

FD-204-943 (2)

UNCLASSIFIED

(also 519800600)

519025/004201

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

EL SALVADOR  
PROJECT PAPER  
MARGINAL COMMUNITY IMPROVEMENT

Project Number :519-0251  
Loan Numbers:519-T-026  
519-T-027

AID/LAC/P-045

HIG:519-HG-006

UNCLASSIFIED

<b>AGENCY FOR INTERNATIONAL DEVELOPMENT</b>  <b>PROJECT DATA SHEET</b>	<b>1. TRANSACTION CODE</b> <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete  <b>Amendment Number</b> _____	<b>DOCUMENT CODE</b>  <b>3</b>
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<b>2. COUNTRY/ENTITY</b> EL SALVADOR	<b>3. PROJECT NUMBER</b> 519-0251      519-HG-006
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<b>4. BUREAU/OFFICE</b> LA	<b>5. PROJECT TITLE (maximum 40 characters)</b> Marginal Community Improvement
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<b>6. PROJECT ASSISTANCE COMPLETION DATE (PACD)</b> MM DD YY 1   2   3   1   8   2	<b>7. ESTIMATED DATE OF OBLIGATION</b> (Under 'B.' below, enter 1, 2, 3, or 4) A. Initial FY <u>80</u> B. Quarter <u>3</u> C. Final FY <u>  </u>
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**8. COSTS (\$000 OR EQUIVALENT \$1 = )**

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	825	5,000	5,825	950	10,000	10,950
(Grant)	( 825 )	(        )	( 825 )	( 950 )	(        )	( 950 )
(Loan)	(        )	( 5,000 )	( 5,000 )	(        )	( 10,000 )	( 10,000 )
Other U.S. 1. HG		9,500	9,500		15,000	15,000
2.						
Host Country		6,000	6,000		6,000	6,000
Other Donor(s)						
<b>TOTALS</b>	825	20,500	21,825	950	31,000	31,950

**9. SCHEDULE OF AID FUNDING (\$000)**

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SD	720	860	860	-0-	-0-	475	4,000	600	4,000
(2) FN	254	205	250	-0-	-0-	350	1,000	350	6,000
(3)									
(4)				-0-	-0-	825	5,000	950	10,000
<b>TOTALS</b>									

<b>10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)</b> 100      120      130      140      861      862	<b>11. SECONDARY PURPOSE CODE</b> 260
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<b>12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)</b>			
A. Code	BR	BR(HG)	EQTY
B. Amount	10,000	15,000	4,000

**13. PROJECT PURPOSE (maximum 480 characters)**

To assist GOES to meet immediate needs for community basic services, minimum shelter and productive opportunities for the poor and improve GOES capacity to address basic needs of the poor in marginal communities in a comprehensive, coordinated manner.

<b>14. SCHEDULED EVALUATIONS</b> Interim MM YY      MM YY      Final MM YY 1   2   8   1                1   2   8   4	<b>15. SOURCE/ORIGIN OF GOODS AND SERVICES</b> <input checked="" type="checkbox"/> 000 <input checked="" type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify) _____
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**16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a \_\_\_\_\_ page PP Amendment.)**

<b>17. APPROVED BY</b>	Signature Title Director, USAID/EI Salvador	Date Signed MM DD YY 0   3   0   7   80	<b>18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION</b> MM DD YY
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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT AUTHORIZATION

Name of Country: El Salvador  
Name of Project: Marginal Community Improvement  
Number of Project: 519-0251  
Number of Loan: 519-T-026 \$1,000,000  
519-W-027 \$4,000,000

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Marginal Community Improvement project for El Salvador (the "Cooperating Country") involving planned obligations of not to exceed Ten Million United States Dollars (\$10,000,000) in loan funds ("Loan") and Nine Hundred Fifty Thousand United States Dollars (\$950,000) in grant funds ("Grant") over a two year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The project ("Project") will assist the Cooperating Country to meet immediate needs for community infrastructure, minimum shelter and productive opportunities for the poor and improve the Cooperating Country's capacity to address basic needs of the poor in secondary cities in a comprehensive and coordinated manner.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and major conditions together with such other terms and conditions as A.I.D. may deem appropriate:

a. Interest Rate and Terms of Repayment

The Cooperating Country shall repay the Loan to A.I.D. in U.S. Dollars within twenty-five (25) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the Loan at the rate of (i) two percent (2%) per annum during the first ten (10) years, and (ii) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Goods and Services (Loan)

Goods and services, except for ocean shipping, financed by A.I.D. under the Loan shall have their source and origin in countries included in A.I.D. Geographic Code 941, or in countries that are members of the Central American Common

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**Market, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Loan shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States or of countries that are members of the Central American Common Market.**

**c. Source and Origin of Goods and Services (Grant)**

Goods and services, except for ocean shipping, financed by A.I.D. under the Grant shall have their source and origin in the United States and countries that are members of the Central American Common Market, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

**d. Condition Precedent to First Disbursement for other than Technical Assistance (Loan)**

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance other than technical assistance, the Cooperating Country shall furnish to A.I.D., in form and substance satisfactory to A.I.D. evidence that a full-time Project Coordination Unit has been established and staffed.

**e. Condition Precedent to Disbursement for Community Basic Services Activities (Loan)**

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance community basic services activities, the Cooperating Country shall furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that the Ministry of Interior has made adequate progress in providing DIDECO with sufficient administrative authority to efficiently carry out the community basic services activities. The evidence shall include a signed contract for advisory services to DIDECO in implementing improved purchasing, cash control and internal auditing procedures.

**f. Condition Precedent to Disbursement for Small Enterprise Activities (Loan)**

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance small enterprise activities, the Cooperating Country shall furnish to A.I.D., in form and substance satisfactory to A.I.D., a Project Credit Manual containing detailed lending criteria, procedures, interest rate structures and such other information as A.I.D. may require with respect to any and all lending institutions participating in the Project.

**g. Covenants**

**The Cooperating Country shall covenant that:**

- (1) Only the Central Reserve Bank will act as Administrator of the A.I.D. funds made available pursuant to the Project Agreement.
- (2) The Cooperating Country will pay all banking charges to the Central Reserve Bank from non-Project resources, and that all interest charges on the Central Reserve Bank through use of A.I.D. funds will be used entirely for purposes of the Project in accordance with the priorities established by the Cooperating Country.
- (3) Counterpart contributions or other resources will be utilized to finance land purchases, if any, and that A.I.D. funds will not be used for said purposes.

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Administrator

April 4 1980  
Date

Clearances:

GC/LAC:JLKessler:     date 3/26/80  
LAC/CEN:MArnold:     date      
LAC/DR:CPeasley:     date 3/26/80  
  
LAC/DR:MBrown:     date      
AAA/LAC:ECoy:     date      
AA/PPC:AShakow:     date 3/27/80  
GC:NHolmes:     date 2/27/80  
  
GC/LAC:DAAadams:ckg:3/25/80:ext:29183

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON D C 20523



THE PRESIDENT

GUARANTY AUTHORIZATION

PROJECT 519-HG-006(D)

Provided From: Housing Guaranty Authority  
TO : Government of El Salvador  
For : Marginal Community Improvement

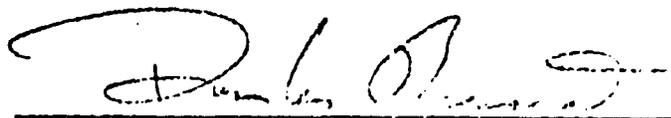
Pursuant to the authority vested in the Administrator, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed nine million five hundred thousand dollars (\$9,500,000) in face amount, for Phase I activities assuring against losses of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans by eligible U.S. investors ("Investor") acceptable to A.I.D. made to finance marginal community improvement projects ("Project") in El Salvador. I approve the total level of not to exceed \$15 million in A.I.D. guaranty support for the Project. Issuance of guaranties for Phase II of the project in the amount of \$5.5 million shall be subject to the conditions set forth under paragraph 5, below.

This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loan shall extend for a period of up to thirty years (30) from the date of disbursement and may include a grace period of up to ten years on repayment of principal. The guaranty of the loan shall extend for a period beginning with the first disbursement of the loan and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loan.
2. Interest Rate: The rate of interest payable to the Investor pursuant to the loan shall not exceed the allowable rate of interest prescribed pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans made in the long term United States capital markets.
3. Government of El Salvador Guaranty: The Government of El Salvador (GOES) shall provide for a full faith and credit guaranty indemnifying A.I.D. in United States dollars assuring against all losses arising by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.

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4. **Fee:** The fee of the United States shall be payable by Borrower in dollars and shall be one-half percent (1/2%) per annum of the outstanding guaranteed amount of the loan plus a fixed amount equal to one percent (1%) of the amount of the loan authorized, or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loan.
  
5. **Conditions Precedent:** Prior to the issuance of guaranties for carrying out Phase II of the project, and except as A.I.D. may otherwise agree, the Borrower shall assure completion of the following in form and substance satisfactory to A.I.D.:
  - (a) GOES has achieved the outputs specified under the Planning for Phase II activity (Establish Secondary Cities Program Unit; Develop HUD Program).
  - (b) IVU has prepared designs for new shelter solutions to be built in secondary cities.
  - (c) HUD has completed overall shelter needs studies for at least two secondary cities.
  - (d) HUD has developed shelter sector coordinating and monitoring procedures.
  - (e) HUD has developed minimum urbanization standards and site legalization policies and procedures for secondary cities.
  - (f) GOES has adopted a consistent interest rate structure for financing of new shelter solutions and home improvements. This structure should be based on unsubsidized interest rates, cover all GOES housing institutions that will participate in Phase II activities, and provide for rate equalization between loans in the SSMA and secondary cities.
  
6. **Other Terms and Conditions:** The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

  
\_\_\_\_\_  
Administrator  
  
\_\_\_\_\_  
Date

**Clearances:**

DS/H:David McVoy \_\_\_\_\_ Date \_\_\_\_\_  
GC/H:MGKitay \_\_\_\_\_ Date \_\_\_\_\_  
DS/H:Sonny Low \_\_\_\_\_ Date \_\_\_\_\_  
SER/FM/LD:Ernest Wilson \_\_\_\_\_ Date \_\_\_\_\_  
GC/LAC:Judd Kessler \_\_\_\_\_ Date \_\_\_\_\_  
LAC/CEN:Marilyn Arnold \_\_\_\_\_ Date \_\_\_\_\_  
LAC/DR:Robert Mathia \_\_\_\_\_ Date \_\_\_\_\_  
LAC/DR:Marshall Brown \_\_\_\_\_ Date \_\_\_\_\_  
AA/LAC:Edward Coy \_\_\_\_\_ Date \_\_\_\_\_  
AA/PPC:Alex Shakow \_\_\_\_\_ Date \_\_\_\_\_  
GC:Norman Holmes \_\_\_\_\_ Date \_\_\_\_\_

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## RECOMMENDATIONS AND SUMMARY

### A. RECOMMENDATIONS

USAID/ES recommends the authorization of the following AID resources to finance the project described in this Paper:

\$ 10 million Development Loan (DL)  
\$950,000 Development Grant (DG)  
\$ 15 million Housing Guaranty (HG)

The Borrower of both the DL and HG funds will be the Government of El Salvador acting through the Ministry of Planning.

### B. SUMMARY

#### 1. The Problem

Living conditions for the poor majority in El Salvador are deplorable. Most citizens, in urban and rural areas alike, live in communities that are not served by even minimal community basic services, occupy totally inadequate housing, and have little access to assistance in improving their income and general well being.

Civil disturbances are an every day fact of life. These have disrupted government activity and have caused a downward spiral in the economy with unemployment increasing at an alarming rate. Numerous "popular" organizations are clamoring for changes in government policies, a redirection of public sector resources towards the poor majority, and implementation of long overdue reforms to provide for a more equitable distribution of wealth.

#### 2. The Response

A new government was recently formed and has promised to give immediate attention to the demands of the poor majority. Its program includes land reform in both the agricultural sector and urban areas, reform of the financial, banking, export and labor sectors. Despite strong opposition from the powerful and well entrenched oligarchy which has virtually controlled the country to date, the government appears to be making good progress in planning to implement the promised reforms. In addition, the GOES has been working hard on developing a series of short term, high impact programs designed to alleviate the worst hardships faced by the poor majority while it proceeds with more fundamental

reforms in orderly fashion over the longer run. In stark contrast to the hesitance shown by previous governments in obtaining outside assistance to support programs directed at improving conditions for the poor, the present government has made an urgent appeal for support. The U.S. Government has agreed to provide approximately \$50 million in economic assistance during this fiscal year with the expectation that this aid directly benefit the poor and that the GOES continue to make adequate progress in carrying out the fundamental reforms it has promised.

The first part of the assistance package - a \$9.75 million assistance project for small producers - was signed on February 27.

The second part of the assistance package - a \$15 million Emergency Employment Program - was recently approved by AID/W. The Marginal Community Improvement project is the third, and major, part of the package.

### 3. The Project

The project is a \$31.95 million effort to upgrade marginal communities in both urban and rural areas. It will be financed by a \$10 million Development Loan, a \$6 million GOES contribution, a \$950,000 Development Grant and \$15 million Housing Guaranty Loan. The bulk of this assistance, including all the Development Assistance funds, is expected disburse within 18 months following obligation of the funds. The purpose of the project is to assist the GOES to meet immediate needs for basic community infrastructure and services, minimum shelter and productive opportunities for the poor and to improve the government's capacity to address the basic needs of the poor in marginal communities in a comprehensive, coordinated and sector-wide manner.

a. Overall Project Structure. Reflecting this two-fold purpose, the project activities will be implemented in two phases.

Phase I activities will respond to immediate needs for community infrastructure, shelter and productivity opportunities. These activities will benefit approximately 25,000 families in approximately 330 urban and rural communities, including some 30 agrarian reform settlements.

Phase I will also concentrate on initiating work on the software of institutional change in the shelter sector - studies, development of new standards and procedures, strengthening key institutions. This activity will permit the GOES and AID to respond quickly to a change in circumstances which requires or facilitates earlier implementation of basic reforms in the shelter sector.

Phase II calls for projects and assistance which will support GOES efforts to effect basic reforms designed to overcome some of the problems and constraints which characterize the shelter sector in El Salvador. It will build on the software and experience developed in

Phase I and will be preceded by a negotiation (effected through a series of conditions precedent to Phase II disbursements) leading to an agreement between the GOES and AID on the specific nature of changes and reforms to be carried out in the following areas:

- coordination of shelter vector activities and institutions.
- housing finance policies, primarily those regarding interest rates
- shelter programs addressing the needs of the poor outside the SSMA.

b. Phase I - Activities (\$23.85 million)

This phase consists of five activities which will be implemented largely in the first eighteen months of the project. The activities are:

- Community Basic Services (\$8.0 million)

The Community Infrastructure Division of the Community Development Directorate (DIDECO) of the Ministry of the Interior will build water systems and drainage improvements, upgrade rural roads and town streets, construct bridges and secondary electric distribution systems and make other improvements in approximately 300 marginal communities.

Some 10,000 poor families are expected to benefit directly from this activity, with many more families being benefitted indirectly. The cost of these improvements is estimated at \$7.5 million (\$6 million AID-DL; \$1.450 million GOES). Approximately half of this cost consists of wages that will be paid to laborers from the benefitting communities. Additional costs are \$200,000 for technical assistance to DIDECO (financed with AID-DG funds) and DIDECO's increased administration costs (\$350,000, GOES financed). Eligible sub-projects are clearly additional to those proposed under the Emergency Employment Project.

- Home Improvements (\$4.05 million)

Approximately 5300 loans for home improvements will be made to low income families throughout most of the country. The funds will be channeled through the quasi-governmental Credit Federation (FEDEC-CREDITO) and the Federation of Credit Unions (FEDECACES). Both of these organizations have demonstrated ability to reach the target group. Loans will finance improvements such as cement floors; permanent walls and roofs; and water sewer and electrical connections. Four million of HG resources are programmed for this activity, of which \$2 million will be allocated for use outside the SSMA in support of Phase II. Minimal technical assistance at an estimated cost of \$50,000 will be financed with AID-DG funds.

- New Shelter Solutions (\$6.7 million)

Approximately 2,150 new shelter solutions, consisting of sites and services and core housing units, will be built in the San Salvador Metropolitan Area (SSMA). The GOES' Housing and Urban Development Institute (IVU) and private Savings and Loan Associations (S&L's) will be the implementing agencies. This will be the first effort of the private S & L's in the low cost housing field. The units will be affordable by below median income families in the SSMA and will be financed by \$5.5 million of HG resources and \$1.2 million from the GOES.

- Agrarian Reform Support (\$2.7 million)

On 3-6-80, the GOES approved an agrarian reform law under which it will carry out an accelerated program of land redistribution. This activity will help newly organized agrarian reform colonies in quickly getting established by providing training and technical and financial assistance through such GOES institutions as Community Development Directorate (DIDECO), Centa, IRA, the Agrarian Transformation Institute (ISTA) and the Agricultural Development Bank (BFA). Two million of DL resources are initially programmed to finance productive activities, community infrastructure and improved shelter for approximately 30 agrarian reform colonies. Two hundred thousand dollars (\$200,000) of DG funds are programmed for institutional support. The initial GOES contribution to this component is estimated at \$500,000.

- Small Enterprises (\$2.15 million)

Approximately 6670 loans will be made to individuals and productive groups in secondary cities and rural areas to finance small productive enterprises. The bulk of these enterprises are expected to transform agricultural products from their farms into products such as rope, hats, canned and pickled foods, chickens, marmalades, candy, and cheese. These products have a significantly higher sales price than the value of the raw materials. The Agricultural Development Bank (BFA) and the Agricultural Technology Center (CENTA) will be responsible for providing financing and technical assistance, respectively. The Loans will be financed with \$2 million of AID-DL funds. Technical assistance to BFA/CENTA will be financed with \$150,000 of DG funds.

- Planning for Phase II (\$250,000)

Under this activity the GOES will carry out a planning process which will enable it to address the shelter problems of secondary cities in a coordinated, comprehensive manner. Major reforms will be needed to facilitate effective GOES action during Phase II. These reforms include the rationalization of housing finance policies (notably interest rates); establishment of simple procedures to legalize sites in urban areas; direction of housing sector resources, both financial and technical, to

benefit low income families; and improved shelter sector coordination. Conditions precedent to disbursement have been established to require that adequate progress be made in all these areas before proceeding with Phase II. DG financed Technical Assistance, at an estimated cost of \$250,000, will be provided under this activity to: help the GOES plan and implement the needed reforms; improve the institutional capability of key agencies that will have a role in Phase II implementation; and develop the coordination procedures necessary to ensure smooth implementation of the plans developed.

c. Phase II (\$8 million)

This Phase will consist of a mix of community infrastructure, housing improvements, site legalizations and new shelter solutions carried out in secondary cities in conformity with the plans developed under Phase I. The implementation of these plans will represent the first major GOES attempt to address the shelter sector needs of the low income population in secondary cities. The activities are expected to start within 12-18 months after the start of Phase I and take approximately two years to complete. Phase II activities will be financed by \$5.5 million of HG resources and \$2.5 million of counterpart funds. Some 6,000 families are expected to benefit.

Summary of Outputs and of Expected Project Beneficiaries for Shelter Activities (HG funded)

Phase/Activity	Cost of Solutions		Number	Beneficiaries	
	Range	Average		Income Percentiles	
				SSMA	Other Urban
Phase I:					
- Home improvements	\$ 20 - 800	\$ 785	5095	1 - 50	1 - 50
- New shelter	\$3,200 -4,000	\$ 3,600	2150	15 - 50	n/a
Phase II: <u>1/</u>					
- Infrastructure	\$ 360 - 530	\$ 450	2600	n/a	5 - 50
- New shelter	\$ 960 -2,200	1,500	1940	n/a	5 - 50
Total Beneficiaries:			12,785		

1/ Number of solutions for Phase II is based on an illustrative mix of activities.

d. Evaluations (\$100,000)

DG funds will finance two project evaluations to help both the GOES and AID assess the results and impact of the project. The evaluations will focus principally on the degree to which planned reforms have been implemented.

e. Implementation Arrangements

Flexible implementation arrangements have been developed to foster speedy implementation. Funds will be channeled through the Central Reserve Bank. The Ministry of Planning will approve incremental allocation of funds for those Phase I activities which are implemented fastest. Thus, the final use of funds may vary from the planned figures. Moreover, additional assistance channels (i.e. institutions not specifically identified above) may be opened during implementation to carry out the above activities within the general purpose of the project. These additional institutions are discussed in the text. Their inclusion in project implementation provides additional insurance that disbursement targets will be met.

FINANCIAL SUMMARY

PHASE/ACTIVITY	GOES	A. I. D.			T O T A L
		DL	DG	HG	
A. Phase I:					
1. Community Services	1,800	6,000	200		8,000
2. Home Improvements			50	4,000	4,050
3. Shelter Solutions	1,200			5,500	6,700
4. Agrarian Reform Support	500	2,000	200		2,700
5. Micro-Enterprises		2,000	150		2,150
6. Planning for Phase II			250		250
Sub-Total	3,500	10,000	850	9,500	23,850
B. Phase II:	2,500			5,500	8,000
C. Evaluation			100		100
T O T A L	6,000	10,000	950	15,000	31,950

#### 4. Institutional Objectives

The Project is intended to achieve a series of institutional reforms which will benefit AID's target group in El Salvador immediately and over the long run. Some of the reforms will be made effective at the outset of project implementation. Others will be achieved during implementation.

a. Redirection of Resources to Low Income Families. The GOES, through its recently approved agrarian reform and bank sector reform measures, has clearly indicated its intention to redirect societal resources to lower income families. These efforts will be supported and furthered by the project. First, the GOES will initiate a policy of payment of minimum wages for labor provided by inhabitants of marginal communities who work on public works projects. Up till now, this labor has usually been provided voluntarily and at times has been remunerated with food. Second, the GOES, through rationalization of interest rates and policy directives, is expected to encourage or require major shelter sector financial institutions to begin lending to low income families. Through its flexible implementation arrangements, the project will enable these institutions, notably the Savings and Loan System (S&Ls) and the Social Housing Fund (FSV), to gain additional resources for this purpose, as quickly as their policies and procedures permit or require their participation. The S&Ls will enter the field during Phase I. The FSV is expected to enter in Phase II.

b. Expansion of Shelter Services to Low Income Families in Secondary Cities. The GOES' principal low income housing developer - the Housing and Urban Development Institute (IVU) - has to date built virtually all of its housing in the San Salvador Metropolitan Area. Under this project, IVU will build its first significant projects in Secondary Cities and develop its ability to coordinate provision of housing and complementary services (water, sewerage, access and electricity) in these cities. Moreover, the Vice Ministry of Housing and Urban Development, which is responsible for overall shelter sector development, will develop the institutional mechanisms (e.g., site legalization procedures, lower urbanization standards, program planning, coordination and monitoring procedures) needed to facilitate effective delivery of shelter services to low income families in Secondary Cities.

c. Rationalization of Interest Rates. Most GOES financial institutions, including all the housing finance institutions, have been operating with artificially low interest rates (in effect at negative real rates). The result has been the predictable decapitalization of most of them. Faced with serious cash shortages, government policy to orient resources to programs which benefit the poor, and pressure from all major international donors, upward movement in rates has started. This trend is evident in the rates that will be charged under this project.

Under the Small Enterprises Activity, an interest rate of 15% will be charged by the BFA. This is the first time the BFA will charge an interest rate anywhere near this high when using funds obtained at concessional rates. In the shelter sector activities, progress is evident as well. Under Phase I, IVU plans to charge 10% on shelter solution mortgages -- an increase of over 2% from the highest rate previously charged. A Condition Precedent to Phase II disbursement requires that the GOES adopt a consistent interest rate for financing of new shelter solutions and home improvements. This is expected to require major public lenders, who heretofore have not lent to low income families, to stop subsidizing higher income families with the savings and forced payroll deductions of lower income workers.

D. PROJECT ISSUES

1. GOES Management. The project design includes various implementing agencies and will require intense, programmatic direction and management by the host country, including coordination of other donor support in the marginal community sector. Fulfillment of this requirement will be a difficult challenge under current political conditions, even more so should those conditions worsen. It is assumed that political conditions will gradually improve as the new GOES' emergency plan is implemented. Project technical assistance is designed to assist the GOES implement this part of the emergency plan.

2. USAID Staffing. The USAID does not currently have sufficient staff resources to fully monitor and backstop a project of this magnitude. USAID monitorship will need to be active and quick responding (e.g., to opportunities for impact with financing for agrarian reform) if project objectives are to be achieved. See Section V, Implementation Arrangements, regarding the need for additional USAID staff, personal service contractors and ROCAP support.

3. Availability of HIG Resources. It is assumed that the structure of interest rates in the U.S. will permit the timely negotiation and availability of HIG resources for the project at reasonable terms and conditions.

E. PROJECT DEVELOPMENT TEAM

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## I. BACKGROUND

### A. Population and Poverty

El Salvador ranks among the poorest countries in the Hemisphere with a per capita income of \$447 in 1978.<sup>1/</sup> Poverty is extremely wide spread affecting approximately 68% of the country's 4.5 million people. Income distribution is among the most inequitable in the world. The population density of 214 (in 1979) per square kilometer is the highest in continental Latin America - five times the Central American average - and has doubled since 1961. Arable land is in short supply and the 50% sub-utilization of agricultural labor is the highest in the hemisphere. The distribution of farm land is such that the 10% largest farms comprise 78% of the agricultural land, while the 50% smallest farms contain only 5%. Although the country has steadily progressed in terms of overall economic growth measures over the last 20 years, the few benefits trickling down to the poor have been wiped out by a 3.3% natural population growth rate.

Social indicators illustrate the extent of the country's impoverishment. Three-quarters of Salvadoran children are malnourished with one fifth suffering serious malnutrition. Average calorie consumption and protein intake nationwide are 82% and 91% of daily requirements respectively. In 1978, 65% of the population over ten years was considered illiterate, with the figure reaching more than 70% in some rural areas (67% being the national average). Despite significant public infrastructure investment in recent years, as of 1975, 68% of the total population had no access to running water, 50% lacked adequate sanitary facilities, and 55% were without electricity.

Housing statistics are equally depressing. The last census (1971) described 80% of rural housing and 51% of urban housing to be "inadequate" to meet basic shelter needs. Since then increased rural/urban migration has exacerbated the situation. A recent World Bank field study estimated that 47% of the 1976 San Salvador Metropolitan Area (SSMA) population lived in marginal settlements, with the total expected to reach 54% in 1987 based on current housing construction and immigration trends. The Mission estimates that at least 60% of the population in secondary cities and 80% of the rural population live in inadequate housing without the benefit of a minimal complement of basic services such as public water taps, minimal drainage, electricity, all weather roads and adequate access in urban areas.

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<sup>1/</sup> In constant 1976 prices.

## B. The Economy

1. Structural Overview. GDP growth averaged 6.7% annually between 1961 and 1967, slowed to 4.6% annually from 1968 to 1975, reflecting the maturing of the Central American Common Market (CACM) and the side effects of the "Soccer War" with Honduras, and remained at a 5% rate through 1978 largely as a result of high coffee prices. Political turbulence caused real GDP to decline by at least 6% in 1979 and there is little expectation that positive per capita growth can be resumed over the next two to three years given the current situation and population growth rate.

Traditionally agriculture has been the key productive sector in the Salvadoran economy. Although the value of agricultural output declined from 30.8% of GDP in 1960 to 20.7% in 1978, the sector continues to provide the livelihood for 60% of the population (including indirect employment), earns 65% of foreign exchange revenues, and has played a central role in the development of the industrial sector by providing the foreign exchange necessary for the purchase of raw materials and machinery. While total agricultural output has grown at 3.9% per year, basic grains have grown only 2% annually. This reflects both the importance of the major export crops -- coffee, sugar and cotton -- and the declining productivity of the land of small farmers. Moreover, the combination of rapid population growth and dualistic agricultural development has led to sharply skewed land and rural income distribution patterns and has produced a huge rural labor surplus that cannot be absorbed by agriculture.

The industrial sector increased its share of GDP from 14.5% in 1960 to 20% in 1978. Most of this growth occurred in the sixties in response to increased regional demand through the Central American Common Market. Future growth in the industrial sector and related employment, the political situation notwithstanding, is inhibited by three factors. First, the small relative demand of the CACM does not encourage the size of manufacturing firm needed to be competitive on the world market. Second, the importation of raw materials and capital equipment by protected industries often costs the economy a higher net price than the world price. Third, tariff protection and fiscal incentives have resulted in a pattern of industrial development that is capital rather than labor intensive.

With neither the agriculture nor manufacturing sectors providing sufficient job opportunities for the rapidly increasing population, the service sector, specifically its informal subsector, is being called upon to absorb ever increasing numbers of unskilled, low-productivity workers. Between 1961 and 1971 the agricultural share of the Economically Active Population (10 years and older) fell from 60.4% to 54.3% and the share in manufacturing fell from 17.1% to 12.9%. For the same period the tertiary sector share increased from 22.5% to 32.8%. Shares

of the Economically Active Population (EAP) in 1978 for agriculture, manufacturing and services were 40.9%, 19.6% and 39.4% respectively. Open unemployment declined from 11.8% in 1971 to 3.8% in 1978, reflecting the absorption of returned workers from Honduras. However, during this same interval effective unemployment (open plus underemployment) rose from 32% to 37%. In order to provide jobs at the current rate of growth of the EAP, approximately 40,000 jobs per year would be required in addition to the roughly 400,000 additional jobs needed to eliminate present unemployment.

2. Outlook. Official data for 1979 show a minus 1% growth with the present level of real economic activity declining at an estimated annual rate of 5% to 8%. Real agricultural output expanded by 2% and record coffee exports representing 18% of GDP gave major, albeit temporary, support to the economy. These gains were offset by a 25% decline in private investment, 15% in total investment, 5% in consumption and 14% in imports, all in constant prices. Without substantial improvement in the political climate within the next several months, this declining trend will accelerate in 1980.

For 1979 inflation was 18%. A reduction in public deposits in the financial system forced the Central Bank to maintain the system's viability by increasing credit by 50% or \$220 million. At the same time currency in circulation increased 40%. These factors, added to increased minimum wages and the likelihood of deficit spending for implementing structural reforms, may lead to a rate of inflation of 20% to 30% despite declining production.

The employment situation has been seriously exacerbated by recent political and social unrest. The decline in private sector activity last year has led to growing unemployment in all sectors. In the past year, 12 large factories closed permanently, eliminating approximately 4,000 jobs. A quarter of all manufacturing firms and 44% of construction firms were reported planning to layoff workers during the second half of 1979. A later study in the same year indicated that 60%, or 45,000 workers, in construction are now out of work at any given time.

The reduction in industrial and construction employment has occurred primarily in the San Salvador Metropolitan Area where more than 50% of the country's value-added is located. Since 1978 non-farm employment has decreased by at least 70,000 with the heaviest losses in the relatively high-paying construction sector. Adding this to the 20,000 new entrants into the non-agricultural job market, open unemployment can be estimated to have risen from 53,000 in mid-1978 to approximately 148,000 in late 1979. These rough estimates indicate a near trebling of open unemployment to 10% in a society that has no unemployment security system. Given that underemployment has increased in the period, the Mission estimates slightly over half of the Salvadoran work force is now either unemployed or seriously underemployed and earning incomes far below their needs. More-

over, with a tense political situation, continued high levels of violence and the difficulty of restoring confidence and therefore reinvestment in place of disinvestment, unemployment is likely to increase throughout 1980.

C. Community Needs

1. Past GOES Responsiveness. Until recently the public sector played a limited developmental role in El Salvador. Government expenditures as a percent of GDP ranged between 10% and 13% during the 1960's. Despite rapid population growth, the GOES-fostered growth policy achieved per capita income increases of 2% per year. Analysis has shown that this "trickle-down" approach increased income in absolute terms for all groups except the agriculturally based rural poor.

The 1970's saw the GOES take a much larger role, particularly as regards capital infrastructure investment, with some effort made to meet the needs of the poor. Public sector expenditure share of GDP reached 15% in 1979. The GOES investment strategy has placed heavy emphasis on the development of power, transportation and communications infrastructure. The share of public fixed investment rose from 44% in 1979 to 53% in 1977. However, as can be seen in Table 1 the GOES increased its fixed investment dramatically in all sectors.

TABLE 1

PUBLIC SECTOR FIXED INVESTMENT  
(Million 1970 colones)

	1970	1977	Annual Growth Rate 1970-1977
Infrastructure	27.6	129.6	24.7%
Social Sectors	18.5	62.4	19.0%
Productive Sectors	9.7	47.2	25.4%
Other	6.8	12.1	8.6%
TOTAL	62.6	251.3	22.0%

SOURCE: World Bank, Economic Memorandum on El Salvador, May 7, 1979, Report N<sup>o</sup> 2287-ES.

Education and health, traditionally areas of government concern, were given special priority in an attempt to broaden coverage to the rural areas and the urban poor. However, there still exist wide urban/rural and intra-urban differentials as regards location and access to facilities. For example, in 1975, 80% of the nation's doctors were located in principal urban centers, 70% in San Salvador alone. Similarly, in 1976 there were 60 students per teacher in rural schools compared with 40 in urban areas. Despite GOES efforts, both these sectors have a long way to go to effectively meet the needs of the urban and rural poor.

2. Shelter Programs. The public sector played a very minor role in the provision of housing and related infrastructure until the 1970's. During the 1960's public and private housing production in towns and cities averaged only 2,600 units per year, compared with an annual household formation of 10,000 in urban areas. Initial efforts to help marginal dwellers came from the private sector with the creation of the non-profit Salvadoran Foundation for Minimal Shelter (FUNDASAL) in 1970. The public Urban Housing Institute (IVU), established in 1950 to provide housing for low and middle income families, tended to build expensive, high-standard houses which, despite lowered costs in the 1960's, were significantly beyond the reach of lower urban income groups. In the early 1970's this "de facto" middle class emphasis was changed as IVU became involved in squatter upgrading projects for lower income groups mainly in San Salvador. With recent administrative improvements, IVU plans to provide 25,000 new and rehabilitated units in the urban areas of El Salvador for the 1978-82 period, three-fifths targeted for families earning less than \$100 per month.

In response to pressures for more housing on the part of industrial and commercial workers, the government established the Social Housing Fund (FSV) in 1973. The fund is financed by a 5% contribution by employers, a 0.5% payroll tax on the wages of the 150,000 workers currently participating, and a GOES capital contribution. However, as the FSV only purchases from private developers and resells the units to its members, the housing financed through the Fund has been beyond the reach of lower income FSV contributors.

Other government entities involved in the housing sector are the National Housing Agency (FNV), Public Employee Pension Fund (INPEP) and the Salvadoran Social Security Institute (ISSS). The FNV (established with AID support in 1961) is the regulatory agency of the savings and loan system, while INPEP and the ISSS have financed units directly. None of these agencies has had real impact on lower income groups in either urban or rural areas.

International donor interest in the shelter sector has played a key role in reorientating government housing policies. The IDB worked with IVU in the 1960's. The World Bank (IBRD) is close to finishing its second urban development program and has initiated the design of a third project. The IBRD has concentrated its efforts on sites and serv-

ices and community upgrading with the initial Urban I loan being executed through the private FUNDASAL. Additionally the Urban II and III loans have and will place special emphasis on improving public sector housing and infrastructure institutions such as IVU, the Ministry of Public Works, CAESS (electricity) and ANDA (water) in the provision of shelter and services for the urban poor in the SSMA and a few selected secondary centers.

3. The EDURES Study. In an effort to better analyze the problems in the country's major urban centers and develop a workable program to alleviate them, the GOES recently carried out the Urban and Regional Development Study for El Salvador (EDURES). This three year study was initiated and financed by the United Nations Development Programme (UNDP) and executed by the World Bank through an American consulting firm.

EDURES studied in detail the entire urban and regional development panorama with special emphasis on marginal settlements within the San Salvador Metropolitan Area. Final outputs included specific institutional, fiscal, technical, legal and legislative recommendations in such key areas as: urban/regional planning and coordination, housing sector institutional improvement, SSMA development guidelines, regional/local planning, and the introduction of an urban land tax and user charges for public improvements. (See list of documents in LA/DR bulk files). In addition, the study designed a special squatter upgrading program for the Metropolitan Area with the expectation of improving the conditions for about half of the low income families in the SSMA between 1978-1982. The program whose cost is estimated at \$50 million, would assist 28% of the families living in the SSMA.

The program proposed by EDURES sets out a framework for initiating the process of marginal community upgrading. This process focuses on simultaneously improving the physical environment and the economic base of communities inhabited largely by poor people through housing construction, home improvement, job creation and small business development. The study is also serving as the basis for several of the many institutional reforms under consideration by the new government.

4. Unmet Needs in Marginal Communities. The EDURES study isolated about 200 specific physical areas where the poor in San Salvador are concentrated, and called them marginal communities. The overwhelming poverty outside San Salvador has lead the Mission to the conclusion that if the EDURES criteria and analysis procedure were used, the remainder of the country would have to be classified as a series of marginal communities.

It is clear that despite San Salvador's attraction as a place to live and work, most poor people will, for the rest of this century at least, continue to live in secondary cities and rural areas. These areas cannot wait for the eventual expansion of the marginal community upgrading approach envisioned by the EDURES study. The GOES is

increasingly aware that insularity from the problems in these areas neither makes sense in development terms nor constitutes a recipe for success in alleviating current social unrest. The GOES is increasingly assuming a more activist role in attempting to address the problems but past laissez-faire attitudes have not facilitated development of the human, financial and institutional resources with which to address these problems. This exacerbates the current government's difficulties in trying to tackle these problems directly and immediately.

The backlog of unmet needs in ~~m~~**arginal communities** is expected to be partially alleviated though a number of development programs recently initiated by the GOES. Financing from international agencies is playing a major part in these efforts. AID is assisting in school construction and small irrigation systems and IDB is financing a regional development program in the Northwest. Agricultural and agroindustrial credit for small producers is being expanded rapidly with both AID and IDB resources.

With these and other efforts underway the GOES will be able to better address basic human needs in education, health and productive opportunities. More needs to be done in all these areas, and programs need to be initiated in two more areas - shelter and local infrastructure - where little progress has been made to date.

This project seeks to further the efforts at marginal community upgrading already initiated by the GOES. It attempts to balance immediate concerns for rapidly improving living conditions for the poor with longer range concerns of development of an institutional response to their unattended shelter and basic services.

## II. PROJECT DESCRIPTION

### A. Goal and Purpose

The Goal of the project is to better the quality of life of the poor by improving their physical environment and increasing their productivity. Goal achievement will be measured through several indicators. The first will be the percentage of marginal communities in El Salvador which have minimal basic infrastructure, specifically water lines and public taps, minimal sanitary sewerage, street access and electric service, in place by the end of the project. The country's large slums, secondary cities, market towns and rural communities, which have a population range of approximately 2,000 to 150,000 will all be considered marginal communities for purposes of measuring goal achievement. This specifically includes communities affected by agrarian reform. The second indicator - the percentage of low income families in marginal communities having minimum shelter services - more directly measures improvement in the physical environment of the poor. Minimum shelter services are defined as indoor running water, a concrete or tile floor, permanent walls and roof, and electricity.

The project's Subgoal will be to direct an increased level of GOES and private sector resources to programs which address basic needs of the poor for minimum shelter and productive opportunities. Achievement of this objective will be evidenced by several indicators. First, the GOES is expected to expand its marginal community improvement<sup>1/</sup> and shelter production programs to reach 10,000 families per year by 1985. Second, all GOES supported housing institutions are expected to develop programs which assist families with below median income. Third, the percentage of total housing sector financing, evidenced by the number and total amount of loans obtained by the poor for shelter purchase and improvement, is expected to increase. And finally, increased employment generation programs that benefit marginal community residents will be needed to ensure that low income families can better meet their basic needs and afford the improved shelter they desire.

Achievement of the Goal and Subgoal will be possible only if the present problem of political instability can be mitigated and confidence in the country's future restored. It is clear that the manifold problems of historic GOES neglect for poor people, overpopulation, the recent downturn in the economy, and other factors may result in further

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<sup>1/</sup> Marginal community improvement as used in this PP refers to a combination of infrastructure improvements, housing improvements and productive activities that improve the physical environment and the economic base of communities whose residents are in large part target group members.

social disintegration, with the only predictable result being further impoverishment of the already too poor majority. To avoid this disintegration, the GOES knows it must rapidly improve conditions for the poor, and at the same time plan and implement the long overdue reforms that will as quickly as possible, redress the present inequities and social injustices.

The project purpose reflects these twin tasks. The project is intended to assist the GOES to meet immediate needs for community infrastructure, minimum shelter and productive opportunities for the poor and improve GOES capacity to address basic needs of the poor in secondary cities in a comprehensive, coordinated manner. Achievement of the first part of the project purpose (meet immediate needs) will be evidenced by provision of a higher level of basic infrastructure in marginal communities and expanded access to financial and technical assistance needed by poor families. The former will be measured by the GOES budget for infrastructure in marginal communities, which will have increased by 100% over 1979 levels by the end of the project. The latter will be measured by the increase in the portfolio (number and amount of loans) of financial institutions participating in the project for shelter solutions and home improvement loans made to low income families.

Achievement of the second part of the project purpose (improved GOES capacity to upgrade marginal communities) will be measured by GOES implementation of a program for marginal community upgrading and meeting overall shelter needs in at least two secondary cities. Up until now, virtually all GOES efforts in these areas have been concentrated in the capital city. Much of all the capacity of the institutions that play a major role in improving marginal communities is concentrated in San Salvador. Ongoing and planned urban development programs, which are principally financed by the World Bank, portend a continuation of this trend. While providing limited additional coverage of unattended slums, around the SSMA, this project will help the GOES to start turning its attention towards the rest of the country where the needs, as indicated in the background section, are demonstrably greater. In parallel fashion, to provide the basis for sustained GOES efforts to help the poor throughout the country, the project will encourage rationalization of the country's housing sector institutional and financial structure which now serves the upper classes exclusively, in part at the expense of the poor. The rationalization of housing sector policies and institutions is essential to permit development of adequate planning, capital formation and implementation capability for addressing the shelter needs of the poor in the future.

#### B. Target Group

The project is aimed at the approximately 65% of El Salvador's population which has neither a decent living environment (due to lack of basic community services) nor access to financing for shelter and

productive activities on reasonable terms. The income for this group ranges from a monthly family income of \$0 - \$230 for the 50% of the San Salvador Metropolitan Area population that fits within this definition; \$0 - \$158 for the 60% living in secondary cities; and \$0 - \$139 of the 80% of the rural population that is included in the target group. The total number of target group families is approximately 550,000.

The project's outputs include new minimum shelter solutions, home improvements and site legalizations, basic services in marginal communities, including those affected by agrarian reform, and initiation of productive activities. Different groups will benefit from these activities. For the shelter activities, the estimated 10,400 beneficiaries of the project will be among the 68,000 households in San Salvador who, in 1977, had incomes ranging from \$79 to \$253/month (5th to 50th percentile), among the 86,000 households in other urban areas who had incomes ranging from \$76 to \$146/month (15th to 50th percentile) and among the 140,000 households in rural areas who had incomes ranging from \$71 to 90/month (30th to 50th percentile). For the basic infrastructure activity, the beneficiaries will be approximately 10,000 families living in marginal communities. Virtually all those living in marginal communities are target group members. For the productive enterprise activities, the beneficiaries will be approximately 10,000 families having incomes below the median of \$243 per capita annually in El Salvador.

C. Target Communities. In line with the project's two-fold purpose, the implementation of project activities has been divided into two phases. Phase I activities will be concentrated in approximately 330 marginal communities - urban and rural - in all areas of El Salvador except the Northwest Region (where an IDB funded project similar to this one is being implemented). Some 30 of these marginal communities are expected to be agrarian reform settlements, composed of beneficiaries of the recently enacted agrarian reform law.

The Phase I target communities will be selected on the basis of two criteria: their interest in improving their living conditions, and the degree of poverty of the community. The former will be evidenced by a request to the Directorate of Community Development (DIDECO) of the Ministry of the Interior for assistance in improving infrastructure, housing or productive opportunities. The Ministry of Planning will determine whether the community is a marginal community within the context of the project prior to initiation of project activities.

The assistance provided will respond to demand evident in the community for the activities financed under Phase I. Care has been taken to ensure that this assistance does not duplicate services and assistance channels already available through other programs financed by AID, IBRD and IDB. (See Figure 1.)

Figure 1: Interrelationship of Major AID, IDB, IBRD Financed Projects

AREA	PROGRAM	ACTIVITY	
		COMMUNITY BASIC SERVICES	HOME IMPROVEMENTS
San Salvador Metropolitan	Other Programs	<u>IBRD</u> - Plans to finance infra. in 30-40 marginal communities with funds from the Urban Development III Project (UD III).	<u>IBRD</u> - Plans to finance home improvements in 30-40 marginal communities under UD III.
	This Project	Urgently needed basic services in communities not attended under IBRD or AID Employment Project will be eligible for AID financing.	<u>AID</u> - Home improvements in communities not attended under IBRD program will be eligible for AID financing.
Major Second- ary Cities	Other Programs	<u>AID</u> - Urgently needed infrastructure in a few larger secondary cities will be financed under the Emergency Employment Program.	No other donor activity planned.
	This Project	<u>AID</u> - Infrastructure secondary cities will be eligible for AID financing.	<u>AID</u> - Home improvements in secondary cities will be eligible for AID financing.
Market Towns Rest of Country	Other Programs	<u>IDB</u> - Now financing infra in marginal communities in Northwest Region.	<u>IDB</u> - Now financing home improvements in marginal communities in Northwest Region.
	This Project	<u>AID</u> - will finance infra. in remaining regions.	<u>AID</u> - Home improvements in rural areas of remaining regions will be eligible for AID financing.
Implementing Agencies	Other Programs	AID-MOP <u>IBRD</u> - FUNDASAL, IVU <u>IDB</u> - DIDECCO (NW Region)	IDB - FEDECREDITO/DIDECCO <u>IBRD</u> - FEDECREDITO/PRIDECCO DIDECCO
	This Project	<u>AID</u> - DIDECCO (except N.W. Region)	<u>AID</u> - FEDECREDITO/FEDECACES/BFA/DIDECCO/ CENTA

Figure 1: Interrelationship of Major AID, IDB and IBRD Projects (Cont.)

AREA	PROGRAM	ACTIVITY	
		SHELTER SOLUTIONS	MICRO-BUSINESS
San Salvador	Other Programs	<u>IBRD</u> - Now financing 8,000 units under Urban Development II Project. Plans to finance additional 6,000 units under UD III Project.	<u>IBRD</u> - Plans to finance \$6-8 million for credit to small business throughout the SSMA under III.
	This Project	<u>AID</u> - Shelter solutions in communities not attended under IBRD programs will be eligible for AID financing.	<u>AID</u> - Credit for Small Businesses will <u>not</u> be eligible for AID financing.
Major Secondary Cities	Other Programs	<u>IBRD</u> - Plans to finance approximately 6,000 shelter solutions in 3 to 4 secondary cities.	<u>IBRD</u> - Funds available under UD III may also be used for credit to small business in the 8 largest secondary cities. <u>AID</u> - Funds available under new small producers' loan may be used to finance small businesses in secondary cities.
	This Project	<u>AID</u> - Shelter solutions in secondary cities will be eligible for AID financing.	<u>AID</u> - \$2 million for credit to new businesses will be made available.
Rest of Country	Other Programs	No activity planned.	<u>IDB</u> - Now financing credit in marginal communities in the Northwest Region. <u>AID</u> - Funds available under Small Producer Development loan may be used to finance small business.
	This Project	No activity planned.	<u>AID</u> - Credit for small business will be eligible for AID financing except in Northwest Region.
Implementing Agencies	Other Programs	<u>IBRD</u> - FUNDASAL (in San Salvador and secondary cities) IVU in San Salvador	<u>AID</u> -FEDECACES (Country wide); FEDECREDITO/DIDECO(Northeast Region only) <u>IBRD</u> - FEDECREDITO/PRIDECO/DIDECO <u>IDB</u> - BFA/CENTA/DIDECO
	This Project	<u>AID</u> - IVU & FSV (in secondary cities)	<u>AID</u> - BFA/CENTA/DIDECO

Phase II activities will be concentrated in approximately 13 marginal communities in the country's major secondary cities. These activities will be less demand responsive and more directed in nature. Their implementation requires significant project planning and more complete development of an adequate policy base and institutional structure through which to attend to the overall shelter needs of the secondary cities. To allow time for necessary reforms to be implemented and needed institutional capabilities to be developed, Phase II is programmed to start within 12-18 months of obligation of funds.

D. Phase I Activities

1. Community Basic Services (\$6 million DL; \$1.8 million GOES \$200,000 DG)

The GOES provides basic services through a variety of institutions. Roads and streets, water and sewerage and electricity are provided mainly through the Ministry of Public Works (MOP), the National Water and Sewer Authority (ANDA) and the institutions which comprise the national integrated electric system (CEL, CAESS). They will be the principal implementing agencies responsible for implementing the recently approved Emergency Employment Project (519-0256).

These agencies have concentrated their efforts to date on completion of national service networks and delivery systems in San Salvador and a few major secondary cities. Over the long run, they can be expected to slowly extend their service delivery capability further into rural areas as GOES efforts to reach the poor are emphasized, basic service networks are extended, and government revenues and implementation capacity increase.

At present, however, the Community Development Directorate (DIDECO) of the Ministry of the Interior is the only major GOES organization capable of simultaneously carrying out numerous, small-scale community basic services projects both in and outside of San Salvador Metropolitan Area (SSMA) and the major secondary cities.

Under Phase I, DIDECO, using its traditional approach will carry out an expanded program to provide community basic services in

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1/ Starting in no more than 4 months.

the country's marginal communities. This component of the project will be administered through DIDECO's four regional offices located in San Miguel, Santa Ana, San Salvador and San Vicente.

a. Demand for Basic Services in Marginal Communities

Data included in the background section provide a rough basis for estimating the potential demand for basic services. Annex G. 1 includes detailed data on the demand for basic services. In accordance with selection criteria, these basic service sub-projects will not duplicate activities planned for AID or other donor support.

b. Eligible Projects

DIDECO normally provides assistance in the following types of projects:

- (1) Construction and upgrading of access roads, streets and bridges;
- (2) Water systems (public taps);
- (3) Secondary electric distribution systems;
- (4) Construction and improvement of school buildings and health facilities;
- (5) Home improvements and latrines; and
- (6) Construction and improvement of community centers, sports fields, parks and recreation facilities.

Under this project, the first three of the above will be eligible for loan financing. The remainder will be carried out with counterpart funds.

c. Criteria for Final Selection of Sub-projects

The following criteria will be used in selecting the projects to be financed with Loan funds:

The sub-project is eligible in accordance with section b., above, or is otherwise demonstrated to be a basic need for the community requesting assistance.

- The total sub-project cost does not exceed \$250,000.
- The sub-project benefits communities where at least 80% of the residents are members of the target group as defined in this PP.
- The sub-project is requested by an interest group sufficiently broad-based to ensure that it reflects community sentiment and priorities.
  
- The sub-project is not planned for implementation by another GOES institution within the two years following the date of its approval.
- The property does not include any improvement within the recognized boundaries of individual propertyholders (except for easements or rights of way required for its completion).
- All rights of way and easements needed for the sub-project have been acquired prior to its approval.
- Final designs and cost estimates have been prepared and clearance obtained, where necessary, from other GOES Agencies.
- AID approval of plans, specifications and budget has been obtained for all sub-projects whose estimated cost exceeds \$100,000.

d. Project Outputs

DIDECO has prepared a list of sub-projects for which it now has requests in hand and designs completed but no funding. It believes it could initiate work on these projects immediately and complete them in 5 months. The list <sup>1/</sup> includes 114 projects at an estimated cost of \$915,000. This cost covers materials, labor, equipment and transportation.

DIDECO's program for 1980 (prepared prior to discussion of AID assistance) includes 261 projects which would be eligible for AID financing in accordance with Section b. above. Their total cost is estimated at \$2.6 million, which includes \$2.3 million for labor, materials, equipment and transport, plus an estimated \$0.3 million for other costs directly attributable to the project (e.g.

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1. The list of projects is in LA/DR bulk files.

construction foremen and supervision). A summary of these projects, by type and cost is as follows:

<u>Project Type</u>	<u>Number</u>	<u>(\$000)</u>	
		<u>Av. Cost</u> <sup>1/</sup>	<u>Total</u>
Water systems	29	\$3.0	\$87
Drainage	7	2.0	14
Bridges	22	6.0	132
Roads	96	9.0	864
Streets	86	12.0	1,032
Electric Dist. Systems	<u>21</u>	<u>9.0</u>	<u>189</u>
	261	\$8.8	\$2,318
Other Direct Costs (10%)		<u>0.9</u>	<u>232</u>
Sub-Total	261	9.7	2,550
Inflation and Contingencies (20%)	---	<u>2.0</u>	<u>510</u>
T O T A L	261	11.7	\$3,060

DIDECO has not promoted infrastructure sub-projects actively over the last 2 years due to lack of funds. It believes that with minimal promotion, it would easily generate requests for the full amount programmed for this activity. Assuming that the additional sub-projects that are implemented would follow this distribution, approximately 340 sub-projects would be carried out with loan funds. An estimated 200 additional sub-projects would be carried out with counterpart funds. The projects have a labor component of approximately 47%. <sup>2/</sup> An operational description of DIDECO's sub-project development process is included in the Technical Analysis (Annex G.2.)

e. Strengthening DIDECO's Institutional Capacity

There are several areas where DIDECO's Institutional Capacity needs strengthening to ensure speedy implementation of the project. These include purchasing, cost accounting, cash handling, and internal auditing procedures. DIDECO will also need help in training of personnel (especially promoters). The training would be aimed at orienting new personnel to basic community organization techniques, and to acquaint all field personnel with services (especially credit) available from other GOES institutions. It is particularly important to achieve success of the small enterprises and home improvements

<sup>1/</sup> Calculated from the list of projects now ready for implementation.

<sup>2/</sup> The policy of paying cash wages represents a significant policy initiative. Previously, all infrastructure built through DIDECO utilized volunteer labor. Food payments would continue when appropriate.

activities included in this project and other AID financed programs. DG financed TA is programmed to assist DIDECO in these areas. The estimated cost of this assistance is \$200,000.

f. Activity Budget

<u>Budget Item</u>	<u>GOES</u>	<u>(\$000)</u>		<u>TOTAL</u>
		<u>DL</u>	<u>DG</u>	
Materials, Labor, Equipment and Transportation	1,320	5,640		6,960
Other Direct Costs	130	360		490
Technical Assistance and Training			200	200
GOES Increased Admin. Costs	350			350
T O T A L <sup>1/</sup>	1,800	6,000	200	8,000

g. DIDECO Role as Promoter of Other Phase I Activities.

DIDECO will also play the role of information source on and promoter for the Home Improvements and Small Enterprises Activities (described below). Its field promoters, as they organize the communities to request assistance and carry out infrastructure projects, will hold sessions with community members to advise them of the assistance available in these areas. The DIDECO promoters will also assist community groups in making contact with the respective implementing agencies and in obtaining credit for worthwhile projects. The concentration of the assistance provided on the 300 selected communities will be ensured through this mechanism.

2. Home Improvements (\$4 million HG; \$50,000 DG)

At present, the vast majority of target group members have little or no access to financing for home improvements on reasonable terms. The major resources used in making home improvements are earnings, informal (and high priced) credit sources and discarded (or, "found") materials which require time (but little cash) to obtain and transport.

1/ Contingencies and inflation have been distributed to budget items.

2/ Similar to Municipal Development Institutions in Guatemala (INFORM), Honduras (BANMA), Costa Rica (IFAM) and Paraguay (IDM).

A few GOES and private institutions have initiated limited efforts to provide financing for home improvements. <sup>1/</sup>The Social Housing Fund (FSV) has made loans to its contributors <sup>1/</sup> under its "Remodeling, Alteration and Improvement (RAM)" program. In the North-west region of the country, IDB is financing home improvement loans through FEDECREDITO <sup>2/</sup>.

Both FEDECREDITO and FEDECACES (Savings and Loan Cooperatives) affiliates have made a small number of home improvement loans with their own lending resources. The total amount of their portfolios now invested in this type of loan is insignificant.

With additional capital, these agencies could easily expand their programs in size and geographical coverage. In addition, there are other housing and non-housing financial institutions that could provide home improvement loans to the target group. They include: Private Savings and Loan Associations (for which the National Housing Finance Organization - FNV - is the regulatory agency); the Agricultural Development Bank (BFA); and the National Mortgage Bank (BH). This Activity is intended to encourage increased lending for home improvements among institutions now making such loans and draw as many new institutions as possible into this line of lending. The very conservative banking practices and subsidized interest rates of most of them probably preclude their participation at the outset. However, FEDECREDITO, FEDECACES and BFA have indicated a strong interest in expanding their activities in this area.

a. Demand for Home Improvement Loans

During the development of the recently approved Small Producer Development Project (519-0229) a survey of FEDECACES members was taken to gauge demand for different types of loans. The survey indicated that about 7% of the approximately 9,400 Credit Union members were interested in obtaining home improvement loans in 1980.<sup>3/</sup> The indicated credit demand was \$1.9 million - about 38% of total demand by FEDECACES members. Even if only 10% of the non-credit union members in the target group desired only 10% of the indicated demand among credit union members, the potential demand would be on the order of \$15.3 million in 1980. In reality, this conservative calculation will be limited by the effective supply (i.e. the ability of financial

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<sup>1/</sup> The FSV is financed by payroll taxes from workers (0.5%) and managers (5.0%). It finances mortgages only for its contributors.

<sup>2/</sup> FEDECREDITO is a quasi-government small loan organization which has 36 offices scattered throughout the country.

<sup>3/</sup> See Annex III D of the Small Producer Development PP.

institutions to make loans on terms that would allow a reasonable profit, taking risk factors into account).

b. Eligible Home Improvements

Home improvements financed with HG funds include but are not limited to: individual accessways, water and sewer connections, latrines, drainage improvements, hard floors, permanent walls and roofs, electric connections and permanent interior distribution systems for water and electric services. In addition, lot purchases will be financed if the buyer is already living on the lot. Improvements not eligible for financing are furniture, appliances and household goods of any kind.

Typical costs for eligible improvements are:

<u>Home Improvement</u>		<u>New Room</u>
a. Floor	\$ 88/\$176	a. Addition \$710/\$880
b. Structure	\$368/\$736	<u>Lot Improvement</u>
c. Wall	\$416/\$832	a. Legalization \$40/\$100
d. Roof	\$240/\$480	b. Individual Water \$30
		c. Sanitary Sewer \$20

These costs are for homes in marginal communities in San Salvador. Slightly lower costs are anticipated in secondary cities and rural areas. These improvements are affordable by a high percentage of the target group.

c. Eligible Sub-borrowers

Eligibility for home improvement loans will be determined on the basis of income. Median income figures in 1977 were: \$230 per family monthly in the San Salvador Metropolitan Area, \$132 in other urban areas, and \$90 in rural areas. These will be adjusted during project implementation to reflect increases (or decreases) since 1977.

Loans will be made to individuals and solidarity groups <sup>1/</sup> throughout the country, with two specific exceptions. First, when a final selection is made of marginal communities in San Salvador which will be upgraded under the World Bank Urban Development III (UD III) program, residents of these communities will no longer be eligible. It is expected that approximately 30 of the 200 marginal communities in the SSMA will benefit through the UD III project. Similarly, inhabitants of the Northwest region of the country, where IDB financing for home improvements is now available, will not be eligible for loans under this project.

1/ The GOES and FEDECREDITO have had significant successful experience with lending to solidarity groups for productive purposes. This project will capitalize on these successful experiences. See Social Analysis for Description.

d. Implementing Institutions

Any financial institution that wishes to make loans to eligible sub-borrowers on the minimum terms and conditions outlined below will be eligible to participate in the project. At the present time there are two institutions - FEDECACES and FEDECREDITO - whose lending policies meet these conditions (see Annex G.3). Both are ready and anxious to participate. These two organizations are quite capable of reaching the project's target group. This capability was discussed in detail in the recently approved Small Producer Development Project (519-0229).

FEDECACES and FEDECREDITO have developed most of the lending procedures that are needed in making home improvement loans. Some minor modifications will be necessary. They will need to institute simple procedures for verifying cost estimates and certifying that the improvements have been completed. Assistance in developing these procedures and an internal audit capability for the program, and providing technical guidance for the new program to member coops and credit unions is included in the project costs. RHUDO will arrange for appropriate consultants. The Mission believes that the necessary procedures can be in place in a few months time. An operational description of this activity is included in the Technical Analysis. (Annex G.2.).

e. Loan Terms and Amounts.

Loans will be made to individuals and solidarity groups<sup>1/</sup> for up to 10 years at an interest rate not less than 15% per annum. The loan repayment period will be determined on the basis of borrower repayment capacity.

The maximum loan amount will be \$2,000. Where the final borrowers are solidarity groups the maximum will be the individual maximum multiplied by the number of group members. No down payment by or cash contribution from the borrower will be required. If shares purchases or forced savings of any kind are required by the implementing institution as a condition for loan approval, these will be financed with the borrower's or implementing institution's resources, but not with HG funds.

Guarantees will be established by the participating institutions. At present, FEDECACES and FEDECREDITO accept three kinds

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<sup>1/</sup> The Mission may agree to a lower rate if the GOES nationalizes the banking system and establishes a lower but uniform nationwide rate for this type of loan.

of guarantees from their borrowers: assets (including land); co-signers; and mutual repayment pledges from members of solidarity groups. The Mission considers these guarantees reasonable and unlikely to significantly restrict target group access to credit.

f. Activity Outputs and Costs

Four million dollars of HG funds are programmed for this activity. Half will be restricted for use in secondary cities. Average loan size is expected to be approximately \$785. Thus, 5,300 families will benefit from the first use of the HG funds. This translates to an average of about 5 loans per month per retail outlet (credit union or caja) and is not expected to cause any significant problems for the implementing agencies.

In addition to the lending capital, \$50,000 of DG funds are programmed for: (1) a short-term adviser to assist in the activities described in Section e. above; and (2) a training course for DIDECO and CENTA promoters to improve their effectiveness as outreach agents.

3. Shelter Solutions (\$5.5 million HG; \$1.2 million GOES)

The development of new shelter solutions (e.g. sites and services, core housing) for lower income families is a relatively recent phenomenon in El Salvador. Since the early seventies the Salvadoran Foundation for Minimum Housing (FUNDASAL), a private non-profit organization, has been producing simple, low cost solutions for families well within AID's target group. FUNDASAL has received donations from a number of church groups and national and international agencies. In 1974, it received a loan from the World Bank and is now well advanced in meeting its target of 8,000 units, all of which are located in the SSMA. The units cost approximately \$2,500, and are built by self-help construction techniques.

To date, the other GOES institutions which play a role in the shelter sector have not built any such units. Under the planned Urban Development III loan, however, the Housing and Urban Development Institute (IVU) will carry out its first projects of this type in the SSMA. Under the same project, FUNDASAL will expand its efforts to 3 or 4 major secondary cities.

Both FUNDASAL and IVU do their own financing and mortgaging at present. The public and private housing finance agencies in El Salvador have, to date, financed houses only for families in the very highest income ranges. These institutions, which were identified in Section 2 above, are the BH, FNV and the FSV. A summary of the activities and lending policies of Shelter Sector Financing Agencies is included in Annex G-4.

Neither the BH nor the FSV is interested in undertaking low cost housing projects at this time. The S&L associations, in desperate need of financial resources to continue operating, have agreed (through the FNV) to enter this market through the project.

a. Activity Description

Two new shelter solution projects will be completed during Phase I. They will be built in San Salvador by IVU and the Savings Loans Associations.

i. IVU

The project selected for implementation by IVU includes 1,250 units to be located on land owned by the Institute on the outskirts of the SSMA. The site is already served by adequate street access, water lines, electricity and bus services. Two types of solutions will be developed: 750 sites and services units; which will cost the purchasers approximately \$2,000; and 500 core housing units which will cost about \$4,000. A five or ten percent down-payment will be required. Financing to the purchasers is planned to be made through 20 year mortgage loans at an interest rate of 10% per annum. This housing is expected to be affordable by families in the 10th to the 50th decile in the SSMA, which in income terms is \$85 to \$253 per month.

IVU will contract for design of the solutions and construction plans and specifications. Construction will also be contracted. Design and bidding are estimated to take no more than 4 months with construction expected to be completed within 18 months of the date of contract signature. Selection of purchasers will be made by IVU which will also originate the HG. financeable mortgages.

ii. Savings and Loans Associations

The FNV plans to develop some 900 solutions costing approximately \$4,000 using part of 3000 existing lots that have been urbanized with interim financing from the S&L associations. These lots were urbanized in the expectation that there would be long term financing for houses available, and they could be quickly developed for low income housing.

b. Demand for Shelter Solutions

An EDURES analysis of effective demand and past production for new housing is presented in Annex G.5. Results in the SSMA show that of the 31,000 new households demanding housing in the 1978-82 period 22,000 or 71% will be low-income households. The percentage rises to 81% when the existing demand for housing improvement, which would be attended under the EDURES rehabilitation program is included. This project coupled with other planned efforts will reach less than 50% of this demand.

c. Eligible Subborrowers and Repayment Terms

Both the S&L's and IVU will be able to lend to families below the median (\$253/month) who do not own a house at this time. The S&L's will lend at 13% over 20 years. The S&L loans will be insured by the FNV as a further incentive to the associations to participate in the project. IVU will lend at 10% over 25 years.

d. Alternative Subprojects

Should it not be possible to proceed with the sites described above for any reason, IVU has other plots of land in the SSMA that could be used for minimum shelter solutions. The same process discussed above could be used for quickly planning and constructing shelter solutions on these lands.

e. Activity Implementation

IVU will select one of its experienced project managers to be responsible for this activity. As most of its professional staff is working on the World Bank project, IVU will hire (on a short term basis) additional technical and administrative personnel as needed to complete the project. This staff will be responsible for contracting design work, monitoring contractor performance, contracting a construction firm, supervising construction of the solutions, and ensuring that the finished solutions are quickly sold and inhabited.

f. Activity Outputs and Costs

Five and a half million dollars of HG funds and \$1.2 million from the GOES have been programmed for financing the shelter solutions. The purchaser downpayments (estimated at \$350,000) will be considered as project counterpart contributions.

4. Agrarian Reform Support (\$2.7 Million Dollars)

The GOES has just approved a far reaching agrarian reform law which provides for GOES purchase, acquisition and expropriation of agricultural land and its distribution to landless and near landless campesinos and groups of small farmers. The Salvadoran Institute for Agrarian Transformation (ISTA) is charged with administering the land reform program. The Mission expects the first land awards to be made within the next two months.

The history of agrarian reform efforts in other Latin American countries has shown that redistributing land does not always lead to improved income and living conditions for campesinos. Often they are worse off at the outset, as the patron-client relation is broken and not replaced by a complement of new services (e.g. credit, TA) which enables them to take advantage of their new productive opportunities.

In carrying out the land reform program, the GOES will be faced with the responsibility of providing a range of services to current and new communities directly affected by the reform law. These concentrations of rural inhabitants form part of El Salvador's marginal communities. These communities will face the same kinds of problems improving their productivity and living conditions that they faced prior to the agrarian reform.

Consistent with the Project's overall emphasis on improving physical services, shelter and productive opportunities in marginal communities, the Mission proposes this component to provide assistance to agrarian reform communities, provide initial and urgently needed support to help the agrarian reform program get started, and serve as the initial effort and the basis for what the Mission expects will be a new large AID assisted agrarian support program.

a. Activity Description

As lands are turned over to campesino groups, ISTA, DIDECO, and the Agricultural Development Bank (BFA) will analyze the resources and needs of each productive unit. A farm investment and operating plan will be drawn up. The plan will cover management, financial and technical assistance needs of the unit as well as needs for community infrastructure and shelter. Based on this plan, assistance programs for some 30 settlements will be prepared for financing with project resources.

As the type of production, social and economic organization of the productive unit and potential productivity of the settlements will vary greatly, it is impossible to predict the exact nature and amount of assistance that each will need. However, it is expected that the funds would be used for agricultural production credit, tools, equipment, fixed on-farm investment, water systems for residential and productive purposes, shelter construction/improvement, and other community services -- basically the same kinds of assistance financed through the other activities of this project.

Implementation will be carried out in the same way as the other Phase I activities. Infrastructure improvements (e.g., access roads, water systems) will be provided to the communities through DIDECO. Shelter improvements including utility connections will be financed through

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1/The Mission expects to obtain other funds that could be used for production credit. These may become available through a planned \$5 million ESF-financed program or a subsequent DL/DG program in support of the agrarian reform. If and when these other funds become available, the funds under this project would no longer be used for that purpose.

FEDECREDITO and FEDECACES, and production assistance through BFA. ISTA will play a key role in defining the assistance needed by these settlements and coordinating the inputs of the other implementing agencies. As the direction of the program becomes clear, the implementing agencies may be changed.

b. Outputs and Costs

The activity's major output will be the upgrading of approximately 30 agrarian reform communities. An investment level of approximately \$1,000 per family is estimated, based on experience with similar programs in other countries. It is expected that an average of 65 families will be benefitted in each settlement. Thus, approximately \$2.0 million will be needed to begin. An Agrarian Reform Support Fund is envisioned in the BFA to channel these resources to the colonies.

Several GOES supporting institutions will need substantial assistance in developing their capability to plan and supervise implementation of the farm investment plans and community improvements. Among other things, farm managers will have to be trained quickly to avoid the need for GOES officials to wind up acting as de facto managers. Thus \$500,000 of loan and \$200,000 of grant funds are programmed for a special agrarian reform support office in ISTA. These funds will be used for start up costs, training of farm managers and other purposes consistent with establishing a support system for the agrarian reform colonies.

c. Detailed Activity Description

A detailed description of this activity, including analyses, is included in Annex G.6.

5. Small Enterprises (\$2 million DL; \$150,000 DG)

The GOES is greatly concerned about increasing production at all levels. Approximately 23% of the national budget for 1980 goes to programs which directly or indirectly stimulate production in the private sector. Most of the benefits of GOES support to date have gone to modern sector operations. However, over the last five years, with assistance from all of the major donors, several programs which support small and micro-businesses have been started. Preliminary evaluations of these programs indicate that most of the small enterprises supported with credit through GOES institutions have been successful and loan repayment experience has been good.

Ongoing and planned programs to expand credit and technical assistance to small businesses include:

- An IDB supported community development project in the Northwest Zone of the country, which includes \$5 million for credit channeled through FEDECCREDITO/DIDECO for small agroindustries, home improvements and agricultural production loans.
- A World Bank financed demonstration program in the San Salvador Metropolitan Area through which \$5 million was made available to small businesses through FEDECCREDITO/PRIDECO.
- A recently authorized AID program for support of small producers through which \$9.75 million will be channeled to small farmers and small businesses through FEDECACES (outside SSMA) and FEDECCREDITO (in eastern and northeastern departments only). These funds will be used for processing small business loans in secondary cities, market towns and rural communities.
- Following on its first SSMA loan the World Bank is planning an additional \$6-\$8 million line of credit for small businesses in the San Salvador Metropolitan Area and 8 secondary cities through FEDECCREDITO.

These programs in total have made approximately \$19.750 million available now through FEDECCREDITO/FEDECACES. However, many communities are not served by these institutions and there are gaps in their service delivery network because some of the financing is restricted to specific areas of the country.

To provide broader coverage and better utilize existing institutional capacity, the GOES has asked AID to consider channeling additional credit for small businesses through the Agricultural Development Bank (Banco de Fomento Agrícola - BFA). The Bank appears to have applicable experience in this type of lending on a small scale. <sup>1/</sup> While it hasn't lent for small productive activities per se, it has a high degree of experience through its existing programs in making small loans to

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<sup>1/</sup> IDB has just approved a \$16.5 million loan to BFA which includes \$2 million for credit for Agro-industries. However, the loans are much larger than those that will be provided under this project. BFA will establish a ceiling for loan amounts financed with AID funds. The bulk of AID funds are expected to be disbursed before IDB funds start flowing. (estimate starting date Jan. 1981).

**campesinos, both to individuals and groups. About 13% of its crop loan portfolio is currently to campesino solidarity groups for basic grains production. This assistance is benefitting approximately 15,500 families at present.**

Small farmers in El Salvador are plagued by the problems of the serious lack of income generating activities which will complement their productive agricultural periods. The great majority of these people do not own the land. They work and live in small subdivisions called Cantones (similar to a U.S. township). They normally have a small house and lot where they live, with a garden and chicken coop. They could easily generate additional income through productive activities carried on at home. Many farmers are forced to leave the farm to seek salaried jobs during the off-season with varying success. Even when they are producing a crop they are often highly underemployed and could be generating additional income.

Women have very few opportunities to assist in generating income for the family although their non-remunerated contributions to the family are of major importance.

The 15,500 beneficiaries of the basic grains project are squarely in this situation and provide an excellent base group for initiating this loan. The credit, promotion, supervision, technical assistance, and collection apparatus is firmly in place and has been operational for four years. For these reasons, this loan will be run through the BFA/CENTA/DIDECO "basic grains" network, the only change being to use CENTA more than DIDECO for promotion. The BFA lending policies that apply to basic grains and other loans are included on Annex G-7.

The provision of this new credit line will make it possible for many of these same people as well as new clients to start or improve small income generating activities. Most of these activities are expected to involve transformation or processing of primary products or raw materials from their farms or the surrounding area into finished or semi-finished products. This will have the effect of increasing on-farm productivity and income while smoothing out the peaks and valleys of income frequency for rural families who depend on agricultural production for their survival.

As it gains experience with this type of lending, BFA will move increasingly from its established solidarity group clients towards individuals and groups that are "new" clients for the Bank. The speed with which this will be done depends, in part, on how successful its initial efforts prove to be.

a. Illustrative Projects

Two general types of projects will be financed: Those which basically transform campesino agricultural products into higher value commodities and small service operations. Examples of the former include: fiber produced from hemp; hats woven from palm found in the area; raw brown sugar produced from cane; marmelades and candy produced from locally grown fruits and other products; canned goods and pickles using locally produced fruits and vegetables; honey; chickens and eggs; and cheese.

These are activities which require a small initial investment, a low level of technical orientation, and in certain cases low level training in sanitation measures. While these are essential to the ultimate success of the income activity, BFA and CENTA both have the credit and technical assistance machinery in place and have the technological back-up from ENA and other organizations if needed. Demand for these products, with possibly the exception of brown sugar, appears to be high. Before a loan is made, however, BFA credit agents will be expected to do a simple feasibility analysis on the viability of the project.

The small service operations will include activities such as: sewing and tailoring; tortilla and pupusa production; bread baking; hand-crafts; and small stores. The skills to run these operations are largely known to campesinos.

Land purchases, crop production, consumer items and re-financing of previous BFA, FEDECCREDITO, FEDECACES or other formal bank loans will not be financed with loan funds. Up to 30% of first loans may be used to refinance informal money market loans.

b. Loan Amounts and Terms

Loans of up to \$800 will be made for investment and working capital. Where the borrowers are grupos solidarios, the maximum will be the individual maximum multiplied by the number of group members, but in no case more than \$4,000. Repayment periods of up to 5 years will be allowed. Working capital loans will be repaid within one year. Repayment schedules will be based on expected frequency of income and business reinvestment requirements. Interest charged will not be less than FEDECACES and FEDECCREDITO are charging for similar loans. This rate is currently 15%.

c. Eligible Borrowers.

Both individuals and solidarity groups, having no more than \$4,000 in assets per individual (including land) will be eligible borrowers. Solidarity groups may take out a loan for one project under which each number assumes an equal share of the loan. Individuals will be required to

present traditional guarantees such as crops, tangible assets or co-signers. Projects in the San Salvador Metropolitan Area will not be eligible. No other special conditions are needed. The small maximum loan size and near commercial rates are considered sufficient guarantees that only target group members will be interested in applying for the loans.

d. Demand for Loans

During development of the Small Producer Development Project, the demand for small producer loans from FEDECACES/FEDECREDITO members was estimated at over \$17.0 million for the period 1979-81. The membership of these institutions includes about 5% of the approximately 472,000 target group families outside the SSMA. If the level of demand among target families was only 25% of the indicated demand among FEDECACES/FEDECREDITO members ( a conservative assumption) the total demand would exceed \$2.0 million over the eighteen month planned disbursement period. This is more than sufficient to justify the lending resources proposed.

e. Activity Outputs and Costs

Assuming an average loan size of \$300 and an average of 3 borrowers/loan (through grupos solidarios) about 2,230 loans would be generated under this activity with 6,700 families benefitting. This averages out to about 5 loans per BFA agency per month - a load that BFA should be easily able to handle. Some training and technical assistance will be needed to strengthen the capability of the implementing institutions.

The cost of these services is estimated at \$150,000 and will be financed with DG funds.

f. Operational Description

i. Promotion. The project will use essentially the same type of promotion being used by BFA currently. This will include BFA credit agents as well as CENTA extensionist and DIDECO promoters. However, it is expected that CENTA will provide a large degree of the outside promotion assistance to BFA through its 80 home economics extensionists since DIDECO promoters are heavily committed to other projects.

The fundamental promotion task will be, as it is currently in the basic grains project, to inform people of the availability of the credit line, the eligibility requirements, and terms of the loan. This will not require excessive staff orientation, but none-the-less will require some short orientation sessions. Radio spots and written brochures will also be important promotion tools.

11. Loan Processing, Approval, and Disbursements. These tasks will be carried out by BFA credit staff using the same procedures followed in the basic grains program. The process starts with the client coming to the closest BFA or CENTA agency to fill out applications. The applicants reliability is verified through visits with friends, neighbors, and solidarity group members (if in a solidarity group). Baseline socio-economic data is gathered through the home visits. A simple investment plan is prepared by credit agents (auxiliares de crédito). Applications are generally approved at the local BFA agency level (83% of BFA loans are approved locally to improve processing time). The contract is signed by each individual applicant including each group member. Disbursement may be made either in cash or in kind. Accounting control is handled by local BFA accountants.

iii. Technical Assistance. In the case where technical assistance is required, BFA credit agents will refer problems to CENTA extensionists who have specific training in most of the techniques which the types of activities covered by this loan would use. In many cases, these extensionists may already have had initial contact with the clients through the promotion process giving them additional credibility in this function. Most assistance would be done through individual visits or group orientation sessions in a convenient location for the participants.

Other more formal training will be coordinated through the BFA and CENTA. This will include special short term training in processing techniques at ENA, a food processing plant which currently coordinates with CENTA particularly in the training of the home economics extensionists in canning, pickling, and making marmalades.

iv. Supervision. BFA credit agents will make periodic home visits to verify the investment has been made, detect operational problems, and generally maintain contact with clients.

v. Collections. Loan repayments are generally made by the borrowers at the local BFA agency. Occasionally collections are made by a BFA agronomist in normally scheduled supervisory visits. General reminders to encourage borrower to repay their loans are made through radio announcements and by auxiliary staff during their supervisory visits.

#### 6. Planning for Phase II (\$250,000 DG)

The successful implementation of Phase II, and hence the realization of the project purpose will require that an institutional development process be initiated as early as possible in the project. Under this activity, the GOES will carry out activities aimed at overall strengthening of the shelter sector. The institution building process will seek to:

- Develop the capability of the Vice-Ministry of Housing and Urban Development (HUD) of the Ministry of Public Works to establish shelter sector policies, coordinate the efforts of the GOES ministries and autonomous agencies in implementing the policies, monitor implementation progress and evaluate the results.
- Develop a capability within HUD, with support from IVU and the FSV, to analyze and adopt measures which promote the rationalization of the financial policies and institutional structure of the shelter sector.

- Develop the staff and procedures within HUD to study shelter problems of secondary cities and design comprehensive programs to address them.
- Adopt urbanization standards appropriate for secondary cities.
- Develop the organization and the capability, within IVU, to do project planning and implement new shelter and marginal upgrading programs in secondary cities.
- Develop simple low cost procedures for site legalization both in marginal urban communities and rural areas.

Obviously, this kind of institution building cannot be carried out overnight. The site legalization activity cannot even be started until the GOES passes the Critical Urban Areas law which will establish the legal basis for expeditious issuance of land titles. Increased budgets for both IVU and HUD will be needed to permit establishment of coordination and implementation units for the Phase II Program. Finally, competent technical assistance will be needed to help institutionalize within HUD an EDURES type approach towards analyzing the problems of secondary cities and developing appropriate solutions. <sup>1/</sup>

a. Outputs: The outputs of this activity will consist of the following:

1) Vice Ministry of Housing and Urban Development Functions Developed. The HUD Vice Ministry was established recently on the basis of a World Bank recommendation. The policy matters and study and coordination functions briefly described above constitute the nucleus of a role for HUD. Significant time and effort will be required for the Vice Ministry to begin to carry out these functions well. By the end of Phase I, the Vice Ministry is expected to have a core staff of professionals on board, have developed a program it expects to carry out over the follow-

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<sup>1/</sup> The MinPlan group which completed the EDURES study for the SSMA was disbanded in December 1979. A UNDP donation has been requested by the World Bank to provide for continuation of that effort.

ing five years, and have initiated its activities in three important areas; development of procedures for effecting coordination among shelter sector institutions, especially in the context of marginal community upgrading activities; study housing finance policies and institutions; and study the needs of secondary cities including the development of procedures for legalizing unregistered properties. Conditions precedent to Phase II have been included in the implementation Plan which relate to these outputs.

2) Secondary Cities Program Unit Established in IVU:

By the time the Phase I Emergency Shelter Solution Program is completed, IVU will have established a Secondary cities unit, found a suitable location (hopefully in a major secondary city) and provided it with a budget. The personnel who work on the Phase I shelter activity are expected to form the nucleus of IVU's secondary cities unit.

If possible, at least one key professional involved in the ABC program in the SSMA will be assigned to the unit so that the experience gained in planning (and possibly implementing) that program can be transferred to the secondary cities improvement effort. The unit's basic function will be to plan for the comprehensive coordinated upgrading of marginal communities in the secondary cities.

b. Costs. It is estimated that 30 person-months of technical assistance will be needed to help the GOES start the Phase II planning process and carry through on development of its program for marginal community upgrading in secondary cities. The cost of this assistance is estimated at \$250,000 (see Annex G.8 for scope of work and cost calculations).

E. Phase II Activities (\$5.5 Million HG; \$2.5 Million GOES)

Phase II will consist of a continuation of the shelter sector activities - new solutions, home improvements, basic physical services and planning for community upgrading - initiated under Phase I. A new activity - site legalization - will be initiated. The mix of activities, their location, implementing agencies and beneficiaries will be determined through the planning process initiated under Phase I. It is expected that these activities will be carried out in some 13 marginal communities located in El Salvador's major secondary cities.

Several major institutional objectives were discussed above under Planning for Phase II. Conditions Precedent to Disbursement (see p. 56) for Phase II have been established to ensure that adequate progress is made in meeting those objectives. It is conservatively estimated that up to 18 months may be required to meet these CPs. However, progress on several activities has exceeded expectations to date and an earlier start (e.g., within 12 months) may be quite feasible. The Vice Ministry of Urban Development is near completion of new minimum urbanization standards for secondary cities. The GOES has recently nationalized the private banks and savings and loan system. This provides the basis for rationalization of the interest rate structure by bringing all major housing finance institutions under direct policy guidance of the GOES. Also, the GOES recently requested the World Bank (WB) to send an appraisal mission to El Salvador for the Urban Development III Project. The WB had established GOES commitment to adopt simplified site legalization procedures as a condition for sending an appraisal mission. The Mission is expected later this year. Thus, the GOES has already shown progress in quickly meeting three of the seven CPs. It must be noted that this progress is evident in the CPs that require political and policy decisions. The remaining CPs involve essentially technical matters that can be carried out quickly with the technical assistance to be provided under the Planning for Phase I activity. Preliminary analyses in all of these areas have been completed through the EDURES study.

A detailed plan for Phase II implementation will be prepared prior to initiating this activity. RHUDO/ROCAP will review and approve this plan prior to initiation of Phase II activities.

### 1. Implementing Institutions

In line with the project strategy of progressively increasing the Project's focus the shelter needs of secondary cities, different implementing agencies from those involved in Phase I will be responsible for Phase II activities.

The rationale behind this shift in responsibilities has been alluded to previously. In major urban areas, housing and infrastructure networks are developed to relatively high design standards in comparison with rural areas. The technical specialization and financing required to design, build and maintain these services (i.e. housing, water, streets, electricity) makes it logical to place the responsibility on centralized GOES agencies that have the necessary human resources and access to financing. As these agencies extend their service delivery to secondary cities, less specialized agencies can turn their attention to more rural areas that have simpler, less sophisticated infrastructure networks. In practical terms, the project, in line with GOES policy, seeks to encourage withdrawal of DIDECO from its multi-purpose role in secondary cities and facilitate an increased role for IVU, DUA, ANDA, CAESS, FSV and the municipalities.

The key institution - IVU - does not now have the capacity to fulfill this role for secondary cities. This capacity will be developed through Phase I planning activities. The institutional reforms and other conditions precedent to disbursement required prior to initiation of Phase II will permit major constraints to expanding assistance to the target group to be overcome.

### 2. Project Activities

The precise mix of activities that will be carried out under Phase II will depend on the results of the planning efforts described above. The terms and conditions of subloans will be determined in accordance with project needs. However, the same principles that have been applied in designing Phase I (borrower eligibility criteria, target group affordability criteria, non-subsidized interest rates, repayments terms tailored to individual needs, etc.) will apply. No retrenchment on interest rates is contemplated.

### 3. Outputs and Costs

An illustrative mix of activities has been developed for purposes of analyzing loan feasibility. This mix assumes the following distribution of project resources:

#### a. Shelter Solutions (HG \$4.6 million/GOES \$2.0 million).

This would include small subdivisions adjusted to minimum standards with lots costing about \$1000, as well as small core houses with a cost of \$2,900. Some 3,000 units would be financed.

b. Home Improvements (Financing included in Phase I).

This component would include improvements to existing lots (including the cost of legal services to secure stable tenancy), improvements to existing housing (new roof, cement floor) and small expansions. About 4,000 loans would be made at an average cost of \$500.

c. Basic Infrastructure/Site Legalization (HG \$900,000; GOES \$500,000).

This funding will permit the extension of basic services to about 13 marginal communities and facilitate legalization of any unauthorized subdivisions included among those communities.

The total cost of these illustrative projects is \$8 million. This includes \$5.5 million of HG funds and \$2.5 million from the GOES. A cash flow has been run out and it shows that the interest generated with this mix will cover loan repayment requirements. A similar exercise will be carried out at an appropriate point in the planning process to ensure that sound financial criteria have been used in determining the mix of projects selected for implementation. A detailed breakdown of this component's costs is included in Annex G.2 along with the schematic designs from which they were derived. The schematic designs were developed by AID and IVU for both upgrading and new shelter activities in Phase II.

F. Project Evaluation (\$100,000 DG)

There will be two evaluations of the project. The first will come near the end of Phase I. The purpose of this evaluation will be to assess the degree to which assistance is reaching the target group, the effectiveness with which it has been made available and utilized, progress towards meeting the CP's for Phase II, and the degree to which the policy and institutional changes described in the PP have been implemented. This evaluation will be used as basis for reviewing the plans for Phase II implementation.

A final evaluation will be carried out near the end of the project. The purpose of this evaluation will be to assess the degree to which the project purpose and goal have been met. The progress of each institution in fulfilling its planned role in secondary cities development and the effectiveness of the reforms in opening access to shelter services for target group families will also be evaluated.

These evaluations will both be carried out by outside consultants and financed with DG funds. MINPLAN will contract the consultants. The estimated cost is approximately \$100,000.

G. SUMMARY BUDGET (\$000)

PHASE /ACTIVITY	A I D				TOTAL
	GOES	DL	DG	HG	
A. Phase I					
1. Community Basic Services	1,800	6,000	200		8,000
2. Home Improvements			50	4,000	4,050
3. Shelter Solutions	1,200			5,500	6,700
4. Agrarian Reform Support	500	2,000	200		2,700
5. Micro-Enterprises		2,000	150		2,150
6. Planning for Phase II			250		250
SUB-TOTAL	3,500	10,000	850	9,500	23,850
B. Phase II	2,500			5,500	8,000
C. Evaluation			100		100
T O T A L	6,000	10,000	950	15,000	31,950

### III. PROJECT ANALYSES

#### A. Institutional

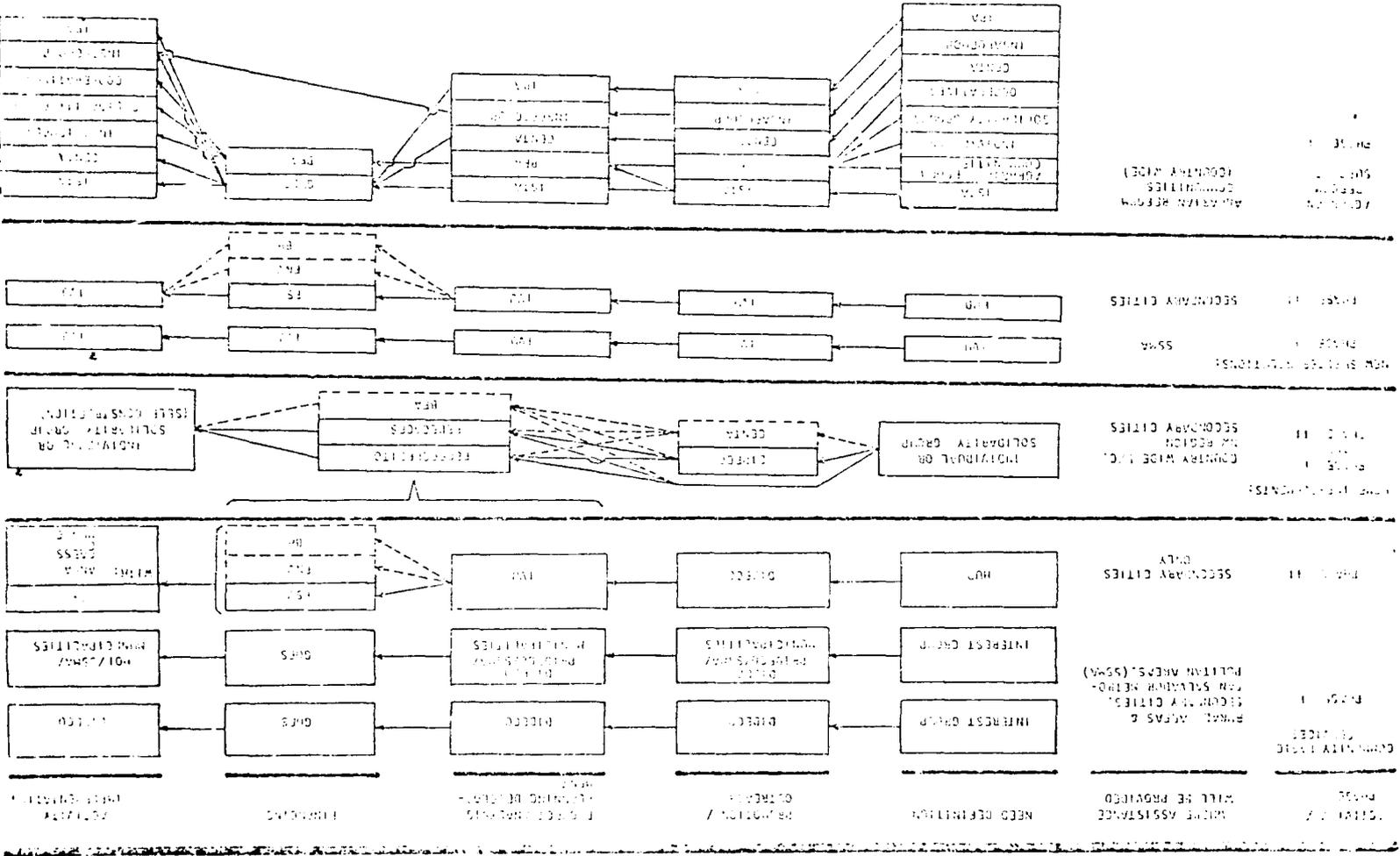
1. Program Monitoring, Coordination and Evaluation. These functions will be carried out by the Ministry of Planning's Sectoral Planning and Coordination Office. This office has been actively involved in the development of this project and has among its staff several professionals who worked on the EDURES study.

The functions of the Ministry of Planning will involve minimal time and effort. Periodic meetings with implementing agencies and the Central Reserve Bank (BCR), analysis of monthly reports and, eventually, contracting of Project evaluation consultants, are the major tasks envisioned. These tasks will be assigned to a MinPlan project manager, who will be one of the four professionals who most closely collaborated on the design of the project. These additional responsibilities are not expected to cause a significant additional workload for the Project Manager.

2. Service Delivery Assistance Channels. The PP mentions an almost bewildering set of institutions that are or could be involved in project implementation, and a somewhat complex set of channels through which assistance will reach the target group. A summary of the planned and potential assistance channels are shown graphically in Figure 2. An indication of the coverage of credit agencies provided in Figure 3.

The GOES has several major reforms under consideration which could affect the institutions that have implementation roles in the project. The nationalization of the banking system for example, will affect all of the financial institutions by modifying their roles and causing them to reallocate their portfolios and change their interest rate structure.

FIGURE 2. MARSHAL COUNTY UPGRADING PROGRAM ASSISTANCE CHANNELS



**FIGURE 3**  
**CREDIT CHANNELS BY DEPARTMENT**

Department	BFA Cajas	FEDECREDITO Cajas	FEDECACES Cooperatives FEDECACES	CENTA Extension Agencies and Zone Hdqtrs.
1. Ahuachapan	2	2	0	0
2. Santa Ana	2	3	2	4
3. Sonsonate	1	4	1	3
4. La Libertad	3	2	5	3
5. Chalatenango	3	2	3	7
6. San Salvador	2	2	2	3
7. Cuscatlan	2	2	0	1
8. La Paz	1	3	1	3
9. San Vicente	1	2	2	3
10. Cabañas	2	2	0	5
11. Usulután	1	7	2	5
12. San Miguel	3	2	1	5
13. Morazan	1	1	2	7
14. La Unión	3	2	2	6
<b>TOTAL</b>	<b>27</b>	<b>36</b>	<b>23</b>	<b>57</b>

Given the GOES' intention to benefit the poor through reforms, the Mission expects additional assistance channels to open up during the project implementation period and additional resources to become available for meeting the needs of the target group. To permit utilization of these channels the loan disbursement arrangements and draft authorization have been carefully prepared to provide maximum flexibility during implementation (See Section IV.C. and Annex F).

A number of institutions mentioned in the PID and others that are potential assistance channels do not have planned roles in implementing the project. They have been left out for a variety of reasons. Some are already overworked or overcommitted (e.g. FUNDASAL); others are not willing or able to assist target group members at the present time in the kinds of activities financed under the project (e.g. BH); and others have a highly subsidized interest rate structure at present (e.g. FSV). The FSV is expected to modify its interest rate policy in time to permit it to participate in Phase II.

3. Summary of Institutional Capability. The Mission and RHUDO have reviewed the institutional capability of each of the planned implementation agencies. A discussion of the capability of each major agency is included in Annex G.9. The areas where improvement is needed to ensure smooth implementation have been identified in the project description and other sections of this PP. Where relevant, CP's to disbursement have been included in the draft authorization.

Based on its review, the Mission believes that the implementing agencies have or will quickly develop the institutional capability to carry out the project.

## B. Social Soundness Analysis

### 1. Target Group

a. Rural Areas. Out of a rural population of 2,474,000 in 1976 the Mission has estimated that 77% had per capita incomes less than the Mission calculated poverty line of \$250 per year with a median of \$130. The 1977 Agricultural Assessment provides an in-depth analysis of the distribution of the rural poor. Using a small farm data base for 1976, the estimate of rural poverty was 83.5%. Within this population 35% are landless and the remainder consists of farmers with less than 8 hectares of land (two-thirds with less than 4 hectares). Lack of credit, irrigation and modern technology is apparent. Small farm dependence on the less labor-intensive basic grains aggravates the already serious oversupply of labor. Larger farms grow more labor intensive crops such as coffee and sugar cane, but these are affected by extreme seasonality and

fluctuation in world demand. Moreover, it is difficult to conceive of a technological solution to the sub-utilization of rural labor: even with extensive use of labor-intensive, non-seasonal combination of crops (including multi-cropping), for small farms, there would still remain a significant labor surplus to absorb elsewhere.

Income and employment data do not fully describe the seriousness of the deficiencies in the fulfillment of basic needs of the rural poor. Coughs, malnourishment, and diarrheas are so common as to be accepted as a routine part of life. Infant mortality exceeds 100 per thousand in rural areas, and life expectancy at birth is 54 years compared to a national average of 59. As regards formal education, in 1975 47% of rural residents were considered literate, only 12% had finished the sixth grade, and 0.4% had completed nine grades. Housing conditions are characterized by severe overcrowding and lack of environmental sanitation. The typical rural house consists of one room, has a dirt floor, walls of wattle and daub, and a roof of straw or tiles. While the use of local materials per se is not deleterious, the lack of knowledge regarding basic health and environmental considerations within the home tends to exacerbate the incidence of various diseases and illnesses.

b. San Salvador Metropolitan Area (SSMA). The target group in the SSMA is concentrated into marginal settlements, which are located mainly in the center (mesones) and on the outskirts of town.

Table 3 presents the Metropolitan Area population distribution by type of marginal community.

The quality of life in the San Salvador Metropolitan Area (SSMA) on the whole is statistically superior to that of rural or other urban areas in the country. Data for 1975 show almost three quarters being served with piped water, 94% with electricity and only 13% without sanitary facilities. Global figures such as these, however, do not reflect actual conditions within the SSMA poor target group. For example, being "served" by piped water does not imply that the water is easily accessible or cheap. A study of peripheral illegal subdivisions (colonias ilegales)<sup>1/</sup> showed that families spent over four hours a day carrying water for household purposes. Moreover, low-income residents without individual taps have traditionally paid over 7 times the cubic meter the price paid for water by middle income residents with individual connections. Electricity figures are similarly misleading as individual connections are rare in marginal settlements and the presence of public lighting in the neighborhood is taken as a sign of being benefitted.

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1. See Annex I for definition.

TABLE 3  
POPULATION DISTRIBUTION IN THE SSMA BY  
TYPE OF MARGINAL SETTLEMENT - 1976

HOUSING TYPE 1/	NUMBER OF FAMILIES	%	NUMBER OF PERSONS	%	AVERAGE FAMILY SIZE
Tugurios	8,060	5.4	38,000	5.2	4.7
Emergency Housing	4,320	2.9	20,300	2.8	4.7
Tenements	39,360	26.5	129,700	17.8	3.8
Illegal Sub-Divisions	23,360	15.8	135,500	18.7	5.8
Total low-income population	75,100	50.6	344,400	47.4	4.6
Other Population	73,300	49.4	382,600	52.6	5.2
SSMA Total	148,400	100.0	727,000	100.0	4.9

SOURCE: EDURES, Programa para el Mejoramiento Integrado de las Areas Criticas Metropolitanas, San Salvador, El Salvador, May 8, 1978 Volume II, Page 6.

50.6% of all families in the SSMA live in marginal settlements (tugurios, campamentos, mesones and colonias ilegales). Poverty line analysis for 1976 indicates that 46.5% of all these families earned less than \$250 on a per capita basis. Moreover, while the SSMA is growing at a 4.6% annual growth rate, the poor population

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1. A description of these different housing types may be found in Annex I.

is growing at 5.7% (due to immigration, not higher fertility), with the prospects of the rural-urban drift being intensified during the next decade.

Rural dwellers move to the SSMA in search of employment and educational opportunities. Because of lack of skills and education, the only available jobs are those in the informal service sector where low productivity and low incomes are not enough to meet basic human needs. Analysis of household budgets shows that SSMA marginal community residents must pay between 40-60% of total income for food alone.

c. Secondary Cities and Rural Communities. Median per capita income in 1977 was \$26 monthly, \$307 annually in urban areas outside of the Metropolitan Area. Of the 251 non-SSMA municipalities, only Santa Ana and San Miguel have more than 100,000 residents. The EDURES study chose these two plus Sonsonate, Usulután and Ahuachapán as indicative of centers with substantial potential, particularly as regards the absorption of rural-urban migratory flows. The quality of life for poor residents in these five cities is lower than that of the Metropolitan Area. Family income is less than \$140 monthly for 75-80% of all residents. Unemployment is around 20%, unemployment and underemployment combined range from 40% to 60%, and female unemployment averages around 53%.

While death rates in the five cities have declined, the figures are higher than those for the nation as a whole and the SSMA. Statistics for health, infrastructure and education are below the Metropolitan levels. The numbers of families living in marginal settlements are higher than the SSMA, ranging from 56% in Sonsonate to 75% in Usulután. Between 50% and 60% rent rooms or occupy single family units. Residents spend 60% to 75% of their income on food and have no savings.

The situation is worse overall in the smaller urban area where family incomes are essentially as low as those in surrounding rural areas, around \$90 monthly in 1977. Municipal governments have inadequate tax revenues and provide minimal basic services. Public infrastructure is deficient in all areas: streets, sewers, water, electricity and garbage collection. Housing in these towns is worse than the SSMA and the five selected centers, the overwhelming majority of units need some rehabilitation work. Moreover, EDURES estimates show that marginal families will make up 75% of new household formation for the 1978-82 period (57% in the Metropolitan Area), therefore exacerbating the already serious housing deficit.

2. Beneficiary Participation in Project Activities. El Salvador does not have a strong tradition of community participation. The economy and political structure have been highly centralized and generally paternalistic in their treatment of low income groups. Socially, the basic structure is the extended family, although this is beginning to breakdown under urbanization and economic (e.g. rural labor migration) pressures. There are few ties beyond the immediate family, particularly in marginal urban areas, and little spontaneous inclination toward organizing. In the past urban community organization was seen as a political threat and actively discouraged. Yet rural community development has received the support of successive governments including the present one. While in the past, GOES support of rural community development has, at times, been paternalistic and politicized, it is also evident that a large amount of mini-public works have been carried out largely with volunteer labor. These efforts do not seem to have led to self sustained community development efforts, and an external stimulus is still needed to stimulate ad-hoc formation of groups for realization of specific projects.

In spite of the lack of self sustained community development efforts, there is evidence that community and small group participation can be fostered and used as a viable and effective community development mechanism. The experience of FUNDASAL (Salvadoran Foundation for Minimal Housing) is instructive in this respect. FUNDASAL helps groups to organize for mutual self-help construction and emphasizes an incremental approach to community development with a focus on land-servicing instead of physical structure. By placing much of the responsibility on the group members themselves, the result has been a program that has averaged over 2,000 housing solutions a year with the lowest percentage of mortgage payments in arrears (1.32%) of any public or private shelter institution.

The PRIDECO/FEDECCREDITO small business credit program is a similarly successful program. Probably the two major reasons for its success are its placing responsibility on the solidarity groups and its efforts to close the social distance between low-income groups and formal governmental structure. PRIDECO promoters make initial community contacts and explain the program in general terms. However, it is the individuals themselves who choose their own solidarity group members and a leader to represent them in their dealings with FEDECCREDITO. Loan officers visit with the solidarity groups in the barrios and all payments are collected at the local level, not at FEDECCREDITO offices, on a payment schedule decided upon by the solidarity group.

Another factor in improving community receptivity to proposed project activities will be the payment for community labor. All too often in the past the concept of self-help labor was merely a pretext on the part of the government to minimize costs. While the concept of sharing the development costs may have specific utility once basic needs have been met, for most low-income groups voluntary labor is a luxury that cannot be afforded. Moreover, on an equity basis, it would seem out of place to expect low-income residents to, in effect, pay for infrastructure with their labor when middle and upper income neighborhoods receive higher benefit levels often at no cost. DIDECO managers and social promotion specialists have strongly endorsed the concept of paying for infrastructure labor on its equity and practical bases, emphasizing the economic needs of low-income households in a time of political and economic instability.

While DIDECO and other government agencies have been criticized for their emphasis on physical works as ends rather than means of fostering community participation, the very fact that most of the project outputs are of a physical nature makes community participation a much easier task. DIDECO has wide experience in community infrastructure projects and the economic incentives should make infrastructure activities all the more attractive. Home improvement loans and new shelter units have always had high demand among low-income groups, but with little success due to overly-restrictive financial and administrative requirements (e.g. high collateral, too much paperwork, short payback periods). With the recent experience of IVU, FUNDASAL, and EDURES in designing shelter programs for the needs of low-income households, there should be little problem with beneficiary receptivity. More likely to be a problem will be government agency ability to effectively promote and organize these efforts, particularly those contemplated under Phase II. The micro-enterprise credit component should also have no problem regarding its acceptance at the local level. BFA is an established organization, well known to rural residents, many of which use its services at the present time.

### 3. Benefits

a. Access to Services. Under the project, physical services in the form of sewers, urban/rural roads, bridges, water and electricity will be provided to dwellers of marginal communities. Individual connections for water, sewer and electricity and home improvements, as benefits to individuals, will be charged to homeowners under medium-term financing.

b. Improved Health. The physical services provided will benefit the poor target group as users and as workers, although the social benefits are not easily quantifiable. For example, safe drinking water will inhibit the high rates of gastrointestinal disease and raise worker productivity. Garbage collection and environmental sanitation through improved sewage disposal and drainage will decrease the incidence of communicable diseases.

c. Higher Income and Better Living Standards. Because of high rates of unemployment and underemployment and low income among the target group, the payment for hand labor is likely to have important social and distributional benefits. Special note should also be made of the benefits attributable to transportation infrastructure such as bridges, and rural roads. At present, many small farmers (80% of the rural population) are unable to market their basic grains and cash crops because of inadequate rural transportation network. Access to many rural communities is difficult except by foot even during the dry season; during the rainy season flooded streams and rivers and impassable road surfaces keep small farmer produce from potential markets for months at a time. Improved access by small farmers should also increase commercial activities within secondary cities and rural communities and help bring home improvement, infrastructure upgrading and small enterprise credit programs to the attention of a broader segment of the target group.

4. Spread Effects. There are high potential spread effects for this project on both the institutional and low-income group levels. While the new government is determined to refocus and improve the effectiveness of public agencies in reaching the poor, particularly in housing and infrastructure, the fact is that the GOES has not had a long history of successful experience or interest in such programs and projects. Thus, the Marginal Community Improvement Project is likely to play an important role in giving various GOES agencies "hand-on" experience in working with the very poor, in showing that such programs can be financially viable at unsubsidized rates, and even in fostering attitudinal changes in agencies in respect to their programs and policies toward low-income households.

Participation in infrastructure, home improvement and credit activities will have benefits for marginal settlement dwellers beyond direct project impacts. Becoming acclimatized to the use of credit will be an important benefit. A successful credit history will be an important developmental asset as demonstrated by the PRIDECO/FEDECREDITO program's 1.5% drop in interest rate to borrowers who have successfully paid off previous loans. Moreover, as community development outreach grows, people will realize the importance of group action and mutual help in securing resources, improving shelter and carrying out community projects. The use of solidarity groups

in the micro-enterprise and even home improvement components can also help overcome social fragmentation among the poor and demonstrate the benefits of collaboration. Finally, as concrete actions to benefit the poor are carried out by the GOES with the direct participation of low-income households, it is likely that distrust of public institutions and paternalistic dependency will be mitigated to some extent.

#### 5. Benefits for Women

Though the population as a whole is roughly evenly divided between males and females, females are a substantial and growing majority in urban areas. In 1975 females constituted 54.1% of the urban population, males 45.9%. This is due to the greater number of females migrating from rural areas, a common pattern in Latin America. Conversely, there is a smaller but constant majority of rural males over females. These trends take on significance when we come to consider the high and growing number of women-headed households in urban marginal areas.

Family structure tends to be unstable, with a high proportion of common-law marriage (34.4% of the population over age 20). Because of lack of employment opportunities, women enter "companionship" relationships in search of economic security. Children are born in an attempt to cement the relationship, though the result is often a series of relationships with children by different fathers. Since female hopes for security rest on producing children, desire to limit family size is often weak, complicating efforts to reduce the alarmingly high birth rate.

Women's role is highly traditional, especially among the poor. Although women have equal political and legal rights, custom and tradition limit their participation. A 1975 labor force study indicates that women form 25.3% of the overall economically active population; 73% of the female economically active population (EAP) is urban, 27% rural. Urban-rural differences in EAP composition by sex are sharp--in urban areas, males constitute 55.8% of the EAP, females 44.2%; but in rural areas these figures are 85.2% and 14.8%, respectively.

Jobs are scarce, especially in rural areas. The majority of women are engaged in marketing, services (especially domestic service), and industry. In rural areas they work predominantly in agriculture and as vendors.

Women's earnings are even lower than those of men--in 1975, 57.2% of all working women earned between ¢1 and ¢99 per month, while almost half of employed men earned between ¢40 and ¢199 a month (\$1 = ¢2.50)

Females access to the labor market is much more limited--in Santa Ana, more than 80% of women heads of household worked in commerce and domestic service. Only 9.2% worked in manufacturing.

The proportion of women-headed households is considerably lower in rural than urban areas. In rural areas about 21% of employed women are heads of household. It is interesting to note that the higher the levels of education of rural employed women the more likely that they will be the head of household (42% of women with seventh to ninth grade education were heads of households). As in the urban area, most women work in marketing, commerce, or services, but women's participation in agriculture is noteworthy--32% of the rural female EAP work in agriculture; 70.3% of them work from 41 to 48 hours a week. Of those women who worked even longer hours, almost all were heads of household.

The Project will benefit women principally through its attack on neighborhood sanitary conditions in both urban and rural settings. Improved living conditions will not only increase the productivity of women in the workforce, but also free them for more income-generating activity and reduce the incidence of disease and discomfort among children.

The small-enterprise loans are particularly useful for women who occupy such an important position as small entrepreneurs. The existing access through housewife clubs, now fostered by CENTA, DIDECO and IVU, will provide an excellent conduit for working capital to small, female-run enterprises.

## 6. Affordability of Shelter Improvements

### a. Home improvement loans (Phase I and II)

These loans can be afforded by virtually all of the target group since even very small loans of \$20-50 can be used to finance useful, beneficial home improvements. It is estimated, for example, that the expense of connecting a house to an existing water or sewer line at the lot line would be about \$20-30.

Even a larger loan, say \$500, is still affordable by 90% of the urban poor in the SSMA, 80% in other urban areas and by 20% of the rural poor, assuming typical FEDECCREDITO or FEDECACES terms of 15%/10 years and applying 10% of family income to amortize the loan.

This project component is the most flexible and viable despite being the only one operative, at net positive real interest rates.

b. New shelter (Phase I and II)

A \$4,000 core house will be affordable by SSMA families in the 30th percentile and above (assuming a loan at 10%/25 years and applying 20% of family income). IVU is expected to produce a \$3,200 serviced site which will be affordable by families in the 15th percentile and above.

For the second phase, preliminary cost estimates developed with IVU indicate that it may be feasible to build a serviced site in secondary cities for about \$950. Using the same terms as above, such a site would be affordable by 80% or more of the families with incomes below the median in those areas.

c. Infrastructure (Phase II)

As indicated in the technical analysis, the cost per family of providing basic services in a marginal community will range from \$400 to \$560 depending on the standards used. Assuming the recuperation of the lower investment at 10% over 10 years, and applying 10% of family income to loan payments, fully 80% of the families will be able to afford the cost.

In the context of an upgrading program it is not possible to exclude a family already living in the community even if it cannot pay the required amount. This problem will have to be dealt with in detail in each case. However, for purposes of the analysis of the financial feasibility of the project, it was assumed that 20% of the investment in upgrading projects would not be recuperated.

d. Summary

The affordability of basic infrastructure and shelter solutions is summarized in Table 4.

C. Technical Analysis

The operational procedures of key implementing agencies, their design standards, the cost basis for the project and environmental considerations have been reviewed for each of the project activities. They are discussed in detail in Annex G.2. As a result of its review, the Mission has concluded that the project is reasonably costed, physical improvements are properly designed, implementing agency operating procedures are adequate, and there are no significant environmental problems that will result from carrying out the project.

TABLE 4  
AFFORDABILITY OF PROJECT COMPONENTS BY TARGET GROUP <sup>1/</sup>

Area	Monthly Family Income (US\$)								Component Affordability by Area					
	EL SALVADOR		SSMA		OTHER URBAN		RURAL		Basic Services	Home Improvement			New Shelter	
	1977	1979*	1977	1979*	1977	1979*	1977	1979*	OU	R	OU	SSMA	OU	SSMA
Percentile														
50th	\$115	\$127	\$230	\$253	\$132	\$146	\$ 82	\$ 90	50th	50th	50th	50th	50th	50th
40th	\$ 92	\$101	\$191	\$210	\$116	\$128	\$ 75	\$ 83	↑	↑	↑	↑	↑	↑
30th	\$ 81	\$ 89	\$167	\$184	\$ 85	\$ 94	\$ 64	\$ 71	↓	↓	↓	↓	↓	↓
20th	\$ 66	\$ 73	\$145	\$160	\$ 82	\$ 90	\$ 54	\$ 60			15th			
10th	\$ 46	\$ 51	\$102	\$112	\$ 57	\$ 63	\$ 39	\$ 43	10th					

<sup>1/</sup> Affordability is based on the following terms:

- a) Home improvements, assumes a \$500 loan at 15%/10 years, applying 10% of family incomes.
- b) New shelter, assumes a \$4000 loan in SSMA and \$2000 in other urban, both at 10%/25 years and applying 20% of family income.
- c) Basic services, assumes a \$500 loan, at 10%/10 years, applying 10% of family income.

\* Mission Estimates

D. Economic Analysis

(1) Cash Flow

Cash flows have been prepared for all subblending activities (see Annexes G.11 and G.12). A quantitative estimate of economic benefits for community infrastructure, home improvements and new solutions (shelter activities) has not been prepared for this project. However, such an analysis was prepared by EDURES for shelter activities similar to those that will be financed under this project. Due to their similarity, the Mission believes that if the methodology used by EDURES staff were applied to the activities of this project similar rates of return (from 6% to 21%) would be obtained. The methodology and results of the EDURES study are included in Annex G.10.

An internal rate of return calculation for the Small Enterprises activity was highly positive with an IRR of over 50% (calculations in Mission files).

(2) Debt Service Capacity. Gross international reserves as of December 28, 1979, were US\$161.5 million, down from \$288 million a year earlier. Net international reserves at end of 1979 were \$135 million, down from US\$234 million a year earlier.

Gross reserves are now equal to 1.9 months of imports. The Central Bank feels they should not be permitted to decline further. However, the undervaluation of gold provides the authorities with a substantial cushion.

Interest and amortizations charges on the external public debt are, fortunately, very low. In 1979, these were estimated at a US\$30 to US\$36 million, which constitutes only 2.4 to 2.9% of the total value of exports of goods and services in that year.

IV. Financial Plan

A. Detailed Budget Table (\$000)

Phase/Activity/Cost	GOES	A I D			T O T A L
		DL	DG	HG	
a. Phase I					
1. Basic Services:					
Projects	1,450	5,990			7,440
Equipment		10			10
Technical Assist. and Training			200		200
Increased DIDECO					
Admin. Cost	350				350
2. Home Improvements:					
Loans				4,000	4,000
Technical Assist.			50		50
3. Shelter Solutions:					
Mortgages	1,200			5,500	6,700
4. Agrarian Reform					
Support	500	2,000	200		2,700
5. Micro-Enterprises:					
Loans		2,000			2,000
Technical Assist. and Training			150		150
6. Planning for Phase II:					
Technical Assist.			250		250
<hr/>					
TOTAL - Phase I	3,500	10,000	850	9,500	23,850
b. Phase II					
Loans	2,500			5,500	8,000
c. Evaluation:					
Technical Assit.			100		100
<hr/>					
Project Total	6,000	10,000	950	15,000	31,950
<hr/>					

## B. Financial Analysis

### 1. HG Cash Flow

A cash flow was prepared for the investments to be made with HG funds and related GOES counterpart funds. The actual projection and underlying assumptions are in Annex G.11.

The net cumulative cash flow at the end of the twenty years is positive, indicating that with the mix of the HG and GOES funds it is feasible to meet the repayment of the \$15 million loan from an eligible U.S. investor from the collections made on the portfolio of investments.

The average GOES capital contribution on a ratio of one to four with HG funds will make it feasible to onlend the combined resources to finance new shelter and community infrastructure at an interest rate which is lower than the 12 1/2% (including HG fee) projected for the HG loan.

Interest rates for Phase II activities may be increased as a result of the housing finance study which AID will finance. In fact, it is a condition precedent to Phase II that such a study be concluded. An increase, if any, will enhance the financial viability of the project.

### 2. Small Enterprises Cash Flow

A cash flow was prepared for the Small Enterprises Activity. The cash flow (see Annex G. 12) shows a positive cash flow from 1981 through 1989, the 10 year grace period of the loan. The first year, 1980, has a small negative flow because no reflows are expected to offset the administrative and interest costs.

The average loan is assumed to be \$300, the interest rate is 15%, the average repayment period is one and one-half years, and all repayments are reinvested in new loans under the same assumptions.

### 3. Disbursement Schedule

A disbursement schedule has been prepared from the cash flows and other financial data. The following is a summary of disbursements by Fiscal Year by funding source in \$000.

	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>T O T A L</u>
AID/DL	\$3,620	\$6,380	0	0	0	\$ 10,000
AID/DG	600	250	50	50	0	950
HIG	<u>2,367</u>	<u>5,565</u>	<u>2,252</u>	<u>3,418</u>	<u>1,398</u>	<u>15,000</u>
Sub-total	\$6,587	\$12,195	\$2,302	\$3,468	\$1,398	\$25,950
GOES	<u>1,514</u>	<u>1,928</u>	<u>706</u>	<u>1,253</u>	<u>599</u>	<u>6,000</u>
TOTAL	<u>\$8,101</u>	<u>\$14,123</u>	<u>\$3,008</u>	<u>\$4,721</u>	<u>\$1,997</u>	<u>\$31,950</u>

A detailed disbursement schedule is included in Annex G.13. The schedule shows that 99% of the DL/DG funds and 53% of the HG funds will be disbursed within 18 months (i.e. by the end of FY81). The overall disbursements during the first 18 months are expected to reach 72% of the total AID funding.

#### 4. Recurring Costs

Virtually no recurring costs are foreseen for the Project. The types of sub-projects envisioned under Phase I require labor, supervision, materials, etc. to put them in place. Minor maintenance costs might be incurred by the GOES afterwards.

### C. Disbursement Arrangements

#### 1. Development Loan and Grant

The GOES, acting through the Ministry of Planning (MinPlan) will be the borrower. A special fund (Régimen Especial) will be created in the Central Reserve Bank (BCR). The Bank will be the administrator of the project funds. The fund will be created by an initial GOES contribution and complemented, after Conditions Precedent are met, by an advance from AID. The BCR will in turn advance funds to DIDECO and BFA to facilitate speedy initiation of project activities. The BCR upon authorization of MinPlan, will authorize the implementing agencies to spend half of the Loan funds and all of the Grant funds budgeted for each activity. Implementation progress will be monitored by the Ministry of Planning (MinPlan), through the Sectoral Coordination Office. The BCR and MinPlan will periodically consult on project progress and agree on additional allocations of funds as required for those activities. In this way, the GOES will ensure that the activities that disburse fastest will receive the funds they need. Thus the final distribution of funds among the Community Basic Services, Agrarian Reform Support and Micro-Enterprises activities may vary significantly from the budget figures presented above.

The GOES will contribute the Loan and Grant funds to DIDECO and MinPlan.<sup>1/</sup> The BCR may charge the BFA an interest rate for the credit funds for small enterprises which reflects its normal practice in establishing lines of credit to state owned banks.

This interest rate will be used solely to increase the funds available for the project, both during and after project implementation. Any costs incurred or fees charged by the BCR in administering the loan will be paid by the GOES from non-project resources.

BCR will request reimbursement directly from AID for the disbursements it makes to the implementing agencies. Such disbursements will be made on the basis of the documentation that AID normally requires.

## 2. HG Loan

The Republic of El Salvador, acting through the Ministry of Planning or Finance, will be the HG borrower. It is expected, however, that the BCR will act as financial agent for the Ministry in negotiating the loan with a U.S. investor, acting as depository for the funds and managing loan repayment. The BCR will charge a one-time 0.5% service fee for its services. The GOES will assume the foreign exchange risk.

MinPlan, in conjunction with the Vice-Ministry of Housing and Urban Development (HUD) of the MOP, will set up a system for allocating the HG and GOES counterpart funds to the implementing agencies so as to obtain the most rapid use of funds in a manner consistent with achievement of the project purpose and planned outputs. Flexibility will be allowed in allocating HG and GOES counterpart resources among activities in the same phase. However, the basic distribution of resources between phases will not be modified.

MinPlan and HUD will prepare the request for draw downs of HG funds and obtain from the implementing agencies the necessary supporting documents. Over time, the primary responsibility for this function should shift from MinPlan to HUD as the Vice-Ministry develops the capability to coordinate shelter sector programs.

Advances of HG funds will be provided to the GOES. Requests for drawdowns, including advances, will be approved by RHUDO / ROCAP).

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<sup>1/</sup> Funds will be disbursed to MinPlan for project evaluations

V. IMPLEMENTATION ARRANGEMENTS

A. Obligation of Funds

1. Development Loan and Grant. A single project agreement will be signed. The Mission believes it can sign the agreement within two weeks from the date of the signed authorization is received. A second quarter obligation (i.e. before March 31, 1980) is anticipated.

2. HG Loan

There will be four legal documents associated with the HG:

- Implementation Agreement signed by AID and the implementing agencies of the GOES setting forth the agreed use of HG and related counterpart funds.

- Loan Agreement between the Ministry of Planning or Finance, acting for the GOES, and the U.S. lender covering the \$15 million HG loan (there may be the need to contract the \$15 million in two or more parts because of the four year implementation period).

- Contract of Guaranty between AID and the U.S. lender providing for the full faith and credit of the U.S. Government.

- Host Country Guaranty between AID and the GOES providing the full faith and credit of the GOES in the event of payments by AID to the lender under the Contract of Guaranty.

The Implementation Agreement should be negotiated and signed soon after Project Authorization. It is expected that all these documents will be signed by June 30, 1980.

B. Implementing Schedule

The Project is planned for completion within 4 years. However, the Majority of the project is expected to be completed in 18-24 months. A time phased implementation plan is shown in Figure 4.

C. AID and RHUDO Monitoring

At the present time USAID/ES does not have the capability to adequately monitor the project. Due to the difficult political situation, Mission manpower levels are at less than 50% of authorized ceiling and several large new programs have recently been authorized. The Mission repeats it many requests for immediate assignment of additional direct hire and PSC personnel to USAID/ES. Specifically, an urban development officer and an assistant capital development officer, a U.S. engineer and rural development officer will be the minimum needed for adequate monitoring. Engineering services could be obtained through PSC or a regionally-based engineering office. If such staffing additions are not forthcoming, it is anticipated that ROCAP will provide active implementation assistance.

Figure 4: PHASING OF PROJECT ACTIVITIES  
BY FISCAL YEAR AND QUARTER

PHASE/ ACTIVITY	IMPLEMENTING INSTITUTION	AID COSTS (\$000)	1980				1981				1982				1983				1984			
			1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
<b>PHASE I:</b>																						
1. Basic Services	DIDECO	6,000 DL 200 DG																				
2. Home Improvements	FEDECACES FEDECCREDITO	4,000 HG 50 DG																				
3. New Shelter Solutions in SSMA	IVU/ FNV	5,500 HG																				
4. Agrarian Reform Support	ISTA/BFA/OTHERS	2,000 DL 200 DG																				
5. Micro-Enterprises	BFA/CENTA	2,000 DL 150 DG																				
6. Planning for Phase II	MOP/VMJD	250 DG																				
<b>PHASE II:</b>																						
A. Marginal Community Upgrading in Secondary Cities. Project Evaluation.	IVU/FNV MINPLAN	5,500 HG 100 DG																				
<u>T O T A L</u>		<u>\$ 25,950</u>																				

As project activities are expected to start on the date of authorization (i.e. in March, 1980) and the Mission may still find itself short-handed at that time, USAID/ES proposes to hire two personal services contractors, preferably Salvadorans, to monitor the DL and HG funded portions of the Project. These contractors would be hired for a short period (e.g. three months) and renewed until DH personnel become available. They would be oriented in their work by Mission personnel who have been involved in Project Development (for DL funded activities) and by RHUDO/Tegucigalpa for the HG funded activities. The contractors would be financed with PD&S funds.

D. Conditions, Covenants and Negotiating Status

There are several conditions precedent to disbursement and covenants that are necessary to facilitate adequate project implementation. These have been included in the Draft Authorization (Annex F) for the DL funded portion of the project. For the HG funded activity, the following CP's are required prior to proceeding with Phase II:

- (1) GOES achieve the outputs specified under the Planning for Phase II activity (Establish Secondary Cities Program Unit; Develop HUD Program).
- (2) IVU has prepared designs for new shelter solutions to be built in secondary cities.
- (3) HUD has completed overall shelter needs studies for at least 2 secondary cities.
- (4) HUD has developed shelter sector coordinating and monitoring procedures.
- (5) HUD has developed minimum urbanization standards.
- (6) HUD has developed site legalization policies and procedures.
- (7) GOES has adopted a consistent interest rate structure for financing of new shelter solutions and home improvements. This structure should be based on unsubsidized interest rates, cover all GOES housing institutions that will participate in Phase II activities, and provide for rate equalization between loans in the SSMA and secondary cities.

Basic policy questions have been discussed with GOES officials and there is agreement on the broad outlines of the program. Numerous details remain to be solved during implementation. None of them is expected to cause any significant delay in implementation.

ACTION

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# TELEGRAM

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TAGS:

SUBJECT: DAEC REVIEW OF MARGINAL COMMUNITY IMPROVEMENT PI

**INFORMATION COPY**

1. THE DAEC REVIEWED AND APPROVED THE SUBJECT PID ON JAN. 18, 1980. THE FOLLOWING GUIDANCE IS PROVIDED TO ASSIST THE MISSION IN PREPARING THE PROJECT PAPER.

2. INSTITUTIONAL ARRANGEMENTS. UNDER THE PROJECT SEVERAL INSTITUTIONS WILL BE GIVEN RESPONSIBILITY FOR IMPLEMENTING VARIOUS ACTIVITIES. BECAUSE MANY OF THESE INSTITUTIONS ARE ORIENTED TOWARDS SERVICING THE MIDDLE CLASS, THE MISSION SHOULD EXAMINE THE WILLINGNESS AND CAPACITY OF THE INSTITUTIONS TO LEND TO PEOPLE WITH LOW INCOMES. THE MISSION SHOULD CONSIDER NAMING ONE INSTITUTION AS OVERALL PROJECT COORDINATOR. IN SELECTING A POTENTIAL COORDINATOR THE MISSION SHOULD TAKE INTO CONSIDERATION THE ARRANGEMENTS FOR ALLOCATING AND TRANSFERRING PROJECT FUNDS AMONG THE INSTITUTIONS. THE PP SHOULD DESCRIBE THESE ARRANGEMENTS IN DETAIL AND IT SHOULD IDENTIFY THE INSTITUTION THAT WILL BE THE BORROWER FOR THE HG FUNDS. THE PP SHOULD ALSO DESCRIBE HOW THE PROPOSED FSV/IVU FINANCING/CONSTRUCTION ARRANGEMENT HAS WORKED IN THE PAST. BECAUSE MANY OF THE ACTIVITIES PROPOSED IN THE PID WILL BE IMPLEMENTED BY INSTITUTIONS THAT WILL BE HEAVILY INVOLVED IN OTHER

PROJECTS FUNDED BY A.I.D. AND THE WORLD BANK, THE MISSION SHOULD EXAMINE THE CAPACITY OF THOSE INSTITUTIONS TO CARRY OUT ALL OF THE PROJECTS IN A TIMELY MANNER. IF IT IS FOUND THAT THE INSTITUTIONS NEED ADDITIONAL ASSISTANCE, SUFFICIENT RESOURCES TO MEET THAT NEED SHOULD BE PROVIDED FOR IN THE PROJECT.

3. RELATION TO OTHER PROJECTS. THE PID PROPOSES SEVERAL ACTIVITIES THAT ARE SIMILAR TO PROGRAMS THAT WILL BE CARRIED OUT IN OTHER PROJECTS. FOR EXAMPLE, THE COMMUNITY UPGRADING ACTIVITY WILL CARRY OUT MANY OF THE SAME TYPES OF SUB-PROJECTS AS THE EMERGENCY EMPLOYMENT PROGRAM; THE MICRO-ENTERPRISE ACTIVITY CLOSELY RESEMBLES THE SMALL

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PRODUCER DEVELOPMENT PROJECT; AND THE WORLD BANK'S URBAN DEVELOPMENT III LOAN WILL CONTAIN MANY OF THE SAME KINDS OF ACTIVITIES AS PROPOSED IN THE PID. THE PP SHOULD DISCUSS: THE RELATIONSHIP BETWEEN THIS PROJECT AND THE OTHERS; HOW DUPLICATION WILL BE AVOIDED; AND WHETHER SOME OF THE PROPOSED ACTIVITIES COULD BE SHIFTED TO THE OTHER PROJECTS.

4. PROJECT PLANNING. THE PID PROPOSES THAT THE PROJECT BE IMPLEMENTED IN TWO PHASES. UNDER THE FIRST PHASE, IMMEDIATE ACTION PROGRAMS THAT ADDRESS THE EMPLOYMENT PROBLEM AND THE LACK OF BASIC SERVICES IN MARGINAL SETTLEMENTS WILL BE FUNDED. THE PP SHOULD CLEARLY DESCRIBE THESE PROGRAMS AS WELL AS THE SEQUENCE OF ACTIVITIES E.G. ORGANIZATION OF HOUSEWIVES CLUBS, HIRING AND TRAINING OF ADDITIONAL STAFF FOR LENDING INSTITUTIONS, REQUIRED TO IMPLEMENT THE PROGRAMS. CRITERIA FOR SELECTING THE 200 SETTLEMENTS TO RECEIVE ASSISTANCE UNDER PHASE I SHOULD BE INCLUDED IN THIS DESCRIPTION. UNDER THE SECOND PHASE OF THE PROJECT RESOURCES WILL BE PROVIDED TO BRING ABOUT BASIC INSTITUTIONAL AND PROGRAMMATIC CHANGES IN THE HOUSING SECTOR. THE PP SHOULD DESCRIBE THE KINDS OF CHANGES THAT ARE NEEDED AND HOW THEY WOULD BE PROMOTED THROUGH THE PROJECT. AN ASSESSMENT OF THE GOVERNMENT'S CAPACITY TO CARRY OUT SUCH CHANGES SHOULD BE INCLUDED IN THE PP. THE OBJECTIVES OF THIS PROJECT PHASE SHOULD BE BASED ON THE FINDINGS AND RECOMMENDATIONS OF THE SHELTER SECTOR ASSESSMENT PRESENTLY UNDER PREPARATION.

5. PROJECT EMPHASIS. IN VIEW OF THE PRESSING NEEDS OF THE COUNTRY'S POOR AND THE POLITICAL SITUATION, THE MISSION IS URGED TO BUILD FLEXIBILITY INTO THE PROJECT'S DESIGN AND FINANCIAL PLAN IN ORDER THAT MAXIMUM SUPPORT CAN BE DIRECTED TO THOSE ACTIVITIES HAVING A DIRECT IMPACT ON THE POOR AND WHICH CAN BE IMPLEMENTED DURING THE FIRST YEAR

OF THE PROJECT, E.G. HOME IMPROVEMENT SUB-LENDING AS OPPOSED TO THE MICRO-ENTERPRISE ACTIVITY. A SCHEDULE OF ANTICIPATED DISBURSEMENTS COVERING THE FIRST YEAR OF THE PROJECT SHOULD BE INCLUDED IN THE PP.

6. TENEMENT (MESONES) UPGRADING. THE PP SHOULD DISCUSS PAST EFFORTS TO UPGRADE TENEMENTS. THIS DISCUSSION SHOULD BE RELATED TO CULTURAL CONSIDERATIONS SUCH AS THE TARGET GROUP'S PROPENSITY TO PAY RENT AND ITS WILLINGNESS TO FORM COOPERATIVES OR OTHER COLLECTIVE ORGANIZATIONS. THE PID MENTIONS THE TECHNICAL SERVICE ORGANIZATION (TSO) AS ONE POSSIBLE TYPE OF ORGANIZATIONAL ARRANGEMENT FOR UPGRADING TENEMENTS. THE MISSION SHOULD INSURE THAT SUFFICIENT FUNDS WILL BE AVAILABLE TO KEEP THE TSO OR ANY OTHER ORGANIZATION THAT MAY BE SELECTED, IN OPERATION THROUGH THE CRUCIAL START-UP PERIOD WHEN THEIR INCOME WOULD BE MINIMAL.

7. HOME IMPROVEMENT LENDING. THE PP SHOULD DESCRIBE THE MECHANISM FOR PROVIDING HOME IMPROVEMENT LOANS AS WELL AS THE CRITERIA FOR SELECTING INDIVIDUAL BORROWERS.

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Annex A  
Page 3 of 3

8. INTEREST RATES. THE PID NOTES THAT THE FSV, THE MOST LIKELY RECIPIENT OF PROJECT FUNDS, HAS HISTORICALLY CHARGED RELATIVELY LOW INTEREST RATES COMPARED TO THE COST OF CAPITAL AND EL SALVADOR'S AVERAGE RATE OF INFLATION. THE MISSION SHOULD INSURE THAT THE INTEREST RATE CHARGED IN PROJECT SUB-LENDING ACTIVITIES ADEQUATELY COVERS THE COST OF ALL OF THE PROJECT'S FUNDS, PARTICULARLY HG FUNDS.

9. TECHNICAL CAPACITY. THE PID STATES THAT IMMEDIATE ACTIONS TO PROVIDE BASIC PUBLIC SERVICES TO THE 200 MARGINAL COMMUNITIES WILL BE TAKEN BY IVU AND FSV. THE PP SHOULD ASSESS THE TECHNICAL CAPABILITY OF THOSE INSTITUTIONS TO IMPLEMENT THE PROPOSED WORK AND DESCRIBE HOW THE ENGINEERING AND CONSTRUCTION FUNCTIONS WILL BE CARRIED OUT.

10. IMPLICATIONS FOR MISSION MANAGEMENT. THE PROJECT IS COMPLICATED AND WILL BE DIFFICULT TO IMPLEMENT. THAT JOB IS MADE HARDER BECAUSE OF THE NUMBER OF AGENCIES INVOLVED. IN VIEW OF THE MISSION'S ANTICIPATED LOW PERSONNEL CEILING IT IS EXPECTED THAT THE MISSION'S STAFF WILL BE UNABLE TO FILL ALL PROJECT MONITORING RESPONSIBILITIES. THE PP SHOULD DESCRIBE WHAT PROVISIONS WILL BE MADE, E.G. REQUEST ROCAP ASSISTANCE, TO INSURE THAT THE PROJECT IS ADEQUATELY MONITORED. VANCE

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AID 1025-3 (2/77)

## LOGICAL FRAMEWORK MATRIX - PROP WORKSHEET

Summary	Objectively Verifiable Indicators	Important Assumptions																																																				
<p><b>A.1. Goal</b> To better the quality of life for the poor</p> <p><b>Subgoal</b> To direct increased resources to programs which help the poor to meet their basic needs for minimum shelter and productive opportunities.</p>	<p><b>A.2. Measurement of Goal Achievement</b></p> <ul style="list-style-type: none"> <li>-Percentage of marginal communities having minimal basic service increases.</li> <li>-Percentage of low income families having minimum shelter services increases.</li> <li>-GOES upgrading and shelter production programs reach 10,000 families a year by 1985.</li> <li>-All GOES supported housing institutions have programs to assist families with incomes below the media.</li> <li>-Increased percentage of total housing sector financing obtained by the poor for shelter purchase and improvement by 1983.</li> <li>-Increased employment generation programs that benefit marginal community residents initiated by GOES.</li> </ul>	<p><b>A.3. (as related to goal)</b></p> <p>Political Stability achieved. Programs supported by other donors implemented as planned.</p>																																																				
<p><b>B.1. Purpose</b> To assist GOES to meet immediate needs for community physical services, minimum shelter and productive opportunities for the poor and improve GOES capacity to address basic needs of the poor in marginal communities in a comprehensive, coordinated manner.</p>	<p><b>B.2. End of Project Status</b></p> <ol style="list-style-type: none"> <li>1. GOES budget for community basic services improvements in marginal communities has increased by 100%.</li> <li>2. Portfolio of participating housing institutions in low income shelter solutions has increased by 4,100 loans and \$15 million.</li> <li>3. Portfolio of participating financial institutions in home improvement loans for low income families has increased by 3300 loans and \$4 million.</li> <li>4. Coordinated GOES programs prepared for marginal community upgrading and meeting overall shelter needs in at least 5 secondary cities.</li> </ol>	<p><b>B.3. (as related to purpose)</b></p> <p>Qualified directors remain as heads of key institutions involved in project implementation. Housing sector institutional and financial structure rationalized.</p>																																																				
<p><b>C.1. Outputs</b></p> <p><b>Phase I:</b> Infrastructure improvements in marginal communities</p> <p>Home Improvements Shelter Solutions Agrarian Reform Settlement Improvements Productive Activities</p> <p><b>Phase II:</b> Coordinated community upgrading programs</p>	<p><b>C.2. Output Indicators</b></p> <p>Physical services improved in 500 communities</p> <p>5,300 dwelling units improved (sites legalized). 4,100 shelter solutions 50 Settlements assisted with production and shelter credit. 2,230 new small businesses initiated</p> <p>Programs implemented in marginal communities of at least 2 secondary cities. Includes mix of home improvements, site legalization, basic physical services and new shelter solutions to be determined during phase I.</p>	<p><b>C.3. (as related to outputs)</b></p> <p>Inflation rate doesn't exceed rate projected in PP. No shortage of building materials.</p>																																																				
<p><b>D.1. Inputs</b></p> <p>Funds for community basic services Credit for house improvement and shelter loans Funds for Agrarian Reform Support Credit for Productive Activities Funds for Technical Assistance GOES Administrative costs/Borrower Contributions.</p>	<p><b>D.2. Budget/Schedule</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2"></th> <th colspan="4">AID</th> <th rowspan="2">TOTAL</th> </tr> <tr> <th>GOES</th> <th>DL</th> <th>DG</th> <th>HG</th> </tr> </thead> <tbody> <tr> <td>Funds for community basic services</td> <td>1,450</td> <td>4,000</td> <td></td> <td></td> <td>5,450</td> </tr> <tr> <td>Credit for house improvement and shelter loans</td> <td>3,700</td> <td></td> <td></td> <td>15,000</td> <td>18,700</td> </tr> <tr> <td>Funds for Agrarian Reform Support</td> <td>500</td> <td>4,000</td> <td></td> <td></td> <td>4,500</td> </tr> <tr> <td>Credit for Productive Activities</td> <td></td> <td>2,000</td> <td></td> <td></td> <td>2,000</td> </tr> <tr> <td>Funds for Technical Assistance</td> <td></td> <td></td> <td>950</td> <td></td> <td>950</td> </tr> <tr> <td>GOES Administrative costs/Borrower Contributions.</td> <td>350</td> <td></td> <td></td> <td></td> <td>350</td> </tr> <tr> <td></td> <td>6,000</td> <td>10,000</td> <td>950</td> <td>15,000</td> <td>31,950</td> </tr> </tbody> </table>		AID				TOTAL	GOES	DL	DG	HG	Funds for community basic services	1,450	4,000			5,450	Credit for house improvement and shelter loans	3,700			15,000	18,700	Funds for Agrarian Reform Support	500	4,000			4,500	Credit for Productive Activities		2,000			2,000	Funds for Technical Assistance			950		950	GOES Administrative costs/Borrower Contributions.	350				350		6,000	10,000	950	15,000	31,950	<p><b>D.3. (as related to inputs)</b></p> <p>Investor can be found for HG loan.</p>
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SC(1) - COUNTRY CHECKLIST

Listed below are, first, statutory criteria applicable generally to FAA funds, and then criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?

Project will benefit the country's needy poor.

2. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (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 jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the United States unlawfully?

El Salvador takes adequate steps to prevent narcotic traffic.

3. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?

4. FAA Sec. 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?

5. FAA Sec. 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?

6. FAA Sec. 620(a), 620(f); FY 79 App. Act, Sec. 103, 114 and c.c. Is recipient country a Communist country? Will assistance be provided to the Socialist Republic of Vietnam, Cambodia, Laos, Cuba, Uganda, Mozambique, or Angola?

No.

7. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

No.

8. FAA Sec. 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.

9. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?

El Salvador has instituted the Investment Guaranty Program.

10. FAA Sec. 620(o); Fishermen's Protective Act of 1972, as amended, sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters:

El Salvador has not seized or imposed penalty against any U.S. fishing activities in international waters.

a. has any deduction required by the Fishermen's Protective Act been made?

b. has complete denial of assistance been considered by AID Administrator?

11. FAA Sec. 620; FY 79 App. Act, Sec. 303. (a) Is the government of the recipient country in default for more than 6 months on interest or principal of any AID loan to the country? (b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds?

12. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget which is for military expenditures, the amount of foreign exchange spent on military equipment and the

Yes. 9.2 percent of the current national budget is assigned for military expenses. Of this amount, \$10,000,000 is to be expended on military equipment. The Goes has not purchased sophisticated weapons.

A.12.

amount spent for the purchase of sophisticated weapons systems? (An affirmative answer may refer to the record of the annual "Taking Into Consideration" memo: "Yes, as reported in annual report on implementation of Sec. 620(s)." This report is prepared at time of approval by the Administrator of the Operational Year Budget and can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

13. FAA Sec. 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.

14. FAA Sec. 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 AID Administrator in determining the current AID Operational Year Budget?

From information available to the Mission, El Salvador is meeting its UN obligations.

15. FAA Sec. 620A, FY 79 App. Aqt. Sec. 607. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?

No.

16. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA?

No.

17. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it detonated a nuclear device after August 3, 1977, although not a "nuclear-weapon State" under the nonproliferation treaty?

No.

#### FUNDING CRITERIA FOR COUNTRY ELIGIBILITY

##### 1. Development Assistance Country Criteria

a. FAA Sec. 102(h)(4). Have criteria been established and taken into account to assess commitment progress of country in effectively involving the poor in development; on such indexes as: (1) increase in agricultural productivity through small-farm labor intensive agriculture, (2) reduced infant mortality, (3) control of population growth, (4) equality of income distribution, (5) reduction of unemployment, and (6) increased literacy?

El Salvador is committed to involve the poor in the development process by carrying out several projects to address their needs in the agricultural, health, nutrition, housing, employment and other sectors.

b. FAA Sec. 104(d)(1). If appropriate, is this development (including Sahel) activity design to build motivation for smaller families through modification of economic and social conditions supportive of the desire for large families in programs such as education in and out of school, nutrition, disease control, maternal and child health services, agricultural production; rural development, and assistance to urban poor?

## 2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights?

NO

b. FAA Sec. 533(b). Will assistance under the Southern Africa program be provided to Mozambique, Angola, Tanzania, or Zambia? If so, has President determined (and reported to the Congress) that such assistance will further U.S. foreign policy interests?

N/A

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

N/A

d. FY 79 App. Act, Sec. 113. Will assistance be provided for the purpose of aiding directly the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

N/A

e. FAA Sec. 620B. Will security supporting assistance be furnished to Argentina after September 30, 1978?

N/A

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### 5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable generally to projects with FAA funds and project criteria applicable to individual fund sources: Development Assistance (with a subcategory for criteria applicable only to loans); and Economic Support Fund.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE?  
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PRODUCT?

#### A. GENERAL CRITERIA FOR PROJECT

1. FY 79 App. Act Unnumbered; FAA Sec. 653 (b) Sec. 634A. (a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure)?

Congressional Notification has been processed.
2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonable firm estimate of the cost to the U.S. of the assistance?

Yes.
3. FAA Sec. 611(a)(?). 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 purpose of the assistance?

Urgent needs, repeated public statements, promises made to other International Financing Agencies (IBRD).
4. FAA Sec. 611(b); FY 79 App. Act Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per the Principles and Standard for Planning Water and Related Land Resources dated October 25, 1973?

N/A
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

Yes, (See Annex D, Mission Director's Certification)
6. FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

No.

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A.

7. FAA Sec. 601(a). Information and conclusions whether project 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.

The Project will foster private initiative and will directly encourage development of community organizations in the housing sector and will indirectly encourage other activities.

8. FAA Sec. 601(h). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

U.S. private trade and investment abroad will be directly supported through promotions and development of shelter activities. US private investor will lend HG funds.

9. FAA Sec. 612(b); Sec. 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 service and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

The host country is providing counterpart contribution to the project in local currency. No U.S. owned foreign currencies are available for utilization in this project.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

12. FY 79 App. Act Sec. 608. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar, or competing commodity?

No.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b); 111; 113; 201a.  
Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained

This project is designed to benefit the poor by promoting improvement in community living conditions.

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B.1.a.

basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

The upgrading of marginal communities will better the lives of the poor. Women will participate in Project implementation and administration.

b. FAA Sec. 103, 103A, 104, 105, 106, 107.  
Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.)

N/A

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

Wages will be paid to the rural poor for work on physical services projects. Credit will be made available to directly support productive activities.

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

N/A

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(i) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(ii) to help alleviate energy problems;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

B.1.b.(4).

(v) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

c. [107] Is appropriate effort placed on use of appropriate technology?

Yes

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

Yes. During the implementation period of the Loan the host-country will contribute an estimated 25% of the project cost.

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to the Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"?

No.

f. FAA Sec. 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 civil education and training in skills required for effective participation in governmental and political processes essential to self-government.

By improving living conditions among the poor, the project will contribute directly in the people's ability to participate in governmental and political process and will encourage private and local governmental institutions.

g. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase or productive capacities and self-sustaining economic growth?

Yes.

2. Development Assistance Project Criteria (Loans Only)

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.

El Salvador has the financial capacity to repay the loan. The terms of the AID loan are reasonable and legal under the laws of the U.S. and the host country. Additionally, the country's exchange position currently indicates that dollars will be available for repayment of the loan.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

N/A

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3. Project Criteria Solely for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance support promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102? N/A

b. FAA Sec. 533. Will assistance under this chapter be used for military, or paramilitary activities? N/A

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## 5C(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

## A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed? Yes. Standard procurement regulations, procedures and good commercial practices will be followed under the project.
2. FAA Sec. 604(a). Will all commodity procurement financed be from the U.S. except as otherwise determined by the President or under delegation from him? Yes.
3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed? Yes.
4. FAA Sec. 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? N/A
5. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? Yes.
6. FAA Sec. 603. (a) Compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. Yes.
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the Yes.

A.7.

facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

B. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

Yes.

9. FY 79 App. Act Sec. 105. Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States?

B. Construction

1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest?

N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the United States not exceed \$100 million?

N/A

Other Restrictions

1. FAA Sec. 122 (e). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

Yes.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

Yes.

3. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-bloc countries, contrary to the best interests of the United States?

Yes

4. FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or guaranty of such transaction?

Yes.

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C.

5. Will arrangements preclude use of financing:

- |  |     |
|--|-----|
| a. <u>FAA Sec. 104(f)</u> . To pay for performance of abortions or to motivate or coerce persons to practice abortions, to pay for performance of involuntary sterilization, or to coerce or provide financial incentive to any person to undergo sterilization? | N/A |
| c. <u>FAA Sec. 660</u> . To finance police training or other law enforcement assistance, except for narcotics programs?  | N/A |
| d. <u>FAA Sec. 662</u> . For CIA activities?   | N/A |
| e. <u>FY 79 App. Act Sec. 104</u> . To pay pensions, etc., for military personnel?   | N/A |
| f. <u>FY 79 App. Act Sec. 106</u> . To pay U.N. assessments?   | N/A |
| g. <u>FY 79 App. Act Sec. 107</u> . To carry out provisions of <u>FAA sections 209(d) and 251(h)</u> ? (Transfer of FAA funds to multilateral organizations for lending.)  | N/A |
| h. <u>FY 79 App. Act Sec. 112</u> . To finance the export of nuclear equipment, fuel, or technology or to train foreign nations in nuclear fields?   | N/A |
| i. <u>FY 79 App. Act Sec. 601</u> . To be used for publicity on propaganda purposes within United States not authorized by the Congress?   | N/A |

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20521

THE HOUSING GUARANTY PROGRAM  
STATUTORY CHECKLIST

Answer YES/NO

A. General Criteria Under HG Statutory Authority.

Section 221 (a)

Will the proposed project meet the following criteria:

- (1) is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing low-cost housing is financially viable;
- (2) is intended to assist in marshalling resources for low-cost housing;
- (3) supports a pilot project for low-cost shelter, or is intended to have a maximum demonstration impact on local institutions and national policy; and
- (4) is intended to have a long run goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for low-cost shelter programs and policies?

Yes, pp. vii; Annex 6.5

Yes pp. 46, 47, & 48

Yes pp. 8,9, 18, 23, 32, 44, 45

Yes p. 9

Section 222(a)

Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of \$1,180,000,000?

No

Will the guaranty be issued prior to September 30, 1980?

\$9.5 million during FY 80  
\$5.5 million during FY 81

Section 222(b)

Will the proposed guaranty result in activities which emphasize:

- (1) projects providing improved home sites to poor families on which to build shelter and related services;

Yes

- (2) projects comprised of expandable core shelter units on serviced sites; Yes pp. 22 & 32
- (3) slum upgrading projects designed to conserve and improve existing shelter; Yes pp. 19 & 33
- (4) shelter projects for low-income people designed for demonstration or institution building; and Yes. p. 32
- (5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor? Yes pp. 13-16 inclusive

Section 222(c)

If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible?

Use of solar energy tech not considered. N.A.

Section 223(a)

Will the A.I.D. guaranty fee be in an amount authorized by A.I.D. in accordance with its delegated powers?

Yes

Section 223(f)

Is the maximum rate of interest allowable to the eligible U.S. investor as prescribed by the Administrator not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development?

Yes

Section 223(h)

Will the Guaranty Agreement provide that no payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible?

Yes

Section 223(j)

(1) Is the host country a country that is presently receiving development assistance under chapter I of part I of the Act or one that has received such assistance in the preceding two years?

Yes

(2) Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country?

Yes

(3) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of housing and other institutional arrangements?

Yes

(4) Is the project designed and planned by A.I.D. so that at least 90 percent of the face value of the proposed guaranty will be for housing suitable for families below the median income, or below the median urban income for housing in urban areas, in the host country?

Yes (pp. 9 & 10)

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(5) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed \$25 million in any fiscal year?

No

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(6) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed \$15 million?

No

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Section 238(c)

Will the guaranty agreement provide that it will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued?

Yes

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3. Criteria Under General Foreign Assistance Act Authority.

Section 620/620-A

1. Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year?

Yes

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2. Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country statutory checklist?

No

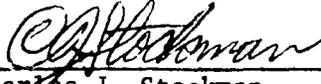
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ANNEX D

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

I, Charles J. Stockman, the principal officer of the Agency for International Development in El Salvador, having taken into consideration among other factors, the maintenance and utilization of projects in El Salvador previously financed or assisted by the United States, do hereby certify that in my judgment El Salvador has the technical capacity and the physical, financial, and human resources to utilize and maintain effectively the proposed loan of ten million United States dollars (\$10,000,000) from the Government of the United States of America to the Government of El Salvador for a Marginal Community Improvement Program to better the quality of life of the poor. This certification is based on the facts developed for the Project Paper as diagnosed in consultant reports, Mission analyses and reviews of previous community and rural development efforts supported by AID.

It should be noted that provision is made, under the grant accompanying the \$10.0 million loan for training and technical assistance to implementing agencies to facilitate their effective utilization and speedy implementation of a Project of this nature and magnitude.

  
\_\_\_\_\_  
Charles J. Stockman  
Director, USAID/El Salvador

March 7, 1980  
\_\_\_\_\_  
Date



MINISTERIO DE PLANIFICACION  
COORDINACION DEL DESARROLLO  
ECONOMICO Y SOCIAL

DECS No.17

ANNEX E

0695

San Salvador, 10 de marzo de 1980

Señor Charles Stockman  
Director USAID/El Salvador  
Embajada Americana  
Presente.

Estimado señor Stockman:

Por este medio, el Gobierno de El Salvador solicita a la Agencia para el Desarrollo Internacional (AID) una cooperación financiera que comprende de lo siguiente:

- 1.- Un préstamo por \$ 10 millones en los términos más favorables que ofrece la AID.
- 2.- Garantía sobre un préstamo de \$ 15 millones que el Gobierno obtendrá de un Inversionista de los EE.UU.
- 3.- Una cooperación económica no reembolsable por \$ 950.000.

Estos recursos se destinarán a financiar parte de los costos de un Programa de Mejoramiento de Comunidades Marginales cuyo costo total se estima en \$ 31.950.000. El Gobierno de El Salvador se compromete a proporcionar una contrapartida en efectivo y en especies de \$ 6 millones.

El prestatario de los fondos de la AID, será el Ministerio de Planificación. La canalización de los fondos del inversionista privado se hará por medio del Banco Central de Reserva.

Aprovecho la oportunidad para saludarlo atentamente,



DIOS, UNION Y LIBERTAD

Roberto Salazar Candell  
Ministro.

## PROJECT AUTHORIZATION

Name of Country: El Salvador  
Name of Project: Marginal Community Improvement  
Number of Projects: 519-0251

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Marginal Community Improvement project for El Salvador (the "Cooperating Country") involving planned obligations of not to exceed Ten Million United States Dollars (\$10,000,000) in loan funds ("Loan") and Nine Hundred Fifty Thousand United States Dollars (\$950,000) in grant funds ("Grant") over a two year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OY/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The project ("Project") will assist the Cooperating Country to meet immediate needs for community infrastructure, minimum shelter and productive opportunities for the poor and improve the Cooperating Country's capacity to address basic needs of the poor in secondary cities in a comprehensive and coordinated manner.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and major conditions together with such other terms and conditions as A.I.D. may deem appropriate:

a. Interest Rate and Terms of Repayment

The Cooperating Country shall repay the Loan to A.I.D. in U.S. Dollars within twenty-five (25) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. Dollars interest from the date of first disbursement of the Loan at the rate of (i) two percent (2%) per annum during the first ten (10) years, and (ii) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

b. Source and Origin of Goods and Services (Loan)

Goods and services, except for ocean shipping, financed by A.I.D. under the Loan shall have their source and origin in countries included in A.I.D. Geographic Code 941, or in countries that are members of the Central American Common

-2-

Market, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Loan shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States or of countries that are members of the Central American Common Market.

c. Source and Origin of Goods and Services (Grant)

Goods and services, except for ocean shipping, financed by A.I.D. under the Grant shall have their source and origin in the United States and countries that are members of the Central American Common Market, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

d. Condition Precedent to First Disbursement for other than Technical Assistance (Loan)

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance other than technical assistance, the Cooperating Country shall furnish to A.I.D., in form and substance satisfactory to A.I.D. evidence that a full-time Project Coordination Unit has been established and staffed.

e. Condition Precedent to Disbursement for Community Basic Services Activities (Loan)

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance community basic services activities, the Cooperating Country shall furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that the Ministry of Interior has made adequate progress in providing DIDECO with sufficient administrative authority to efficiently carry out the community basic services activities. The evidence shall include a signed contract for advisory services to DIDECO in implementing improved purchasing, cash control and internal auditing procedures.

f. Condition Precedent to Disbursement for Small Enterprise Activities (Loan)

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance small enterprise activities, the Cooperating Country shall furnish to A.I.D., in form and substance satisfactory to A.I.D., a Project Credit Manual containing detailed lending criteria, procedures, interest rate structures and such other information as A.I.D. may require with respect to any and all lending institutions participating in the Project.

g. Covenants

The Cooperating Country shall covenant that:

-3-

(1) Only the Central Reserve Bank will act as Administrator of the A.L.D. funds made available pursuant to the Project Agreement.

(2) The Cooperating Country will pay all banking charges to the Central Reserve Bank from non-Project resources, and that all interest earned by the Central Reserve Bank through use of A.L.D. funds will be used entirely for purposes of the Project in accordance with the priorities established by the Cooperating Country.

(3) Counterpart contributions or other resources will be utilized to finance land purchases, if any, and that A.L.D. funds will not be used for said purposes.

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Administrator

---

Date



THE ADMINISTRATOR

GUARANTY AUTHORIZATION

PROJECT 519-HG-006(I)

Provided From: Housing Guaranty Authority  
TO : Government of El Salvador  
For : Marginal Community Improvement

Pursuant to the authority vested in the Administrator, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed nine million five hundred thousand dollars (\$9,500,000) in face amount, for Phase I activities assuring against losses of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans by eligible U.S. investors ("investor") acceptable to A.I.D. made to finance marginal community improvement projects ("Project") in El Salvador. I approve the total level of not to exceed \$15 million in A.I.D. guaranty support for the Project. Issuance of guaranties for Phase II of the project in the amount of \$5.5 million shall be subject to the conditions set forth under paragraph 5, below.

This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loan shall extend for a period of up to thirty years (30) from the date of disbursement and may include a grace period of up to ten years on repayment of principal. The guaranty of the loan shall extend for a period beginning with the first disbursement of the loan and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loan.
2. Interest Rate: The rate of interest payable to the Investor pursuant to the loan shall not exceed the allowable rate of interest prescribed pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans made in the long term United States capital markets.
3. Government of El Salvador Guaranty: The Government of El Salvador (GOES) shall provide for a full faith and credit guaranty indemnifying A.I.D. in United States dollars assuring against all losses arising by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable by Borrower in dollars and shall be one-half percent (1/2%) per annum of the outstanding guaranteed amount of the loan plus a fixed amount equal to one percent (1%) of the amount of the loan authorized, or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loan.
  
5. Conditions Precedent: Prior to the issuance of guaranties for carrying out Phase II of the project, and except as A.I.D. may otherwise agree, the Borrower shall assure completion of the following in form and substance satisfactory to A.I.D.:
  - (a) GOES has achieved the outputs specified under the Planning for Phase II activity (Establish Secondary Cities Program Unit; Develop HUD Program).
  - (b) IVU has prepared designs for new shelter solutions to be built in secondary cities.
  - (c) HUD has completed overall shelter needs studies for at least two secondary cities.
  - (d) HUD has developed shelter sector coordinating and monitoring procedures.
  - (e) HUD has developed minimum urbanization standards and site legalization policies and procedures for secondary cities.
  - (f) GOES has adopted a consistent interest rate structure for financing of new shelter solutions and home improvements. This structure should be based on unsubsidized interest rates, cover all GOES housing institutions that will participate in Phase II activities, and provide for rate equalization between loans in the SSMA and secondary cities.
  
6. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

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Administrator

---

Date

COMMUNITY INFRASTRUCTURE DEMAND IN URBAN AREAS  
OUTSIDE OF THE METROPOLITAN AREA

<u>Activity/Total Population</u> <sup>*/</sup>				<u>Estimated Cost</u>
				<u>thousands</u>
1. <u>Water:</u> 205,096	X	45% (unserved)	X \$96 (Avg. cost)=	\$8,860
2. <u>Waste disposal:</u> 205,096	X	60% (unserved)	X \$52 (Avg. cost)=	\$6,399
3. <u>Public Lighting:</u> 205,096	X	35% (unserved)	X \$12 (Avg. cost)=	\$ 861
4. <u>Drainage:</u>	X	60% (unserved)	\$36 (Avg. cost)=	\$4,430
5. <u>Access Road:</u>	X	50% (unserved)	\$78 (Avg. cost)=	\$7,999
Total Infrastructure Demand =				\$ 28,549,000
Average Infrastructure Cost Per Household (all services)=				\$ 274

\*/ Estimated urban population outside of SSMA.

Note: Bulk Annex (located in LAC/DR and USAID) includes further information on demand, both outside and inside the SSMA. The major bulk documents are: 1) Proyectos de Promoción Avanzada; and 2) Mejoramiento de Comunidades Marginales Listado de Proyectos.

## TECHNICAL ANALYSIS

### A. Phase I - Community Basic Services Activity

#### 1. DIDECO's Project Development Process

a. Project Request. DIDECO's process starts with a visit by one of its 48 promoters to assess infrastructure needs of a town or community. During this visit, meetings are held with townspeople and municipal officials. Community interest is expressed in the form of a letter to DIDECO from an "interest group" which manifests the need for the project, and the group's willingness to provide the labor to carry out and maintain the project.

b. Project Design and Approval. Upon receipt of the letter requesting assistance, a project design and cost estimate is prepared by DIDECO's regional engineering staff. If the project involves a water system, school or health facility or road and street upgrading, the project is cleared with the appropriate Ministry or Autonomous Agency. When these steps have been completed, the project is forwarded to the Ministry of the Interior for review and approval. **The average time needed to project approval is about 90 days.** After approval, control over the project returns to the regional office within whose area the project falls.

c. Materials Purchasing. At present, materials requisitions are prepared and sent to San Salvador for price quotations. Materials are ordered by the Ministry's purchasing office and sent to the regional office. They are transported to the project site by DIDECO or the Community along with whatever equipment is needed for project implementation. This process has proved unwieldy and will be improved at the outset of the project with the assistance of locally contracted advisers. The new system will involve ordering materials needed for most projects (e.g. cement, PVC pipe, reinforcing roads) in advance of specific project needs and storing them at DIDECO regional offices and/or regional MOP warehouses. As needed, the materials will be delivered from these depots to the project sites and charged to the project when they leave the depots. Materials not stockpiled will be purchased in the towns where regional headquarters are located. If unavailable in those towns, requisitions will be sent to San Salvador as is done at present. However, in a departure from present practice, DIDECO will do its own central purchasing, instead of relying, as at present, on the Ministry's purchasing office. To ensure adequate control, the Ministry will develop an internal auditing staff to continuously review DIDECO's purchasing procedures and practices on an ex-post facto basis. Contract advisers will be employed

to design an improved materials purchasing system, an internal auditing system and a cost control system and to train personnel in the implementation of each new system. This process is expected to take no more than 3 months. Until these systems are in place, present practices will be followed to avoid unnecessary delays in project implementation.

d. Equipment. DIDECO's equipment at present consists mainly of cars, trucks, buses and motorcycles. Given the nature of the projects it supports no heavy equipment is needed. This of course, helps to ensure that labor intensive construction techniques will be used.

Loan funds (\$10,000) will be used to purchase a few pieces of small equipment that are needed in view of the increased volume of activity. This equipment includes: 8 vibrators, 4 small pumps, four small portable concrete mixers, and 4 copy machines for architectural plans. No major pieces of new equipment will be loan financed. As the construction industry is expected to be in the doldrums over the next 1-2 years, it should not be difficult to rent major equipment, if and when needed, at attractive rates.

e. Labor and Supervision. Unskilled labor will be drawn from the community that benefits from the project. Up until now, DIDECO has required the community to provide voluntary labor for all projects and has provided food from the World Food Program when it is available.

Under this project, DIDECO will institute a new policy of payment of wages for labor provided by community members. Cash handling and control procedures will be designed by the consultants advising on improved procurement and auditing. This policy will apply to projects financed both with loan and counterpart funds. Since counterpart funds will consist of DIDECO's entire project budget (currently about \$1 million/year), it is clear that this is a change in GOES policy, not just a special arrangement for this project. The payment of wages will offset what is expected to be a serious decline in off farm employment until the political situation stabilizes, as the modern sector farms, which now absorb underutilized rural labor, are expected to decrease their plantings over the coming 1-2 years.

Skilled labor and project supervision will be provided from the ranks of the approximately 400 construction foremen (maestros de obra) and skilled laborers on DIDECO's non-permanent payroll (planilla). At present, this personnel is greatly underutilized, and can be mobilized in a short period of time. Supervision will be provided from among the 26 engineers and technicians assigned to DIDECO's four regional offices.

The existing staff of supervisors, project designers, construction foremen and skilled laborers may not be sufficiently large (despite their present underutilization, which DIDECO officials have estimated at more than 50%) to carry out the program. To ensure a timely and flexible response to shortages in these areas, part of the budget for this activity has been set aside to permit contracting additional personnel as needed for specific projects. As formal contracting procedures involve complex and time consuming bureaucratic steps it has been agreed that these personnel will be added to the non-permanent payroll (planilla) as at present, and let go as soon as the project(s) on which they work is (are) completed. To ensure best use of loan funds and encourage better use of GOES funds, reimbursement for these personnel will be limited to 10% of the cost of each project. GOES will be responsible for paying any additional such costs from its administrative (not project) budget.

f. Project Acceptance and Maintenance. When the project is complete, there is a formal ceremony in which the community accepts the project and pledges to maintain it. DIDECO contends that maintenance of its projects has been good because the people of the communities are proud to have accomplished the project and regard it as their own. DIDECO has further agreed to consider maintenance of previously completed projects as one of the criteria for determining whether to provide additional assistance to each community.

## 2. Design and Costing Standards and Procedures

Mission Engineers have reviewed some typical projects as a basis for assessing the technical soundness of DIDECO's design work. Basic project designs are simple. When necessary they will be developed with the assistance of the Ministry of Public Works, DUA, and ANDA, all of which have the capability of providing the necessary technical assistance. In general all the types of projects to be considered under this portion of the loan are of standard designs which DIDECO has full capability of carrying out. The structures build by DIDECO in the past have proven to be both simple and inexpensive.

Cost estimates of proposed projects are based on data developed by DIDECO from earlier projects and updated cost figures, taking into consideration the past two years' inflation. A 20% inflation cost has been provided to account for increases in material costs and 10% for increases in labor costs. This inflation figure for materials is deemed adequate since all materials (e.g., clay brick, concrete block, cement, rock, reinforcement steel, etc.) will be purchased locally. The allowance for inflation is within the percentages experienced in the last 3 years.

DIDECO will be in charge of the final design and supervision of construction of all AID financed projects. Implementation will follow the same design and construction standards used in prior GOES funded projects. Designs and cost estimates for typical projects are available in LAC/DR files.

B. New Shelter Solutions (Phase I and Phase II)

1. IVU Home Buyer Selection Procedures

IVU maintains a large roster of low-income mortgage candidates, presently 8,000. This large number of mortgage applications results from IVU's image as the housing finance institution with the most available capital and the best terms for families with incomes below \$240 per month. The AID/HG project will not, therefore, have to develop a roster of eligible candidates. During previous periods when this roster was not as large, IVU successfully identified potential low-income families through the Office of the Mayor of San Salvador and municipal governments in the secondary cities. IVU does not operate branch offices to solicit applications nor does it regularly advertise. This roster system, therefore, generates volume but does not necessarily tap a significant component of the market of candidates.

IVU maintains a computerized candidate qualifications system. This system is based on a questionnaire in which the candidate must score at least 65% to qualify in terms of satisfying minimum income, savings account, and residential requirements developed by IVU (e.g, mortgage payments must not exceed 20% of the family income). The evaluation process appears to be comprehensive and well organized. The process of determining whether a candidate qualifies for a loan, from submission of the application to final approval or rejection, has been taking four to six months.

2. Improvement of Operating Procedures

To implement the project, IVU will undertake the following adjustments to its operating procedures and production standards:

- Create a department of production, independent of the existing organization structure such that it will have direct access to the presidency. This department will design and execute the project outlined for Phase I.

- Adapt and conform the standards and specifications commonly accepted by FUNDASAL, ANDA, DUA, and other agencies that in one way or another may get involved in the project as best corresponds to the project's cost requirements.
- Eliminate the obstacles which preclude a quick contracting process.
- Review the inventory of loan applications, setting priorities and attracting new applicants as necessary.
- Identify the areas of priority and those sites which are already IVU property outside the SSMA for future development under Phase II of this program.
- Plan development of the site of the Phase I project, to eliminate any superposition of priorities or any activity which may jeopardize the timely beginning of this project.
- Begin project scheduling with a view toward production levels of 100 units a month, coordinating this with normal production activities and future commitments with other international agencies.
- Hire and prepare the technicians who will undertake operations in both phases of the project. This will require a staffing budget of about \$236,000 annually.
- Obtain and maintain the maximum degree of government support at the ministerial level.
- Contract as many small contracts as necessary.

3. Site Selection and Cost (Phase I)

IVU has identified a large site which is available for the Project. Figure 1 shows its location in the SSMA.

Two alternative designs for the new shelter units to be developed by IVU were analyzed as follows:

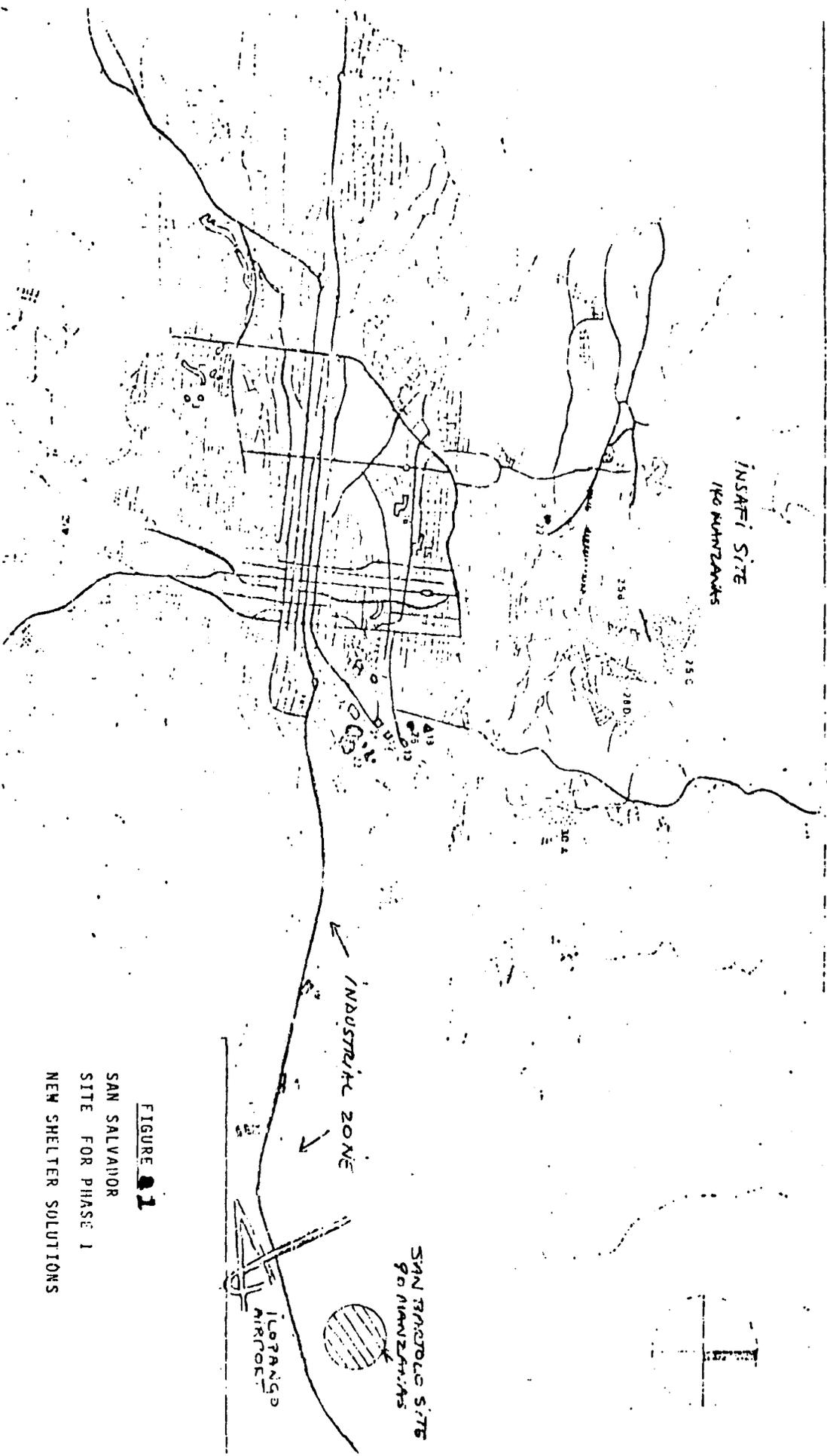


FIGURE 1

SAN SALVADOR  
 SITE FOR PHASE 1  
 NEW SHELTER SOLUTIONS

PHASE I: NEW SHELTER ALTERNATIVES

ALTERNATIVE B. (See Figure 3B)

1. INFRASTRUCTURE

- Terrain 60 m<sup>2</sup> (120 m<sup>2</sup> undeveloped)
- Access - Road, passages (stone paved) and storm drainage (Concrete rubble ditch)
- Grading (earthwork)
- Water line (including house connection) 3" Ø PVC pipe and ½ " Ø PVC pipe
- Sanitary sewer (including house connection) 8" Ø Concrete pipe and 6" Concrete pipe
- Public lighting - 1 lamp each 50 m of street

2. LOT IMPROVEMENT

- Floors ( including foundations) - concrete slab
- Walls (including structure) - concrete panel, concrete blocks, reinforced concrete
- Water and Sanitary (including plumbing) - ½ Ø PVC pipe and 6" concrete pipe
- Door/Windows - wooden frame with galvanized sheet cover
- Roof - ashesto cement corrugated sheet
- Lighting - 1 convenience outlet, 1 socket
- Water well

ALTERNATIVE A. (See Figure 3A)

1. INFRASTRUCTURE

- Terrain 60 m<sup>2</sup> (120 m<sup>2</sup> undeveloped)
- Access - Road, passages. (concrete blocks, stone paved) and storm drainage (concrete rubble ditch)
- Grading - (earthwork)
- Water line (including house connection) 3" Ø PVC pipe and ½" Ø PVC pipe
- Sanitary sewer (including house connection) 8" Ø Concrete pipe and 6" Ø Concrete pipe
- Public lighting - 1 lamp each 50 m of street.

2. LOT IMPROVEMENT

Complete bathroom (including all fixtures, cover and plumbing)

3. COST ESTIMATES - NEW SHELTER ALTERNATIVE B. (See Figure 3B)

a. INFRASTRUCTURE (as per Alternative A) ₺2,200.0

b. HOUSE IMPROVEMENT

Bathroom a) Plumbing Fixtures ₺ 500.

b) Cover (Floor, Walls,  
Roof, etc.)

2.25 m<sup>2</sup> @ ₺150 m<sup>2</sup> ₺ 337.5 887.5

TOTAL ₺ 3,087.50 ₺3,087.50

With Contingencies 10% 3,396.

With Design 10% 3,736.

With High Cost  
Materials 5% 3,923.

Lot: From Figure 3A 1,200.

₺ 5,123

47

₺ 5,170 = \$2,068 U.S.

PHASE I

Cost Estimates - New Shelter Alternative (See Figure 3A)

San Bartolo Lot Area = 120 m<sup>2</sup> Developed Lot (50% Development).

1. Infrastructure (In El Salvadorean ¢ Colones)\*

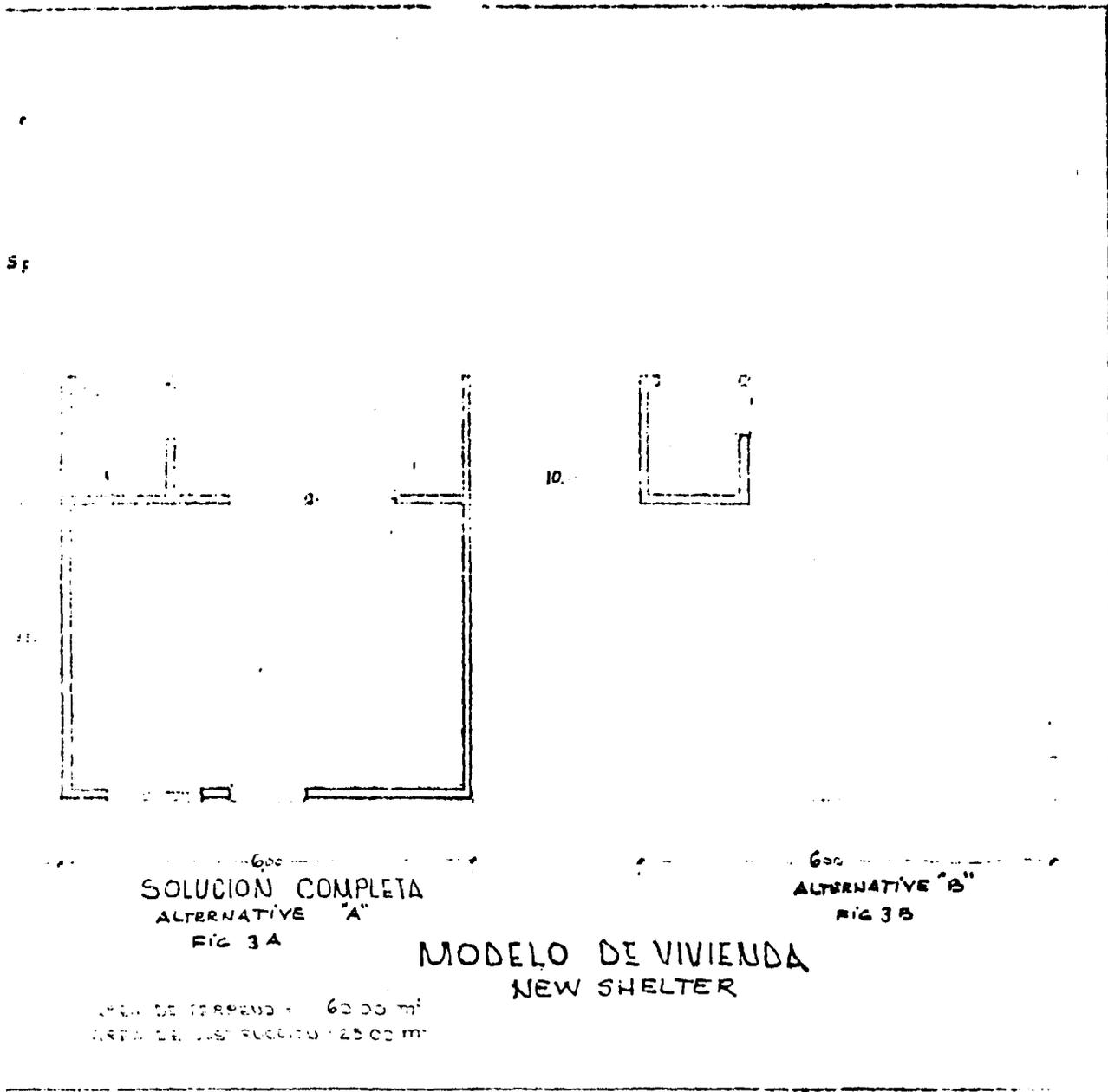
a.	Lot 120 m <sup>2</sup> at ¢10	¢ 1,200.00**
b.	Access - Passages 80 m <sup>2</sup> x ¢2.5/m <sup>2</sup>	200.00
c.	Road ditch 80 m <sup>2</sup> x ¢2.5/m <sup>2</sup>	200.00
d.	Pavement - compacted blocks 80 m <sup>2</sup> x ¢3.0/m <sup>2</sup>	240.00
e.	Storm drainage - pipe 80 m <sup>2</sup> x ¢3.00/m <sup>2</sup>	240.00
f.	Water - main and HSE conn 80 m <sup>2</sup> x ¢6.0/m <sup>2</sup>	480.00
g.	Sewer (san) main and HSE conn 80 m <sup>2</sup> x ¢5.0/m <sup>2</sup>	400.00
h.	Public lighting 80 m <sup>2</sup> x ¢2.0/m <sup>2</sup>	160.00
i.	Fire protection 80m <sup>2</sup> x ¢1.0/m <sup>2</sup>	80.00
j.	Topography 80 m <sup>2</sup> x ¢1.0/m <sup>2</sup>	80.00
k.	Water well	120.00
	Sub Total	<u>¢ 2,200.00</u>

2. Core Unit

a.	Grading 25 m <sup>2</sup> x ¢3.0/m <sup>2</sup>	¢ 75.00
b.	Foundations 25 m <sup>2</sup> x ¢3.0/m <sup>2</sup>	75.00
c.	Floor 25 m <sup>2</sup> x ¢11.0/m <sup>2</sup>	275.00
d.	Structure 25 m <sup>2</sup> x ¢46.0/m <sup>2</sup>	1,150.00
e.	Walls 25 m <sup>2</sup> x ¢52.0/m <sup>2</sup>	1,300.00
f.	Doors - windows 25 m <sup>2</sup> x ¢15.0/m <sup>2</sup>	375.00
g.	Bathroom: and laundry (fixtures) 25 m <sup>2</sup> x ¢15.0/m <sup>2</sup>	375.00
h.	Water line: plumbing 25 m <sup>2</sup> x ¢3.0/m <sup>2</sup>	75.00
i.	San line: plumbing 25 m <sup>2</sup> x ¢2.0/m <sup>2</sup>	50.00
j.	Roof 25 m <sup>2</sup> x ¢30.0/m <sup>2</sup>	750.00
k.	Light (electrical) 25 m <sup>2</sup> x ¢10.0/m <sup>2</sup>	250.00
l.	Leadwalk 25 m <sup>2</sup> x ¢10.0/m <sup>2</sup>	250.00
	Sub Total	<u>¢ 5,000.00</u>

Total (ex. Land)	¢ 7,200
With 10% Contingency	7,920
With 10% Engineering & Design	8,712
With 5% High cost	9,148
* Lot	<u>1,200</u>
	¢10,348
Legal (Assumed)	<u>52</u>
	¢10,400

\*\$1.00 U.S. = ¢2.50 El Salvadorean ¢ Colones



## PHASE II: NEW SHELTER FOR SECONDARY CITIES (See Figures 4,5,6)

The main objective of this program is to extend the housing improvement program to low-income populations residing outside San Salvador. This low-income segment of the population has been neglected in the past. Three alternatives are being proposed, in order to provide a wider economic scope of possibilities--beginning with the bare lot, and minimum public facilities, and proceeding to more complete infrastructure, which can service lots with a complete minimum size house.

The design of the infrastructure and housing is based on minimum standards of ANPA, DCA, CAESS, FUNDASAL, and other government agencies. Some modifications have been made to reach the lower end of household income scales and to provide for future improvements. The materials proposed will be durable and structurally sound, easy to obtain in the area, and comply with the national standards set for this type of development.

In order to simplify the cost analysis, a colony of approximately 200 families was being designed. Each site will have a main street for convenient vehicular traffic, with off-set passages, linking pedestrian circulation to the main road. Blocks of approximately 100 units are proposed at both sides of the main road, making a symmetric distribution of lots. Cost estimates are provided on sheets

Concentration of four bathrooms (latrines) at common corners of four lots are proposed to achieve lower cost of water and sewer connections. Lot size is 140 m<sup>2</sup>.

### A. PHYSICAL COMPONENTS

#### ALTERNATIVE "A" (See Figure 5)

##### 1. Infrastructure Improvements

- Unpaved street & passages (Minimum grading)
- Concrete rubble ditches at street and passages
- 2" PVC water main and 1" stand pipe with valve.
- Public lighting (one lamp every 60m approximately).

##### 2. Lot Improvement See Figure 4 (Alternative "A")

- 140 m<sup>2</sup> terrain
- Individual covered latrine

ALTERNATIVE "B" (See Figure 6)

1. Infrastructure Improvements

- Paved road for the main street
- Concrete paved passages
- 2" PVC pipe extended to all lots
- 8" Concrete sanitary sewer pipe extended to all lots
- Water connections (6"  $\emptyset$  pipe serving 4 houses)
- Public lighting (one lamp every 65m approximately)

2. Improvement (See Figure 4 (Alternative "B"))

- 140 m<sup>2</sup> terrain
- Bathroom and laundry (including W.C., shower, laundry tub and plumbing)

ALTERNATIVE "C"

1. Infrastructure Improvement

- Paved road for main street
- Concrete paved passages
- Concrete rubble ditches at Road and passages
- 2" PVC water pipe extended to all lots
- 8" Concrete sanitary sewer pipe extended to all lots
- Water connection (3/4"  $\emptyset$  pipe serving 4 houses)
- Sanitary sewer connection (6"  $\emptyset$  pipe serving 4 houses)
- Public lighting (one lamp every 65 m approximately)

2. Improvement See Figure 4 (Alternative "C")

- 140 m<sup>2</sup> terrain
- Foundation and floors (concrete)
- Structures (reinforced concrete)
- Walls (concrete blocks or reinforced concrete panels)
- Roof (corrugated asbestos-cement sheet)
- Doors, windows (wood framing with galvanized sheet metal cover)
- Bathroom and laundry fixtures (including W.C., shower, laundry, and kitchen sink and plumbing)
- Electrical-one wall convenience outlet; one ceiling socket

Assumptions

- Development is based on 70% of usable area.
- Water main is provided by ANDA to the property limits.
- Sanitary sewer is provided by ANDA to property limits or dumped at the nearest existent water course.
- Cost for water or sanitary connections are  $\text{¢}205$  &  $\text{¢}85$  respectively.
- Unit costs are the same as those for San Salvador due to extra cost of transportation.

B. COST ANALYSIS

(El Salvadorean ₡ Colones)

ALTERNATIVE "A"

• Terrain	₡ 1000
• Access	130
• Lot Grading	25
• Water	55
• Sanitary Sewer	20
• Public lighting	20
SUBTOTAL	<u>₡1450</u>
With 10% Contingencies	1395
With 10% Engineering - Design	1755
With 5% Extra cost material	1842
Legal	58
	<u>₡1900 = \$760 U.S.</u>

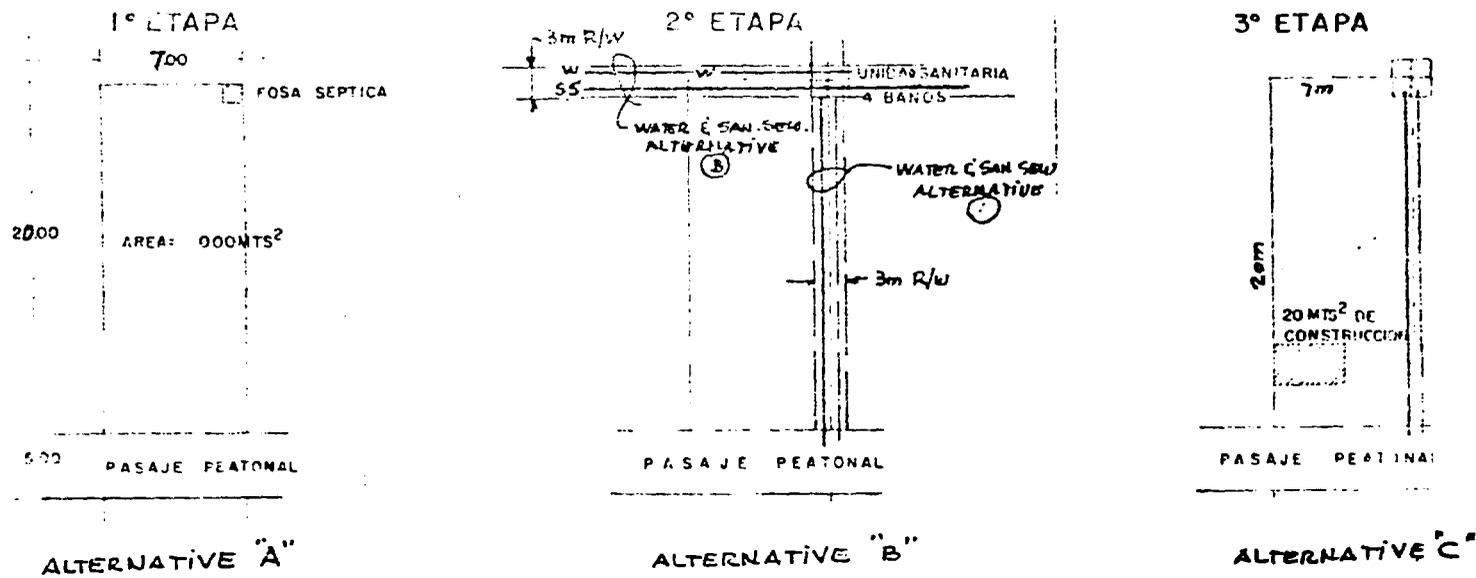
ALTERNATIVE "B"

• Terrain	₡ 1000
• Access	245
• Lot Grading	25
• Water	165
• Sanitary Sewer	745
• Public lighting	20
SUBTOTAL	<u>₡2200</u>
With 10% Contingencies	2420
With 10% Engineering - Design	2662
With 5% Extra cost material	2795
Legal	55
	<u>₡2850 = \$1140 U.S.</u>

ALTERNATIVE "C"

• Terrain	₡ 1000
• Access	245
• Lot Grading	25
• Water	165
• Sanitary Sewer	850
• Public lighting	220
• Lot Improvement - House	323
SUBTOTAL	<u>₡5718</u>
With 10% Contingencies	6290
With 10% Engineering - Design	6919
With 5% Extra cost material	86
	<u>₡7350 = \$2940 U.S.</u>

# MODELO DE ASENTAMIENTO PROGRESIVO



## PHASE II NEW SHELTER FOR SECONDARY CITIES

FIGURE 4.

ALTERNATIVA 7 DE DISTRIBUCION DOMICILIAR DE INFRAESTRUCTURA

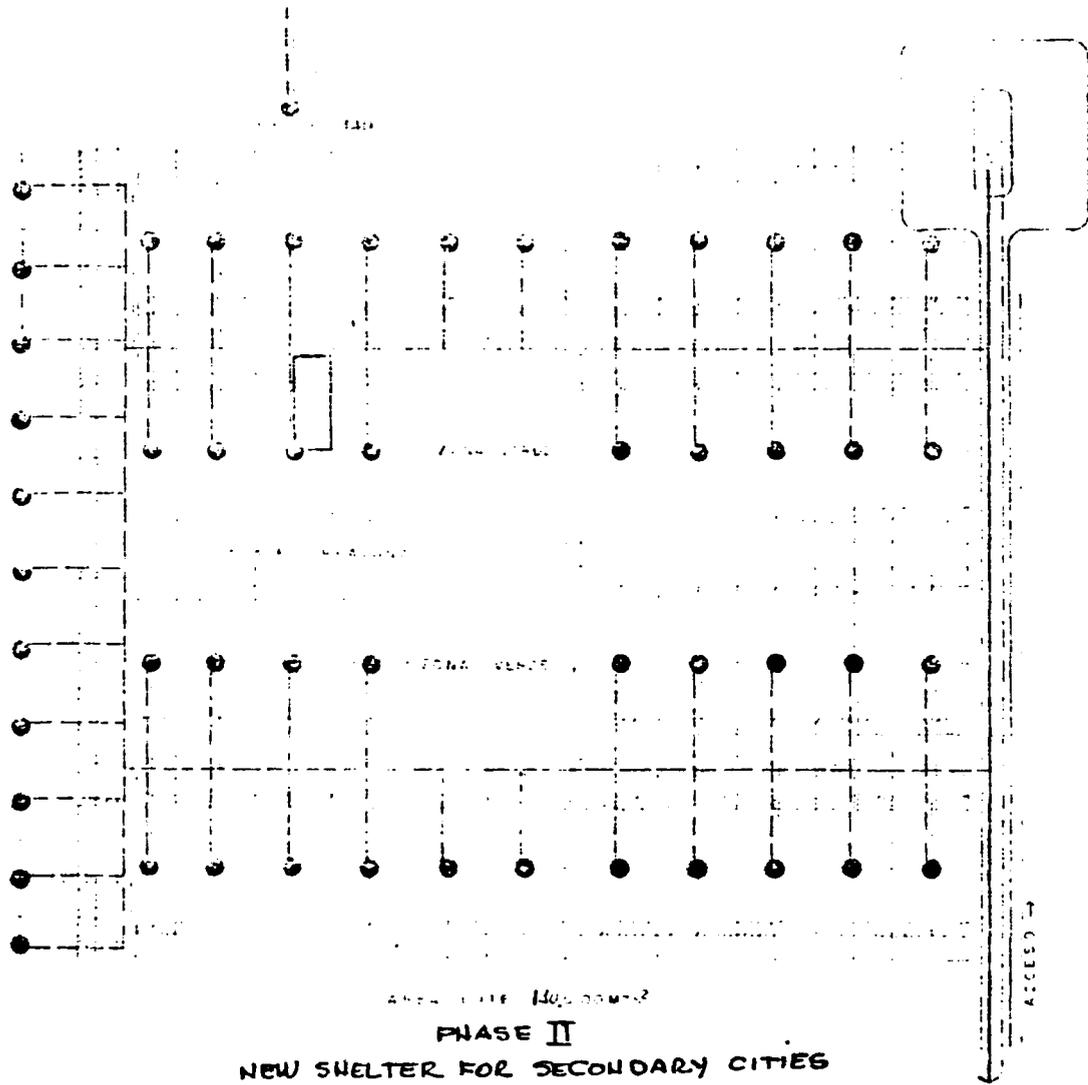
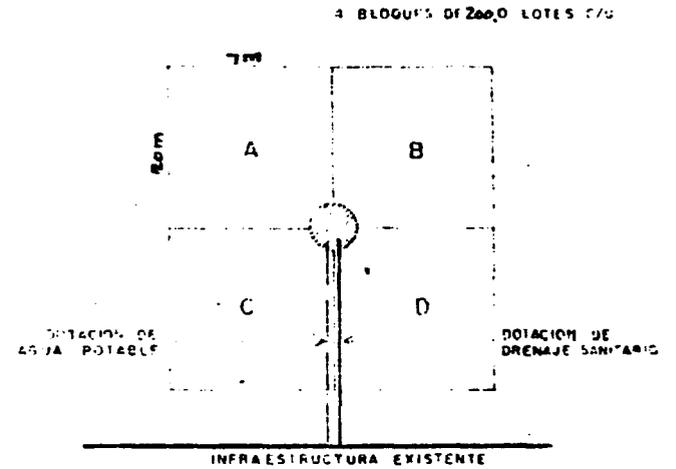


FIG 5



1º ETAPA

- AGUA POTABLE COMUNAL
- DOTACION CALCULADA PARA DAR SERVICIO A LOS 4 BLOQUES
- RED DE DRENAJE SANITARIO COMUNAL
- FOSA SEPTICA O FUTURO BAÑO

2º ETAPA

- AGUA POTABLE DOMICILIAR
- DOTACION DE DRENAJE SANITARIO DOMICILIAR

3º ETAPA

- ▭ VIVIENDA

ALTERNATIVA (B) DE DISTRIBUCION DOMICILIAR DE INFRAESTRUCTURA

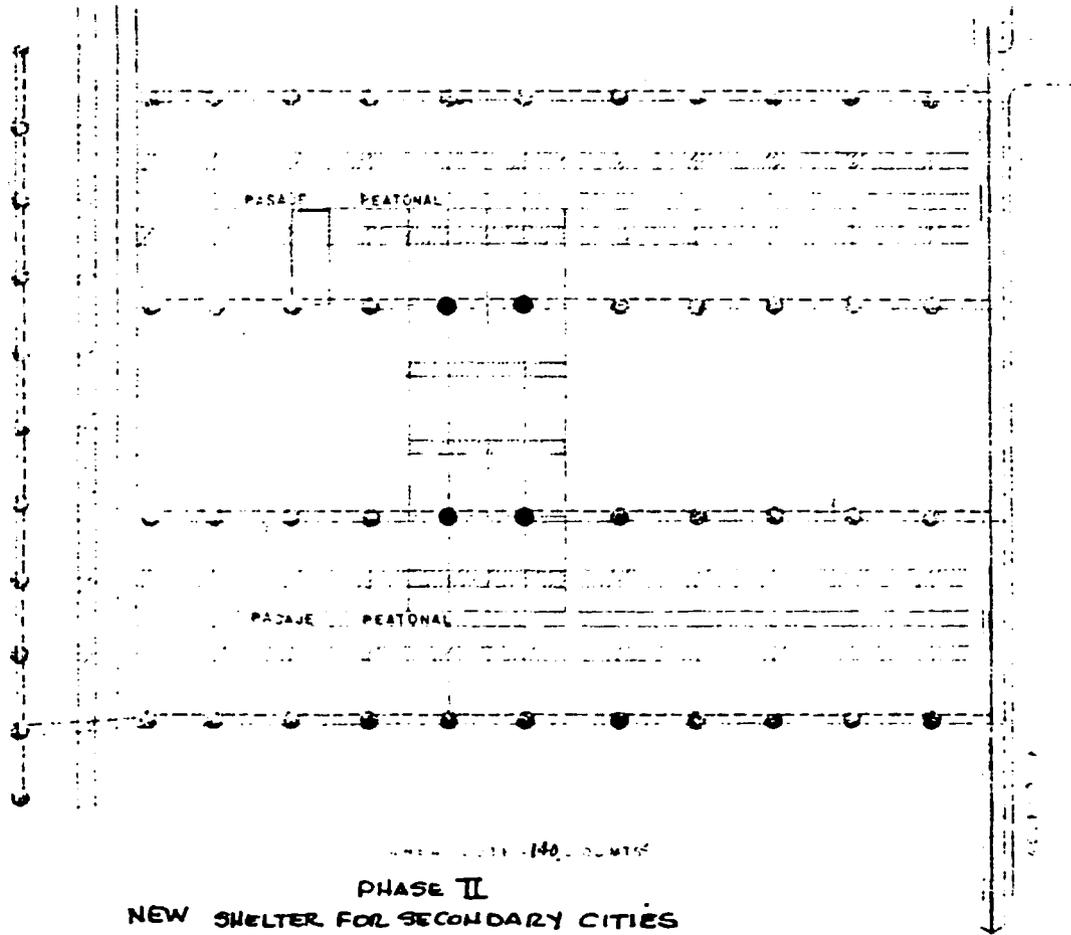
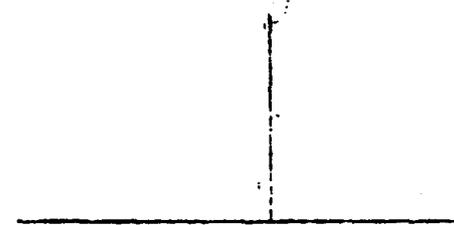


FIG 6



1º ETAPA

- - - - - CARRILLO DE TERRELLER

2º ETAPA

- - - - - CARRILLO DE TERRELLER

3º ETAPA

- - - - - CARRILLO DE TERRELLER

C. Home Improvements

1. Operational Description

Assuming FEDECACES and FEDECCREDITO are the only implementing agencies, implementation is expected to proceed as follows:

a. Promotion. There will be several channels through which news on the availability of loan funds will reach the target group. For those who have business to transact at the local caja or agencia, signs and hand-outs will be used to provide information (with pictures to encourage those who don't read to ask for information). In addition, a short training course will be held for DIDECO promoters and CENTA extensionists to acquaint them with the program, train them in preparing information needed for a loan application, and encourage them to spread the word in the communities they cover. The promoters/extensionists will also be trained in formation of solidarity groups among individuals who express interest in obtaining home loans.

b. Loan Applications. Interested individuals and groups will apply for loans at any of the approximately 55 credit unions and cajas located throughout the country (excluding FEDECCREDITO cajas in the Northwest region). They may apply directly or with the assistance of a DIDECO promoter or CENTA extensionist. All applications will include a sketch of the improvements to be made and an estimated budget.

c. Loan Approval and Disbursement to the Borrower. These activities will be carried out in accordance with the present policies and procedures of the implementing institution. These procedures were analyzed in the Small Producer Development PP and were found acceptable to AID. There will be one small addition to these procedures. A responsible official of the institution, who is also knowledgeable about construction, will review the sketch plan and budget for accuracy prior to loan approval. If the proposed improvements merit it, the institution may require that the services of a building foreman be obtained to supervise construction. This is expected to happen very infrequently.

d. Construction and Certification. The borrowers are expected to obtain their own materials and do their own construction in almost all cases. When the work is completed, a certification that the work has been completed will be prepared by the local credit union or caja. These organizations will arrange to have responsible official or representative inspect the work and sign the certification.

## 2. Design Standards and Typical Costs

Typical improvements have been considered. These are responsive to the needs of the target group and would seek to:

- Improve the lot by financing the cost of connecting to water, sewage, and drainage networks that might already exist or be provided as part of an upgrading effort.
- Improve the quality of existing housing units by financing the cost of a cement floor to replace a dirt floor, or the cost of a new roof or new walls.
- Permit small expansions of these same units as a measure to mitigate overcrowding.

A possible mix of activities is included in the text.

Home improvement programs will require coordination by institutions which are fully familiar with the nation's marginal neighborhoods. The EDURES study has already reviewed the character of these neighborhoods and their needs. Institutions like DIDECO, IVU, FEDECCREDITO, and FEDECACES will need to promote and monitor the program. Typical cost data is shown in Figure 2.

### D. Phase II Infrastructure (Basic Services)

The solution of the problems of infrastructure in marginal communities will be directed at urban areas, principally in the secondary cities during Phase II. Setting a basis for design and costs is complicated traditionally by the nature of the served communities. Their location, the limited or nonexistent urban planning, the high density, the inefficiency of the existing primary service systems (water and sewer), the lack of a city's economic capacity to minimize many of the negative environmental impacts, and the low income of the occupants call for more flexible standards and solutions unique for each area. The solutions proposed in this project, nevertheless, satisfy the minimum requirements approved by agencies familiar with this type of project, and at the same time deal with the immediate needs of each community.

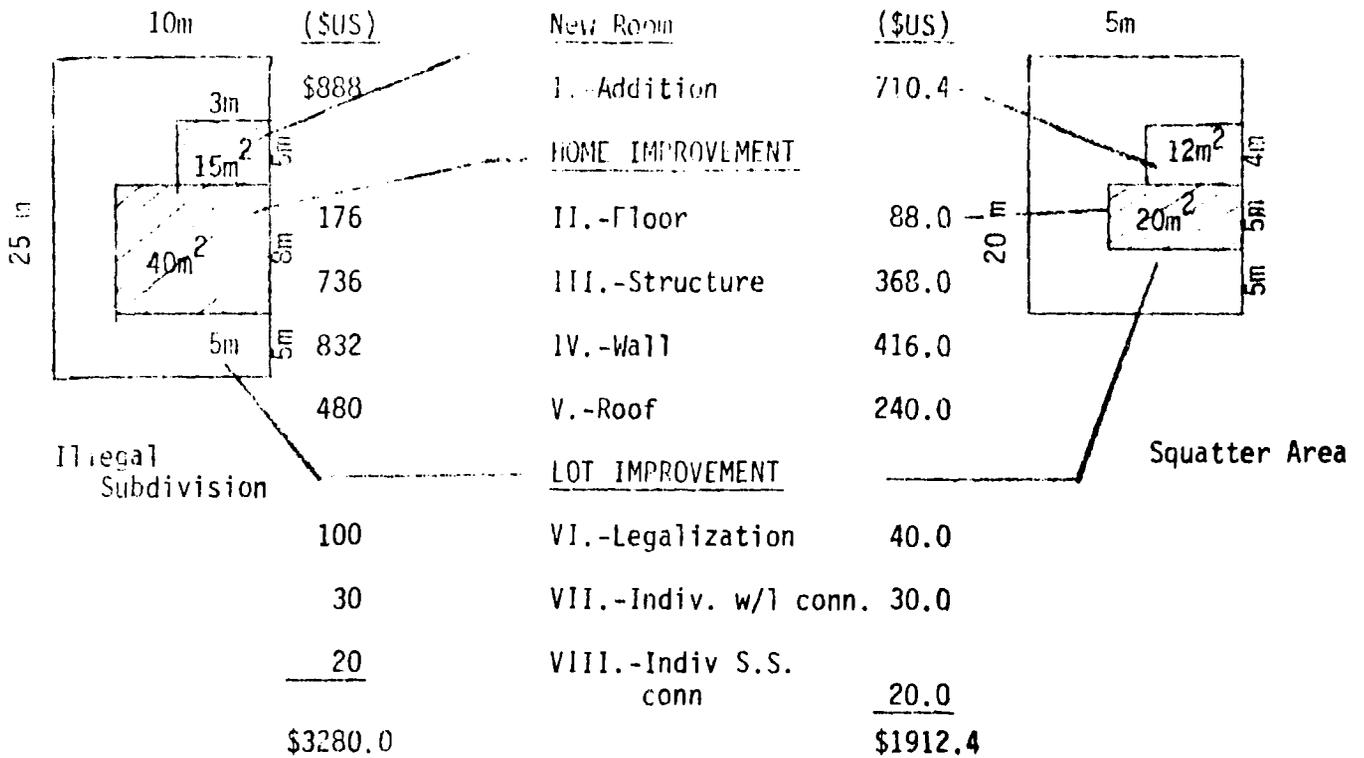
In order to set a pattern of improvements and costs, a hypothetical community of 200 families has been selected.

The improvements are based on the infrastructure and services recommended by the EDURES study in its final report, and will include:

- Improvement or construction of access roads and passages, earth work-grading only.

Figure 2: Typical Costs for Home Improvements

Using data on the average size of existing lots and dwelling units in squatter areas (tugurios) and illegal subdivisions (colonias ilegales) estimates were made of the cost of typical home improvements as follows (see Figure 7. below:



- Construction of a storm drainage system.
- Improvement or construction of water line and network.
- Construction of sanitary system -- public latrines.
- Installation of a street lighting network.
- Construction or improvement of community centers.
- Construction of trash receptacles.

Two alternatives are proposed, the difference being in the standard of finishing which is applied. Alternative A provides for dirt streets and walkways and public water and sewer facilities. Alternative B provides for pavement and individual lot connections.

COST ESTIMATE FOR A COMMUNITY OF 200 FAMILIES

Access road and passages	¢ 195
Pluvial Drainage	91
Water Line	240
Sanitary installations	130
Public Lighting	30
Community Center	40
Trash	10
	<hr/>
Sub-Total	756
With 10% contingencies	832
With 10% design costs	913
TOTAL COST per family with 5% possible increase in cost of materials	<u>¢ 960</u>
Cost for community of 200 families = 200 x 960 = ¢192,000 = <u><u>\$76,800</u></u>	

ALTERNATIVE B--HIGHER STANDARD

Access road and passages (paved)	393
Pluvial drainage	91
Water line with house connections	302
Sanitary sewer with house connections	160
Public lighting	30
Community center	40
Trash collection	10
Other improvements (retaining wall, etc.)	10
	<hr/>
Sub-Total	Ø1,036
With 10% contingencies	1,140
With 20% design costs	1,254
TOTAL COST per family with % increase in materials costs	<u>1,316</u>
Cost for colony of 200 families = 200 x 1,316 = Ø261,200 = <u>\$104,480</u>	

Plans and specifications are based on the minimum standards of DUA, ANDA, and CAESS, etc. Flexibility in the application of these specifications has been discussed, and with minor modifications will assure acceptance by the GOES agencies so as to expedite the project's execution.

Cost estimates are based on information obtained in IVU, ANDA, DUA, and from some contacts with private construction firms, which confirm the actualized costs provided by the EDURES study in 1978.

The design standards are in full agreement with the minimum requirement of community improvement of GOES agencies and projects in actual development in San Salvador and some secondary cites.

Construction material is available in San Salvador and other cities. The decrease in housing construction has created a surplus of material and costs have not increased at the same rate of inflation of other products.

Transportation costs have increased but did not affect seriously the cost of construction materials. Labor cost have not changed substantially in recent months, but can be expected to rise.

E. Small Enterprises Activity

1. Strengthening BFA/CENTA Institutional Capability

While the basic institutional structure of these institutions is capable of handling the increased workload, there are four minor tasks which will need to be carried out before the project can become fully operational.

a. A new form will have to be designed to reflect pertinent information for this kind of lending as well as serve the double function of collecting baseline data for doing impact evaluations, and being the actual loan application.

b. BFA, CENTA, and DIDECO field staff will need to receive orientation regarding the new credit line on such matters as: purpose and objective of the line; promotion, eligibility requirements, and loan terms; filling out the forms; the purpose and importance of the data; how to assess raw material supply, distance from markets, etc.

c. Special orientation and training will be needed for BFA agronomist field staff coordinators from all 27 offices regarding the credit line and special training in business feasibility analysis.

d. Hiring of two specialists in feasibility analysis to provide technical backstopping to agronomists and other field staff; review proposed loans; provide periodic formalized technical upgrading to CENTA extensionists; and provide periodic specific training to clients in their line of business, for example, in bee keeping, canning, etc.

## F. Environmental Concerns

### 1. Phase I

#### a. Home Improvement Loans

This activity should not cause adverse effects upon the environment. On the contrary, it should provide for healthier living environments for beneficiaries. Home improvement loans may be used by beneficiaries to improve their existing housing by enabling them to put in a new floor, solid walls, a new roof, the addition of an extra room, and/or provide the house with running water and sanitary sewage disposal. Such improvements should have positive impacts upon the living environment for beneficiaries.

Improvements would produce the following beneficial environmental impacts:

- The installation of household latrines and septic tanks would reduce the possibility of direct contamination to beneficiaries who would otherwise use the bare ground to deposit their feces.
- The construction of concrete floors, concrete block walls, corrugated metal roofs would eliminate dirt floors, impermanent walls, and straw covered roofs. As a result, wetness, physical insecurity, and unhealthy living environments would be reduced or eliminated.
- The construction of an extra room would eliminate the need for temporary family moves for future additions or modifications to enlarge a house to provide greater security for a family and a sense of good health and welfare for its members.
- Loans to legalize property title or for lot purchase would provide the means necessary for beneficiaries to acquire permanent satisfaction for making future improvements on their homes and properties.
- The provision of water would probably be the most important of home improvements. It would satisfy immediate cooking and washing needs and would promote positive impacts upon health habits and improve hygiene. Moreover, beneficiaries would not have to receive their water from contaminated sources nor buy it at outrageously high prices.

#### b. New Shelter

The construction of expandible core housing units would eliminate contamination of sub-soil because a complete bathroom is put in during the first phase and a complete house with bath is what would be the ultimate product of this process.

## 1. Beneficial Environmental Impacts

Besides the beneficial environmental impacts cited above that are generated by home improvement loans, the following positive impacts are produced by new shelter construction:

- Individual septic tanks and latrines would be replaced by community septic tanks thereby eliminating possible contamination of underground waters.
- Receipt of legal title would eliminate the uncertainty of one's ownership of a lot.
- Well laid out subdivisions that provide improved access to units within it and that include adequate space between housing units would reduce population densities such as those existing in illegal subdivisions and squatter settlements.
- The provision of sanitary sewer and water connections to expandable core unit construction and the provision of a bathroom would eliminate a health hazard for beneficiaries and improve living conditions. People would be able to live under improved environmental conditions.

## 11. Description of Site for Phase I New Shelter Construction

Two alternative sites were considered for development and location of Phase I new shelter units. The first site and the one selected for development is the San Bartolo site located near San Salvador's old airport which is located some 12 kilometers from the center of the city. The alternative site is land belonging to the Ministry of Finance which would require costly earth moving to develop it because of hilly terrain that includes slopes over 15%. The selected site is not likely to have any adverse environmental impact.

The selected site has the following characteristics:

- Flat topography with gentle slopes. No part of the site includes slopes of more than 10%.
- Minimal earth moving would be required.
- Maximum site development potentialities. 90% of the site could be developed for urban purposes. The site could easily meet the standard that it be developed 60% for housing units and 40% left for roadways and open space.
- Easy access - approximately only 150 meters - from a main highway which offers frequent bus service.

- Is adjacent to an extensive industrialized area that could offer potential work places for residents.
- Trunk lines for water and sanitary sewers are in place on the site . This would make connecting them up easy with new housing units at minimal cost. (Only possibly one small part of the site would be difficult to be connected up to a gravity system for sewage disposal.)
- The site belongs to IVU and has been designated for new shelter development. This site is near other areas being developed by IVU for units costing approximately \$18,000 (colones). (\$10,000 units are being developed for this project.) Proximity to the above developments would be a favorable influence upon this project.
- Between the main highway and the boundaries of the project site, there is a factory that produces pre-stressed concrete units. It produces concrete panels that IVU is using successfully in another housing project of some 400 units of new construction.

## 2. Phase II

Sites for this phase still must be determined. The following types of urban development activities are proposed during Phase II:

1. Community infrastructure;
2. Home improvements;
3. Site legalizations; and
4. New shelter solutions.

Phase II activities will be targeted for low income residents of secondary cities.

As a basis for approving specific sub-projects financed by AID, the following is proposed:

### a. Approval Checklist

The following criteria will be applied in measuring the environmental impact of proposed sub-projects. Conformation of subprojects to the following will be the basis for determining their acceptability from an environmental impact standpoint.

1. Site must be suitable for long term settlement as demonstrated by the following considerations:

- Site is free from natural hazards in that it is not located near a river and or stream that is subject to flooding.
- Site is not subject to landslides nor is such that vegetation and top soil get washed away regularly by surface water run-off.
- Site is not characterized by steep slopes where construction would require costly earth moving.

ii. Existence of basic off-site services such as the following:

- Water supply is sufficient to be brought to the sub-project site, and there is adequate water pressure for its distribution throughout the sub-project site.
- A sanitary sewage disposal system of sufficient capacity or one that could be modified to accommodate the introduction of new sewage capacity to the system should be in place for connecting up with the sub-project site. Discharge of untreated sewage into waterways should be avoided, if at all possible, and minimized, if not.
- A strong drainage system for handling rain water run-off in an efficient manner must be in place. This would be a simple matter for sub-projects located next to streams or some waterways. Special consideration must be given to handling drainage for sub-project sites located adjacent to railroad lines and roadways so that excess water drained off of them disrupt minimally the use of these lines and roads by traffic.

iii. The following environmental considerations will be built into subproject design to the extent possible:

- Measures must be taken to prevent soil erosion and gullyng if development must take place on steep slopes, crumbly soils, or recently filled land. If possible, construction on such land should be avoided.
- Measures must be taken to prevent adverse effects of sedimentation such as the introduction of unwanted land fill to plug water mains and sewer pipes should developments take place on low lying subproject sites that are subject to the accumulation of water.
- Secondary streets that connect subproject sites up with principal access roads that are adequate for handling new traffic introduced on them must be considered to minimize adverse environmental impacts.
- Installation of community septic tanks or a pipe collector system to be connected up with a secondary treatment plant, if possible, should be considered to replace individual septic tanks or pits.
- Additional wells to satisfy water demands are dug, if necessary.
- Storage tanks to secure water supplies, satisfy demands, and offer better water pressure are constructed, if required.
- Adequate collector systems to accommodate storm water runoff are provided, if necessary.
- A program for environmental rehabilitation of water courses adjacent to project sites is developed, if required.

- Water table levels must be analyzed.
- Vegetation removal must be minimized.
- Seismic criteria must be applied in unit design.
- Adequate streets and pedestrian paths must be provided on subproject sites.

b. Technical Assistance

As indicated in the IEE, the GOES institutions responsible for project implementation are not fully versed in the application of procedures during the design and construction phases which help minimize adverse environmental impact. Therefore, technical assistance will be provided to enhance institutional capabilities to deal with environmental considerations. This TA will be of two types:

- i. Assistance in conducting the first two secondary city shelter needs studies that would include the identification of potential environmental problems. 6 person months/\$50,000
- ii. Assistance in the areas of urbanization standards and minimum-cost shelter design appropriate to secondary cities as well as in the development of measures and project designs to mitigate adverse environmental impacts. 3 person months/\$25,000

The technical assistance to be provided would focus its attention upon the design considerations cited in a. iii above to insure that beneficial environmental impacts are the result of new subproject development.

c. Conclusion

The need to provide water, sanitary sewage facilities, storm drainage facilities, and streets and pedestrian paths to new urban developments or for the upgrading of existing illegal subdivisions and squatter settlements will introduce more favorable environmental impacts than adverse ones for beneficiaries.

FEDECACES System  
INTEREST RATES CHARGED

ACTIVITY	FEDECACES TO COOPS	COOPS TO USERS
Credito de Avio (Rice, corn, beans, etc.)	6% anual sobre saldos	9% anual sobre saldos
Produccion Agricola (Melons, sugar cane, lettuce, tomatoes)	9% anual sobre saldos	15% anual sobre saldos
Ganaderia	9% anual sobre saldos	15% anual sobre saldos
Comercio y Servicios	10% anual sobre saldos	15%-18% anual sobre saldos
Industria	10% anual sobre saldos	15%-18% anual sobre saldos
Consumo Bienes y Servicios	12% anual sobre saldos	24% anual sobre saldos
Compra-Construccion, Mejora- miento de Vivienda	9% anual sobre saldos	12% anual sobre saldos
All Others (Office equipment, coop education administration expenses)	9% anual sobre saldos	-

FEDECCREDITO SYSTEM  
INTEREST RATES CHARGED

Activity	FEDECCREDITO TO CAJAS TERMS			CAJAS TO USERS TERMS		
	Short	Medium	Long	Short	Medium	Long
Granos Basicos	6%	-	-	8%	-	-
Algodon	6%	-	-	8.5%	-	-
Cafe	10.5%	13.5%	12.5%	13%	15.5%	14.5%
Caña	6%	13.5%	-	8%	15.5%	-
Otros Cultivos	10.5%	13.5%	12.5%	13%	15.5%	14.5%
Ganaderia	10.5%	13.5%	12.5%	13%	15.5%	14.5%
Avicola y Apicola	10.5%	13.5%	12.5%	13%	15.5%	14.5%
Construccion y Mejora Propiedad	10.5%	14.5%	14.5%	13%	16.5%	16.5%
Industria	12.5%	13.5%	13.5%	14.5%	15.5%	15.5%
Comercio	12.5%	13.5%	13.5%	14.5%	15.5%	15.5%
Pago Deudas	11%	12%	12%	13%	14%	14%
Compra Propiedad	11%	13%	13%	13%	14%	14%

THE EXISTING HOUSING FINANCE SYSTEM. <sup>1/</sup>

A. The Existing Financing System for  
Housing and Related Infrastructure

86. There are several entities involved in the housing sector in different capacities. The principal ones are:

Banco Hipotecario (BH)

Financiera Nacional de la Vivienda (FNV) and the Savings and Loan Associations linked with it (AAPs)

Fondo Social para la Vivienda (FSV)

Instituto de la Vivienda Urbana (IVU)

Fundación Salvadoreña de Desarrollo y Vivienda Mínima (FSDVM)

87. The principal types of housing, each of these institutions finances, the income groups served and the terms of lending are summarized in Tables 6 and 7.

88. In addition to these institutions, the National Institute of Pensions for Public Employees (INPEP) and the Salvadorean Social Security Institute (ISSS) are becoming directly involved in the field of housing finance. There is also an intricate informal housing finance system in the low-income urban neighborhoods which provides housing, frequently at very expensive terms, to the lowest-income groups. <sup>15/</sup>

89. The provision of infrastructure is primarily the function of the Administración Nacional de Acueductos y Alcantarillados (ANDA), an autonomous institution administered under the Ministry of Public Works which provides water supply and sewerage, and the Dirección de Urbanismo y Arquitectura (DUA) in the Ministry of Public Works which has the responsibility for urban roads, drainage works and erosion control.

1. This annex is a copy of Appendix 2 to EDURES Document "1" entitled Institutional Improvements in the Housing Sector.

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<sup>15/</sup> See EDURES, A Program for the Integrated Improvement of Critical Metropolitan Areas in El Salvador, May, 1978.

TABLE 6  
LEGAL NATURE, GEOGRAPHIC SCOPE, OBJECTIVES AND SOURCES OF FINANCE OF  
PRINCIPAL HOUSING INSTITUTIONS AND GROUPS IN THE FORMAL SECTOR

Entity	Legal Nature	Geographic Scope	Declared Objectives	Sources of Finance
Fundación Salvadoreña de Desarrollo y Vivienda Mínima (PSDVM)	Private	National	To promote community development in marginal settlements, undertake the construction of "minimal" housing and social facilities, support the development of cooperatives, and create new sources of employment for members of low-income households.	Donations Subsidies Loans Payments by the households served The issuing of bonds
Instituto de Vivienda Urbana (IVU)	Autonomous	National	Planning, implementation and management of housing programs for low-income and medium-income households.	Subsidies Loans Payments by households Issuing of bonds
Fondo Social de la Vivienda (FSV)	An official credit institution -- autonomous and decentralized	National	Provision of credit for: the purchase of housing; construction and repairs; debt refinancing; credits to cooperatives for furniture and household equipment; credits to employers for the construction of workers; housing; and the production of construction materials.	Contributions of employers and workers Central government subsidies Payments by borrowers Issuing of bonds
Financiera Nacional de la Vivienda (FNV)	An official credit institution -- autonomous and decentralized	National	To facilitate, through savings and loan associations, the acquisition and maintenance of houses for the maximum number of middle-income households. Among its other functions, the FNV is able to provide financial assistance to the AAP's.	Subsidies Loans Payments by borrowers Issuing of bonds
Savings and loans associations (AAP's)	Private credit entities	National	To provide loans for the construction, acquisition, conservation, repair or improvement of housing. The AAP's are also able to finance the urbanization of land for the construction of housing. They are regulated by norms established by the FNV.	Savings deposits Loans Payments by borrowers
Banco Hipotecario (BH)	An official credit institution governed by legislation	National	To undertake loans with real property mortgage guarantees -- including loans for the construction and acquisition of housing.	Savings deposits Loans Payments by borrowers The issuing of <u>cedulas</u>

TABLE 7  
FINANCING TERMS OF, AND INCOME GROUPS SERVED BY, THE PRINCIPAL  
HOUSING INSTITUTIONS AND GROUPS IN THE FORMAL SECTOR

Entity	Prices of Housing Financed <sup>1/</sup> (Average) Maximum Minimum	Downpayments, Periods and Interest Rates	Monthly Payments	Income Groups Served (Monthly Household Incomes)
FSDVM	₡ 5,300 <sup>4/</sup> (3,800) 1,700	D.: 5% (self-help) P.: 20 years IR: 6.4% per year	₡ 15.00-₡ 35.00	₡ 300 or less
IVU	₡ 25,000 (11,000) 5,000	D.: 10% P.: 25-30 years IR: Up to ₡ 6,000-6% per year; more than ₡ 6,000-7% per year.	₡ 40.00-₡ 70.00 (one family houses) ₡ 100.00 (apartments)	₡ 400-₡ 600 (IVU regulation from ₡ 200 to ₡ 600)
FSV	₡ 20,000 <sup>2/</sup> (12,000) 7,500	D.: None up to ₡ 15,000. More than ₡ 15,000 and up to ₡ 20,000-the excess over ₡ 15,000. P.: 20/25 years IR: 6% per year up to ₡ 8,000; 7% per year if more than ₡ 8,000.	20% of salary as a maximum, (Payment system varies with income, up to ₡ 500)	₡ 500-₡ 700 (According to FSV regulations, from ₡ 85 to ₡ 700 but ₡ 500-₡ 700 has the range in practice).
FNV/AAP	₡ 75,000 <sup>3/</sup> (32,000) 15,000	D.: 5%-15% P.: 15 years, usual (25 years, according to law) IR: 10.5%	25% of income, as a maximum.	₡ 600 or more
BH	₡ 120,000 (50,000) 15,000	D.: 20% in houses up to ₡ 50,000; 25% in houses more than ₡ 50,000. P.: 10-15 years. IR: 9.5% per year in houses up to ₡ 50,000; 10.5% in those more than ₡ 50,000 up to ₡ 120,000; 12% in those more than ₡ 120,000.	25%-30% of their income, as a maximum.	₡ 600 or more
Commercial Banks and Insurance Companies	₡ 120,000 (50,000) 15,000	D.: 20%-25% P.: 10 years, maximum IR: 12%-13%	25%-30% of income	₡ 1,000 or more

NOTES: <sup>1/</sup> These figures are representative. There are units financed outside these ranges in some cases. <sup>2/</sup> The FSV has ₡ 20,000 as a maximum limit for its loans but it may finance units up to a maximum of ₡ 25,000 with the difference between ₡ 20,000 and the total price paid by the borrower. <sup>3/</sup> The limit of ₡ 75,000 is for individual houses; for apartments the maximum is ₡ 120,000. <sup>4/</sup> The lower limit of ₡ 1,700 is for units on relatively inexpensive land in San Miguel. The FSDVM also has a small number of rental units priced at ₡ 1,500 per family and a small number of houses for which the price is ₡ 10,000; in the latter case the units yield a profit which is used to subsidize units at lower price levels.

## ANALYSIS OF EFFECTIVE DEMAND AND PAST PRODUCTION

78. Table 4 shows estimates of the effective demand for new housing and for the housing improvement program in El Salvador. The table notes that low-income families have a proven, even though very limited, capacity to pay for shelter. The figures showing the demand for new housing are based on estimates of new household formation during the 1978-82 period (Column 4). The figures showing the demand for the improvement of existing housing represent the part of the proposed housing improvement program which will affect existing housing. 13/

79. The Table shows that 71 percent of the new households demanding housing in the SSMA in the 1978-1982 period will be low-income households. If the total of new households and households participating in the rehabilitation program is considered, 81 percent of households demanding new or improved housing are low-income households. 14/ The vast majority of new households who will require housing in other urban areas and in rural areas also have very low incomes.

80. Column 9 of Table 4 shows the approximate amounts of capital expenditure for housing which households at each income level can afford. It is assumed that market financing with terms averaging 12 percent for 20 years is available. If lower rates were available for low-income families, they could afford higher capital expenditures for housing or they could be charged lower monthly payments.

81. Nevertheless, even at 12 percent, low-income groups can afford the elements of the housing improvement program targeted for their respective settlement types. (See note 3 for Table 4 which explains the costs of the elements of the improvement program.)

82. It is interesting to compare the patterns of effective demand shown above with recent targets and performance in the housing sector. Table 5 shows the targets of the principal housing institutions for the 1973-1975 period and the performance of each housing institution. Although the Banco Hipotecario does not have established targets, its contribution has been included in the table.

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13/ The proposed housing improvement program will also accommodate large numbers of new low-income families in the SSMA during the 1978-1982 period.

14/ This assumes that the demand for housing improvement or replacement of middle- and upper-income families is low.

Table 5  
Housing Units Financed by the Principal Housing  
Institutions and Groups, 1973-1975

Entity	Target for 1973-1977 (Nation)	Number of Units Financed 1973-1975			Percentage Fulfillment of 1973-1977 Target during 1973-1975
		National Total	SSMA (approximate)	SSMA as a Percent of Total	
FSDVM	14,000	1,644 <u>1/</u>	1,480	90	12
IVU	16,940	2,940	1,764	60	17
FSV	Not available	3,706 <u>1/</u>	3,558	96	Not available
FNV/AAP	7,700	4,772	4,772	100	62
BH	Not applicable	<u>1,992</u>	<u>1,992</u> <u>2/</u>	100 <u>3/</u>	Not applicable
Total		15,054	13,566	90	

SOURCES: 1/ Ministerio de Planificación y Coordinación del Desarrollo Económico y Social, Informe Preliminar de la Misión Alemana, San Salvador, 28 August 1976. 2/ The three-year period, 1 July - 30 June 1976, may exceed the actual number of units because of double counting for units constructed by contractors with BH finance and loans made to individual households for the purchase of units. 3/ Data on geographic allocation were not available when these data were prepared. It has been assumed that all units financed by the BH were in the SSMA. A small number of units may have been located elsewhere.

83. The three-year period for which performance is identified in Table 5 covers 60 percent of the Five-Year Plan period. The savings and loan associations reached their targets. The other two entities that had targets (FSDVM and IVU) fell far below them. In the case of the FSDVM, the availability of land and services was a major problem. In the case of IVU, funding was a major problem.

84. More important than the shortfalls in production shown in Table 5 is the fact that the vast majority of planned and actual housing production has not been targeted toward the groups which represent most of the effective demand. Only the FSDVM is building projects which are affordable by low-income groups. Thus, low-income households who represent the majority of those requiring housing have been forced to rely heavily on the informal sector for housing. Even at the somewhat lower interest rates now provided by formal sector institutions, most low-income families cannot afford the available new houses. The population, in tugurios, mesones, colonias ilegales and other low-income settlements can only be expected to grow if affordable formal sector programs are not devised.

85. This analysis shows the importance of adjusting standards to produce housing affordable by the majority. The proposed Improvement Program for Critical Metropolitan Areas is one program which does this. The sites and services program of the Fundación Salvadoreña is another.

TABLE 4  
THE ESTIMATED STRUCTURE OF EFFECTIVE DEMAND FOR HOUSING

Areas/Groups	(1) Income Levels (£ per month)	(2) Households in 1977 2/	(3) Households in 1982 2/	Demand		(6) Total Demand from New Households and for Rehabilitation of Existing Housing	(7) Feasible Monthly Payments (£)	(8) Feasible Down- Payments (%)	(9) Possible Investment per Family with Financing of 12%/20 years 5/ (£)
				(4) New House- holds 1978-82	(5) Existing Demand for Housing Improvement 3/				
<b>SSHA</b>									
<b>Low-Income House- holds 6/</b>									
Turricos and carmen- mentos	150- 250	13,000	17,000	4,000	8,300	12,300	4- 20	0	450- 1,800
Mesones and vivi- endas viejas	150- 350	40,500	44,500	4,000	4,000	8,000	21- 35	0	2,300- 3,200
Colonias ilegales	200- 400	25,500	39,500	14,000	3,700	17,700	25- 40	5	2,400- 3,800
(Subtotals)		(79,000) (521)	(101,000) (552)	(22,000) (711)	(16,000)	(38,000) (811)			
<b>Other House- holds</b>									
	350- 500	27,500	31,000	3,500		3,500	50- 75	10	5,000- 7,500
	50- 700	10,000	11,500	1,500		1,500	75-100	10	7,500-10,000
	700-1,000	9,500	11,000	1,500		1,500	100-250	15	10,700-21,500
	1,000+	25,000	27,500	2,500		2,500	250+	20	28,000+
(Subtotals)		(72,000)	(81,000)	(9,000)		(9,000)			
Total SSHA		151,000	182,000	31,000 (291)		47,000 (191)			
<b>OTHER URBAN AREAS</b>									
	0- 300	163,000	190,000	27,000			5- 30	0	450- 2,700
	300- 500	24,000	26,000	4,000			30- 75	5	2,900- 7,200
	500- 700	11,000	13,000	2,000			75-100	10	7,500-10,000
	700+	27,000	20,000	3,000			100+	15	10,700+
Total Other Urban Areas		215,000	251,000	36,000					
<b>RURAL AREAS</b>									
	0- 300	452,000	532,000	80,000			5- 30	0	450- 2,700
	300- 500	10,000	11,000	1,000			30- 75	5	2,900- 7,200
	500- 700	4,000	6,000	2,000			75-100	10	7,500-10,000
	700+	10,000	11,000	1,000			100+	15	10,700+
Total Rural Areas		476,000	560,000	84,000					

1/ Income levels are based on constant 1976 Colones. The income distribution is based on ILLURES analysis of the SSHA and data from the Encuesta de Presupuestos Familiares.

2/ These figures show very rough estimates of income distribution, average family size and growth trends. All are subject to a wide margin of error.

3/ This represents the part of the housing deficit of low-income groups which could be attended by a rehabilitation program during the 1978-82 period.

The improvement program consists of the following which includes the improvement of existing units as well as the accommodation of additional low-income families with improved living conditions.

	Units	Average Cost
<b>Turricos:</b>		
Land purchase	4,000	600
Civil works	(4,000)	220
Construction materials loans	(800)	500
<b>Carmenmentos:</b>		
Civil works	4,300	948
<b>Mesones:</b>		
Rehabilitation	4,000	800
New rooms	2,000	1,500
Rooms purchased by tenants	(1,500)	3,000
Popular apartments	1,000	4,100
<b>Colonias Ilegales:</b>		
Civil works	13,250	550
Construction materials loans	(3,975)	1,000
Land purchase	(9,275)	2,800

4/ Based on amounts actually paid for housing now.

5/ An average rate of 12% for 20 years was used to calculate the capital investment possible per family. If a lower rate were used, a larger investment per family would be possible or monthly payments could be lowered.

6/ Figures for low-income households in the SSHA are broken down according to the type of settlement they are now living in and the growth trends of those settlements.

AGRARIAN REFORM SUPPORT ACTIVITY DESCRIPTION

1. Background:

On March 6, 1980 the Junta Revolucionaria de Gobierno (JRG) declared its intention to restructure the agricultural sector in favor of thousands of tenants and landless campesinos and signed Decree 153, "The Basic Law of Agrarian Reform" which establishes the basis for this long awaited reform. The law provides for expropriation with compensation for all holdings in excess of 100 hectares of good lands or 150 hectares of poorer lands. <sup>1/</sup> The initial stage of the reform will focus on holdings in excess of 500 hectares as provided for by Decree 154 which was also issued March 6th.

The full dimensions of the reform cannot be accurately estimated at this time but it is clear that the structure of ownership will be dramatically altered in favor of the poor. Table I below compares estimates of the parameters given by the JRG in the course of proclaiming Decree 153 with independent estimates for the first stage of the reform invoked by Decree 154.

TABLE I: Estimates of Stage I Impact of Agrarian Reform  
(Properties in Excess of 500 Hectares)

	<u>JRG Estimates</u>	<u>Independent Estimates</u>
No. of owners . . . . .	244	376
No. of properties . . . . .	376	1,000
Area (ha.) . . . . .	224,038	400,000
% of total farm land (based on 1971 Ag Census data). . . . .	15	27

When the legal land holding ceilings of 100 Ha. and 150 Ha. are applied in stage II of the reform, as much as another 300,000 hectares could be affected bringing the total to almost half of all farm lands in El Salvador.

Until the process of expropriating the affected properties, inventorying the assets and identifying and enumerating the beneficiaries is completed, the full dimensions of the reform will not be known. Nevertheless, it is clear that large quantities of coffee, cotton, sugar cane and pasture lands will be affected and the community of campesinos living on

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<sup>1/</sup> In terms of US Soil Conservation Service standard land classification categories, 100 Ha. of lands containing class I-IV soils or 150 Ha. of class V-VII soils are defined by the law as the maximum amount of agricultural land that can be retained per family.

or in the immediate environs of the expropriated properties will collectively own, manage and operate these lands that they have traditionally worked

## II. Activity Description

### A. Sub-Project Identification and Approval

The Mission will develop in consultation with the Government, an implementation plan, the essence of which shall be incorporated into the project Loan Agreement. This plan will include a description of the mechanism by which discreet, site specific sub-projects will be proposed and approved for funding. This will require a list of activities eligible for financing under the Agrarian Reform Support Activity component of this project, a description of the format and content to be employed for sub-project proposal documentation, criteria to be employed in the sub-project review and approval process and a description of the planning, approval and disbursement channels and mechanisms. As with other project funds, the Ministry of Planning (MinPlan) shall be the signatory borrower and funds shall be channeled through the Central Reserve Bank to the sub-project authorizing/implementing entities.

The specifics of the sub-project identification and implementation mechanisms will be fashioned against the backdrop of proposed major reforms in the institutions that serve the agricultural sector. The intention of the proposed rural public administration reforms is to make public institutions more responsive to the needs of their clientele - the newly formed campesino organizations whose membership consists of communities of tenants, hired laborers, "colonos", etc. who have traditionally worked affected lands and live on or near the expropriated properties.

Cooperatives, Campesino Comunal Associations (ACCs) or similar collective entities are being organized with the assistance of ISTA <sup>1/</sup> and the Ministry of Agriculture. It is through the vehicle of these emerging organizations that the land reform beneficiaries will acquire and exercise their rights of land ownership and management. Figure I summarizes the organizational process and structure that are taking form as properties are expropriated.

Having acted to restructure the land ownership patterns of the agricultural sector, the Government is now considering a major restructuring of the public sector which is charged with promoting and supporting rural development. The intention of the proposed institutional reform is to invert the old system, making the new campesino organizations the basic building block in a reoriented, bottom-up planning and decision-making system. Thus, campesino community organizations would identify their own needs and priorities as articulated through their general assemblies and

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<sup>1/</sup> Salvadoran Institute of Agrarian Reform

boards of directors. Broadened responsibilities and/or new institutions are envisioned at the municipal, departmental and regional levels to serve the new campesino organizations and link them to the resources of the national government. Chart I summarizes the proposed reorganization of the public sector tasked with promoting rural development.

B. Project Elements and Budget

Goods and services eligible for financing under this activity are similar to those for other portions of the Marginal Community Improvement Project - community basic services, home improvements and access to income-increasing inputs. What distinguishes this activity from the others is the clientele being served and the institutions that will be involved in serving them. ISTA, the Agricultural Development Bank (BFA) and DIDECO will play prominent roles in helping to meet the needs of newly organized communities of agrarian reform beneficiaries. Because this activity is designed to respond to beneficiaries' requests rather than impose preconceived notions of needed assistance, it is not possible to submit an exhaustive list of sub-projects. However, presented below is a representative list of unit costs for the principal elements which will be eligible for project support. Cost estimates are based on actual public sector experience in financing these types of activities.

TABLE II

Representation List of Eligible Items and Unit Costs

<u>Community Basic Services</u>	<u>Unit Cost</u>
1. Water Systems and Water Catchments	\$1,900-3,000
2. Secondary Electricity Distribution	9,000
3. Drainage Improvement	2,000
4. Bridges	6,000
5. Access Roads	9,000

FIGURE I

Organizational Scheme for  
Land Reform Beneficiaries - Group Farming

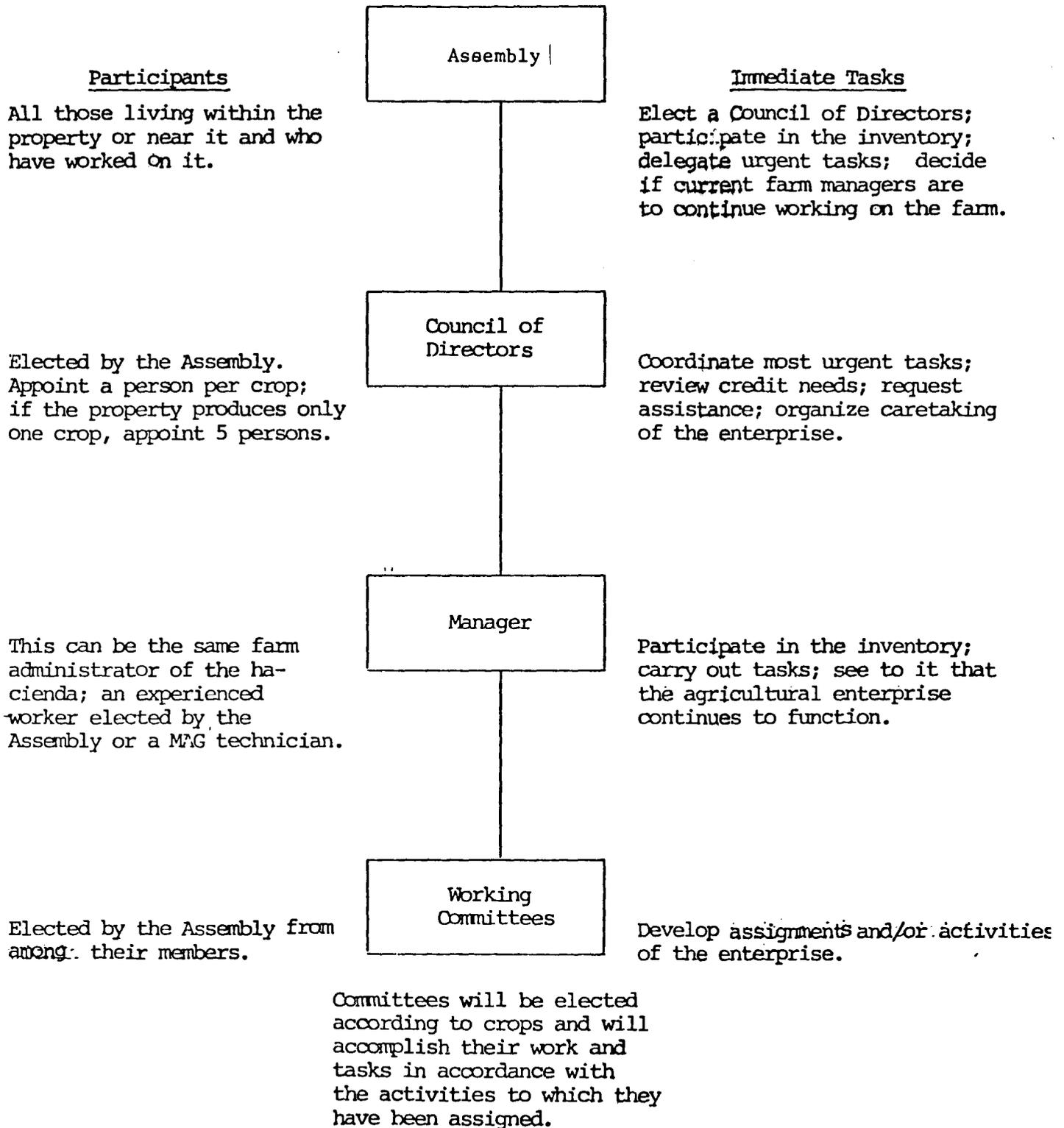


CHART I

PROPOSED REORGANIZATION OF PUBLIC SECTOR RURAL DEVELOPMENT INSTITUTIONS

LEVELS	CURRENT ORGANIZATION	PROPOSED ORGANIZATION	FUNCTIONS	SUPPORT
NATIONAL	DIDECO	<ul style="list-style-type: none"> <li>. National Council of Rural Development</li> </ul>	<ul style="list-style-type: none"> <li>. Formulate Policy for Rural Development</li> <li>. Approve Plan for Rural Development</li> <li>. Coordinate Interministerial Action</li> </ul>	<ul style="list-style-type: none"> <li>. Planning System</li> <li>. Funds for Rural Development</li> <li>. Funds for Municipal Development</li> </ul>
REGIONAL		<ul style="list-style-type: none"> <li>. Regional Committee for Rural Development</li> </ul>	<ul style="list-style-type: none"> <li>. Formulate Policy for Regional Development</li> <li>. Approve Regional Plan</li> <li>. Formulate Regional Projects</li> </ul>	<ul style="list-style-type: none"> <li>. Credit Planning System</li> </ul>
DEPARTMENTAL	GOVERNOR'S OFFICE	<ul style="list-style-type: none"> <li>. Departmental Coordination</li> <li>. Departmental Assembly</li> </ul>	<ul style="list-style-type: none"> <li>. Harmonize District Plans and Projects</li> <li>. Formulate Departmental Plan</li> <li>. Approve some Sectoral Projects</li> <li>. Approve Departmental Plan</li> <li>. Define Policies</li> <li>. Evaluate Plan</li> <li>. Give Sectoral Suggestions</li> <li>. Propose Investments Budget</li> </ul>	<ul style="list-style-type: none"> <li>. Planning System</li> </ul>
MUNICIPAL	MUNICIPAL COUNCIL	<ul style="list-style-type: none"> <li>. Municipal Council consisting of representatives of Community Boards</li> </ul>	<ul style="list-style-type: none"> <li>. Promote and Select Projects</li> <li>. Manage Funds for Basic Infrastructure Works</li> </ul>	<ul style="list-style-type: none"> <li>. Funds for Rural Infrastructure</li> <li>. Sectoral System for Project Planning</li> <li>. Change Agents</li> </ul>

LEVELS	CURRENT ORGANIZATION	PROPOSED ORGANIZATION	FUNCTIONS	SUPPORT
CANTON VILLAGE, COMMUNITY ENTERPRISE	<ul style="list-style-type: none"> <li>. Projects</li> <li>. Change Agents</li> <li>. Community Organizations</li> </ul>	<ul style="list-style-type: none"> <li>. Community Boards</li> <li>. Agrarian Reform Community Assemblies</li> </ul>	<ul style="list-style-type: none"> <li>. Organization of Base</li> <li>. Local planning</li> <li>. Community Works</li> <li>. Participation with work and/or Resources</li> <li>. Consult</li> <li>. Local Decision-Making</li> </ul>	<ul style="list-style-type: none"> <li>. Promoters</li> <li>. Trainers</li> </ul>

In addition to the \$2,000,000 in Development Loan funds programmed above, \$200,000 in Development Grant monies will be used to fund complementary technical assistance and training activities. Areas of assistance will include:

Organization and Strengthening of Cooperatives

Enormous needs are anticipated in the areas of organizing producer cooperatives, training membership and leadership in the concepts and practices of group-owned and operated enterprises, business management and accounting. This technical assistance is intended to strengthen the financial viability of the executing agencies and the new campesino organizations. Training is expected to be largely short term and conducted here in El Salvador.

Rural Development Administration

Technical assistance and observational/educational travel to third countries will be financed for the purpose of assisting the Government to develop a coherent and effective system of public services responsive to agrarian reform communities' self-articulated needs.

The implementation plan to be developed by the Mission in consultation with the Government shall include provisions for the programming, utilization and disbursement of Development Grant Funds for technical assistance.

C. Beneficiaries

Beneficiaries of the Agrarian Reform Support Activity will be the thousands of campesino families living on or near the large expropriated estates who have now become the owners of these lands through their membership and participation in the newly formed cooperatives or quasi-cooperative organizations. Although specific income data are not yet available, selection criteria dictate that land reform beneficiaries shall include the previously landless or those who owned too little land to meet subsistence requirements.

**CREDITO**  
**BFA LENDING POLICIES**  
**AGROPECUARIO**

Annex G.7

USUARIO	FORMA DE RECURSO	TASA DE INTERES	CONDICIONES DEL B.F.A. / FEE DEL B.F.A. / FONDO	PLAZA MAXIMO Y PERIODO DE GRACIA	Garantia Basica	FINANCIAMIENTO ANALITICO	P. D. E.
1- Alimentos Basicos	BFA	8%	10%	1 año	Prenda / Comodato	B.F.A. - B.C.B.	B. E. B.
	BFA	8%	10%	1 año	Prenda / Comodato	\$ 500. 000	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato	\$ 500. 000	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato	\$ 750. 000	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato	\$ 1.200. 000	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato	\$ 1.000. 000	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato	Variable	del 30% al 80% del costo
2- Fomento de Exportación	BFA	8%	10%	1 año	Prenda / Comodato y otros hipotecarios	\$ 2.000. 000	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato y otros hipotecarios	\$ 1.000. 000	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato y otros hipotecarios	\$ 1.000. 000	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato y otros hipotecarios	\$ 1.000. 000	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato y otros hipotecarios	\$ 1.000. 000	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato y otros hipotecarios	\$ 1.000. 000	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato y otros hipotecarios	\$ 1.000. 000	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato y otros hipotecarios	\$ 1.000. 000	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato y otros hipotecarios	\$ 1.000. 000	del 30% al 80% del costo
	BFA	8%	10%	1 año	Prenda / Comodato y otros hipotecarios	\$ 1.000. 000	del 30% al 80% del costo
3- Fomento Agroindustrial	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
4- Recursos Naturales	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
5- Producción Pecuaria	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
6- Maquinaria y Equipo	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
7- Desarrollo Rural	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo
	BFA	8%	10%	1 año	Hipotecaria	Variable	del 30% al 80% del costo

BEST AVAILABLE COPY

SCOPE OF WORK and  
COST ESTIMATE FOR PLANNING FOR  
PHASE II ACTIVITY

<u>Consultancy</u>	<u>Effort Cost</u>
- Assistance to HUD in developing the internal organization and the necessary procedures to effect coordination among shelter institutions.	6 p/m \$ 50,000
- Assistance to HUD and FSV in conducting a study of GOES housing finance institutions and policies and in developing recommendations to improve them. (Possible related training to HUD/FSV personnel in related housing finance theory and techniques).	12 p/m \$100,000
- Assistance in conducting the first two secondary city shelter needs studies, including the identification of potential environmental problems.*	6 p/m \$ 50,000
- Assistance in the areas of urbanization standards and minimum-cost shelter design appropriate to secondary cities as well as in the development of measures and project designs to mitigate adverse environmental impacts.*	3 p/m \$ 25,000
Assistance in developing expeditious procedures for legalizing tenure in secondary city marginal communities.	3 p/m \$ 25,000
	<u>30 p/m</u> <u>\$250,000</u>

\*This technical assistance will focus its attention upon the design considerations cited in Annex G.2 paragraph F.2.a.iii (pg 26) to insure that beneficial environmental impacts result from new sub-project development.

INSTITUTIONAL ANALYSIS

A. Basic Community Services Activity: Directorate for Community Development (DIDECO).

1. Creation/Purpose: DIDECO was created in the Ministry of the Interior in late 1977. It's stated purpose is to "promote development within the communities of El Salvador as a basis for national development." Activities are promoted which involve significant community participation and are intended to lead to integral social, cultural and economic well-being, with much of the effort directed towards attitudinal change.

2. Scope/Structure: Approximately 80% of DIDECO's efforts are concentrated in rural areas. Urban activities, such as latrination, are for the most part located outside of the San Salvador Metropolitan Area. Structurally, DIDECO is organized both geographically and programatically. There is a central office in San Salvador and five regional offices responsible for surrounding operational zones. Programs are generally organized by function; however, recent integrated rural development programs with international donors have been set up as special geographic offices.

3. Activities: DIDECO's major activities can be classified into functional and geographic areas:

a. Functional

1. Food distribution (from World Food Program) as an incentive for participation in community activities or training.
2. Income/employment generating projects, for which technical assistance and credit (through FEDEC-CREDITO) are provided.
3. Promotion of community organization to carry out basic infrastructure projects or other projects related to community needs, in coordination with other government and international agencies.
4. A small farmer irrigation program funded by AID.

b. Geographic

1. San Miguel-Morazán Community Development Project which is directed toward 17 communities in the poor northeastern region in conjunction with

various national and international agencies.

Northwest Community Development Project which is funded by the Interamerican Development Bank (IDB) and oriented toward improving community infrastructure and supplying productive credit to the poor in the Department of Chalatenango.

4. Personnel: DIDECO currently employs 543 people, most of them in the field, of which 76 are social promoters and 313 are involved in construction of community projects. These figures are indicative of DIDECO's de facto role as a mini-public works agency.

5. Budget: DIDECO's 1980 budget totals \$6.8 million, broken down as follows:

<u>Activity</u>	<u>\$000s</u>	<u>%</u>
1. Administration/non-project Salary Costs	1,089	16.1
2. Community Infrastructure	1,840	27.2
3. Northwest IRD/BID	2,565	37.9
4. AID/San Miguel-Morazán	540	8.0
5. Small Farm Irrigation	<u>732</u>	<u>10.8</u>
	6,766	100.0

6. DIDECO Capability: DIDECO has the capability to carry out the Community Infrastructure Activity. The additional budget of \$6 million spread over 18 months represents an annual increase of approximately 60%. However, as discussed in the Project Description and the Technical Analysis (Annex G.2 .) much of its personnel can be used only in community infrastructure activities and this personnel is underutilized at present. The key areas where its administrative system needs improvement have been identified and technical assistance funds are included in the project to help DIDECO to solve its present management weaknesses. Furthermore, part of the project funds will be available to finance any additional personnel that may be needed in implementing the project.

7. Additional Information: A detailed description of DIDECO's organization and accomplishments can be found in a study carried out in September 1978 by Servicios Tecnicos del Caribe. A copy of this study has been sent to LA/DR bulk files.

B. Shelter Sector Institutions

1. Overview of Financial Institutions 1/

1) Review of the Principal Financing Entities 16/

Banco Hipotecario (BH)

90. Banco Hipotecario is an official credit institution which serves the highest income groups with a limited number of commercial interest housing loans.

91. The Banco Hipotecario receives deposits and loans and is authorized to issue Cedulas Hipotecarias, mortgage bonds backed by the mortgage portfolio and the other assets of the institution, and the guaranty of the government.

Savings and Loan Associations (AAP)

92. The private savings and loan associations are regulated by the Financiera Nacional de la Vivienda. The associations receive deposits and loans and finance the purchase and construction of housing and, to a limited extent, short-term financing for other purposes.

93. There are six associations which are stock corporations. Ownership of the associations is by relatively small groups; most are owned by groups which own several financial institutions of different types (commercial banks, insurance companies, etc.). The interest which the associations pay on deposits and receive on loans is fixed by the Junta Monetaria as are the interest charges of other financial institutions.

94. The savings of the associations have grown rapidly in the last several years with an increase in savings deposits of over 71 percent in 1975. These savings were 22 percent of all institutional savings at the end of 1975. This growth has been the result of growing public confidence in the associations and the slightly better interest paid by the associations than by other financial intermediaries. Savers in the associations then represented eight percent of the urban population.

95. Mortgage loans by the associations are limited to houses costing no more than ¢ 75,000 for single family units and ¢ 120,000 for units in multi-family structures. There is, however, considerable market pressure to finance higher priced units. Developers have eluded the intent of the price regulation by selling land for cash separately. Loans can be for up to 95 percent of the value of houses. Loans can also be made for up to 75 percent of the value of home improvements.

1/ This overview was taken from EDURES study No. 36

16/ For a detailed analysis of each of the housing institutions see the individual papers prepared by EDURES.

96. The associations pay 6.7 percent on sight deposits and receive 10.5 percent on mortgage loans. Somewhat higher rates apply to construction loans. The associations have been quite profitable in recent years. Profits before taxes have ranged between 13 percent and 20 percent of capital during the 1971-1975 period. 17/

97. About four percent of all financing used by the associations through 1975 came from outside El Salvador; this amount has decreased in recent years. There have been sufficient funds available locally to finance existing programs.

98. Faced with higher levels of funds available than were being absorbed under existing regulations, the associations have been gradually allowed to enter new lending fields. Price ceilings have been raised; associations have been authorized to make loans of up to 10 percent of their assets for personal needs other than housing which are guaranteed by savings deposits. In 1974 they were authorized to give loans for non-residential buildings such as offices, commercial centers and hospitals. In spite of this, the associations have been faced with increased levels of liquidity as their resources, primarily from savings deposits, have increased. Table 8 shows the growth of available resources over uses in new loans. It shows that even allowing for unforeseen withdrawals there is a considerable amount on hand in cash and bank deposits which could be available to finance housing. This excess has not been used in housing largely because of a series of bottlenecks in the production of housing. (See Appendix 3.)

99. Because of the illegal nature of most low-income settlements and the higher risks of programs for low-income groups, the associations have not been able to reach down to lower-income groups.

17/ The rates mentioned here were those in effect until June, 1978. Interest on deposits was increased to 7.5 percent in 1978 with interest on loans unchanged. The possibility of raising rates on deposits again and raising rates on loans was under discussion in August of 1978.

TABLE 8  
Sources and Uses of Funds in the Savings and Loan System

	1975	1976
<b>Sources of Funds:</b>		
Capital	9,979,422	11,342,069
Reserves	282,422	893,166
Retained earnings	2,987,492	5,181,409
Credits from FNV	11,434,405	9,283,874
Savings	<u>242,616,153</u>	<u>356,908,047</u>
Total resources	267,299,894	383,508,565
<b>Uses of Funds:</b>		
Housing loans	175,194,744	219,177,885
Offices	85,309	165,309
Equipment	1,555,990	1,599,568
Other	<u>668,759</u>	<u>11,760,464</u>
Total Uses	177,504,802	232,703,226
Investment in securities	19,760,896	32,358,674
Cash and bank deposits	45,772,581	82,765,860
Legal reserves	<u>24,261,615</u>	<u>35,680,805</u>
Total available resources and short-term invest- ments	89,795,092	150,805,339

SOURCE: EDURES analysis.

The Financiera Nacional de la Vivienda (FNV)

100. The Financiera is the regulatory agency of the savings and loan system. It regulates many of the types of loans the associations can make and acts as a lender of last resort. It insures savings and is authorized to insure mortgages but has not yet done so. It audits the associations. It is authorized to establish a secondary mortgage market by buying and selling mortgage credits and issuing National Housing Bonds. It acts as fiduciary agent for the first and second World Bank urban development loans.

101. The Financiera has provided credits to the associations in the past, but has not done so between 1974 and 1977. For the moment the associations do not need to borrow. The international loans which the Financiera has access to carry terms which do not suit current Salvadorean interest structures (see below).

102. At the end of 1975 the Financiera had a balance of deposits in and loans to the associations of ¢ 11.4 million of which ¢ 4 million were deposits with the associations and the remainder were mortgage guaranteed loans. This was down from a balance of ¢ 24 million in 1974 and represented only four percent of the total resources of the savings and loan associations. As a result, the annual income of the Financiera, which is earned largely from interest on loans to the associations, has been decreasing.

#### Fondo Social para la Vivienda (FSV)

103. The Fondo Social was founded in 1973. It is funded through salary deductions, employer contributions, and government capital contributions. There are now about 150,000 workers and 10,000 employers participating in the scheme with contributions of 0.5 and 5.0 percent of wages respectively. Workers are entitled to reimbursement of their and their employers' contributions only upon retirement, death or disability, with interest of about 0.5 percent per year.

104. Loans can be made to workers with interests of 4 to 10 percent and with variable payment loans for the lowest-income groups. All contributors are eligible for loans. The Fondo finances new housing construction through deposits in the savings and loan associations which, in turn, loan the funds for construction. It has also brought houses from IVU. The Fondo is considering entering the field of land purchase and direct construction on an even larger scale.

105. The Fondo is operated on an actuarial basis similar to social security. It ensures that future demands on funds will not exceed future funds supplied from new contributions and repayments. Unlike a bank, it does not charge sufficient interest to maintain the value of contributors' deposits.

106. Data available to date indicate that the recipients of most of the loans from the FSV are the higher-income workers who qualify more readily for loans. Lower-income workers who contribute but do not benefit from loans tend, therefore, to subsidize those who do benefit.

107. Table 9 shows that the Fondo also has a large excess of total resources over investments in housing. As with the savings and loan associations, some of this has to be considered a reserve for operating expenses. However, the Fondo has not been able to invest a large amount of available resources due to the same constraints which affect the associations. This excess is deposited mainly in parastatal financial institutions.

108. The Fondo's impact on the lowest-income groups has been minimal because it mainly finances complete houses. It has not attempted lower-standard solutions such as sites and services and community improvement. It is difficult for the Fondo to finance such solutions within

the existing legal framework, although it is authorized to make home repair loans to low-income workers.

109. The FSV is covering its administrative expenses and in fact registered profits of more than  $\text{Q} 1$  million in 1976. This is in spite of its large staff and low rates of production. Profits have been largely due to the wide margin between the cost of funds to the FSV and the 6 - 7 percent returns on deposits of unused funds.

TABLE 3

Sources and Uses of Funds in the Fondo Social para la Vivienda

	1975	1976
Sources of Funds:		
Contribution from the State	7,500,000	12,502,000
Retained earnings	1,249,087	1,091,283
Contributions	58,936,108	91,414,093
Total Sources	67,685,195	105,005,976
Uses of Funds:		
Housing loans	26,107,977	50,884,737
Land for housing	6,853,728	5,946,528
Land for offices	-	943,950
Equipment	399,884	517,372
Other	4,008,516	2,841,004
Total Uses	37,370,105	61,133,591
Cash and short term investments	30,315,090	43,872,385

SOURCE: EDURES analysis.

Instituto de Vivienda Urbana (IVU)

110. IVU is an autonomous government institution dedicated to the construction of housing for low-income households. IVU operates from government grants and capital contributions, loans and repayments from previous investments. During the 1960's it received large loans from the Inter-American Development Bank with which it constructed large amounts of housing which was rented and sold at low interest terms. IDB loans account for 58 percent of the housing units IVU has produced. Recently its level of production has dropped drastically. It has, however, entered the fields of sites and services and rehabilitation in a small way.

111. The cost of administration per unit charged in IVU projects has also gone up because more elements of administration have been taken into account and because the overall level of production has fallen in relation to fixed cost and IVU's large staff. It is registering losses each year which the government makes up in subsidies.

112. IVU charges interest of between 6 and 8 percent on housing. Its beneficiaries are largely in the middle-income range. In February 1975, 85 percent of the accounts of IVU were in arrears. An analysis of the situation was made at that time and action was taken to correct it. It was felt that IVU's houses had not been allocated in accordance with technical criteria and that collections had not been aggressive enough. The situation has improved, but it is still a problem.

113. IVU still lacks a secure source of financing and a plan for future production based on a thorough market analysis. This makes it difficult for IVU to maintain the highly qualified staff necessary for urban projects.

La Fundación Salvadoreña de Desarrollo  
y Vivienda Mínima

114. The Foundation is a private, non-profit organization founded in 1970. Its purpose is to improve living conditions among low-income households through self-help housing projects and small-scale cooperative schemes. During the period 1971 to 1975, the Fundación produced less than 2,000 units which was only 7 percent of the production of the formal sector and about 4 percent of informal sector production. This is a serious deficit given the fact that the Fundación is the only entity producing housing for relatively low-income urban families.

115. The Foundation builds mainly sites and services projects with various levels of core housing. It receives donations from private entities and the government. It has a large borrowing program from the World Bank. The Foundation has failed to have a larger impact and meet its production targets largely because of a lack of low-priced, easily developed land.

116. The Foundation charges low interest, 6.4 percent, to the beneficiaries of its projects. With additional charges for insurance and administration most of the lending costs about 8 percent to borrowers. To date late payments have not been a major problem.

2. The Financing of Basic Urban Services

117. Most urban water supply and sewerage (where there is a sewerage system) is the responsibility of the Administración Nacional de Acueductos y Alcantarillados (ANDA), an autonomous institution.

## 2. Capability of Implementing Agencies

### a. Housing and Urban Development Institute (IVU)

IVU was created in 1951, as an autonomous government agency, to serve low income households; however, since its creation has produced housing to serve a population comprehended between medium to moderate income, neglecting the 60% of the population which involve between moderate to low income.

Echoing various frequent recommendations, IVU has been trying to change this pattern of production by turning to the low income population. It constructed approximately 300 units, in San Bartolo 1979, and 120 in Lomas del Delirio (1978), addressed to the \$7,500 bracket, but its effects are minimal.

Production rates have been decreasing in the last three years: 1700 units in 1977; 1170 units in 1978 and 1032 units (600 rehabilitated) in 1979. The reasons for this tendency appear to be: a) lack of government support; b) no marketing for the types of units under production; c) lack of leadership; d) organization deficiency; e) lack of incentives.

In an effort to overcome these problems IVU recently underwent a management shake-up. Personnel was cut from 1,600 to 750 employees, policy changes were instituted, and incentives were provided to personnel. It is still too early to determine the long range effects of this shake-up, but some promising signs are already apparent. Collections on IVU's outstanding mortgages have gone up, and the backlog of late payments reduced. A significant planning exercise has been carried out in preparation for the World Bank Urban Development III loan. The IBRD is satisfied with the progress being made.

IVU has the capability to carry out Phase I of the project. The burden on its staff will be minimal, as only one permanent staff member will be needed for the project. Additional staff will be hired as needed as discussed in the Project Description and the Technical Analysis. The site is already available, design and construction work will be contracted. In general, every effort has been made in designing the project to insure that it imposes little additional burden on IVU, and can be implemented quickly and efficiently.

IVU will need to significantly improve its capability to participate in Phase II. Its participation will be contingent on its success in setting up a special project unit and in obtaining waiver or expeditious treatment with regard to review of plans and

specifications, obtaining permits, bidding and contracting. The special unit would cost about \$280,000 over two years, well within 10% of house costs, which is the parameter used for indirect costs. This means that the budget for the special unit will be changed to the selling price of houses and recuperated when the long-term financing is drawn down.

The special project unit created during Phase I is expected to become the core of IVU's secondary city organization. Once the Urban Project III of the World Bank is underway, perhaps one staff member with experience in urban upgrading might be added. RHUDO/ROCAP will work closely with IVU during the Planning for Phase II Activity to ensure that it develops the necessary capability to carry out its role in Phase II and to avoid causing unnecessary and unwanted distortions to IVU's overall organization.

b. Vice-Ministry of Housing and Urban Development (HUD  
(Subsecretaría de Vivienda y Desarrollo Urbano)  
(Dirección de Urbanismo y Arquitectura - DUA)

The Vice-Ministry, created by public decrees Nos. 26 and 27 (May 2, 1979) is attached to the Ministry of Public Works. It has, by law, two basic functions:

- . To plan and coordinate shelter and urban sector activities, and
- . To formulate national housing and urban development policies, based upon which it may determine and assign the corresponding roles to the GOES shelter institutions and orient private sector participation.

An existing division of the Ministry of Public Works, the Urban Planning and Design Bureau, DUA, has been put under the new Vice-Minister. Other than that, HUD consists of one assistant to the Vice-Minister responsible for setting up the organization to carry out the new shelter sector functions. AID support for this effort is discussed in the project description.

DUA has an Urban Planning Division which is particularly relevant to this project. Within that Division there is a department which prepares urban development plans. This work already includes some analysis of shelter problems. A sample of this work in secondary cities is in LA/DR bulk files. This department has five planners, three traffic engineers, three economists and a sociologist. By adding one or two housing advisors it could assume responsibility for the shelter needs in secondary cities required for Phase II. Grant-funded TA is available to support them.

Again in the Urban Planning Division, is the department which regulates and controls urban land subdivision and construction - a permits bureau. This department is weak in professional staff and will require strengthening if it is to carry out two of the tasks related to Phase II - preparing new standards for subdivisions in secondary cities and implementing the regulatory aspects of the program to legalize non-conforming subdivisions in those cities. TA is also available to support the effort.

Given the magnitude of the changes expected in DUA and in HUD generally, the 18 months allocated for preparing the second phase will be needed. However, if HUD makes good use of the advisors financed under the Planning for Phase II Activity it should be able to develop the necessary capability to effectively carry out its role in Phase II.

c. Social Housing Fund (Fondo Social para la Vivienda - FSV)

The FSV is a semi-autonomous entity of the GOES created to administer a trust fund created by a special 5.5% payroll tax (0.5% paid by the employee, the balance by his employer). As of January 1980, 233,000 workers were contributing to FSV. As many as 60% of these appear to fall within the project's target zones.

The principal difficulties confronted by the FSV at this time are:

The weighted average nominal interest on its 1979 portfolio is 6.5%. With inflation averaging over 13%, the real interest rate is strongly negative. This signifies that workers on retirement, total disability or deaths do not recuperate funds which in real terms equal what was deposited on their behalf.

In 1979, the FSV attempted to double the number of units it committed to finance, from 3,000 to 6,000. As a result the fund now has forward commitments in excess of its projected income. For the first time the FSV is faced with a problem of lack of liquidity.

A majority of the contributors to the Fund have not been able to afford the housing being financed by the institution. Only the top income contributors receive back in mortgage financing an amount equivalent to their share in the fund. Since the FSV is locked

in to higher cost units over the next twelve to eighteen months, changing the historical pattern will require time.

The FSV is not geared to deal with non-contributors, although its own statute recognizes that this might become necessary. Its loan origination process, specifically, can function efficiently only for applications presented by contributors.

The FSV is already taking action to overcome some of these difficulties:

It is negotiating a \$20 million loan with CABEI to allow it to fulfill its current commitments.

It has authorized lower standards for projects still under construction, achieving reductions in cost of as much as 25%.

The net result, however, is that the FSV cannot and in fact, does not want to participate in Phase I. Its role in Phase II in producing new shelter units outside San Salvador will not begin for at least eighteen and perhaps twenty-four months. Even then, it is expected to continue financing units for its contributors only - IVU would provide for the non-contributors.

Assuming it solves its currently liquidity problem, the only constraint precluding FSV from participating in Phase II is the low interest rate it charges on mortgages.

As part of the capability which it will develop under this project, the Vice-Ministry of Housing and Urban Development (HUD) will support studies to re-evaluate the financial policies of the FSV, especially with regard to its negative net interest rates. If its recommendations are adopted, FSV could become a key institution in Phase II activities.

- d. Saving and Loan System/Housing Finance Bank  
(Sistema Nacional de Ahorro y Préstamo - SNAP/Financiera Nacional de la Vivienda - FNV)

The S&L system consists of eight stock owned associations operating under the supervision of the FNV, a semi-autonomous government institution.

The system, supported initially by a \$5 million seed loan from AID, has grown to the point where it has over 315,000 accounts

and total accumulated savings of \$195 million. Its consolidated portfolio consists of 15,720 mortgage loans with a value of \$150 million.

Until very recently the system had a problem of excess liquidity prompted by a few, very large savings accounts, thought to have derived from the coffee export bonanza. The use of the system by the FSV in effect as its implementing arm also contributed to the liquidity.

Both these factors have now reversed so that the S&L's are facing very serious problems of lack of liquidity which have paralyzed them. In the second half of 1979 (June-November) the total savings deposits fell by 33% as the large account holders withdrew their deposits. The FSV is facing cash flow problems of its own and is thus unable to help.

To compound the problem, the S&L system, which has traditionally financed housing of \$15,000 and above, cannot now find a market for these high cost units. Further, it has provided interim financing for some 3,000 urbanized lots but is unable to provide long-term financing for homes on those lots.

This project will help the S&L's only to a limited degree by providing long-term financing for about 900 units at \$4,000. This of itself will not solve the problem. Hopefully, however, it will establish the precedent that the S&L system can promote and finance shelter affordable by the great mass of its savers. Such a precedent would be important to the longer term stability of the system. Future financing for low-cost units could come from the AID/CABEI program. (In fact, the FNV is negotiating a \$6.4 million line of credit with CABEI).

The S&L system has a proven track record in building housing. If it pulls out of its current liquidity crunch, and has a successful experience with the low cost units it builds under Phase I, it could become a major participant and promoter of low income housing by the start of Phase II.

e. FEDECREDITO/FEDECACES

The overall institutional capability of these institutions is fully described in the recently approved Small Producer Development PP. This project places little additional burden upon these well established and capable agencies. Technical assistance is provided under the project to help them develop the minor new institutional procedures that will be needed to enable their full and successful involvement in the project.

### 3. Small Enterprises Activity

#### a. Agricultural Development Bank (BFA)

The BFA is the GOES institution under the Ministry of Agriculture and Livestock charged with providing agricultural development credit throughout El Salvador. Through its credit programs in 1978 it lent ₡152.4 million (US\$60.7) benefitting 43,115 families. The BFA has twenty seven agencies (branch banks) throughout El Salvador with the Central Office being located in San Salvador. Each agency has a chief and a staff, the size of which depends on the amount of credit activity. Under the chief there are at least one agronomist credit agent and two or three credit assistants (auxiliares de crédito) per agronomist. The assistants do the routine tasks of credit follow-up, problem identification, and remind borrowers of the importance of paying in cases where they market their own produce. The credit assistants are usually from rural areas and are given training in credit follow-up and elaboration of simple investment plans.

#### i. BFA Lending to Small Farmers

The Bank's activities over the last year gave special attention to stimulating diversified agricultural activities in cattle, basic grains, fish, and infrastructure development with the end of generating permanent employment and improved conditions of life in the rural areas. In order to accomplish this even more effectively on the medium and long term, the Bank has also placed heavy emphasis on strengthening its promotion, training, credit and technical assistance units. During the last year the BFA gave priority attention to small and medium sized farmers through individual loans, cooperatives, and "solidarity groups." The "solidarity groups" guarantee will be the most important mechanism used in the lending process under this loan. All told 2,317 solidarity groups and 135 cooperatives received loans, representing 27,294 families or 63% of the total number of families assisted by BFA.

TABLE 1 1/

Type of Client	Number of Loans	Number of Families
Individuals	15,821	15,821
Cooperatives	135	15,133
Solidarity Groups	2,317	12,161
TOTAL	18,273	43,115

1/ From BFA 1978 report p.9.

Approved applications represented 99,2% of the total applications, but only 78.1% of the total amounts applied for. This indicates that the BFA approved the smaller loans primarily, an important indicator of their real and not simply stated interest in providing small loans to poor farmers. (According to the BFA staff, lending to solidarity groups averaged 400 (US\$160) per individual loan.

TABLE 2 1/

	Numbers	%	Amounts in Millions �	Amount in Million \$	%
Applications received	20,155	100.0	202.6	81.0	100.0
Applications approved	19,985	99.2	158.2	63.2	78.1
Loans contracted	18,273	90.7	152.4	60.9	75.2

ii. Credit Lines and Policies 2/

BFA has three basic credit areas with lines for specific activities under each. They are:

1. Agricultural Development (Desarrollo Agricola) including:
  - a) basic grains
  - b) export development
  - c) conservation
  - d) agro-business development
2. Livestock Development (Desarrollo Pecuario) including:
  - a) cattle
  - b) non-land based farm animals
  - c) fish
  - d) pasture
3. Rural Social Development (Desarrollo Social Rural) including:
  - a) rural housing
  - b) land purchases
  - c) pre-agricultural (preparing land primarily)

1/ From BFA 1978 report p. 13.

2/ See Annex G.7. for specific data.

iii. Interest Rates

Depending on the lines and the source of funding, the BFA charges interest anywhere from 4% per year for some basic grains lines to cooperatives and solidarity groups, to 10% per year for land purchases and even 15% in the pre-agricultural line for land preparation. Currently, interest rates have become an issue and, despite their highly subsidized nature, political groups are pressuring for reductions in rates.

iv. Guarantees

Traditional types of security are often required to obtain a loan from BFA. Har... machinery and other equipment, possibly combined with some lein on crops are common ways to guarantee a loan. Co-signers are also used.

However, BFA has in the last several years departed from their normal mechanisms in order to increase access to credit by very poor people and is currently using to a large degree the solidarity group concept. However, in the BFA case it is used as an administrative line mechanism to facilitate a large number of loans.

v. Solidarity Groups (Grupos Solidarios)

This system is based on the use of participant voluntary self-selection into credit groups of 3 to 10 people who know each other and will mutually guarantee the loans of the other group members. The crucial elements rest on the functioning of peer pressures within the group to live up to the group's collective responsibilities. 1/ This system has been used in the BFA's basic grains project for over three years and has registered a 99.4% pay-back rate and has worked with nearly 3,000 groups to date. 2/

The BFA began using the solidarity groups system because it realized that farmers had already begun to use a similar system informally among themselves. A farmer would go to the nearest BFA office and take out a loan. He would then divide the loan among his friends. Each farmer was equally responsible for his portion of the original principal and interest. No usurous or additional interest was charged by the farmer who officially had taken the loan.

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1/ For a full and detailed explanation of this system, see FEDECCREDITO/PRIDECO PROJECT REPORT by Peter H. Fraser ACTION International/AITEC, which can be obtained through DS/UD or the Capital Development Officer, USAID/ES.

2/ This is also attributable to the crop marketing system whereby crops are chaneled through BFA to IRA, the agricultural marketing institute, which then pays BFA which in turn cancels the debt and pays the farmer the rest.

The BFA decided to institutionalize the system since they saw it as a very effective way to process and disburse many more loans with hardly any additional overhead or personnel costs. And, the risk seemed infinitesimal. But, in setting up their system the BFA initially failed to recognize the essential element of why the system worked.

BFA promoters under the institutionalized procedure went to the field and "formed" the groups themselves. This was the **flaw**. The groups must be self-selecting and voluntarily formed. The clients must have genuinely opted for this responsibility strictly upon their own accord and be aware of the implications of their decisions. Otherwise, as the BFA found out, the system does not work. According to the Bank's manager, the first loans were a disaster. Subsequently, they analyzed the problem and now insist in all of their promotion work and in their operations manuals that group formation must be done strictly through voluntary self-selection.

vi. BFA Capability

BFA's experience with lending to solidarity groups under the Basic Grains Programs is important because it forms the institutional base for rural micro-enterprise assistance. The Bank clearly has the outreach capability and the institutional structure through which to assist the target group. The added factor of having a known client group with which to start augurs well for its performance under the project.

b. National Agricultural Technology Center (CENTA)

CENTA has the responsibility for carrying out the objectives of the GOES in the areas of agricultural research and extension. Its stated objectives are increased agricultural production, greater participation of the small farmer in the rural development process, and increased employment in the agricultural sector.

CENTA, as a combined research and extension operation was created as an "autonomous agency of the Ministry of Agriculture" (MAG) in December 1971. CENTA has autonomy in scientific, technological and internal administrative affairs and obtains funding through the normal budgeting process of the Ministry of Agriculture. The Director General of CENTA is appointed by the Minister of Agriculture and the Director General's administrative staff includes an administrative office, an office for the coordination of foreign advisors, an audit office, an information and editorial office, and a research and education library. CENTA now has 57 field offices scattered throughout the country.

CENTA has a number of scientific functions in the field of seed variety improvements, chicken raising, and hog production. In addition, it operates a department of Rural Development. There are 80 Home Economists in this program who work primarily with rural women. Their expertise is primarily in areas of home and diet improvement.

CENTA home economists are constantly in contact with the BFA basic grains clientele either through the loan application process or through their work with 297 housewives clubs totaling over 6,000 members. These women are often wives of basic grains solidarity group members and who live in the "cantones." CENTA orientation consists of nutrition, pattern design and cutting, home improvement, small business, handicrafts and family planning. They also are trained in canning, pickling, making candies, marmalades, and jellies, as well as other handicrafts and domestic improvement projects.

Given its technical capacity and ability to provide training, CENTA is a logical organization to use to attempt to upgrade small business in rural areas and it is a logical component to continue to use in a concerted promotion effort for this loan.

EDURES' ECONOMIC ANALYSIS OF SHELTER ACTIVITIES

The EDURES study carried out traditional cost-benefit analyses for the San Salvador Marginal Community Upgrading Program to be financed by the World Bank. Table 1 shows the average unit cost for those elements related to Marginal Community Upgrading activities. In tugurios the materials loans have been divided proportionally between units on private and public lands. The opportunity cost of tugurio land has not been included as the land has little alternative use due to the steep terrain and difficult access. In the illegal subdivisions (colonias ilegales) an opportunity cost for land was applied only to lots not occupied at the beginning of the improvement program. Calculations of total costs and benefits in these areas is based on the total number of lots (15,050) that will be available for sale or rent throughout the program and infrastructure costs have been divided proportionally among the total number of lots. Administrative costs were included for all aspects of the improvement program, including field and office personnel, legal assistance and vehicles. The cost of maintenance for infrastructure, community services and housing was calculated at 1% of the total investment in materials and labor throughout the program. Specifically excluded were the costs of purchase of rooms in mesones (tenements) and already occupied land in tugurios and colonias ilegales. These were considered transfers.

Benefits were calculated on the basis of theoretic increases in imputed rents attributable to housing and infrastructure improvements. In the case of tugurios, campamentos and colonias ilegales these calculations were based on a field study of the Metropolitan rental housing market. The figures used for mesones were based on property values and current financial returns. Initial results showed internal rates of return (IRR) ranging from 6.4% for upgrading mesones to 21.9% for new meson rooms, the latter being somewhat misleading as

TABLE 1  
AVERAGE HOME IMPROVEMENT UNIT COST

Program Component	Total Activity Cost		
<u>TUGURIOS on public and private land</u>			
a. Infrastructure (without loans for materials)	materials	\$46	\$88
	labor	\$42	
b. Infrastructure (which materials loans)	materials	46	88
	labor	42	
c. Home Improvement	materials	200	266
	labor	--	
	self-help	66	
<u>MESONES</u>			
a. Improvement of Rooms	materials	166	320
	labor	154	
b. Cost of New Rooms	materials	450	600
	labor	150	
<u>COLONIAS ILEGALES</u>			
a. Average Infrastructure Cost per lot	material	101	194
	labor	93	
b. Home Improvement	material	400	533
	labor	133	

Adapted from Table XII.2,

Source: EDURES, Final Report, Program for the Integrated Improvement Critical Metropolitan Areas, Vol. I, Salvador, El Salvador, May 1978, p. 239.

the unit cost is only half of the market price (\$1,200) due to the low utilization of land and the presence of existing buildings and infrastructure. The overall rate of return for the entire program, without shadow prices of other adjustments, is 13.8% (The detailed rate of return calculations are in LAC/DR files). Of particular interest for the Marginal Community Upgrading Project is the fact that the higher returns were encountered for infrastructure improvement than for home construction or repair.

Table 2 presents internal rates of return for the entire program with a sensitivity analysis based on varying assumptions. Lowering benefits 20% lowers the overall IRR to 10.6%. Revaluing land in the illegal subdivisions at 25% of the market price in recognition of its few alternative uses and poor access raises the IRR for the total program to 15.9%. Because much of the unskilled labor used by contractors and for self-help purposes will come from the already unemployed and underemployed its impact on the program was recalculated using a 50% shadow wage price.

The IRR in this case for the entire program was 15.6%. Finally a calculation was made for the internal rate of return based on a combination of the effects of lower land costs and a 50% shadow wage rate for unskilled labor, the overall IRR rising to 16.9%.

This project will finance activities similar to those proposed for implementation under the World Bank project. The Mission believes that similar returns can be expected under this project. Several points should be noted. First, there is strong evidence that positive rates of return are possible in all areas of activity contemplated without requiring the pricing of unquantified social benefits. Obviously if shadow benefits for better health and living conditions were added, the IRR for any given component would rise accordingly. Secondly, in the straightforward cost-benefit analysis the improvement of infrastructure had higher rates of return than new housing or home improvement. This gives credence to the viability and necessity with limited funds of meeting the shelter-related needs of the poor without calling for new or improved shelter in every case. Thirdly, if such a package of projects can be economically positive in the Metropolitan Area where land prices and labor costs are higher than other urban and rural areas, it logically follows that activities outside of the AMSS in community infrastructure and upgrading will have proportionally higher rates of return.

TABLE 2  
SENSITIVITY ANALYSIS FOR AMSS IMPROVEMENT PROGRAM

Program Component	Assumptions				
	#1	#2	#3	#4	#5
	Internal Rates of Return				
<u>Tugurios</u>					
1. Private Land:					
a. without materials loans	17.3%	13.7%		19.1%	
b. with materials loans	14.6%	11.0%		16.4%	
2. On Public Land:					
a. without materials loans	16.0%	12.4%		17.5%	
b. with materials loans	12.0%	8.5%		13.7%	
3. All Tugurios	15.0%	11.5%		16.7%	
Campamentos	15.0%	12.1%		19.1%	
<u>Mesones</u>					
1. Meson Improvement	6.4%	4.1%		8.7%	
2. New Rooms	21.9%	17.2%		24.6%	
3. All Mesones	14.0%	10.7%		16.7%	
<u>Colonias Ilegales</u>					
1. Improvement of Occupied Lots	20.3%	15.5%	24.4%	24.4%	
2. Vacant Lots to be Occupied	12.8%	10.0%	20.9%	24.6%	
3. Vacant Lots with Loans for materials	12.8%	9.8%	15.9%	13.5%	18.5%
4. Lots to be Improved after the 1983-87 period	11.1%	8.8%	17.2%	12.2%	19.8%
5. All Illegal Subdivisions	13.4%	10.3%	17.9%	14.6%	20.4%
Entire Program	13.8%	10.6%	15.9%	15.6%	16.9%

Assumptions:

1. Simple Cost-Benefit IRR
2. IRR when benefits reduced 20%
3. Illegal Subdivision land valued at 25% of market value
4. Shadow price for unskilled labor at 50%
5. Combining assumptions 3 and 4

Source: EDURES, Ibid., May 1978, page 243, Table XI.4

PHASE I	YEAR	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991-9	2000-04	CUMULATIVE
	PROJECT YEAR	2	3	4	5	6	7	8	9	10	11-19	20-24	1982-2004
<u>Inflow 1/</u>													
1. AID/HG Loan		7,500,000	-	-	-	-	-	-	-	-	-	-	7,500,000
2. GOES Loan		1,200,000	-	-	-	-	-	-	-	-	-	-	1,200,000
3. Home Improvement Repayments		351,303	351,303	351,303	351,303	351,303	351,303	351,303	351,303	351,303	3,161,727	1,756,515	8,079,969
4. New Unit Loan Repayment													
1. IVU		359,856	359,856	359,856	359,856	359,856	359,856	359,856	359,856	359,856	3,238,704	1,799,290	8,276,688
2. FNV		421,145	421,145	421,145	421,145	421,145	421,145	421,145	421,145	421,145	3,790,305	2,105,725	9,686,335
5. Reinvestment Income: Home Imp.		-	4,344	14,262	15,502	15,657	15,676	15,679	15,679	15,679	156,790	608,848	878,116
<u>TOTAL</u>		9,832,304	1,136,648	1,146,566	1,147,306	1,147,961	1,147,990	1,147,983	1,147,983	1,147,983	10,347,526	6,270,368	35,621,108
<u>Outflow</u>													
1. Application of AID/HG Loan													
1. Home Improvements		2,000,000	-	-	-	-	-	-	-	-	-	-	2,000,000
2. New Units		5,500,000	-	-	-	-	-	-	-	-	-	-	5,500,000
2. Application of GOES Loan													
1. New Units		1,200,000	-	-	-	-	-	-	-	-	-	-	1,200,000
3. Repayment of AID/HG Loan		1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	9,202,734	2,045,052	20,450,520
4. Repayment of GOES Loan		-	-	-	-	-	-	-	-	-	-	-	-
5. Front end Commission on AID/HG Loan		75,000	-	-	-	-	-	-	-	-	-	-	75,000
<u>TOTAL</u>		9,797,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	9,202,734	2,045,052	29,225,520
<u>NET CASH FLOW</u>		34,778	114,122	124,040	125,280	125,435	125,454	125,457	125,457	125,457	1,144,792	4,225,316	6,395,588
<u>CUMULATIVE CASH FLOW</u>		34,778	148,900	272,940	398,220	523,655	649,109	774,566	900,023	1,025,480	2,170,272	6,395,588	6,395,588
<u>PHASE II</u>													
<u>Inflow 1/</u>													
1. AID/HG Loan		7,500,000	-	-	-	-	-	-	-	-	-	-	7,500,000
2. GOES Loan		2,500,000	-	-	-	-	-	-	-	-	-	-	2,500,000
3. Home Improve Loan Repayment		351,303	351,303	351,303	351,303	351,303	351,303	351,303	351,303	351,303	3,161,727	1,756,515	8,079,969
4. New Unit Loan Repayment		764,297	764,297	764,297	764,297	764,297	764,297	764,297	764,297	764,297	6,878,673	3,821,485	17,571,011
5. Basic Services Loan Repayment		222,013	222,013	222,013	222,013	222,013	222,013	222,013	222,013	222,013	1,998,117	1,110,065	156,199
6. Reinvestment Income: Home Imp.		-	30,011	43,137	44,778	44,983	45,009	45,012	45,012	45,012	399,484	978,860	1,222,798
<u>TOTAL</u>		11,337,613	1,367,624	1,380,750	1,382,391	1,382,596	1,382,622	1,382,625	1,382,625	1,382,625	12,436,001	7,667,925	42,467,397
<u>Outflow</u>													
1. Application of AID/HG Loan													
1. Home Improvements		2,000,000	-	-	-	-	-	-	-	-	-	-	2,000,000
2. New Units		4,600,000	-	-	-	-	-	-	-	-	-	-	4,600,000
3. Basic Services		900,000	-	-	-	-	-	-	-	-	-	-	900,000
2. Application of GOES Loan													
1. New Units		2,000,000	-	-	-	-	-	-	-	-	-	-	2,000,000
2. Basic Services		500,000	-	-	-	-	-	-	-	-	-	-	500,000
3. Repayment of AID/HG Loan		1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	9,202,734	2,045,053	20,450,521
4. Repayment of GOES Loan		-	-	-	-	-	-	-	-	-	-	-	-
5. Front End Commission on AID/HG Loan		75,000	-	-	-	-	-	-	-	-	-	-	75,000
<u>TOTAL</u>		11,097,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	1,022,526	9,202,734	2,045,053	30,875,521
<u>NET CASH FLOW</u>		240,087	345,098	358,224	359,865	360,070	360,096	360,099	360,099	360,099	3,235,267	5,422,872	11,961,876
<u>CUMULATIVE CASH FLOW</u>		240,087	585,185	943,409	1,303,274	1,563,344	2,023,440	2,383,539	2,743,638	3,103,737	6,339,004	11,961,876	11,961,876
<u>PHASES I/II CONSOLIDATED</u>													
<u>NET CASH FLOW</u>		274,865	459,220	482,264	485,145	485,505	486,550	485,556	485,556	485,556	4,380,059	9,848,188	18,357,464
<u>CUMULATIVE CASH FLOW</u>		274,865	734,085	1,216,349	1,701,494	2,186,999	2,672,549	3,158,105	3,643,661	4,129,217	8,509,276	18,357,464	18,357,464

1/ AID/HG loan and GOES loan rounded off to nearest 1/2 million.

CHANGES IN CASH FLOW TRENDS TO NOTE

1. Reinvestment income: 2000-2004. Reinvestment income in this time period is so high because after 2002, AID has been fully paid off (12½%, 20 yrs), leaving 3 years (2003-2005) of collections from homeowners to be fully reinvested at 12½% in home improvements.
2. Ten-year home improvement loans: Once they mature, they are reinvested in home improvement loans again. The original principal is no longer required after 10 years to repay AID as a result of the structure of the cash flow and the income generating capacity of the funds, given that the COES funds do not have to be paid back by the administrators.
3. The collections-remittance surplus during the first 10 years of the loan is large enough to absorb the payment of pti to AID instead of just 12½% interest on the drawdown amount. That is, the annual pti payment to AID (\$1,022,526) is not that much greater than the 12½% interest on drawdown amount annual grace period payment (\$937,500). Therefore, with 20 years, 12½%, no grace period, the administrator avoids paying AID 10 years of interest at \$937,500/year without the cash flow for the project becoming negative. However, reinvestment income during the first 10 years of the loan isn't quite as high as if the grace period were in effect. The reinvestment income lost as a result of not having a grace period is negligible.

PROJECT DEVELOPMENT PLAN  
(Units of Production in Parentheses)

ANNEX G.11  
PAGE 1 of 3

Year	Qtr.	PHASE I <sup>1/</sup>			PHASE II			TOTAL INVESTMENT				PERMANENT FINANCING					
		HOME IMPROVEMENTS		NEW UNITS <sup>2/</sup>	HOME IMPR. LOAN	NEW UNITS <sup>2/</sup>		Basic Services <sup>4/</sup>		HC (Eligible) To Date	GOES (Eligible) To Date	HC D'Downs Quarter To Date	GOES D'Downs				
		HC	GOES			HC	GOES	HC	GOES				Quarter	To Date			
1980	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	4	\$150,000 (150)	\$306,434 (98)	\$67,266 (22)	\$60,000 (120)	-	-	-	\$516,434	\$516,434	\$67,266	\$67,266	\$516,434	\$516,434	\$67,266	\$67,266	
	1	\$225,000 (225)	\$919,302 (294)	\$201,798 (66)	\$90,000 (180)	-	-	-	\$1,234,302	\$1,750,736	\$201,798	\$269,064	-	\$516,434	\$201,798	\$269,064	
1981	2	\$225,000 (225)	\$919,302 (294)	\$201,798 (66)	\$90,000 (180)	-	-	-	\$1,234,302	\$2,985,038	\$201,798	\$470,862	\$2,468,604	\$2,985,038	\$201,798	\$470,862	
	3	\$360,000 (360)	\$919,302 (294)	\$201,798 (66)	\$150,000 (300)	-	-	-	\$1,429,302	\$4,414,340	\$201,798	\$672,660	-	\$2,985,038	\$201,798	\$672,660	
	4	\$360,000 (360)	\$919,302 (294)	\$201,798 (66)	\$150,000 (300)	-	-	-	\$1,429,302	\$5,843,642	\$201,798	\$874,458	\$2,858,604	\$5,843,642	\$201,798	\$874,458	
	1	\$360,000 (360)	\$919,302 (294)	\$201,798 (66)	\$150,000 (300)	\$168,000 (84)	\$72,000 (36)	-	\$1,597,302	\$7,440,944	\$273,798	\$1,148,256	-	\$5,843,642	\$273,798	\$1,148,256	
1982	2	\$320,000 (320)	\$591,220 (189)	\$129,780 (41) <sup>1/</sup>	\$150,000 (300)	\$168,000 (84)	\$72,000 (36)	-	\$1,229,220	\$8,670,164	\$201,780	\$1,350,036	\$2,626,522	\$8,670,164	\$201,780	\$1,350,036	
	3	-	-	-	\$150,000 (300)	\$168,000 (84)	\$72,000 (36)	-	\$318,000	\$8,988,164	\$72,000	\$1,422,036	-	\$8,670,164	\$72,000	\$1,422,036	
	4	-	-	-	\$150,000 (300)	\$168,000 (84)	\$72,000 (36)	\$188,800	\$106,200	\$506,800	\$9,494,964	\$178,200	\$1,600,236	\$824,800	\$9,494,964	\$178,200	\$1,600,236
	1	-	-	-	\$150,000 (300)	\$462,000 (210)	\$198,000 (90)	-	\$612,000	\$10,106,964	\$198,000	\$1,798,236	-	\$9,494,964	\$198,000	\$1,798,236	
1983	2	-	-	-	\$150,000 (300)	\$462,000 (210)	\$198,000 (90)	\$99,200	\$55,800	\$711,200	\$10,818,164	\$253,800	\$2,052,036	\$1,323,200	\$10,818,164	\$253,800	\$2,052,036
	3	-	-	-	\$150,000 (300)	\$462,000 (210)	\$198,000 (90)	-	\$612,000	\$11,430,164	\$198,000	\$2,250,036	-	\$10,818,164	\$198,000	\$2,250,036	
	4	-	-	-	\$150,000 (300)	\$462,000 (210)	\$198,000 (90)	\$121,600	\$68,400	\$733,600	\$12,163,764	\$266,400	\$2,516,436	\$1,345,600	\$12,163,764	\$266,400	\$2,516,436
	1	-	-	-	\$150,000 (300)	\$1,058,400 (441)	\$453,600 (189)	\$243,200	\$136,800	\$1,451,600	\$13,615,364	\$400,200	\$3,106,836	-	\$12,163,764	\$400,200	\$3,106,836
1984	2	-	-	-	\$110,000 (220)	\$1,058,400 (441)	\$453,600 (189)	\$243,200	\$136,800	\$1,411,600	\$15,026,964	\$580,400	\$3,697,236	\$2,863,200	\$15,026,964	\$580,400	\$3,697,236
TOTAL:		\$2,000,000 (2000)	\$5,494,164 (1757)	\$1,206,036 (391)	\$2,000,000 (4000)	\$4,636,800 (2058)	\$1,987,200 (882)	\$896,000 NA	\$504,000 NA	\$15,026,964	\$15,026,964	\$3,697,236	\$3,698,236	\$15,026,964	\$15,026,964	\$3,697,236	\$3,697,236

General Notes

- At least \$300,000 of investments must be secured to generate a HC drawdown. Only 1 drawdown per 6 months.
- GOES drawdowns occur as investment secured.
- Start project on 4/80.

Technical Footnotes

- <sup>1/</sup> 1 month of housing production; last month 40 instead of 70 units produced by ITC (see Assumption 1 of Assumptions).
- <sup>2/</sup> For breakdown of Phase I new units into PHU vs. ITC building schedule, see assumption 4 of Assumptions.

- <sup>3/</sup> Housing unit financing split between AID/HC and GOES on a 80-20 basis for Phase I and a 70-30 basis for Phase II. This split applies to housing unit production as well as financing and is based on 1 of total funds provided by AID/HC and GOES respectively.

- <sup>4/</sup> Basic Services financing split between AID/HC and GOES on a 64-36 basis, in accordance with 1 of funds provided by AID/HC and GOES respectively for basic services.

CASH FLOW PROJECTION  
BFA Micro Enterprises Component  
(S000)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
Beginning Balance	-0-	-0-	100	100	100	100	100	100	100	100
Sources:										
AID Loan	420	1,580								
Reflows <sup>1/</sup>			1,417	1,106	1,284	1,283	1,354	1,389	1,448	1,477
	<u>-0-</u>	<u>346</u>	<u>171</u>	<u>699</u>	<u>545</u>	<u>633</u>	<u>631</u>	<u>667</u>	<u>684</u>	<u>712</u>
Total Available	<u>420</u>	<u>1,926</u>	<u>1,588</u>	<u>1,805</u>	<u>1,829</u>	<u>1,916</u>	<u>1,985</u>	<u>2,056</u>	<u>2,132</u>	<u>2,189</u>
Applications:										
Subloans	399	1,720	1,342	1,559	1,556	1,643	1,685	1,756	1,793	1,850
Administrative Expenses:										
-Salaries, Benefits and Overhead	13	62	100	100	125	125	150	150	187	187
-AID Interest	4	40	40	40	40	40	40	40	40	40
-Miscellaneous	4	4	6	6	8	8	10	10	12	12
Ending Balance <sup>2/</sup>	<u>-0-</u>	<u>100</u>								
Non Add: 67% average Loan Portfolio	281 139	1,152 568	899 443	1,044 515	1,043 513	1,101 542	1,129 556	1,177 579	1,201 592	

<sup>1/</sup> Reflows are based on 67% of availability being in the portfolio, average loan repayment 1.5 years, 15% interest/yr.

<sup>2/</sup> Assumes a minimum balance of \$100,000.

PROJECTED EXPENDITURES BY FISCAL YEAR  
(\$000)

<u>COMPONENT</u>	<u>FY 80</u>				<u>FY 81</u>				<u>FY 82</u>			
	<u>AID/DL</u>	<u>AID/DG</u>	<u>GOES</u>	<u>HIG</u>	<u>AID/DL</u>	<u>AID/DG</u>	<u>GOES</u>	<u>HIG</u>	<u>AID/DL</u>	<u>AID/DG</u>	<u>GOES</u>	<u>HIG</u>
A. Phase I												
1. Basic Community Service												
a. Materials, Labor, Equipment & Transport.	2,000		725		3,140		595					
b. Other Direct Costs	200		70		160		60					
c. Technical Assistance and Training		200										
d. GOES Admin.Costs			200				150					
2. Home Improvements												
a. Home Improvement Loans				1,141			1,720					501
b. Technical Assistance		50										
3. Shelter Solutions			269	1,226			801	3,677			130	597
4. Agrarian Reform	500	150	250		2,500	50	250					
5. Micro Enterprises												
a. Micro Enterprises Loans	420				1,580							
b. Technical Assistance		150										
6. Planning for Phase II		50				150			50			
B. Phase II												
Loans							72	168			576	1,154
C. Evaluation						50						
<b>T O T A L</b>	<b>3,620</b>	<b>600</b>	<b>1,514</b>	<b>2,367</b>	<b>6,390</b>	<b>250</b>	<b>1,928</b>	<b>5,565</b>	<b>50</b>	<b>706</b>	<b>2,252</b>	

PROJECTED EXPENDITURES BY FISCAL YEAR  
(S000)

<u>COMPONENT</u>	<u>FY 83</u>				<u>FY 84</u>				<u>TOTAL</u>			
	<u>AID/DL</u>	<u>AID/DG</u>	<u>GOES</u>	<u>HIG</u>	<u>AID/DL</u>	<u>AID/DG</u>	<u>GOES</u>	<u>HIG</u>	<u>AID/DL</u>	<u>AID/DG</u>	<u>GOES</u>	<u>HIG</u>
<b>A. Phase I</b>												
1. Basic Community Services												
a. Materials, Labor, Equipment & Transport.									5,640		1,320	
b. Other Direct Costs									360		130	
c. Technical Assistance and Training										200		
d. GOES Admin. Costs											350	
2. Home Improvements												
a. Home Improvements Loans				510				128				4,000
b. Technical Assistance										50		
3. Shelter Solutions											1,200	5,500
4. Agrarian Reform									2,000	200	500	
5. Micro Enterprises												
a. Micro Enterprises Loans									2,000			
b. Technical Assistance										150		
6. Planning for Phase II										250		
<b>B. Phase II</b>												
Loans			1,253	2,908			599	1,270			2,500	5,500
<b>C. Evaluation</b>		50									100	
<b>T O T A L</b>		50	1,253	3,418			599	1,398	10,000	950	6,000	15,000

## ENVIRONMENTAL THRESHOLD RECOMMENDATION

Project: El Salvador HG-006

Project Title: Shelter for the Poor

Project Location: Marginal zones in various cities, towns, and village areas

Funding:	FY 1980	Housing Guaranty Loan	US\$15.000 million
		Development Loan	10.000 million
		Development Grant	.475 million
		GOES	<u>11.250 million</u>
	Total:		US\$36.725 million

IEE Prepared By: C. R. Gavidia, General Engineer and Environmental Coordinator,  
AID Mission/El Salvador

IEE Prepared For: DS/Housing

Date: January 1980

## ENVIRONMENTAL ACTION RECOMMENDED:

A Positive Threshold Determination is recommended, thus requiring further environmental work in the Project Paper. This recommendation is based upon the incipient nature of program development and the potential for significant adverse environmental effects.

Office of Housing:

\_\_\_\_\_  
J. David McVoy  
Acting Deputy Director

Date: \_\_\_\_\_

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## I. BACKGROUND INFORMATION

### A. BASELINE ENVIRONMENTAL CONDITIONS

#### 1. Natural Environment

El Salvador is located between N. Lat. 13°10 and 14°25. It is the smallest of the Central American countries, occupying 21,000 square kilometers. Situated on the Pacific Ocean, its terrain is largely mountainous as a chain of volcanoes crosses the country in the central-southern region. The highest peaks are located in the northwest: El Pital, 2,730 meters high (9,000 feet) and El Montecristo, 2,447 meters high (8,000 feet). Like all tropical countries, it has a high mean annual temperature (24° to 28° C. or 76° to 82° F.) with seasonal rainfall from May to November.

#### 2. Human Environment

##### 1. Settlement Patterns

El Salvador is the most densely populated country in Latin America. It has approximately 240 inhabitants per square kilometer, total population of approximately 4.4 million\* and an area of 21,000 square kilometers. Human settlements in El Salvador are quite concentrated, although approximately 60% of the population is rural. The rural population is grouped into a network of small towns and villages: (*pueblos, cantones* and *caseríos*), the *caseríos* being the most dispersed. The housing shortage is very severe. (For further details, see the PID.)

Taking into account all housing existent in El Salvador two markets may be discerned: that of formal housing and that of informal, or spontaneous housing. The formal housing market does not apply to AID's urban poor target population; the informal market is AID's target market. consists of three sub-categories: shanty towns, "*mesones*" and illegal settlements. Each of these sub-categories has differentiating characteristics but all respond to the need to satisfy the increasing demand for low-cost housing.

One of the most important informal housing markets is constituted by *mesones*. These are old dwellings abandoned by their owners and now rented separately, room by room. The essential objective of *mesones* is to produce maximum rents, and they are therefore rented out to several families. In changing their character, physical changes are also imposed upon them. Maximum use is made of all space, and important changes are made to adapt them to their new function. The results give rise to much overcrowding and a physical deterioration of the structures. Thirty-three percent of the

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\* Population Reference Bureau

urban population and fifty percent of the low-income sector live in *mesones*.

Shanty towns or marginal zones consist of extremely precarious dwellings, constituting a high percent of the total of all housing. Dwellings are constructed from scrap material from urban areas. Frequently the dwellings are built on unsuitable land, such as that susceptible to flooding, or uneven terrain, or sites near sources of pollution.

The illegal settlement is similar to each of the above. These settlements are usually started by companies, persons, etc., who are only interested in the maximum profit they can get. The developers provide the least amount of services and amenities possible to people who are not able to buy other types of housing. The illegal settlement is constructed, but promised services never come. The result is that a large amount of people find themselves living in the worst of human conditions. It is often claimed that the reason for not building these settlements in a legal manner is because the design standards applicable are too rigid and high. Therefore, it is easier to build illegally.

#### b. Urban Services

Services are lacking in quantity and quality. Forty-seven percent of the total population does not have household running water, and 85 percent does not have plumbing facilities. Of the 268 urban municipalities, 205 are not provided with garbage disposal facilities. The danger of pollution is extremely great. The description of the informal housing market (see the PID) demonstrates the need for carrying out a comprehensive human settlement policy by stages in order to upgrade the human environment of the target group.

### 3. Environmental Planning and Institutions

At the present time, there is no comprehensive national environment planning agency. Environmental laws exist at various government agencies. USAID is currently working with GOES officials on an environmental improvement project which will create a national environmental office. This office would benefit the country as a whole by providing a mechanism for the protection and national management of the country's national resource patrimony.

For upgrading programs, environmental data can be obtained from several sources: IGN (Instituto Geográfico Nacional), Ministry of Health, Ministry of Planning, Ministry of Public Works, Ministry of Agriculture and Ministry of Labor.

## B. DESCRIPTION OF THE PROPOSED PROGRAM

The proposed project would support the determination of the GOES to shift the emphasis of shelter sector activity toward programs which address the needs of the poor population. Activities would be grouped in two major subprojects:

1. Immediate actions designed to provide basic public services to some 200 marginal communities (poor neighborhoods) in the major cities and to improve the existing shelter in those communities. Construction and disbursement would be fast (over a twelve- to eighteen-month period) as this subproject is also a part of a larger GOES "national emergency plan" being supported by AID. Activities will be designed to provide maximum employment during construction.
2. Actions which will affect basic institutional and programmatic changes in the shelter sector in El Salvador. The former will include analysis and redefinition of government policies concerning such issues as the proper role for key housing finance institutions (FNV, FSV) and the interest rate to be charged in the various shelter programs. The latter will involve the extension to small communities and rural settlements of upgrading and home improvement loan programs and a small pilot program to upgrade tenements (*mesones*). Implementation, to be initiated concurrently with that of the other subproject, will be over a three- to four-year period. All investments will be in areas outside the SSMA.

## II. ENVIRONMENTAL IMPACT IDENTIFICATION AND EVALUATION

### A. SUMMARY OF BENEFITS AND CONCERNS

Because the proposed program lays out a wide range of shelter strategies and components, a number of positive results should occur. Such an ambitious program as envisioned in the PID also carries with it the necessity for long-range, explicit planning in order to maximize benefits and minimize concerns.

#### 1. Benefits

In general, the program beneficiaries should receive a higher quality of life. Specific measurements of such improvements are as follows:

- New shelter solutions with the basic amenities (soundly-built with potable water and private sanitary facilities) for those people now living in unfit shelters. Designs may include sites and services and/or core housing.
- Improved health and safety environment for existing settlements by means of programs such as water, sewerage, drainage, street lighting, street leveling, and public telephones.
- Improved existing shelters by means of individual alteration such as installing concrete floors, durable roofs, house connections of basic services, and perhaps shelter expansion.

#### 2. Concerns

The enumerated benefits are not automatically achieved. Rather a deliberate and highly-evaluative process is required. The following are the perceived concerns associated with the proposed program:

- Lack of environmental planning and implementation capability.
- Number and variety of difficult environmental settings for program.
- Lack of project-specific detail to ensure correct decision-making.

### B. DISCUSSION OF KEY ENVIRONMENTAL ISSUES

Sound environmental planning in this program can be achieved through two avenues: a) institutional development and strengthening, and b) careful project selection and development, aided by fundamentals of environmental planning.

### 1. Environmental Planning and Implementation Capability

It cannot be assumed that the existing institutions are equipped to perform environmental planning functions. Field research indicates that there is no national environmental agency to provide a leadership role. Instead, baseline data is gathered by a wide variety of institutions. There is thus a need to coordinate data collection and analysis by the various agencies.

Three types of U.S. funding are proposed: housing guaranty, development grant and development loan. A variety of projects is contemplated: upgrading with urban services, home improvements, new housing construction. A number of Salvadorean implementers are involved, both public and private sector. Therefore, technical and environmental guidelines for implementation effectiveness need to be developed as the AID program unfolds.

### 2. Impact of Environment on Program Activities

There are different environments involved in the proposed program. Part of the proposal is to upgrade existing settlements in the major cities by means of providing basic public services and by improving existing shelters. In these circumstances, the carrying capacity of the environment to furnish basic resources (such as potable water and building materials) is of crucial importance. In addition, there are requirements to provide a safe environment away from disaster-prone areas.

Another part of the program would involve new shelter construction in urban areas. Basic necessities include appropriate site selection and development criteria, and sound environmental engineering construction/maintenance procedures.

In general, a representative selection of the various potential sites should be visited so as to furnish an initial understanding of the existing environment. Both the built environment (where upgrading and home improvements are to occur) and the natural environment (where new shelter is to be built) require inspection.

### 3. Lack of Project-Specific Detail

During the PP stage and afterwards, a finer resolution of detail can provide a sounder planning basis for program execution. In conjunction with earlier background environmental field research (mentioned above), further field work should focus on site-specific constraints. In response, administrative and technical options can be devised to minimize these constraints.

### III. RECOMMENDATIONS

#### A. THRESHOLD

A Positive Threshold Determination is recommended, thus requiring further environmental analysis. This recommendation is based upon two factors:

- Incipient nature of program development: It is too early to predict the various environmental impacts of the proposed program with any degree of precision.
- Potential for significant environmental effects: Working in low-income neighborhoods implies that resources are especially scarce and that physical conditions are severe. This program exhibits a complexity of proposals. Both factors (stressful environment and program complexity) combine to produce the potential for significant adverse environmental effects.

Both further environmental analysis and technical assistance are thereby recommended.

#### B. FURTHER ENVIRONMENTAL CONSIDERATIONS IN PROJECT DESIGN

Guidelines for this phase are found in Regulation 16 and L/H Manual Order 42-0. Detailed Environmental Criteria and an accompanying checklist should be developed and completed to solve the following issues:

- Upgrading Sites -- evaluation of alternatives and selection of least-cost, most environmentally sound sites for upgrading.
- Urban Services -- design of appropriate systems for potable water, sewerage, storm drainage, garbage, street upgrading, street lighting and other services.
- New Shelter Construction -- selection of appropriate sites and of construction/maintenance technology.

The criteria should be preceded by explicit goals and objectives which would facilitate the selection of an environmentally sound program. Essentially the emphasis should be on correct project sites, appropriate project components and suitable technologies. The checklist should be based upon the El Salvador environmental conditions.

These guidelines should be prepared by the Mission and the RHUDO with the collaboration of the GOES implementing agency. The guidelines should be developed and incorporated in the Project Paper.

In order to ensure full understanding and maximum benefits from such a checklist, RHUDO and the Mission should assist in its familiarization. This assistance should be in the form of training performed in-country

GLOSSARY OF TECHNICAL TERMS

A. HOUSING TYPES IN SAN SALVADOR METROPOLITAN AREA MARGINAL COMMUNITIES

1. Tugurios are squatter settlements located on steep-sloped public and private land (usually ravines), including street and rail rights of way, which has no real alternative use. Public services are almost non-existent. There is some access to electricity (often illegal) and several tugurios have public water. There is no sewage system or formal garbage collection. Housing is usually constructed by family members. Materials used range from cardboard, wood and plastic to wattle and daub.
2. Campamentos are emergency housing units built by the government after the 1965 earthquake. These are one room, wooden structures with cement floors and asphalt or tin roofs. Public infrastructure is available to campamento residents on a communal basis. The two major problems here are overcrowding and lack of maintenance. Average density is 1691 persons per hectare. After 15 years, most units have deteriorated severely and have been temporarily repaired with cardboard, plastic and other scavenged materials.
3. Mesones are multi-family rental tenements located in the original center of San Salvador and in neighboring municipalities within the AMSS. Families live in one room and have common access to public infrastructure through the owners of the buildings. This can be a problem when the owners set limits on water consumptions (the rental fee includes service charges). Construction materials vary: floors are cement, mud or brick; walls are mud, wood, corrugated metal or bricks; and roofs are metal, corrugated plastic or thrown-away materials. Density is high: 1364 inhabitants per hectare and maintenance by owners is kept at minimum.
4. Colonias Ilegales are illegal subdivisions located in the steep peripheral areas of San Salvador, especially the north, south and east. At first these subdivisions have no public infrastructure, but later as they develop, some receive public water and electricity. Housing conditions and materials vary considerably: many units are indistinguishable from the tugurios except the density is not so severe; others are constructed using permanent materials such as bricks and concrete blocks with asbestos-cement roofs. Major unmet needs are public water and sewer, electricity, garbage collection, and vehicular access.

**B. SAN SALVADOR METROPOLITAN AREA**

The San Salvador Metropolitan Area (SSMA) is comprised of the following municipalities:

1. San Salvador
2. Mejicanos
3. Ciudad Delgado
4. Ilopango
5. Antiguo Cuscatlán
6. Ayutuxtepeque
7. Cuscatancingo
8. Soyapango
9. San Marcos
10. Nueva San Salvador (Santa Tecla)

**C. SECONDARY CITIES**

The major secondary cities in El Salvador are:

1. La Unión
2. San Miguel
3. Usulután
4. San Vicente
5. Sensutepeque
6. Zacatecoluca
7. Sonsonate
8. Ahuachapán
9. Santa Ana
10. Chalatenango

Glossary of Abbreviations

ABC	- Access to Community Welfare Program
ANDA	- National Administration for Water and Sewerage
ANTEL	- National Administration for Telecommunications
BCR	- Central Reserve Bank
BFA	- Agricultural Development Bank
BH	- National Mortgage Bank
CABEI	- Central American Bank for Economic Integration
CACM	- Central American Common Market
CAESS	- San Salvador Power & Light Company
CEL	- Lempa River Hydroelectric Commission
CENTA	- National Center of Agricultural Technology
CONAPLAN	- National Planning Council
DIDECO	- Community Development Directorate
EDURES	- Urban & Regional Development Study for El Salvador
FEDECACES	- Federation of Savings and Loans Cooperative
FEDECCREDITO	- Small Business Credit Federation
FIGAPE	- Finance and Guarantee Fund for Small Business
FNV	- National Housing Fund
FSV	- Social Housing Fund
FSDVM or FUNDASAL	- Salvadoran Foundation for Minimum Housing
GOES	- Government of El Salvador
HUD	- Vice-Ministry of Housing and Urban Development
IDRD	- International Bank for Reconstruction and Development
IDB	- Inter-American Development Bank
INPEP	- Government Employees Pension Fund
INSAFI	- Salvadoran Institute for Industrial Promotion
ISSS	- Salvadoran Social Security Institute
ISTA	- Institute for Agricultural Transformation
IVU	- Urban Housing Institute
MAG	- Ministry of Agriculture and Livestock
MI	- Ministry of the Interior
MOP	- Ministry of Public Works
PRIDECO	- Integrated Community Development Program
RHUDO	- Regional Housing and Urban Development Office (AID)
SSMA	- San Salvador Metropolitan Area
UNDP	- United National Development Programme