortgage insurance programs, savings and loan program development and cooperative housing program assistance. ROCAP Comment: FCH advisors also made significant contributions towards national housing policies and the LCH conference at COPVIDU. End Comment.

Both advisors participated on the local level in developing self-sustaining, non-subsidized financing techniques and on the regional level worked with the Central American Bank for Economic Integration (CABEI) in implementing its housing finance programs related to low-cost housing. Attempts were made to expand CABEI's financial resources by the issuance and sale of certificates to member and outside nations and institutions, etc. A final task of FCH was to provide continuity between TDY personnel (PADCO) and the national housing programs.

The overall objective for both consultant firms was to approach their respective assignments on a regional basis, i.e., all five countries. However, due to varying climates in national policy toward low-cost housing, economic and financial conditions, and institutional capabilities, etc., the consultants (RHIDD staff) concentrated on those countries where they were: 1) encouraged to lend assistance, and 2) saw potential for program development. A further explanation of the difficulties of a region-wide approach are discussed in the next section. The selected strategy translated to a concentrated effort in Honduras and Costa Rica which limited impact on the remaining three countries. ROCAP Comment: CABEI should be included in the areas receiving concentrated effort. End Comment.

B. Overall Impact of PROP: Performance of Consultants/RHIDD Office

Generally, the talents and efforts contributed by the consultants were excellent. Each consultant obtained a reputation of dedicated hard work and of contributing beyond their work scopes. The performance of the consultants and on-going efforts of the RHIDD Office during the PROP time frame became nearly indistinguishable. Therefore, to a degree, the evaluation of the consultants' efforts also reflects on the RHIDD Office program activities.

An overall impression obtained during this evaluation, and a subject to which I will return, is that the infusion of technical assistance to Central America soon after the Congressional Mandate to promote low-cost housing was timely and effective. However, as will be illustrated, while the PROP performed well, it has created a demand for on-going technical assistance (if not concentrated follow-up) in Central America that is not provided by the RHIDD staff per se. The RHIDD Office appears understaffed and its operations are curtailed for lack of permanent, project oriented/technical personnel.*

1. Region-Wide Objectives

While all PROP objectives were intended to have a region-wide impact (be effective in all five countries), two objectives are more readily discussed on a regional basis than by country to country. The two objectives discussed here are: the development of a secondary mortgage market through the Central American Bank for Economic Integration (CABEI), and the development of the Central American Housing Conference (COFVIDU). The remaining objectives of the PROP, e.g. the development of low-income housing projects will be examined on a country by country basis in the following section.

The potential for the PROP to accomplish its region-wide objectives needs to be placed in perspective with integrated regional development in Central America.

*USAID has assisted in this short-coming somewhat by contracting two of the PROP Consultants on a full-time basis (Costa Rica and Panama).

Upon its inception and until eight years ago when the conflict between Honduras and El Salvador began, the program of economic integration of Central America (the Central American Common Market - CACM) was viewed as a model of the form for cooperation among independent, relatively poor countries to advance their development. Over the years of its operation, CACM has made significant strides in accelerating industrial development, interregional commerce, and a multilateral system of payments, etc.

However, as reported by Eduardo Lizano Fait, momentum is gaining in the direction of rather fierce interregional competition backed by fiscal incentives of individual nations to attract new (multinational) industry and foreign investment.* Within all five CACM countries, internal socio-economic problems have remained acute, if not worsened and the respective governments are preoccupied more with their own internal problems.** ROCAP Comment: This broad brush characterization of the CACM contributes little to the report, nor does it reflect the continuing regional approaches taken by Central America to resolve problems and may reflect the view of only one individual. End comment.

The primary regional objective of the PROP was to assist in the establishment of a viable secondary mortgage market (i.e. CACM member nations purchase CABEI certificates, CABEI with its enhanced liquidity is then able to purchase participation in housing mortgages from member nations when their housing mortgage market is "less fluid," etc.). For the above outlined socio-economic-political difficulties among the CABEI member nations and due to a current status of rather high liquidity in the Central American housing market generally, the objective of developing a region-wide publicly

*"El Mercomun Centrocamericano," por Eduardo Lizano Fait, economista. Vision, 23 de septiembre de 1977.

**Costa Rica, surrounded by four military governments, is in the process of establishing strong ties with Mexico and Venezuela.

operated secondary mortgage market has not been totally successful.* Public and private housing institution personnel in Central America have stated they "prefer bilateral AID-Housing loans" to avoid paying higher interest (1.5% is commonly added by CABEI for administrative costs, etc.) and the additional paper work involved in working with yet another "umbrella"-type housing development institution.** ROCAP Comment: Correct CABEI mark up is 1%. While cheaper money is always preferred, its availability is much more limited than CABEI resources. End Comment.

The development of the Central American Housing and Urban Development Conference (COFVIDU) is the second region-wide objective of the PROP which, through considerable efforts by the RHIDD staff and FCH consultants, has been successful. The 1976

*In March 1970, AID and CABEI signed Housing Investment Guaranty 596-HG-001 for \$10 million. Under this agreement, CABEI was required to purchase participation in mortgages rather than lend money to national institutions. This was followed by HG-002 in the amount of \$11 million and in May 1974, AID executed agreements for an additional \$46 million to CABEI for its secondary mortgage operations. A condition for the guarantee is that 30% be utilized exclusively for the purchase or mortgages on low-cost houses. Low-cost was defined as \$3,000 as of January 1975 with price increases allowed after that date for inflation of construction cost. (Report on CABEI prepared by ROCAP for the Mission Director's Coordinating Committee, December 15, 1975). Since 1975, CABEI has sold \$18.5 million worth of securities in just two countries: Guatemala, \$14.0 million; and Honduras, \$4.5 million. CABEI Quarterly Progress Report -- Housing Program, April/June 1977.

**The CABEI housing department functions as a bank and housing development promoter and supervisor. Housing Guarantee CABEI (HG-003/2) financing costs to eligible housing institutions were 10 5/8%. Many of the adverse "high cost of money" and "bureaucratic" references to CABEI are easy target type complaints. (CABEI currently has over \$6.0 million in "mixed funds" available for low-cost housing at 7.5% interest). However, the viability of a publicly operated central bank in C.A. for low-cost housing development, and more specifically the workings of the housing department within CABEI, clearly deserve a close examination by AID-Housing prior to and a part of any revamping of the housing program of Central America.

Fourth COPVIDU meeting was held in Tegucigalpa. **ROCAP Comment:** This meeting's only subject was LCH, to which the project provided considerable input. **End Comment.** The promotion, organization and implementation of the meeting was handled mainly by an FCH advisor to RHIDD/ROCAP. In 1976, the RHIDD Office transferred its responsibilities as Executive Secretary to CABEI.

The Conference meetings and related activities serve as a useful forum for housing professionals throughout Central America to compare notes and discuss real and potential improvements in mechanisms (institutional, financial, etc.) for delivering low-cost housing.

Conferences can easily be criticized - throughout the world - in productivity to cost terms. However, with the current economic-political scene of Central America the Conference provides a forum removed from the political turbulence and affords a direct dialogue between public and private housing development institutions and between governments. The low-cost housing development and deserves a well-prepared presentation by AID-Housing each year.

2. Country Specific Objectives

As stated earlier, each of the PROP objectives was intended to have a region-wide impact toward promotion of low-cost housing. For organizational reasons and for actual performance outcome, the remaining objectives, e.g., the establishment of national housing policy contained within the general goal of "strengthening efforts of housing institutions towards replicable low-cost housing," are best discussed on a country by country basis.

Following, as organized within the PROP Priority Objectives Table of the introduction, is each objective of the PROP and its outcome on a country by country basis.

IV. PROP PRIORITY OBJECTIVES AND THEIR OUTCOME

A. Honduras

Tegucigalpa is the home office of RHIDD and CABEI and the Honduras story is one of encouraging success.

continuing their efforts in Honduras in assisting the development of a National Housing Plan. The five-year housing plan (1979-1983) will follow the policy strategies and guidelines developed within the national housing policy and provide an upgraded version of the former plan.

3. Initiation of Savings and Loan Systems, and

4. Development of FBA Type Insurance

With seed capital from AID in 1975 (loan agreement No. 522-W-023) of \$4.0 million a savings and loan system combined with an FBA type insurance program was established under the PROP with FINEVI as the lead institution.

An FCH consultant was actively involved in providing recommendations on the original Savings and Loan law dated March 25, 1975, and provided on-going assistance through January of 1976 when the law authorized the establishment and operations of the Savings and Loan Association.

With the authorization of the Savings and Loan Association, FCH consultants concentrated their efforts to "start-up" the system through development and approval of administrative and technical provisions and regulations for both the operation of FINEVI's Caja Central and FBA division. In addition, the administrative, financial and legal operations of the individual savings and loan associations were developed. The focus of this technical assistance (to the individual savings and loans, along with that of institutional development) was the preparation for channelling funds to low-cost housing projects.

In addition, technical advice was given in the preparation of legal documentation and regulations in developing the requirements and conditions for authorizing the establishment of (additional) savings and loans.

FINEVI has a sound reputation. As the parent organization of the savings and loans and FBA type insurer, the institution has encouraged low-cost housing development directly through disbursing lower cost interim financing for LCH projects and indirectly through the provision of mortgage insurance which has significantly

broadened the eligible mortgage market. ROCAP Comment: We feel FINAVI is too new an institution to have developed any reputation. Signs are encouraging, however. End Comment.

RHIDD staff and their consultants have worked closely with FINAVI in developing low-cost housing projects.

5. Elimination of Government subsidies, and
6. Coordination of Housing Institutions.

The elimination of government subsidies (for low-cost housing development) is encouraged by AID housing staff and their consultants in the attempt to demonstrate LCH economic and financial viability in its own right. The argument, or reasoning continues that once governments recognize that low-cost housing can be delivered utilizing commercial rate financing, i.e., non-host government subsidized financial packages with support from the "open market," the stigma against LCH projects (at least in financial terms) will lessen and more projects will obtain government and private sector backing.

At interest rates originating from HG-CABEI financing at nearly 11 percent (costing the mortgagor as much as 13.75 percent in Honduras), and with land, building, and infrastructure costs rapidly escalating, the argument for delivering true low-cost housing (under \$4,000 unit) without government subsidies is a difficult one. Unfortunately, the RHIDD staff and its consultants have insufficient information to demonstrate the positive economic and fiscal impacts of LCH development for host governments and most resort to hard bargaining to utilize HG-CABEI funds.*

Other than a sites and services project pending this year in Honduras (INVA) which will utilize CABEI funds and is defined as a "non-subsidized government project" (ROCAP Comment ...and the low-cost rural project with INVU in Costa Rica....End Comment) no other "non-subsidized" projects can be attributed to the PROP efforts.**

*Middle priced housing project developments are encouraged to include a low-cost housing project within the same financing package.

**As stated by RHIDD/Consultant staff.

It appears that in Honduras encouragement to low-cost housing development away from government subsidy has been more effectively promoted through the coordination of housing and housing related institutions. The RHIDD staff and their consultants have been very successful in Honduras in bringing public institutions together (in developing the National housing policy) and promoting combined efforts (multi-agency programs) in developing LCH. Coordinated development projects and their financial programming can effectively bring down the unit cost of housing and in turn, the government subsidies.

There are some data available (mainly within FEBCOVIL - a coop housing organization) of mortgage servicing experience in completed low-cost housing projects which points to servicing and delinquency rates at essentially the same level for LCH as for middle class housing. To the extent that this erodes misconceptions of payment performance of low-income home owners the Central American governments should be more encouraged to enter into financial programs involving LCH.

7. Develop Institutional Capacity to Analyze Housing Requirements

Honduras is unique in completing its National Housing Policy and proceeding toward a coordinated housing development plan. Again, the RHIDD/PADCO team very highly rated for their technical assistance and on-going efforts to bring both public and private institutions together.

An aspect of the FCH consultant activities which has assisted housing institutions analyze their true housing and related development needs has been the development of minimum standards for LCH with CABEI (approved 1976). With this general minimum standards guideline, efforts have been made in each country to develop country specific minimum standards. It is believed that this examination of housing standards and related infrastructure needs has assisted the institutions in better understanding the existing housing inventory and future requirements to meet shelter needs.

8. Low Income Housing Project Initiation

FEBCOVIL was initiated in 1968 with a seed capital loan from AID (522-H-011) and has received periodic technical assistance

through AID ever since. One of the FCH consultants working with PROP initiated technical assistance with FEBCOVIL in 1969. One of the more impressive housing institutions in Central America, FEBCOVIL has constructed medium-cost and low-cost housing utilizing CARE, AID, EG, and CABEI financing.*

INVA, the National Housing Institute and Casa Propia are the other major LCH developers in Honduras (see table below).

Honduras LCH Development

Projects Facilitated thru PROP

<u>Financing</u>	<u>Borrower</u>	<u>Unit Price</u>	<u>Number Units</u>	<u>Status</u>
CABEI	FEBCOVIL	\$ 1,200	650	Start Const. '77
CABEI	INVA	1,100	150	Start Const. '77
CABEI	Banco de los Trabajadores	3,375	10	100% Complete
FINAVI	Casa Propia	3,900	600	Start Const. '77

Interviews were carried out with all of the above institutions with the exception of the Workers Bank. Each of the institutions, including the private developer - Casa Propia - rated the assistance provided by the AID consultants as extremely useful, especially in the development of loan applications through CABEI.

B. GUATEMALA

The Government of Guatemala has a long history of fiscal conservatism. Prices have remained relatively stable since the early 1950's with inflation kept to five percent or below on an

*FEBCOVIL's general manager is now consulting for the RHIDD Office in evaluating and recommending housing cooperative upgrading in Guatemala.

annual basis. ROCAP Comment: Our economic analysis indicates a period of "remarkable price stability" through 1973. However, in 1974 consumer prices rose 16.5% over 1973. In 1975 they rose 13.1%. Reasons for the rise include the tripling in oil prices in 1974 and in 1976-77 the export boom and expansion of bank credit. End Comment. Up until the early 1970's under a tight monetary policy, little development took place for a country with Guatemala's potential. Housing programs have been viewed as a "social overhead" development cost. Since the earthquake in early 1976 and the ravaging of an estimated 130,000 rural housing units increased interest has been paid to development generally and housing programs specifically.

1. Establish National Housing Policy

Early in 1977, when the housing reconstruction program (following the earthquake) was under full implementation, the National Housing Bank (BANVI) and the National Planning Office reiterated their interest in RHIDD/PADCO technical assistance. Their request included a review and evaluation of the activities performed by technical groups who are working with the Planning Office; specifically BANVI and BANDESA under the guidance of United Nations Development Program (UNDP) technicians.

RHIDD accepted the request and suggested that the evaluation be carried out under the leadership and coordination of the Housing and Planning Division of the Planning Office, headed by Lic. Miguel Van Haegen, and also recommended that a Housing Policy Coordinating Committee similar to the one formed in Honduras be established where the public institutions mentioned above as well as those from the private sector which are involved in housing activities such as the FHA, the Guatemalan Federation of Housing Cooperatives (FENACОВI) and the Chamber of Construction, be represented.*

Through discussion with Lic. Miguel Van Haegen it was pointed out that the RHIDD/PADCO team, upon completion of their evaluation, came up with the following conclusions:

*Memorandum to: Fred Hansen, from: Jaime Rodriguez, FCH Advisor to RHIDD/ROCAP, Subject: Final Report. June 15, 1977.

a) they (the team) would provide a framework (to the National Planning Office) on which to base the formulation of a National housing policy, and

b) with an aggregate amount of over \$100,000,000 available for low-cost housing from different sources (Inter American Development Bank, World Bank, CABI, CANADA, FEMACVI) serious problems existed within Guatemala due mainly to the lack of coordination among development institutions and the inability of the same institutions to produce housing in a relatively short period of time.

Lic. Miguel Van Haegen continued by discussing the "sound" recommendations developed out of "numerous meetings" with RHIDD/PADCO including:

a) an ad hoc Housing Coordinating Committee should be strengthened,

b) a study should be carried out to determine housing production capacity utilizing local materials, and

c) the cooperative housing sections of BANVI and BANDESA should be restructured, etc.

"Upon completion of the above outlined efforts it was decided to defer the actual development of a National Housing Policy to the UNDP team, and the technical assistance requirements outside the policy development task could eventually be provided by USAID/Guatemala through contracts with AID consulting firms."

Unfortunately, the follow-up of this initial sound effort by the RHIDD/PADCO/FCH team was not good. The National Planning Office received a letter from USAID recommending continued action that bore "no understanding" or resemblance to the earlier tasks completed and the resulting recommendations.** It remains unclear why some participation by the RHIDD/consulting team was

*Ibid

**Lic. Miguel Van Haegen. Housing and Planning Division of the National Planning Office. Guatemala.

not made available for the initial formulation of the National Housing Policy with the UNDP team. ROCAP Comment: As indicated previously, the UNDP work is based upon initiatives begun under this project and, therefore, no further assistance was deemed necessary. End Comment.

2. Initiation of National Housing Plan

While there is expressed interest in developing a National Housing Plan in Guatemala, steps will be taken upon the completion of the National Housing Policy and its "authorization."

3. Initiation of Savings and Loan Systems

A request for technical assistance for the establishment of a savings and loan system was made to the SHIDD office in February 1977 by the president of BANVI. An FCH consultant was assigned to the task. After the consultant developed a scheme accepted by BANVI (including promotion of the concept, drafting new legislation, and presenting the drafted law to Congress for enactment) the final draft legislation was prepared and is now before the Congress.

Currently, mortgages are let by the commercial banks of Guatemala. While the newly proposed savings and loan system ought to operate independently of the commercial banking system, there is reluctance by the banking establishment to give up their limited mortgage lending program and allow a new institution entry into "their financial domain." However, the commercial banks of Guatemala have a very conservative history of lending money for housing development, especially among the "non-wealthy" population.

The FHA type insurance program which exists in Guatemala has greatly enhanced the potential of receiving a home mortgage, especially among lower income persons. Essentially, the monthly payments have decreased due to the extension of the commercial banks' mortgage term (greater than the customary five year term) when the mortgage is accompanied by the FHA type insurance.

4. Developing of Secondary Mortgage Market

In the attempt through the PROP to establish a viable secondary mortgage market (see page 12 of this report) Guatemala with its current (development finance) liquidity has purchased the greatest amount of CABEI certificates. (\$14.0 million). RHIDD/FCH have been instrumental in promoting this support of CABEI.

5. Low Income Housing Project Initiation

Low-cost housing project assistance provided through the PROP in Guatemala has been exclusively through BANVI. With a nearly \$5.0 million loan to BANVI from CABEI (following the earthquake) the La Aurora-Las Colinas project of 2,025 units at approximately \$2,450 per unit cost is about 75 percent completed.

Currently, RHIDD/FCH is following-up earlier activities and will be providing technical assistance to develop a viable cooperative housing development organization within Guatemala.

C. Nicaragua

As stated in the June 1976 evaluation of PROP, Nicaragua's presence was not contemplated in the PROP log frame since there is a permanent AID direct advisor stationed in Managua.

Presence of the evaluator during this assignment was primarily due to the COPVIDU annual meeting in Managua. The reason for attending the Conference (two days of five) was to assess the workings of the regional forum (commented on earlier in this report) and to meet with Central American housing officials with whom I had not had the opportunity to discuss the PROP or specific interviews had been cut short.

As stated earlier, the RHIDD involvement with COPVIDU in 1977 was much less due to the transferring to CABEI of its responsibilities as Executive Secretary. In the previous year, the main theme of the Conference was LCH. The theme in 1977 was

"Housing as a Function of Socio-Economic Development" and while the major thrust of PROP is low-cost housing an opportunity was lost this year in not preparing a presentation demonstrating the positive economic impacts of LCH development, e.g., employment generation, capital formation, increased savings in the private sector, and improved income distribution, etc.

2. Establishing National Housing Policy

In the latter part of 1976, the Nicaraguan Economic Planning Office demonstrated interest in developing a National Housing Policy. RHIDD/PADCO organized basic housing information available at the time and initiated design of a work program.

Per PADCO recommendation, a coordinating committee was formed including the Planning Office, the Nicaraguan Housing Bank (BAVINIC) and the Vice-Ministry of Urban Planning (VIMPU).

For reasons still unclear, BAVINIC, without direction from other members of the coordinating committee, hired a Canadian consulting firm (DELCANDA) to develop a National Housing Policy.

The regrettable fact is that the document represents a single institution's policy directives and did not incorporate the joint work and scope of the various housing institutions. Obviously, the document is not looked upon as a National Housing Policy (even within BAVINIC) and important coordination of existing public and private institutions has been lost. ROCAP Comment: Since the evaluation, BAVINIC has had a change of leadership and has begun discussions with RHIDD regarding modification of the DELCANDA report to make it more representative of the entire sector. End Comment.

3. Low Income Housing Project Initiation

BAVINIC, utilizing CABEI financing, is planning \$2.4 million in LCH projects over the next two years. Units are to be priced under \$4,000.

BAVINIC is the "umbrella" housing institution of Nicaragua. Savings and loan capital flow through BAVINIC (Caja

Central), the FEA type insurance program and INVI, the housing development arm, are all contained within BAVINIC. Initiated in 1966 with USAID seed capital, BAVINIC has been constructing urban "middle class" housing. After the 1972 earthquake and \$7.0 million from USAID, BAVINIC first became involved with moderate income (temporary) housing in the Las Americas project.

The only rural oriented housing organization is the Nicaraguan Development Foundation (FUNDE), a private cooperative housing development foundation organized in the FERCOVIL (Honduras) and FSDVM (El Salvador) pattern. The Director of FUNDE has a good grasp on the rural housing needs and approaches for rural development. Although FUNDE prepared a preliminary development proposal in August 1975 there was no follow-up by FUNDE or by the RHIDD Office. Apparently, FUNDE is not a favored organization within the Nicaraguan government.

D. Costa Rica

An important accomplishment of PROP activities in Costa Rica has been the inclusion of private contractors in LCH planning and development (e.g. Juan Soler Co. has pre-project approval for 180 LCH of 232 total units to start up in 1978).* Costa Rica has outstripped all other countries in Central America in developing LCH under PROP and like Honduras, the interagency and public private sector compatibility in working toward common development goals is extremely positive.

1. Establish National Housing Policy

Efforts were made by FCH consultants through contact with the Ministry of the Presidency, the national urban housing institute (INVU), and the central savings and loan office (DECAP) to initiate work on a national housing policy. A decision was made by the Ministry of the Presidency not to proceed at this time.

*Mr. Soler contends that pre-project approval was achieved mainly to the outstanding assistance provided by FCH consultants. He strongly supports low-cost housing development, but thinks the cost definition (differs by country, but all are \$5,000 or below) is unrealistically low.

2. Initiation of Savings and Loan System and PHA Type Insurance

Both programs and their respective institutions were developed with AID seed capital prior to the PROP and received AID housing technical assistance in their start up.

3. Coordination of Housing Institutions

RHIDD/FCH consultants were successful in promoting revised low-cost housing construction standards in Costa Rica. Both INVU and DECAP received assistance in utilization of these new standards in preparing and/or approving LCH development plans and applications for CABEI financing. The remaining snag in the broad application of these standards lies in the Costa Rican municipalities. The municipalities have shown reluctance in accepting LCH project development. With their autonomy under the law and right to issue building permits, there is concern regarding the final application of the revised construction standards.

In the interest of facilitating project applications for approval and eliminating some of the "red tape" in preparing project cost "change orders," a building cost indexing system was established in Costa Rica for use by DECAP and CABEI in LCH projects.

4. Low Income Housing Project Initiation

Technical assistance provided under the PROP has had a direct contribution (e.g., advice and assistance to DECAP and individual savings and loan mutuals in the utilization of funds from CABEI) or has assisted in the development of the following LCH projects in Costa Rica.

Costa Rica LCH Development

Projects Facilitated thru PROP

<u>Financing</u>	<u>Borrower</u>	<u>Unit Prices</u>	<u>Number Units</u>	<u>Status</u>
CABEI	DECAP	\$ 3,200	1,315	40% complete with 755 started
CABEI	INVU	3,890	1,398	900 units 40% complete with remainder started
CABEI	INVU	1,700	5,900*	started

A rather significant "Urban Environment Loan Program" (\$28.8 million) has been proposed for San Jose, Costa Rica. The program, similar in scope (squatter settlement upgrading, employment and income generation, community infrastructure, etc.) to the World Bank San Salvador project, received considerable time and technical assistance by FCH consultants under the PROP.

E. EL SALVADOR

The RHIDD Office deferred its program in El Salvador due to an on-going World Bank comprehensive planning and community upgrading demonstration project in San Salvador.

During preliminary discussion with the Ministry of Economic Planning in consideration of developing a National housing policy, the Ministry of Planning entered into a two year project agreement with the World Bank. The project included a significant technical assistance input for upgrading institutional structure and coordination in developing urban and regional policy, plans and programs, and coordination of operational and financial mechanisms for housing and community improvement among the lowest income groups, etc.

In addition, the RHIDD Office anticipated that with the Salvadorean Social Fund (Fondo Social) for construction of worker "low-cost" housing, there was not a pressing need to encourage additional financial mechanisms to develop low-cost housing.

*Individual Rural Credits.

In fact, while there is no question as to the significantly high level of available housing development finance in El Salvador, the Social Fund does not provide housing finance for the lower salaried workers and none whatsoever for the non-salaried-self employed (informal sector) which constitutes nearly 40% of the San Salvador labor force. The institutions capable of delivering LCH in El Salvador (other than FSDVM, a private coop LCH development group) are openly cognizant of their need to upgrade operations and better coordinate their programs with other public development institutions. El Salvador will not obtain a national housing policy out of the World Bank project and although aspects of the project will address housing policy issues, there is real need within the country to develop such a policy.

Suffice is to say that it is assumed that the non-involvement in El Salvador is due mainly to the lack of time and resources of the RHIDD Office/PROP consultants, and on the surface, El Salvador is not interested in utilizing AID-BG, or CABEI financing at current rates of interest.

ADDENDUM:**Evaluation Methodology**

Briefings in the PROP took place in the AID Housing Washington Office prior to departure to Guatemala - ROCAP Office.

Upon arrival in Guatemala, briefings were held in the ROCAP Office and USAID Mission. Both the ROCAP and RHIDD Office Staff were extremely cooperative in providing background materials and organizing interview itineraries (repeatedly) for the evaluator.

Files were opened in the RHIDD Office in Honduras and the evaluator prepared a memorandum titled "Evaluation Methodology and Necessary Inputs from RHIDD/ROCAP." The intent of the memorandum was to prepare an updated synthesis on the "PROP Priority Objectives" (as utilized in this report) and obtain concurrence from the RHIDD Staff.

In addition, data was requested by country pertaining to:

1. The identification of (shortfalls) problems in obtaining the objectives.
2. Low-cost housing information including CABEI and bilateral financed projects by number of units, unit costs, and development institution.
3. Assessment of institutional support in working toward project objectives.
4. Consultant evaluation format by Priority Objective, dollars utilized and person months involved, etc., and
5. A list of specific questions was developed pertaining to CABEI financing and development of the secondary mortgage market, etc. The RHIDD Office proceeded to prepare a country by country itinerary and confirm key interviews." Frequent meetings were

*See adjoining representative list of persons interviewed, by country. In each country, additional persons were recommended, and met with for discussion and review of the PROP.

held within most of the Central American countries with both RHIDD staff and their consultants.

Upon completion of the five country visit, a presentation of basic findings was given to ROCAP/RHIDD staff in Guatemala.

The evaluator is appreciative of the enthusiastic support received in the field. However, this final evaluation represents the independent conclusions and recommendations of the evaluator, and in no way should be misconstrued as representative of the views of AID Staff in Washington or Central America.

Representative List of Persons Interviewed, by CountryHONDURAS

INVA	Carlos Avila Ancele de Villeda
PEHCOVIL	José Ascona Julio Caramo
CONSULANE	Ramir Mondracon
CABEI	Rafael Chavarría José Luis Tahay
FINAVE	Mario Castaneda
CMDC	Henry Merriam William Kivett
USAID	Martin Dagata John Lovaas

COSTA RICA

INVU	Warnes Sequieres Alonso Scott
DECAP	Roberto Cassani
S and L	Alvaro Saborio Miguel Salazar
BUILDERS	Juan Soler Herman Figueroa
USAID	Ed Butler Heriberto Rodríguez

NICARAGUA

BAVINIC	Charles Fossen
VINPU	Ivan Osorio
S and L	Floyd Jones
BUILDERS	Enrique Ferreria
FUNDE	William Baer
USAID	Aaron Benjamin

GUATEMALA

BANVI	Alexi Synegub Carlos Escobar
FEMACOV	Alfredo Oliva
PLANIFICACION	Miguel Van Haegen
USAID	Frederick W. Schieck George Hill
RCCAP	Barry Sidman Robert Hechtman

EL SALVADOR

PLANIFICACION	José Chorro
FUNDASAL	Antonio Martfner
USAID	Roberto Gavidia