

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

DOCUMENT CODE

3

2. COUNTRY/ENTITY

Honduras

3. PROJECT NUMBER

522-0155

4. BUREAU/OFFICE

LAF

05

5. PROJECT TITLE (maximum 40 characters)

Urban Upgrading

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY

05 31 83

7. ESTIMATED DATE OF OBLIGATION

(Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 80

B. Quarter 3

C. Final FY 80

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						
(Grant)	(200)	()	(200)	(200)	()	(200)
(Loan)	()	()	()	()	()	()
Other U.S.						
1. HO	10,000		10,000	10,000		10,000
2. TEUP	200		200	200		200
Host Country		2,500	2,500		2,500	2,500
Other Donor(s)						
TOTALS	10,400	2,500	12,900	10,400	2,500	12,900

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) SDA	722	867				200		200	
(2)									
(3)									
(4)									
TOTALS						200		200	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

760

11. SECONDARY PURPOSE CODES

663

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

BU

B. Amount

200

13. PROJECT PURPOSE (maximum 480 characters)

To improve the capacity of the municipal governments of Tegucigalpa and San Pedro Sula to implement cost recoverable programs to upgrade marginal, urban communities on a scale sufficient to reduce the housing and infrastructure deficits.

14. SCHEDULED EVALUATIONS

Interim

MM YY 05 81

MM YY

Final

MM YY 05 83

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000

941

Local

Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY

Signature

Title

John R. Oleson
Mission Director

Date Signed

MM DD YY 04 11 80

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DISTRIBUTION, DATE OF DISTRIBUTION

MM DD YY

PROJECT AUTHORIZATION

Name of Country: The Republic of Honduras
 Name of Project: Urban Upgrading
 Number of Project: 522-0155

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Urban Upgrading Project for the Republic of Honduras involving planned obligations of not to exceed Two Hundred Thousand United States Dollars (\$200,000) in grant funds 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 costs for the project.

2. The project consists of providing technical assistance to the municipality of San Pedro Sula and the Metropolitan Council of the Central District in support of the development objectives of the Urban Upgrading Housing Investment Guaranty Program.

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 covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

4. Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by A.I.D. under the project shall have their source and origin in the Central American Common Market Countries, and in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing.

Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

5. Condition Precedent to Initial Disbursement

Borrower shall submit, in form and substance satisfactory to A.I.D., an analysis of the potential impact of the Project on the water supply of Tegucigalpa and the plan of the Borrower to deal with the increased demand for water.

Edward W. Coz
Acting Assistance Administrator
Bureau for Latin America
and the Caribbean

May 9, 1980
Date

Clearances:

LAC/DR:CPeasley: 5/11/80 date 5/11/80
LAC/CLN:MSchwartz: 5/11/80 date 5/11/80
LAC/DR:MBrown: 5/11/80 date 5/11/80
SER/COM:WSchmeisser: 5/11/80 date 5/11/80
SER/CM :PCasteel: 5/11/80 Date 5/11/80
GC/LAC:JLKessler:ckg:5/2/80:ext:23272

GUARANTY AUTHORIZATION

PROJECT 522-HG-006

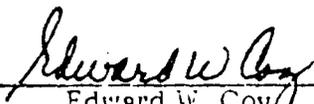
Provided From: Housing Guaranty Authority
To : Government of Honduras
For : Urban Upgrading - 522-HG-006

Pursuant to the authority vested in the Acting Assistant Administrator, Bureau for Latin America and the Caribbean 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 ten million dollars (\$10,000,000) in face amount, for 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 urban upgrading projects ("Projects") in Honduras.

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 Honduras Guaranty: The Government of Honduras 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. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary, including a covenant by the Borrower that the benefits of the loan will flow directly to families earning below the median income in the applicable urban area, and the following condition precedent to the first disbursement: Borrower shall submit, in form and substance satisfactory to A.I.D., an analysis of the potential impact of the Project on water supply in Tegucigalpa and the plan of the Borrower to deal with the increased demand for water.



 Edward W. Coy
 Acting Assistant Administrator
 Bureau for Latin America and Caribbean

 May 9, 1980
 Date

Clearances:

DS/H: David McVoy DM for DM Date 4/28/80
 CC/H: Barbara Davis BD Date 4/28/80
 DS/H: Sonny Lee SL Date 4/28/80
 FM/LD: Ernest Wilson EW Date 4/28/80
 LAC/DP: Carol Peasley CP Date 4/28/80
 LAC/DR: Marshall Brown MB Date 5/1/80
 LAC/CEN: Marvin Schwartz MS Date 5/1/80
 GC/LAC: Judd Kessler JK Date 5/1/80
 SER/CM: PCasteele PC Date 5/1/80
 DS/H: SLOW:prj:4/14/80

HONDURAS
URBAN UPGRADING
PROJECT PAPER

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ABBREVIATIONS AND ACRONYMS

ASEPADE	Development Consultants (Asesores para el Desarrollo), Tegucigalpa
BANMA	Autonomous Municipal Bank
BCH	Central Bank of Honduras
CDSS	AID Document, Country Development Strategy Statement
CMDC	Metropolitan Council of the Central District, Tegucigalpa
CONSUPLANE	National Economic Planning Council
CUNA	Credit Union National
DG	Development Grant
DL	Development Loan
DIMA	Water and Sewer Authority of San Pedro Sula
ENEE	National Electric Energy Company
FACACH	Federation of Cooperative Credit Union Associations
FECOPAHN	Honduras Federation of Neighborhood Organizations
FENAPCOM	Front for the Defense of Community Interests
FUNVIMINH	Fundacion de Vivienda Minima de Honduras (Minimum Housing Foundation of Honduras)
GOH	Government of Honduras
HG	Housing Guaranty
IDB	Interamerican Development Bank
IIPUP	Integrated Improvement Program for the Urban Poor
INFOP	Instituto de Formacion Profesional (National Vocational Training Institute)

INVA	National Housing Institute
JNBS	National Social Welfare Board
METROPLAN	Esquema Directo de Ordenamiento Metropolitano
MSPS	Municipality of San Pedro Sula
PADCO	Planning and Development Collaborative International
PVO	Private Voluntary Organizations
SANAA	National Water and Sewer Authority
SPSS	Statistical Package for the Social Sciences (Computer soft-wear program)

G L O S S A R Y

<u>barrio</u>	neighborhood or community
<u>barrio marginal</u>	marginal community or neighborhood
<u>candil</u>	tin-can light using kerosene and a wick
<u>choza</u>	hut, hovel
<u>colonia</u>	synonymous with barrio, or neighborhood
<u>concejalía</u>	administrative unit headed by a city councilman (in Tegucigalpa)
<u>cuarterías</u>	multi-family units containing one-room rental units, which share sanitary facilities
<u>gerencia</u>	administrative unit, literally a management unit
<u>letra</u>	note
<u>maestro de obra</u>	construction foreman, also used to describe small contractors with no formal engineering training
<u>patronato</u>	barrio-based community organization
<u>personería jurídica</u>	existence as a juridical entity, as for an organization which has been sanctioned officially
<u>promotor</u>	community development or social worker
<u>pulperia</u>	neighborhood grocery store
<u>repartos marginados</u>	marginal settlements or sub-divisions
<u>terreno ejidal</u>	communal land

I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

USAID/Honduras recommends authorization of a \$10.0 million Housing Guaranty (HG) for up to 30 years, including a grace period of up to 10 years, and a \$0.2 million Development Grant for urban upgrading in Tegucigalpa and San Pedro Sula.

B. Summary Project Description

The goal of the Project is to assist the municipal governments of Tegucigalpa and San Pedro Sula to improve the conditions of their urban poor who live in marginal communities. To this end, the Project will:

1. finance packages of infrastructure services in the marginal communities (barrios marginales) on a cost recoverable basis. The infrastructure services can include street paving, pedestrian walks, storm drainage, potable water, sanitary sewerage, and street lighting. The community organizations (patronatos) and the respective municipality will decide jointly on the actual mix of improvements and their priorities in any given barrio. As a rule, water and sewer projects will be designed to include the connections to individual properties. Some off-site infrastructure also can be financed when it is necessary to connect a barrio to existing utility systems and access streets.

2. finance simple home improvements such as the installation of permanent walls and roofs, concrete floors and foundations, doors and windows, and house connections for electricity, water and sewerage when not already included in the project to provide such services to the community.

The target group is the 43,000 households in Tegucigalpa and 26,000 households in San Pedro Sula which either are already or by 1983 will be living in the marginal communities of the two cities. Such communities are characterized by the deficient delivery of basic services, such as water, and by the generally deteriorated condition of the housing stock. This project will benefit about 40% of those households. The Project will provide some basic infrastructure services to about 80 marginal communities with an estimated 31,000 families, and it will finance home improvements for some 2,000-2,500 housing units.

To support Project implementation, a \$200,000 Development Grant will finance technical assistance to improve the capacity of the municipalities of Tegucigalpa and San Pedro Sula to recover investments in infrastructure in marginal communities, to assist in training the leaders of community organizations (patronatos) and to strengthen the municipal offices which work with those organizations.

In a closely related effort, \$200,000 of IIPUP 1/ funds will finance small pilot projects to develop, conduct and evaluate programs which address particular problems related to the social aspects of community upgrading. An example of such problems are those confronted by households headed by women. It is expected that this practical research effort will lead to the inclusion of social development programs on a broader scale in future upgrading projects.

The Borrower will be the Ministry of Finance acting for the GOH. It will pass the Project funds to the municipal governments of Tegucigalpa and San Pedro Sula, which will have overall responsibility for the coordination and management of the project. Other cooperating agencies are INVA, FACACH, SANAA, and ENEE. INVA, the National Housing Agency and FACACH, the Honduran Credit Union Federation will act as financial intermediaries in the home improvement loan activity on behalf of the municipalities. SANAA and ENEE are the water and sewer and power authorities, respectively. SANAA will assist the municipality of Tegucigalpa with water and sewer projects. (San Pedro Sula has its own water authority.) ENEE will assist in projects involving street lighting or electrification. Much of the infrastructure construction will be contracted to private firms and all of the home improvements will be done by the private sector.

The cost of installing basic services will be charged to the residents of the communities receiving those services. The cost recuperation will be handled through various mechanisms currently available to the municipalities. Typical terms will be 10 years at 15%.

Individuals opting for a home improvement loan will repay it at prevailing commercial loan terms in Honduras, that is between 17 and 19% for up to three years. These terms relate to an expected rate for the HG loan of 14.5 to 15%. INVA and FACACH keep the spread to cover their costs.

All surplus reflows from the recuperation of the basic service investments and home improvement loans will be placed in a revolving fund to repay the HG and, to the extent that funds are available, to finance similar new investments and loans. This fund will bear the risk of shortfalls between collections and HG repayment obligations. The GOH will bear the foreign exchange risk, and, as The Borrower, bears the ultimate responsibility for repayment in the event that sufficient funds are not available in the revolving fund.

1/ IIPUP = Integrated Improvement Program for the Urban Poor, a DS/B project authorized on August 22, 1978 to help in the design and implementation of the social and economic components of shelter projects.

TABLE 1

Summary Cost Estimate
and
Financial Plan
(\$,000's)

<u>Activity</u>	<u>A I D</u>		<u>Local Contribution</u>		<u>TOTAL</u>
	<u>HG</u>	<u>DG</u>	<u>TEG.</u>	<u>SPS</u>	
1. Community Improvement	9,000	-	2,000	500	11,500
2. Home Improvements	1,000	-	-	-	1,000
3. Technical Assistance	-	200	-	-	200
<u>T O T A L</u>	10,000	200	2,000	500	12,700

TABLE 2

Illustrative Activity Costs
and Affordability

<u>Activity</u>	<u>Cost/Household 1/ (US\$'s)</u>	<u>Affordability 2/ (% Target Group)</u>
<u>Community Improvement</u>		
Water	95	95
Sewerage	117	94
Drainage	25	99
Package <u>3/</u>	358	81
<u>Home Improvements</u>		
Roof	320	43
Walls	230	65
Floor	150	81

1/ Cost and data on affordability are for Tegucigalpa. Costs in San Pedro Sula are lower.

2/ This is based on 15%, 10 years for community improvements and 17%, 3 years for home improvements.

3/ Consists of street paving or pedestrian walks, storm drainage, water and sewerage.

Project construction activities are expected to begin almost immediately in Tegucigalpa and by October, 1980 in San Pedro Sula. Those investments by both municipalities, approved by AID, initiated as of the date of authorization of this Project, will be eligible for HG financing. The entire Project is expected to be concluded by mid-1983.

The municipalities of Tegucigalpa and San Pedro Sula have sufficient technical and managerial capacity to implement the Project. The utility concessionaires have a great deal of successful experience in infrastructure works of the type financed by this Project. INVA and FACACH will be able to process and administer the financial aspects of home improvement loans. The social outreach and promotion activities for both home improvement loans and for infrastructure projects will be the responsibility of community development departments of the municipalities, working with the patronatos.

USAID and RHUDO/ROCAP will jointly implement and evaluate the Project with the two municipalities on an on-going basis. A regular evaluation as per the DS/H Manual is planned. An end of project impact evaluation will be made as well.

D. Project Issues

The principal issues raised in the DAEC review of the PID (State 048209, Annex A.1.) and the findings on those issues as a result of intensive review are:

1. Target population attitudes and income. An analysis of the potential beneficiaries' ability to pay for Project items makes it clear that the target group will be eligible to participate on the basis of household income. A survey of the preferences of the residents in the marginal settlements indicates that they are willing to pay for the project services. The effective demand will far exceed the Project resources, but the magnitude of the resources available will enable Tegucigalpa and San Pedro Sula to reverse the process of accumulating deficits in physical services. Section III-E-1 ("Financial Analysis, Effective Demand") demonstrates that the Project components are affordable by the target group with terms of 15%/10 years for basic services and 17%/3 years for home improvements. For example, 78% of the target group in Tegucigalpa and 86% in San Pedro Sula could afford the entire infrastructure package--street paving, pedestrian walks, storm drainage, street lighting, and water and sewerage. However, all residents of a participating barrio will receive the benefits and it is the policy of the two municipalities that all residents of communities benefited by public investments in basic services must make some contribution to the amortization of that investment. The practice in Tegucigalpa is to assess a corresponding share to all affected properties. The problems of those families unable to meet the required payments are then addressed on an individual basis by the Community Development Department. The most frequent solution used is to extend the repayment period for a longer term, thus reducing the monthly

amount owed. San Pedro Sula will adopt similar procedures. The cash flow analysis (See Annex D.1.) indicates that the Project is financially viable, even if 30% of the households repay over 30 years (instead of 15 years).

Renters represent about 30% of the target group. While no significant difference was found between the incomes of renters and non-renters, renters are paying more on the average than owners for housing costs. As a result, renters have less disposable income remaining to cover the increases in housing costs that will occur as a consequence of the Project. Some displacement of renters is inevitable, the degree of which will depend upon the amount of increased costs that are passed on from the owner to the renter. Rent controls are not considered an appropriate tool for minimizing this displacement because the market distortions that are introduced eventually work to the detriment of the very group that they are intended to protect. There is, however, reason to believe that due to the fact that such a large percentage of the target group's housing stock is being effected by the Project the demand side of the market equation will work to inhibit owners from passing on all costs to renters.* Consequently, owners who are presently changing what the market will bear will have to absorb some of the cost increases, thereby minimizing displacement. For those that are displaced, some may in fact become owners in sites and services projects which are to be built in Tegucigalpa and San Pedro Sula. The most indigent will move on to an unimproved site, with the possibility of improving their housing situation later on if their incomes improve.

2. Project Focus.

(a) Geographic. The Project will be concentrated in Tegucigalpa and San Pedro Sula, the two largest cities in Honduras. The rationale for this is twofold. First, the Project intends to involve municipal governments in addressing the shelter needs of the urban poor on an expeditious basis. Tegucigalpa and, to a lesser extent, San Pedro Sula are the only two cities in Honduras which now have the capacity to manage this kind of program. The smaller towns and cities do not now have this capability and to develop it would require large amounts of technical assistance and delay project implementation.

Second, the Project will be complemented by the Municipal Development Bank II loan which will be operating simultaneously and which will be exclusively for cities and towns other than Tegucigalpa and San Pedro Sula. Although BANMA II does not include home improvement loans, it can be expected to finance many of the same types of basic service improvements in those areas that this Project will finance in the two major cities.

(b) Income Group. The feasibility of including as Project beneficiaries the very lowest income groups also has been examined. With the basic service improvements no one will be excluded on the basis of income. Between 20 and 50% of the target group will not be able to afford borrowing for

*The Mission will, as a part of its ongoing evaluation process, monitor the project's effects, if any, on rental rates in the target barrios.

individual home improvements, depending on the type of improvement (See Table 2, above). The Project will demonstrate that local governments can use market rate funds to upgrade the shelter conditions of the urban poor; and that, with flexible terms this can reach the target group without prejudicing the ability of the local governments to repay the borrowed funds. Inevitably, however, there will remain a small group at the very bottom of the income range who must be treated on an individual basis. (See Section III-E-4, "Cost Recovery.")

3. Construction Activities. Section II-B-3 ("Planned Outputs") describes the scope of construction activities. The construction activities will include providing water and sewer-main connections from the street to the house and the construction of secondary water systems. It will not finance the installation of primary distribution systems. An engineer who is a specialist in water and sewerage systems was a member of the project development team.

4. Relation to other AID Activities.

(a) The Shelter for the Urban Poor (522-HG-005) project, approved in FY78, includes \$1.26 million of HG funds for home improvement loans. Even if these funds were to be directed to the same client groups contemplated for this Project, the effective demand for home improvement loans is so great that it would absorb all of the resources available. An analysis of the income and the income distribution of the target group in Tegucigalpa and San Pedro Sula indicates that \$22 million of home improvement loans could be afforded by the target group over a three-year period. The proposed loan together with the INVA loan could service only 10% of the existing potential demand or 50% of the annual increase in potential demand through new household formation alone. 1/

The DAEC also inquired whether home plumbing would qualify for home improvement loans. It would. The installation of home plumbing complements and maximizes the benefit of providing water and sewerage systems under the public services component of the loan. As a further measure to facilitate the access of the target group to water and sewer services, projects to construct such systems in the marginal communities, as a rule, will be designed to include individual hook-ups.

(b) The Urban/Regional Assessment is not a prerequisite for the present Project. The basis for the Mission's long-range strategy is to be laid in the Urban/Regional Assessment, the principal outcome of which will be an Urban/Regional Information System to facilitate continual analysis of urban and regional development problems, thereby strengthening GOH planning efforts in those areas. The first results should become available in 1981 and should

1/ These calculations assume that 10% of family income is available to pay for an additional room. (See Table 8, "Affordability of Project Items.")

suggest concrete policies for more concentrated and rational urban development. It will provide, as well, an analysis of the pattern of the flow of goods, services, and people in regional and urban spatial systems. The Assessment will provide the analytical basis for economic development strategies by revealing the linkages in regional economic systems. However, the Assessment will not produce a detailed list of infrastructure deficiencies in specific cities. These already are known for Tegucigalpa and San Pedro Sula and the Mission has proposed to go forward with actions which meet these clear needs. The large unsatisfied demand for basic infrastructure in Tegucigalpa and San Pedro Sula is such a need.

The CDSS, dated February 15, 1980, states in part, "Current urban AID programs are focusing on HG financed low cost housing and urban upgrading, principally in the two major cities... The program also is attempting on a pilot basis, to integrate the provision of social services and physical improvements..." (p.52). The CDSS goes on to point out that since "... the shift to civilian government will imply some shift of power to elected local representatives, we find it likely that AID strategy will include supporting the development of local governments-i.e. municipal planning and implementing capabilities..." (p.53). The Project serves these two objectives.

5. National and municipal urban development strategies.

(a) National. The Project is consistent with the National Housing Plan 1979-83, which sets as two of its major objectives and goals: (i) improving the physical and environmental conditions of substandard shelter, and (ii) concentrating public sector actions on the low-income population. Its main purpose is to upgrade the shelter of, and provide basic services to low-income households in the marginal areas of Tegucigalpa and San Pedro Sula.

(b) Municipal. The Metropolitan Master Plan (Esquema de Ordenamiento Metropolitano - EDOM) for Tegucigalpa in 1976, as well as the Urban Development Plan for San Pedro Sula, both of which were adopted in 1976, both refer to the problems faced by marginal areas lacking in basic services. The EDOM specifically refers to the need to place a high priority on providing basic services to the tugurios, and indicates the need to identify the additional resources required to carry out such a program (Vol. II, Chapter 5, p.19). In fact, the municipality of Tegucigalpa has been seeking financing for an upgrading program since at least 1978, when it made such a request to the World Bank. The Bank has not responded. A loan for urban upgrading is not presently included in its country program for Honduras.

Volume I of the San Pedro Sula Plan refers to the 40% qualitative housing deficit (i.e. lacking services) (p.81) and proposes measures to provide services in those areas on a priority basis (p. 128). The Municipal Planning director has stated that an even clearer reference to an upgrading program will be included in a revision of the plan currently underway.

The investment necessary to address the basic service needs of the annual increase in marginal community residents, following Project conclusion, is approximately \$735,000 in Tegucigalpa and \$220,000 in San Pedro Sula. This level is not much greater than the average annual contribution of the municipalities for this Project (\$666,000 in Tegucigalpa and \$155,000 in San Pedro Sula). Given the clear commitment of both municipal governments to upgrading, it is reasonable to expect that they will dedicate the necessary funds from their annual investment budgets and will continue to borrow commercially to maintain at least this level of activity.

6. Coordination Mechanisms. Section III.B. ("Administrative Feasibility") identifies the implementing agencies, how they relate to each other, and how Project funds will be handled. Consistent with the project goal of involving the cities in shelter sector activities, Tegucigalpa and San Pedro Sula each will control its share of Project funds, coordinate Project activities, and manage the reflows without the need for any national coordinating agency.

7. Land Tenure. Land tenure has long been a serious problem, in Tegucigalpa and San Pedro Sula. More than half the marginal community residents are buying land under lease/purchase contracts in illegal subdivisions, where, for reasons of non-conformity with land subdivision standards, individual lots cannot be titled. Decree No. 833, dated November 10, 1979, and its Regulations dated February 4, 1980, provide mechanisms to deal expeditiously with urban land tenure questions for the first time. The Decree requires that the owners (lessors) of property sold in unauthorized, non-conforming subdivisions install basic services. If they fail to comply, the municipal government will do so at the owner's expense, confiscating payments made by purchasers (lessees) to the landowner to cover the cost of the services. The Implementing Regulations for Tegucigalpa define the basic services as including water, sewerage, and electricity. The Municipal Government of Tegucigalpa intends to use its authority under the Decree to resolve existing problems in illegal subdivisions, although the thrust of the Decree effectively is to stop future illegal land developments. There are four marginal communities in Tegucigalpa where the Decree already has been invoked. Most future land developments will be done by the city itself and by properly authorized private developers. Where required, use of the powers conferred by the Decree will be made a prerequisite of any subproject. The Decree can be applied within 30 days in Tegucigalpa. In San Pedro Sula its application will require the prior adoption of an implementing regulation. Since the municipality already has subdivision standards and can draw from the experience in Tegucigalpa, this should not be a problem at all. Consequently, tenure problems will not delay project activities.

In any event, the Implementation Agreement will contain a covenant restricting infrastructure improvements to communities where either there are no land tenure problems or those that do exist can be resolved before construction begins.

8. Reflows. The Implementation Agreement will contain a covenant providing that excess reflows be used to establish a revolving fund in Tecucigalpa and in San Pedro Sula from which loans will be made for additional community improvements and home improvement loans. The improvements would be of the same type as those funded by this Project and for the same target group. The revolving fund accounts would be separate from other accounts; funds would not be used for other than project activities. The governments of both cities have agreed to this in discussions, and it is included as a covenant.

9. Social Services. \$200,000 in grant funds will be used to support project implementation. This will include \$80,000 to increase the capacity and capability of the patronatos and of the municipal community development departments to deal with community upgrading activities. An additional \$200,000 of IIPUP funds will be used to conduct research which has practical implications for the social aspects of community upgrading programs in general. While conducted in conjunction with this project, the results will lead to a more comprehensive approach to upgrading projects in general by attempting to deal with the social as well as the physical problems of marginal communities. Pilot projects will experiment with programs in two or three barrios to identify special social needs, to devise programs to address those needs, and to evaluate the program results. (See Section II-8-4-b, "Project Inputs", Technical Assistance.)

10. Environmental Considerations. The Implementation Agreement will include a covenant providing that environmental conditions which could adversely affect a community will be taken into account in sub-project planning and design. Such environmental conditions will be considered when approving specific subprojects. The proposed criteria for determining subproject eligibility (See Annex E.2.) take into account the environmental concerns identified for this project. RHUDO/ROCAP staff and consultants will assist the two municipalities in the use of these criteria. These actions are in conformity with the recommendations of the IEE prepared for this Project. (Annex E.6. pp. 8-9)

II. PROJECT DESCRIPTION

A. Background

1. Overview. Honduras has the second lowest per capita income in Latin America (higher only than that of Haiti) and the highest rate of population growth (3.5% per year). The population of Tegucigalpa and San Pedro Sula is increasing by 6.2% annually, their marginal neighborhoods at a 12% annual rate. 1/ In 1979, an estimated 38% of all Hondurans lived in urban areas 2/ and this is projected to increase to 55% by the year 2000. A little over half (54%) of the total urban population is in the two largest cities of Tegucigalpa and San Pedro Sula.

Honduras has not been able to cope with the shelter needs of low-income families, especially those in its two largest cities. The 1974 Census of Housing for Honduras showed that 60% of the urban and rural housing units suffered major structural deficiencies or basic infrastructure service deficiencies. This translates into 316,000 housing units which needed repair or replacement in 1974. However, from 1974 to 1977 the formal housing sector only produced an average of 6,000 units a year. This represents approximately 40% of the increase in the housing stock which would be required in the two major cities in order to keep up with the increase in the formation of new households. The shelter deficit continues to grow.

The relatively small amount of formal-sector low-income housing produced has meant that the majority of the urban population has built its own shelter. The units are usually built in unplanned, illegal, or undeveloped areas which lack basic services and which feature poor health conditions. Most units have no connection or access to a potable water system, sewerage, drainage, or garbage collection. Approximately 60% of the units in Tegucigalpa and San Pedro Sula are without private indoor plumbing, water, or a flush toilet.

Low-income families typically pay US\$10 to US\$40 per month to rent or buy units on land which often is not legally titled. Tenure problems result from one of two conditions. Some families are on land which they do not own. More frequently, however, the families occupy land which they are buying under a lease-purchase contract in a privately owned development which has not been authorized by the municipal authorities. Individual lots cannot be registered legally until a subdivision conforms to municipal regulations. The municipalities of San Pedro Sula and Tegucigalpa have carried out sporadic partial improvements but until very recently have been unable to mount permanent programs to upgrade marginal areas.

1/ An extrapolation of the growth rate between the 1961 and 1974 Census produces estimates of the 1980 population of Tegucigalpa as 360,000; San Pedro Sula, 220,000.

2/ Defined as population centers with more than 2,000 people.

In addition to the shortage of basic infrastructure services, there are major deficiencies in the urban housing stock itself. The 1974 Housing Census showed that 67.5% of the urban units were built of adobe, dirt and wood, wood sticks, cane, or other temporary materials; over 26% had dirt floors; 44% consisted of two rooms or less; and over 21% were classified as cuarterias, rented single rooms with shared kitchens and sanitary facilities. Approximately 60% of the units in Tegucigalpa and San Pedro Sula are severely overcrowded.

From June to October of 1979, an intensive study was made of marginal urban areas. ^{1/} The living conditions of the urban poor and of the institutions and agencies on which they depend for social and shelter services were analyzed. The major findings include:

a. Target group living conditions. The target group for this Project includes the residents of marginal barrios in Tegucigalpa and San Pedro Sula. These barrios are the poorest urban neighborhoods, characterized by inadequate housing, a lack of potable water, roads, and sewerage, and poor social services. Within these marginal barrios there are at least four distinct sub-groups: renters of cuarterias, squatters, renters of private houses, and owners of houses or residents who are buying houses under lease-purchase contracts. This study found that income is correlated with housing type, an assertion which was subsequently disproved by the more rigorous research in the marginal communities conducted in preparing this paper. Marginal barrios have the highest unemployment rates in the country. Most residents feel that the lack of steady employment is their major problem, followed by shortfalls in housing and related services. Poor health is a major problem and is linked to shelter conditions such as deficient sewerage systems.

The majority of the urban poor target group do not have access to a potable water system in their homes. In Tegucigalpa, 44% of the total population is without access to a potable water system; in San Pedro Sula, the figure is 43%. The families which are without access to a water system pay five to nine times more for water per unit, than families with connections.

The most common form of organization in the marginal barrios is the patronato--a community organized group with local leaders that carry out local development projects and social activities. There are 64 patronatos in Tegucigalpa and 120 in San Pedro Sula. Tegucigalpa and San Pedro Sula have set up community development departments which work directly with the patronatos. Both mayors meet at least once a week with representatives of the patronatos to discuss community problems and projects.

^{1/} PADCO, IIPUP Studies. Field work covered Tegucigalpa, San Pedro Sula, Choluteca, and La Ceiba.

b. Social service delivery system. The Honduras social service delivery system dealing with the urban poor at the national level consists of the National Social Welfare Board and the Ministries of Public Health and Education. The Social Welfare Board's programs have been largely in rural areas. Those of the Ministry of Health dealing with urban marginal communities are focused on curative rather than preventive care. The Ministry of Education has a program of adult education, but it has not reached a large enough number of the urban poor to have any significant impact. The municipalities are largely responsible for addressing the problems of the poor and for helping community groups work with the national public institutions. Tegucigalpa and San Pedro Sula have good community development departments which assist community organizations in obtaining services and in carrying out infrastructure projects.

2. Relation to GOH Priorities. The 1976 National Housing Policy expressed the GOH determination to look at the shelter sector within the context of overall economic and social development. It expressed an intent to treat shelter in the context of employment generation, social services, and health conditions. The concept was shelter together with ancillary physical and social services.

The influence of the Policy is reflected in the National Housing Plan, 1979-1983. It recognizes that the shelter conditions of the urban poor cannot be improved to any great extent by formal construction of additional housing units. The problem is just too vast and too far beyond the economic capacity of the country to deal with in that manner within any foreseeable time frame. The Plan realistically focusses on three programs: (i) sites and services, (ii) barrio upgrading, and (iii) rural housing. The barrio upgrading program will, "Improve the conditions and quality of the existing housing occupied by very low-income families: structures, basic services, and the environment."^{1/} It is directed at marginal areas in Tegucigalpa, San Pedro Sula and secondary cities and towns. Accordingly, the Plan proposes to make available basic infrastructure services to the settlements and improve some 18,000 housing units at an average cost of \$750. The present project supports this approach, although it is based on a much lower cost per solution.

3. Mission Strategy. A stated objective of the CDSS is the improvement of the quality of life in urban areas through urban investment and service programs which focus on the supply of shelter services affordable by the poor on a self-sustaining basis, the support of informal shelter activities, and assistance in developing mechanisms to plan and coordinate the delivery of social services to the urban poor. The CDSS proposes the use of HG loans in the shelter and infrastructure components of urban programs so that highly concessional financing can be reserved in large measure for use in rural areas. This project has been designed with this general strategy in mind.

^{1/} Plan Nacional de Vivienda 1979-1983, p. 21.

Mission programs in the urban/regional sector include the Municipal Development Bank project (BANMA II: 522-0164), the Shelter for the Urban Poor project (522-HG-005) and the Urban/Regional Assessment. The BANMA II project will provide \$5 million to assist Honduran municipalities apart from Tegucigalpa and San Pedro Sula and specially those whose annual tax revenue amounts to less than \$37,500 per municipality, a target group which includes over 90% of all municipalities in Honduras. In contrast, this Project was designed to provide assistance to the urban poor of Tegucigalpa and San Pedro Sula with HG funds, a recognition of the relative well-being and sophistication of these two municipalities. To the extent that long-term capital market funds can be used by these municipalities, the Central Government will be able to devote correspondingly more of its concessional resources to poorer municipalities, such as those being assisted by the BANMA II project.

The Shelter for the Urban Poor project addresses the needs for new and improved shelter in Honduras through the formal housing sector which produces about 40% of the new housing required in the two major cities. The remaining 60% of the housing requirement is provided by the informal sector. Only by working through both the formal and informal sectors can the housing deficit ever be reduced significantly. The upgrading approach is indicated because it is cost effective and because there is already in place in the target communities a substantial investment in shelter and services as well as social organizations. Thus, through Shelter for the Urban Poor and this Project, the Mission is dealing with the problem on both fronts.

The basis for the Mission's long-range urban/regional strategy is being laid in the Urban Regional Assessment, the principal outcome of which will be an Urban/Regional Information System to facilitate continuing analysis of urban and regional development problems, thereby strengthening GOH planning efforts in these areas. The short-term output of the Assessment, to be ready in 1981, will be recommendations with regard to policies for accelerated efforts in the development of urban areas. The Assessment also will provide the analytical base for a possible Urban Sector Loan in 1982.

The majority of the families residing in the marginal barrios of Tegucigalpa and San Pedro Sula lack water (55%), sewerage (65%) or drainage services (90%). Further analysis is not required to establish the need for these services. In addition, the pilot activities to be undertaken in the area of social services by this Project will generate new information which could be important for the design of social services programs for an Urban Sector project which may be proposed at the conclusion of the Assessment.

4. Shelter and Related Assistance Programs. Over the past 12 years, AID has provided over \$14 million (\$7 million each HG and DL) to finance some 3,500 new housing units in Honduras at an average cost of \$4,100. An additional \$10.5 million HG authorized in 1978, the Shelter for the Urban Poor project, will finance some 6,000 additional shelter solutions (including housing units and home improvement loans) at an average cost of \$2,450. The trend in AID shelter assistance is toward lower cost solutions which are

responsive to the needs and financial capacity of the urban poor. This Project, with an average cost per solution of about \$400, accelerates that trend.

The IDB also has been providing shelter assistance to Honduras. INVA has received loans for \$6.8 million from the IDB with which it has financed 5,600 units at an average cost of \$1,200. The IDB currently is negotiating a loan with the municipal government of Tegucigalpa to finance some 2,500 sites and services units at an average cost of \$1,750 ^{1/} and related facilities (schools, parks, employment generation). The project would be administered by a recently created PVO, FUNVIMINH.

IDB loans to SANAA for urban water projects are important for the success of this project. The most recent loan includes the construction of major water systems in Tegucigalpa and San Pedro Sula. The IDB water projects will finance the construction of the primary water supply and distribution networks to the settlement level. This Project will finance secondary water distribution networks and home connections within the settlements.

B. Detailed Project Description

1. Project Goal. The goal is to improve the living conditions of the urban poor in the marginal settlements of Tegucigalpa and San Pedro Sula.

2. Project Purpose. The purpose of the Project is to improve the capacity of the municipal governments of Tegucigalpa and San Pedro Sula to implement cost-recoverable programs to upgrade marginal, urban communities on a scale sufficient to reduce the housing and infrastructure deficits.

The Project reinforces the physical and social upgrading pilot efforts being made by Tegucigalpa and San Pedro Sula. It is designed to increase assistance substantially to the more than 60% of the population in the two major cities who live in settlements with inadequate or no basic urban services, in housing made of impermanent materials located frequently in illegal or unauthorized land subdivisions. The project will demonstrate that the provision of basic public services in marginal communities as well as the improvement and expansion of the individual housing units in those communities can be financed at market rates and repaid by the beneficiaries. This is of major importance because the dimension of the shelter problem of the urban poor is so great that improvements on a significant scale cannot be funded primarily from concessional donor funds or general tax revenues. Achievement of the Project Purpose will be verified if the Municipalities continue to borrow at commercial rates for barrio upgrading projects. If they do so, there will be advance toward achievement of the Project Goal.

^{1/} These unit costs for the IDB project refer only to serviced lots with a sanitary core and are comparable to the expected cost of similar units to be financed under the Shelter for the Urban Project. AID's HG-financed project will also include units with up to two bedrooms, hence the higher average cost.

3. Project Outputs

There are four categories of project outputs. They are related to: (a) land tenure, (b) basic infrastructure, (c) home improvements, and (d) an increased municipal capability in the areas of cost recovery and community development.

a. Tenure problems have posed major obstacles to upgrading marginal urban settlements until very recently. Title could not be conveyed legally if a dwelling were on land not accepted by the municipality as properly urbanized -- i.e., meeting standards of minimal infrastructure services. Decree 833, of November 10, 1979 and the Implementing Regulations for Tegucigalpa ^{1/} now enable the municipality to resolve the tenure problem. It requires developers who are selling units in illegal subdivisions to pay for the prompt installation of infrastructures. Failing to do so, the owner would forfeit all time payments to the municipality which would use the income to install the infrastructure at the owner's expense. The intent of the Decree is to put a stop to illegal private land development. Henceforth, private subdivision projects will be done legally with full infrastructure services and legal title, or else the municipality will undertake the land development itself.

The Municipal government of Tegucigalpa intends to apply the Decree rigorously. In the case of San Pedro Sula, the application of the decree will require the adoption of an implementing regulation. Since the municipality already has subdivision standards, which are the basic content of the needed regulation, and since there is the experience of Tegucigalpa to draw on, it will be feasible to apply Decree 833 in San Pedro within a reasonable period of time. The adoption and implementation of the regulation in San Pedro Sula will be a major project output. In any case, it is anticipated that the initial subprojects in that city will be in the area of Chamelcon, to the north, where tenure problems result from invasion of government-owned land. The resolution of such problems does not require the application of Decree 833. Consequently, tenure problems need not delay Project implementation.

Financing under the proposed Project will be appropriate in marginal settlements where one or more of the following tenure situations exist:

- (1) Residents already have secure title or (perhaps under mortgage) are renting a properly-titled lot and house.
- (2) Residents are occupying municipally owned land, the subdivision of which does not meet municipal standards.
- (3) Residents are buyers who are making time payments on lease/purchase contracts in privately sponsored subdivisions which do not meet municipal standards.

The resolution of the land tenure problems which may arise in the last two situations will not be financed by land purchase because there already is a contract between the illegal subdivider and the person buying on time. Rather, the project will finance the infrastructure which is prerequisite to the municipality recognizing tenure. Both municipalities have agreed that any land purchase costs which might arise would be absorbed by them, in addition to their proposed contribution. At this time, however, no such costs are anticipated. Finally, some legal assistance to patronatos can be provided from technical assistance funds in those cases where a settlement is encountering difficulty in negotiating the purchase of illegally subdivided, privately owned land. (See section 3-d below regarding technical assistance.)

^{1/} See Annex F.1.

b. Basic infrastructure services Water and sewerage, street lighting, drainage, and street paving for improved circulation of buses and public service vehicles in the settlements will be provided to about 80 marginal communities in Tegucigalpa and San Pedro Sula with some 31,000 families. 1/

(1) Water and sewerage systems will use most of the funds of the Project. The installation of the two usually will occur together because it is cheaper than doing the two separately. Nevertheless, there may exist some extremely poor communities which cannot afford to install a sewer system along with a water system. The Project could finance water alone in those cases. In these cases, which will be an infrequent exception, measures to avoid creating health problems in the community (such as septic tanks) will be required. Also, the Project could finance the installation of a sewerage system alone where potable water already is available. In addition to financing the systems within the settlements, the Project also could finance that part of the secondary distribution system which brings water and sewerage services from the main trunk line up to the settlement.

As a rule, both water and sewerage systems will be designed to include the connection of the services to individual properties, thus assuring that the residents are benefitted. This should also reduce the cost of the hookups.

(2) Public street lighting is expected to be a larger Project activity than electricity hookups to individual houses. Surveys in Tegucigalpa and discussions with city officials indicate that most houses already have electricity; but in those cases where a resident does not have electricity, the Project could finance a hookup through the home improvement activity.

(3) Drainage will be financed in those settlements where stagnant water collects and improper drainage is a serious problem.

(4) Street paving within the barrios can be financed where the lack of paving impedes the circulation of buses and public service vehicles within the barrios. There also may be some instances of paving short access roads to the barrios.

The entities which will be involved in the basic infrastructure program are examined in detail in Section III-B ("Administrative Feasibility"). SANAA and the municipal government jointly in Tegucigalpa and DIMA in San Pedro Sula will be assigned responsibility for water and sewerage and drainage projects. They will contract for or prepare the plans and specifications, contract

1/ This is based an average of 390 households per community and an average cost of \$370 per household over the life of the project.

private construction firms, inspect and supervise construction, and maintain and operate the system when completed. They also will provide technical assistance for the self-help construction by the community which is expected to be a major infrastructure project activity.

ENEE will be responsible for street lighting and electricity connections. ENEE does its own construction without using private contractors.

Plans and specifications for paving and drainage will be prepared by the municipal engineering departments. Construction will be done either by the municipalities themselves or by their contractors.

c. Home improvements will be financed for 2,000-2,500 housing units in the marginal communities to be upgraded. Illustrative loan amounts and types of improvements which can be financed are set forth in Section III-C ("Technical Analysis"). Essentially the purpose of this Project activity will be to complete the process of providing basic services by financing the individual hookups, not otherwise included in the infrastructure project design, as well as the in-house facilities to permit the use of the service (plumbing, bathrooms...). The loans also will finance improvements and extensions of deteriorated, overcrowded housing. INVA and the Federation of Cooperative Credit Unions (FACACH) are to be the financial intermediaries for the municipal home improvement loan program. The community development department of each municipality will promote the home improvement program for INVA. FACACH will work with its 40 member credit unions in Tegucigalpa and its 30 members in San Pedro Sula, especially the "open" credit unions (i.e. not related to a specific work place) which exist in both cities. Should either of the participating municipalities identify another qualified intermediary, such as an S&L association, the Mission will consider permitting the use of such an alternate channel.

d. Improved municipal capability in the areas of cost recovery and community development programs. The Grant funds will be used to support Project implementation by financing technical assistance in two key areas, cost recovery and community development. It is in these two areas that the Project analyses have found that the development of new methodologies and operating procedures, as well as training of participants, will be necessary. (See discussion in Section III.B.2. "Administrative Feasibility".) The expected outputs are shown in Table 3, below:

TABLE 3

MUNICIPAL DEVELOPMENT PLAN

<u>Expected Outputs</u>	<u>Technical Assistance Inputs</u> (Person/months)		
	Tegucigalpa	San Pedro Sula	Total
1. <u>Cost recovery</u>			
-Legal assistance and cost recovery	0.5	1.5	2.0
-Methodology for allocating cost of improvements	3.0	6.0	9.0
-Training of municipal personnel	0.5	0.5	1.0
-Study of organization/staffing/procedures	1.0	3.0	4.0
	<u>5.0</u>	<u>11.0</u>	<u>16.0</u>
2. <u>Community development</u>			
-Manuals containing the concepts, objectives and methods of community development	3.5	3.0	6.5
-Communication/dissemination of information techniques	1.5	1.5	3.0
	<u>5.0</u>	<u>4.5</u>	<u>9.5</u>
-Trained <u>patronato</u> leaders <u>1/</u>	(300)	(100)	0.5
			<u>10.0</u>

1/ This does not involve TA as such. Grant funding will be applied to pay for the cost of travel and per diem of patronato leaders as necessary to attend courses offered by the National Social Welfare Board generally in Tegucigalpa. A weekly expense of \$100 per leader is anticipated. Thus training will be extended to 300 leaders in Tegucigalpa and 100 in San Pedro Sula at a total cost of \$4,000, or the equivalent in cost of one half person month of TA.

e. Subproject implementation cycle. The full success of this Project depends on the degree to which the various Project activities, as described above, are brought to bear in a coherent, coordinated manner in a given marginal community. It is also contingent on the degree to which residents of the community have participated in determining both the nature of, and the priority among, the basic service improvements to be financed.

Typically, development of an upgrading program in a given barrio will follow the suggested subproject implementation cycle (see Table 4) to promote that the desired community participation and the necessary coordination among activities.

TABLE 4

TYPICAL SUBPROJECT
IMPLEMENTATION CYCLE

<u>Activity</u>	<u>Phase I (3 mos.)</u>	<u>Phase II (3 mos.)</u>	<u>Phase III (4 mos.)</u>	<u>Phase IV (3 mos.)</u>	<u>Phase V (4-6 mos.)</u>
1. Community organization participation	-Strengthen existing <u>patronatos</u> -Train <u>patronato</u> leadership -Explain and publicize program	-Discuss and prioritize problems affecting the community -Develop the final upgrading program		-Organize self-help if it is to be used	-Self-help/mutual help community participation
2. Land tenure legalization	-Establish nature and extent of land-tenure problems -Define solution and initiate implementation	-Continue implementation of solution (e.g. negotiate with land owner or sub-dividers)	-Continue implementation of solution (e.g. obtain necessary legal authority)	-Land tenure problems resolved no later than this phase.	
3. Basic services/home improvement project	-Survey basic service needs, housing condition -Inventory conditions of existing infrastructure -Inventory environmental problems affecting the community	-Develop schematic designs and cost estimates -Determine relocation needs -Advertise home improvement program	-Develop final plans & specs. for services -Obtain necessary approvals -Prepare bid documents -Start home improvements (when no land tenure problem exist)	-Bidding -Contracting -Continue home improvement	-Construction -Emphasize house service connections in home improvement
4. Cost recovery ground work	-Develop socio-economic data on residents -Select appropriate cost recovery mechanisms	-Estimate level of investment which community can afford	-Allocate costs to individual residents	-Conclude allocation -Sign notes/contracts each resident	-Initiate cost recovery at the conclusion of construction

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The subproject eligibility criteria to be used by AID in approving specific investments will require evidence that the key steps of the cycle have been completed prior to the start of construction. (See Annex E.2.).

4. Project Inputs

a. Financial. Total project funding will be:

AID	<u>\$ 10.2 million</u>
	10.0 million HG
	0.2 million DG
GOH	<u>\$ 2.5 million ^{1/}</u>
	2.0 million Tegucigalpa
	0.5 million San Pedro Sula

\$7.5 million of the HG resources will be allocated to Tegucigalpa, of which \$500,000 will be earmarked for home-improvement loans. \$2.5 million of the HG loan will be for San Pedro Sula, including \$500,000 for home improvement loans.

Each municipality will determine how to distribute their portion of the \$2.5 million local contribution between the project activities.

b. Technical assistance. The \$200,000 in DG funds will be used to support project implementation through the development of the capability of the municipalities. The project support T.A. will consist of approximately:

- \$120,000 for about 16 person-months of assistance to improve valorization practices and other cost-recovery techniques;
- \$80,000 for about 10 person-months of assistance and training to increase the capacity and capability of the patronatos and of the municipal community development departments to deal with community upgrading activities; and

^{1/} The 2.5 million of counterpart funds does not include: (a) the money value of self-help labor, which will be a local community contribution in certain basic infrastructure programs; (b) the possible cost of any land purchases from private land owners except when such land is part of the right of way needed for a specific project (although no such purchases are anticipated at this time); (c) nor the value of municipally owned land utilized in the Project. The counterpart can include the costs incurred by the municipalities in preparing plans and specifications for specific construction projects approved by AID.

5. Proposed IIPUP Program.

The \$200,000 1/ of IIPUP funds, while using the present project as a vehicle through which to carry out pilot projects in selected barrios, will produce its own measurable research outputs which will be applicable to future programs as well. By expanding our knowledge about the non-physical aspects of community upgrading, future programs can be more comprehensive in addressing a wider range of the special needs of marginal communities and of subgroups within the communities. Those special needs include, for example, education in better health and sanitation practices related to the better use of water and sewerage systems, and the special job-related needs of women heads of households or of barrio residents in general.

The IIPUP funds will be used to do pilot research and experimental social programs in two or three of the barrios included in this project. Survey data shows that women heads-of-household in the barrios have substantially lower incomes than the average in these communities. IIPUP resources will fund a study or survey to: (a) identify what those special needs are in pilot barrios; (b) try to come up with a program to deal with those needs; and (c) evaluate the results of the program. The budget for this kind of effort will break down into 20:60:20 for (a), (b), and (c) respectively.

Research has already been done in Honduras on possible methods of creating job opportunities for women heads-of-households. More than 40% of the households in the target group for this project fall into such a category. Typical of the types of programs which could be undertaken are small barrio-level industries organized as women's cooperatives. The IDB has completed a feasibility study for such projects with pre-project designs and cost estimates. The Community Development Department of the CMDC has these studies.

Another area of IIPUP participation which is contemplated relates to employment. Often there are unfilled jobs available, for example in the construction industry. They probably are unfilled either because people don't know about them or because the unemployed lack the requisite job skills. IIPUP funds will finance an investigation of where and what kind of job opportunities exist and then finance some organization, such as the Institute for Cooperative Development (Instituto de Fomento Cooperativo), or the Institute for Professional Training (Instituto de Formacion Profesional - INFOP) to offer training courses in the pilot barrios and to improve the access of the residents to information on job opportunities.

IIPUP funding will also be utilized to support a pilot effort to coordinate the delivery of key social services, such as health and education,

1/ \$100,000 will be obligated in FY80 and \$100,000 in FY81. The funds were authorized on August 22, 1978 by DS/B.

in government-sponsored sites and services projects. The effort would seek to establish a working arrangement between the housing agency, INVA, and either the municipal community development departments or the National Social Welfare Board (or both) for the effective transfer of responsibility for assisting the residents of the sites and services projects to secure these social services. INVA does not (and probably should not) have a social service capability beyond that necessary to select families for its shelter projects. However, the absence of a working arrangement with other institutions, such as that which the IIPUP would seek to create, has forced INVA to remain involved with its projects for years after they have been completed. The involvement has signified a drain on INVA's resources and by occupying management time has interfered with the institution's basic responsibility for building new housing. The need for the effort to be undertaken with IIPUP funds was identified in the Shelter for the Urban Poor (522-HG-005) Project Paper.

The IIPUP projects will be coordinated with, and essentially operated by, the community development departments of the two participating municipalities. This will produce the additional benefit of sensitizing the municipalities to the need for such programs and will train them in how to implement them. INVA and the other national agencies, such as INFOP and JNBS, are expected to cooperate as well.

III. PROJECT ANALYSES

A. Social Analysis

1. Introduction and Summary of Findings. This report describes the socio-economic conditions of the marginal communities and assesses the perceived housing and service needs of the barrio families, their financial capabilities, and the mechanisms by which they will participate in the project. The investigation consists primarily of a household survey of the socio-economic characteristics of barrio families. 1/ Information was also obtained on the willingness and ability of marginal barrio families to pay for improved housing and utilities.

The survey consisted of interviews with 204 heads of household in 29 of the estimated 84 marginal barrios in eleven of Tegucigalpa's cadastral zones, hence guaranteeing a wide geographical coverage of the city's marginal barrios. The sampling methodology is described in Annex C.1. The sample represents approximately one percent of the occupied housing units in the cadastral zones. The estimated population in the nine zones for which information is currently available is 130,704. Up-to-date, reliable estimates of population per barrio per zone should soon be available when computerization of the cadastral survey is completed. A list of the barrios sampled per cadastral zone is given in Annex C.1. Data for San Pedro Sula was obtained from existing secondary sources.

The findings of this social soundness analysis can be summarized as follows:

. The target group for this Project includes some 70,000 families (400,000 persons) who will be residing during the period 1980-83 in marginal communities in Tegucigalpa and San Pedro Sula.

. The most meaningful characterization of income groups by housing type is by quality of structure. Unimproved housing is highly associated with the lowest income families, as shown in the survey. There is no significant difference in the income levels of renters and non-renters; but the median rent payment is greater than that for purchasing a house (\$15 versus \$10).

. 55% of families in the marginal barrios do not have access to piped water services; 66% do not have sewerage connections; 25% do not have access to electricity.

1/ Computerization of the survey data was conducted by the USAID/Honduras staff, utilizing the Statistical Package for the Social Sciences, a soft-wear package designed for social science applications. The data analyses reported here are significant (Chi Square level of significance) at less than 0.01, unless otherwise specified.

. 70% of the families either own or are buying the house they live in.

. 41.2% of all households are headed by women. Such households are larger than maleheaded households (5.9 versus 5.7 persons), and earn less than one-half the income.

. Perceived needs for services in the barrios (and the percent of those families without the service who desire it) are:

paved main artery	(89 %)
sewerage	(67 %)
pipied water	(50 %)

. Two-thirds of the families can afford to pay for the complete package of services. Virtually all families surveyed in Tegucigalpa indicated that they would pay some amount to obtain basic services.

2. Overview of the marginal communities

a. Tegucigalpa. It is estimated that approximately 45% of Tegucigalpa's population lives in marginal barrios. There is no complete list of the city's barrios at the present time. However, approximately 84 barrios of the total of 191 barrios can be considered marginal.

The formation of marginal barrios has been underway for over 20 years. Many of the barrios originated in spontaneous land invasions of ejidal (communal) and private lands. Others are sub-divisions developed by private real estate companies. Often these sub-divisions do not provide adequate services, in violation of municipal ordinances. All types of land tenancy situations with which the municipal government is faced are represented in the sample.

The growth of the marginal barrios in Tegucigalpa, as well as in San Pedro Sula, has been spurred by the continuing in-migration of agricultural workers and their families. It is thought that in-migrants to Tegucigalpa first settle in the inner-city tenements and then filter out into peripheral barrios after a period of adjustment.

b. San Pedro Sula. San Pedro Sula has the highest growth rate of all urban centers in Central America. This growth has occurred at such a rapid rate that the projections of the 1976 urban plan for the city have been superseded by events. The city's most rapidly expanding corridor lies to the east of the city's boundaries, not along the north-south axis as the plan projected. No information is available on the number of marginal households in this area, nor is there reliable information available on the proportion of the city's population which can be considered marginal. (Some data from a 1978 sampling are presented on pages 33-34 of Annex C.1.). However, existing survey data does indicate that the socio-economic characteristics of marginal communities in Tegucigalpa and San Pedro Sula are similar.

3. The Target Group

The target group for this Project will be the residents of marginal communities in Tegucigalpa and San Pedro Sula. Such communities are characterized by the lack of access to basic services, such as water, and the generally deteriorated condition of the housing stock. Numbers of residents in such communities are approximations at best. Best available data lead to an estimate of 31,000 households in Tegucigalpa and of 19,000 in San Pedro Sula. Over the next three years, to 1983, the figures are expected to grow by 12,000 and 7,500 households respectively. Therefore, over the life of the Project the target group will consist of some 70,000 households (about 400,000 persons). The project will benefit about 40% of that group.

a. Tegucigalpa.

(1) Income and Housing. 73% of all families surveyed have monthly incomes below \$180, the median monthly family income for Tegucigalpa. The mean monthly family income for the sampled households is \$164; the median is \$134.

For purposes of analysis the families are grouped into the following income strata: 1/

	Income Range	Percent of Total	Mean Per Stratum
Low	Less than \$100	27.5%	\$ 63
Middle-low	\$100 - \$180	45.1%	\$135
Middle	More than \$180	27.5%	\$313
		<u>100.0%*</u>	

* Detail may not add to total due to rounding.

The most meaningful characterization of income groups by housing type is by quality of the structure--not type of structure, tenancy of the lot or dwelling, nor combinations of the latter categories. The high association between income and quality of the dwellings (Table 8, Annex C.1.) indicates that families rationally use their incomes to improve their living conditions.

1/ Definitions of housing terms and building construction materials are given in the Manual de la Encuesta, available from ROCAP/USAID/Honduras.

Income is translated directly into improved housing. This is an important justification for urban upgrading. 1/

The mean monthly family income is given below per "quality-of-house type"

<u>Housing Quality Type</u>	<u>Mean Monthly Family Income</u>
Unimproved	\$100
Improved roof only	125
Improved roof and floor	204
Improved roof, floor, and walls	226

Table 8 in Annex C.1. breaks down quality-of-housing types by income strata. Unimproved housing types are disproportionately represented among the target group families. Only 4.3% of these dwellings, commonly referred to as chozas (huts), are found among the families with incomes above the median (\$180). Viewed from another perspective, only 2.0% of this group have unimproved dwellings, compared to 25.0% and 15.6%, respectively, of the low and middle-low groups. The proportion of middle-income families increases with every improvement in the quality of housing, i.e., there is a direct relation between income and quality. There is an inverse relation between income and housing quality for the target group, i.e., the proportion of families decreases as housing quality improves. (Chi Square level of significance = 0.0006.) 2/

A slight majority of the families, 51.5%, own the houses in which they live. 14.7% are purchasing their dwelling, 31.9% are renters; and 2.0% live in borrowed accommodations as occupants or squatters. Of the renters, 49.2% live in cuarterias, buildings designed to house renters with one family per

1/ At times this analysis may appear to be proving the obvious, but it should be noted that other housing sector analyses have not used the above criteria in describing sub-groups among the families living in marginal barrios. Computerization permits a more systematic analysis of income and socio-economic data than is possible by hand-tabulation methods and also permits examination of the statistical strength of any correlations. A duplicate copy of the printout is deposited with the CMDC. A complete set of the printouts and variable/value definitions, as well as the computer tape, are stored at ROCAP/USAID/Honduras.

2/ The Chi-square is a test of statistical significance. It helps determine whether a systematic relationship exists between two variables. A Chi-square value of 0.0000 indicates that there is less than one chance in 10,000 that this table would occur by chance in the sample population. The Chi-Square shows only whether or not the variables are independent or related. It does not tell how strongly they are related.

room. (Table 10 in Annex C.1. presents data on tenancy per house type.) 58.9% live in single-family detached units; 21.3% live in attached (duplex or row house) units; and 19.8% live in multi-family units, such as cuarterias or apartments. This does not mean to imply that families will not accept quarters in attached housing. The latter has, in fact, been successfully introduced by the cooperative housing group in Honduras for modern, fully-equipped urban housing in Guamilito, a barrio in Comayaguela. The majority of attached dwellings, 57.5%, are owned; 17.5% are being purchased; and 25.0% are rental units. More often "attached" housing means simply that there is a common wall shared with another dwelling. These characterizations should not be stretched too far. One must remember that the definition "single family detached" can describe a mansion as well as a hovel, and in this instance, the latter is the more probable.

(2) Family Structure. Families are classified according to two criteria: number of generations contained and stability. Nuclear families are those with only two generations represented; extended families are those containing three generations in direct lineal descent. Stability was judged from the presence of both partners in the case of a nuclear family and from the presence of both members of the intermediate pair in the case of extended families). Using these definitions, families were classified as nuclear (organized or disorganized) and as extended (organized or disorganized). Persons living alone and other cases which did not correspond to the above categories were classified as other.

A typical example of an extended disorganized family is that of a woman with a daughter who has had three children, all of whom are living with her. There is no male partner present. The most typical case of nuclear disorganized is that of the madre soltera, a woman without a male partner, living with her offspring. No distinction was made between married and consensual partners in this classification. 1/

Simply stated, disorganized is used to describe the absence of a partner who presumably is a potential income generator. Disorganized families are at a disadvantage in the job market since there is one less breadwinner and often a higher dependency ratio.

The family structure, so classified, is composed of 58.7%, nuclear organized; 18.3%, nuclear disorganized; 1.5%, extended organized; 20.7%, extended disorganized; and 0.7%, other types.

1/ This classification system was developed in connection with a study of rural women in Paraguay which was applied to over 2,500 cases. Family types so classified were closely associated with income groupings, thereby justifying the assumption that "stability" is a measure of income-generating potential.

41.2% of all families are headed by women. Women-headed households on the average are larger than male-headed units, 5.9 and 5.7, respectively, and are more heavily clustered in the disorganized categories than are males. The average family size is 5.8--which is also the figure given by the 1974 census for Tegucigalpa. Most women heads of household live in single-family detached dwellings; 12.5% live in single-family attached units; and 27.5% live in multi-family rental units. Only 15.4% of male heads live in multi-family rental units (apartments or cuarterias).

Women-headed households are poorer than male-headed units. Male headed units earn on the average 59% more than women-headed units. The mean monthly income of women-headed units is \$91, compared to \$145. Expressed in per capita annual income, each member of a women-headed household has a per capita annual income of \$218, compared to \$390 for persons living in male-headed units. The income discrepancy, coupled with the higher proportion of renters among this group, are representative of the types of problems which the IIPUP-funded pilot projects will attempt to address.

(3) Existing Services. Families in marginal barrios are inadequately supplied with basic public services. Only 44.6% of the families have access to running water; 74.5% of the families have electricity; 34.3% have sewerage connections; and 4.4% have other services. 23.0% of the families have none of these basic services.

Services available in the marginal barrios were the following: 56.4% of the barrios have potable running water; 51.0% have electricity; 45.1% have garbage collection; 30.4% have sewers; 13.2% have improved secondary streets; 4.4% have a main paved street; 10.8% have storm drains; 55.4% have bus service; and 4.9% have other services in addition.

The primary need is for potable water. Only 22.1% of the families have piped running water; 24.0% have outside taps for running water; 2.9% get water from public taps; 2.0% use well water; 14.2% purchase water from a motorized water carrier; 33.8% purchase water from neighbors; and 0.5% get water in some other manner. Water purchased from motorized water carriers is the most expensive water in the city. The mean monthly cost of water is given below, by source.

SANAA	Piped in	\$6.77	<u>1/</u>
SANAA	Outside tap	3.23	
	Public tap	4.40	
	Well	2.25	
	Motorized water supplier	21.79	
	Purchased from neighbors	9.74	

1/ This cost appears to be abnormally high due to the fact that members of the low-target group with SANAA connections appear to be selling water to their neighbors, thereby running up water bills which do not reflect the family's consumption costs, but rather, a business cost. The minimum monthly fee charged by SANAA for piped-in running water is \$2.25.

Electricity costs are distributed, as one would expect, by income group. The low target group pays an average of \$3.72 per month; the middle-low income group, \$5.41; and the middle income group, \$6.70.

Modern bathing and sanitary connections are scarce in the marginal barrios. Only 15.8% of the families have modern bathrooms with toilet and bathing facilities connected to the sewerage system. 51.5% have no bath facilities, and 28.4% use communal facilities. About 29% of the families have no toilet facilities of any kind. 27.6% have latrines and 11.8% use a communal latrine. 14.8% have access to a flush toilet which they share with others.

The mean monthly expenditure for services (electricity, water, garbage, firefighting, paving, etc.) and fuel is given below for income group:

<u>All Families</u>	<u>\$ 19.07</u>
Low	15.27
Middle-low	18.17
Middle	24.34

The mean cost of fuel for the group as a whole is \$10.08. Fuel costs, thus, represent over half of the monthly service expenditures.

(4) Perceived Needs. Fifty percent of the families wanted running water (SANAA); 88.7% wanted a paved main artery; 55.9% wanted garbage collection; 50.0% wanted electricity; 66.7% wanted sewers; and 7.8% listed other services they desired for the barrio. 7.8%, mostly from the more established sub-divisions, wanted no additional services. Thus the service most preferred by families without basic public services was running water. 96% of families who desired water were prepared to pay the minimum rate charged by SANAA, compared to only 76.5% of families without electricity who desired the service. When asked if they were willing to pay a monthly assessment for the service infrastructure, 71.1% stated they would pay a minimum of \$6 per month; 15.1% would or could not pay \$6; and 13.4% did not know if they would or could pay \$6.

Seventy-five percent of all families wish to make improvements on their dwellings. Of this group 15.5% are renters and 84.5% are non-renters. The majority of the families who did not wish to make improvements were renters (52.9%), or were planning to move (21.6%). The home improvement most desired at all income levels is exterior walls. (See Table 27 in Annex C.1.) It is thought that the strains on dwellings produced by the hilly, non-landscaped locations of most of the marginal barrios produce this preference. Floors and roofs were also frequently mentioned among the target group.

(5) Affordability. One of the measures developed to determine whether families in the marginal barrios can afford to pay for home improvements and services was to determine which families could afford to pay

up to 20% of their monthly family income on housing-related expenses. The total of housing related expenses included the amount each family paid monthly for rent and house payments, as well as \$5 per month for water and electricity service charges, \$7 monthly for installment payments on a home improvement loan of \$400; and a \$6 monthly fee for cost recuperation for service infrastructure. These costs were calculated per family and these totals were then compared to 20% of their total monthly incomes to determine which families could afford the improvements and services or combinations thereof.

Affordability was then examined in relation to several socio-economic variables: house-quality type, family size, sex of the head of household, structure/use housing type, and house tenancy. No significant relationship was discovered except that owner/occupants had a significantly higher proportion who can afford the improvements. This data is presented in Table 29 (Annex C.1.) for all families surveyed. Table 31 presents the same information by those families who indicated they wished to make home improvements.

The major conclusion of the analysis is that the majority of families in the barrios, 62.3%, can afford the complete package of loans and services offered by the project. 64.9% of those who specifically expressed a desire for a home improvement loan can afford the whole package. The proportion of families who have finished paying for their home who can afford the package is 76.2%, compared to 46.7% for house purchasers and 46.2% for renters. The "other" category contains too few cases (4) to justify analysis. About two thirds of all families can afford to pay minimum charges for water and electricity services. The proportion of families who can pay for water and electricity use, as well as cost recuperation for service infrastructure, is less. 86.7% of the owners, 56.7% of house buyers and 49.2% of renters can afford these services. The proportion of families able to afford only home improvements is 92.4% for home owners; 60.0% for home buyers and 60.0% for renters.

b. San Pedro Sula. The median income for San Pedro Sula is \$177. However, there is no reliable information available on the proportion of San Pedro Sula's population which can be considered marginal. Likewise, there are no estimates available on the number of marginal barrios. Survey data are available on most of the city's barrios, but this information was hand-tabulated and data were compiled by barrio, even though the size of the sample and sampling methodology does not justify such a breakdown.

Data from the eight barrios considered by the planning department of the municipality to be marginal would suggest that between 65% and 90% of the families surveyed earned less than \$150 per month. The percentage of families with potable water (DIMA) at their lots ranges from 16% to 92%. (This information is given in Table 33, Annex C.1.).

Given the similarity in socio-economic characteristics of marginal communities in Tegucigalpa and San Pedro Sula, there is good reason to believe that the findings of the survey conducted in the capital city are indicative

of what might be expected in San Pedro Sula. This belief is further reinforced by the fact that the results of analyses of marginal communities in San Pedro Sula (such as the affordability analysis) using available data are similar to those obtained with the survey data in Tegucigalpa.

4. Local Organizations. The current role of originating programs and requests for action from within the barrios will continue to be the role of the patronatos. In addition they will be responsible for disseminating information from the municipalities about the Project. They will be assisted in this role by the promotores who will be the link, or bridge, between the barrios and the municipalities. 1/ Patronatos, community organizations, exist in most marginal barrios in both cities. Patronatos have been active over the past 20 years in promoting social change and improved living conditions in the barrios. They are composed of residents from the barrios and the leadership is also drawn from within the barrio. Most patronatos are also affiliated with one or more of the patronato federations.

5. Institutional interface. The municipalities are in charge of explaining the Project, receiving requests for loans, providing technical and legal help in assessing the loan requests, forwarding those requests for home improvements which are eligible to the two lending institutions (the National Housing Institute and the Federation of Cooperative Credit Union Associations). The loan institutions will then make loans directly to the participating family units. In addition, the National Social Welfare Board (Junta Nacional de Bienestar Social) will provide leadership training for the patronato leadership to promote efficiency at the local level.

6. Social Consequences and Benefit Incidence. The direct beneficiaries will be those families who receive home improvement loans or infrastructure services. In addition, all home owners living in the communities which are upgraded will benefit in terms of increased value of the properties, and barrio residents will have access to more amenities in what presumably would be a cleaner, healthier environment.

As stated earlier, some 70,000 families (approximately 400,000 persons) are already residing in marginal communities or will be by 1983. This Project will finance basic service improvements benefitting 40% of that group, more or less 160,000 persons. Thus it is obvious from the most cursory examination of the need/affordability data that the demand for services far exceeds the supply. The Urban Upgrading Project cannot begin to supply services to all those families who want to improve their dwellings or receive better public services.

Families who may be affected adversely by the project include the following:

1/ The municipality outreach is in the hands of promotores, community development workers or social workers, hired by the municipalities.

a. Families with the lowest incomes (approximately those with monthly incomes below \$50) will have difficulties meeting the payment for the complete package of to be provided. The Municipality of Tegucigalpa already has procedures to address the problems of such families by reducing the payment either through an extension of the repayment period or by using annual escalating payments. Further, the ability to pay of the residents of community will be an important factor in determining the total cost of the improvements which will be provided in that community.

b. Renters may have the cost of service infrastructure passed on to them in the form of higher rents in those areas which are upgraded. Survey results indicate that the renters as a group will be less able to afford the monthly increase in housing expenses because the median for rent payments is one and one half times than that for house purchase payments (\$15 versus \$10). Some evidence of the maximum effect on renters can be gained from Tables 30 and 32 of Annex C.1.

c. Some families will be forced to move because of road construction or other destruction of structures entailed in regularization of the sub-division. It is impossible to predict to what extent this kind of forced removal will take place. It will be kept to a minimum; and to the extent that relocation is necessary, it will be in the same general area when feasible.

d. Some home owners will opt to "cash out" or move if upgrading means higher costs which they are unwilling to pay.

e. Women-headed households may tend to be more severely impacted as a class because these households are poorer than male-headed units, and therefore will be less able to afford the full range of services. A high proportion of women-headed households are also renters and may be affected for that reason as described above.

B. Administrative Feasibility

1. Procedural instruments

a. Borrower. The borrower will be the Government of Honduras, acting through the Minister of Finance. The Ministry of Finance will pass the funds to the Concejo Metropolitano del Distrito Central (CMDC) and the Municipalidad de San Pedro Sula respectively (MSPS). To assure proper coordination among these three institutions, they will subscribe a "Memorandum of Understanding" describing the procedures to be followed in requesting drawdowns and in the flow of funds from the U.S. lender to the participating municipalities. The Memorandum also will describe the functions that correspond to each institution in carrying out the procedures.

b. Project Coordination. The Project is essentially an exercise in the local management of local problems. As such, overall

coordination and management will rest with the individual municipalities, except in the borrowing procedures, as described above. This implies that the Municipalities will be responsible for coordinating the services of other participating entities, i.e. SANAA, INVA, FACACH, as they relate to project activities. SANAA has indicated by letter to USAID that they have agreed with the CMDC on procedures and policies to be followed in this effort.

c. AID Approval of Specific Projects. A two-part illustrative checklist has been prepared (See Annex E.2.) which includes the criteria deemed necessary to determine eligibility of subprojects for financing under this project. AID will review the information for each specific subproject before approving it for financing under this Project.

The general subproject eligibility (Part I of the checklist) consists of:

(1) conformity with the target group of this project and the established eligibility criteria (i.e. Do the residents have incomes below the median? Is the community lacking in basic services? Is the housing in poor condition?)

(2) suitability of the site for permanent settlement.

Failure to pass either test would preclude the approval of a subproject. Therefore, this part of the checklist will be presented to AID by the municipalities before initiating the subproject implementation cycle described in Table 4, above (See also Section II.B.3.)

Part II of the checklist will assure that the subproject is acceptable to the community; does indeed address its existing basic service and housing problems; is technically and environmentally sound. The information necessary for consideration by AID of the eligibility of the actual community improvement program will not be available at least until preliminary designs and cost estimates have been prepared by the municipalities and discussed with the community organizations. Subprojects which are deemed eligible by USAID/H will be approved for Project funding in the order in which they are presented by the municipalities.

d. Sub-project promotion, selection and preliminary project design. The Community Development Department of the CMDC and the Department of Social Services of the MSPS are the outreach elements of the respective municipal governments and, as such, will have the critical role of carrying the program to the barrios. In combination with the patronatos they will make known the various project components available, assess social-economic priorities and capacities, and agree with barrio residents on preliminary sub-project design parameters. Both municipalities have proven capabilities in working closely with patronatos. In effect, the promotion process will result in an auto-selection system wherein eligible barrios which act expeditiously to have these subprojects approved will get their improvements first.

e. Design of Plans and Specifications.

(1) Water, sewerage and drainage sub-projects. In Tegucigalpa, SANAA (Servicio Autonomo Nacional de Acueductos y Alcantarillados) will approve plans and specifications prepared by A&E firms under contract with the municipality. (In theory, the municipality of Tegucigalpa could construct a water and sewer project without SANAA's approval if it had its own source of water (e.g. from a well) and was willing to operate the system itself. This has not been either their practice or the policy.) (See Annex E.3. for the existing institutional agreement between SANAA and the CMDC.). In San Pedro Sula, DIMA (Division Municipal de Aguas) will provide plans and specifications for specific sub-projects.

(2) Residential and Public Street Lighting. ENEE (Empresa Nacional de Energia Electrica) will approve the necessary plans and specifications for those components of barrio sub-projects dealing with the provision of residential or public street lighting. ENEE can either develop these plans itself or obtain them from A&E firms working under contract with the municipalities.

(3) Home Improvements. It is anticipated that a large percentage of the individual home improvements will be done by the family and will not require detailed plans. Certain improvements, e.g. an additional room, will require schematic plans, of the "maestro de obra" level, or will be provided by INVA and/or Credit Union staff.

(4) Paving. Plans and specifications will be developed for the CMDC by its Department of Infrastructure; in San Pedro Sula by the Public Works Construction Section of the Municipal Engineering Division.

f. Construction. Construction will be a combination of the use of private contractors selected via established municipal bidding procedures, administration (force account), and aided self help. Construction by contractors is expected to be the rule for a majority of the subprojects. Force account will be applied to very small projects or in those cases where a part of the construction is by self-help. Both municipalities will encourage self-help participation since they feel that the trade-off between lost time/additional administrative demands and lower costs is worthwhile. This is particularly true in the case of a community which otherwise would not be able to afford an improvement.

g. Cost Recovery. Cost recovery will be effected by a combination of loan repayments, user fees, and special assessments (valorization taxes). Surplus reflows and municipal revenues are expected to cover shortfalls in collections, if any. Until such time as the upgrading of the valorization system of the MSPS is approved and mounted, the barrio infrastructure upgrading components (water, sewerage, and drainage) will take the form of a loan from the municipality to the neighborhood association,

further individually subscribed to by each family for its proportionate share of the loan. 1/ (Cost recovery is discussed more fully in Section III.E.4.)

2. Institutions

a. Municipal Government of Tegucigalpa (CMDC). An imaginative, resourceful and competent management team took over the CMDC in 1976. The team has an informed understanding of urban development as a process which involves the whole city. It promotes basic infrastructure services and sites and services for the marginal barrio residents as well as pedestrian malls, downtown underground garages, and boulevards to decrease the cost of commercial traffic.

The team also embraces a do-it-yourself philosophy to resolving city problems. Rather than beseeching the national government for its largesse, it has sought and received authority which enables the CMDC itself to accomplish its objectives. One example is, Decree 309 of January 1976 which authorized a thorough reorganization of the CMDC administration. Another is Decree 370 of August 1976 which restructured the tax system, and gave the CMDC power to assess valorization taxes. (The tax revenues have since increased at a compound rate of 40% per year.) Most recently, Decree 833 of November 10, 1979 gives the CMDC wide-ranging authority to legalize the tenure situation of marginal barrio households. (See Annexes F.2. and F.1. for a translation of relevant portions of Decrees 370 and 833, respectively.)

The municipal government is divided into commissions (concejalias) 2/ and these in turn into divisions (gerencias) and then departments. The single most important unit with regard to this Project is the Programming Commission which includes the Cadaster, Infrastructure, Planning (Metroplan) and Community Development divisions, all of which have roles to play. The Infrastructure and Planning Divisions are discussed in the Technical Feasibility section (III.C.2.), as they intervene in design and construction. Neither is expected to present any difficulties. For the present Project, however, the two remaining divisions do require some assistance:

(1) The key to project implementation for the CMDC is its Community Development Division (Gerencia de Trabajo Social). The Department is the outreach arm of the CMDC which must promote the Project in the barrios, maintain liaison with other departments, and coordinate with and assist other institutions which will be involved in the Project. Much of the staff now

1/ Most patronatos in urban areas have "legal personality" (personeria juridica). If the patronato of a subproject community does not have legal standing, however, it can declare itself a "pre-cooperative" and then sign legal contracts.

2/ So called because it is headed by a concejal or city councilman or commissioner.

consists of part-time university students--for the most part dedicated and able, but still part-time. The present project will increase the work load of the Division and additional full-time staff will be required. Technical assistance will be financed by the project to increase the capacity of the Division to do its job still better. The CMDC, in turn, will increase the full-time professional staff of the Department. Technical assistance provided under this project will determine the necessary staffing changes.

(2) Cost recovery will be initiated by the Betterment Tax Department (Departamento de Contribucion por Mejoras) of the Cadaster Division. The unit's staff of eight, with the assistance of outside consultants has initiated the process of recovering municipal investments through a valorization or betterment tax. During 1979, it conducted the studies and prepared the documents necessary to recuperate \$11.8 million of investments in four major road projects and one bridge. The department is now doing the studies for cost recovery of two more major road projects and for the channelization of the Choluteca river within the city boundaries.

The volume of work expected of the Department under this Project (recuperation of \$11 million from about 22,000 households) over the next three years is equivalent to the work they completed in six months in 1978 alone (recuperation of \$11.8 million from 20,000 households). The difficulty, if any, will be one of limited experience in distributing the cost of the types of improvements (water, sewage, drainage) to be financed by this project. Therefore, technical assistance is proposed with the regard to applicable cost distribution methodologies. Training of related municipal personnel also will be provided.

b. San Pedro Sula Municipal Government (MSPS). The MSPS employs about 1,000 people in addition to firemen, police, sanitation workers, and the staff of DIMA. It is a spare and efficient administration. It has a record of close collaboration with DIMA, especially through the Municipal Engineering Division, which bodes well for the smooth implementation of the proposed project.

As in Tegucigalpa, the key agency is the city social outreach arm, the Department of Community Development. It will be necessary to increase the number of its present seven-member staff and to provide technical assistance to the staff to increase its ability to deal with the marginal barrio residents. Such assistance is contemplated in this Project.

The Municipal Planning Division will be in charge of overall project coordination. This division has three sections which deal with the cadastre, urban planning and the municipal investment budget. It has a professional staff of about fifteen, including planners, architects, engineers and one environmentalist. The head of division has asked for assistance in developing and packaging the upgrading program for specific communities. This will be provided by RHUDO/ROCAP resident technical staff.

The valorization system is embryonic in comparison with that of the CMDC. The Ministry of Government has not yet acted on the request of San Pedro Sula for authority to install a more thorough-going system. Until now, valorization has been used only in cases of street paving. It will be necessary to bring in people to train the staff that will establish and implement more sophisticated valorization techniques when the Ministry gives its approval. (This is the subject of a Project covenant. See Section IV.C.) This task will be made easier by the possibility of sharing the experience of the CMDC.

Until a better valorization system is in place, the Project will rely on a dual set of contracts for infrastructure loans: a loan contract with the patronato, the barrio as a whole; and with each participating barrio beneficiary. The procedure is already being utilized by the municipality of San Pedro Sula. The patronato may collect individual payments and extend moral persuasion. It is not intended, however, that the patronato become the guarantor of payment by the residents of the community.

The municipality has the additional advantage of operating its own water and sewer authority (DIMA). Therefore, it will be feasible to recover investments in water, sewerage and drainage through special assessments made by DIMA and collected with the monthly water bill.

c. Servicio Autonomo Nacional de Acueductos y Alcantarillados (SANAA). SANAA was established in 1961 with the help of an AID loan. It is the national institution responsible for the administration of water and sewerage systems, except in San Pedro Sula which operates its own systems. SANAA's focus traditionally has been largely devoted to the management and operation of Tegucigalpa's water and sewer system. Sixty percent of its staff is located in that city.

In Tegucigalpa, in collaboration with the CMDC, SANAA is working on completion of the master plan of the city water system and the installation of an additional 25 kilometers of water pipes, which will benefit more than 125,000 people.

Presently, and largely in the context of projects outside the capital, SANAA has established the administrative and financial arrangements to operate and maintain small water systems. These new arrangements will prove useful to this project.

All design work for SANAA projects is done in Tegucigalpa by a staff which includes 33 engineers. Thus, the institution should have no difficulty assisting the CMDC in the design of water and sewer systems to the marginal communities in the capital.

However, as one considers SANAA's technical standards in the light of programming to serve the water and sewerage needs of marginal urban residents, one must conclude that the standards in force frequently result in higher costs than are necessary in part as the result of being outdated and technically inconsistent. In the course of project implementation, efforts will be made to encourage SANAA to adopt a set of standards which are more relevant to the evolving settlements of the urban poor. However, the analysis of the feasibility of this Project is predicated on the use of SANAA's current standards.

d. Division Municipal de Aguas (DIMA). This is a semi-autonomous enterprise of the municipality of San Pedro Sula with approximately 225 employees. It coordinates its work quite closely with the municipal administration. DIMA's professional staff currently has the depth and technical capacity to undertake the scale of water and sewerage operations contemplated in this project. Its very low arrears also suggests a competence in billing and collection. Approximately 57% of the population of San Pedro Sula have residential water connections; but a third of those do not have meters. This reduces the potential revenue of DIMA and encourages excessive consumption. Where sewer systems exist, billing is based on 20% of the cost of the water consumption, real or assumed. On instructions from the Municipality, DIMA installed an unmetered, public standpipe in each developing marginal settlement or barrio. Since water resources are abundant and the water table is very close to the surface, recourse to the use of wells is frequent and economical.

e. Savings and Loan Division of INVA. As part of a larger program of technical assistance to INVA under the Shelter for the Urban Poor project, its Savings and Loan Division was closely studied and recommendations made concerning the extension and reorientation of its home-improvement loan activity. INVA has moved slowly in completing this reorganization, and only very recently approved the new program as a basis for operation.

The present staff of five full-time individuals provides for a self-contained lending, inspection, and collection apparatus. INVA's responsibility will be confined to processing, disbursing, and collecting loans. While INVA has had little home improvement experience with marginal groups, the staff of the Savings and Loan Division is experienced and capable; and the formerly cumbersome loan procedures have been greatly simplified and now provide the staff with a needed flexibility which formerly did not exist.

f. Federacion de Asociaciones Cooperativas de Ahorro y Credito de Honduras, (FACACH). Both the large dimension of the incremental housing needed and the as yet largely untried capacity of the Savings and Loan Department of INVA to serve marginal barrio clients argue for bringing FACACH as well into the home improvement loan activity. Organized in 1966 with technical assistance from CUNA (Credit Union National Association) International under the auspices of the CUNA/AID Project, the Federation has

led the credit union movement to steady growth on an expanding financial base. Starting with 46 member credit union cooperatives in 1966 FACACH has grown to 99 affiliated credit unions throughout the country. The 10-year comparison shown in the table below amplifies and details that growth.

TABLE 5

FACACH, 1968-1978
(millions of Lempiras) a/

	1968	1978
Member of affiliated unions	6,000	34,981
Share Capital	3.7	22.3
Loan Portfolio	3.6	27.3
Total volume of Loans to Date	13.3	148.2
Assets	4.4	32.9

a/ Except for number of members

SOURCE: FACACH Annual Report

Although home improvement loans are not a major program line formally promoted by the credit unions, available statistics indicate that 10-15% of all their consumer loans were in fact used for home improvements in 1978. That amounts to \$1.4-2.0 million of home improvements loans in the credit unions' portfolios in 1978. They have a proven, in-place capacity to process and service small loans of the type contemplated in the home improvement component of the present project. These loans will be made under Central Bank regulations covering personal loans which can be made at up to 19% annual interest for 3 years rather than under mortgage lending regulations which are much more cumbersome for such small projects.

While by their very nature FACACH credit unions are not targeted exclusively to serve the poor, they do represent a large membership of low-medium income families. Of importance to this Project will be the "open" credit unions, that is, those which are not related to specific places of work. FACACH management indicated that these credit unions are the ones which marginal community residents can join by buying one share (\$5). Four such unions exist in Tegucigalpa and San Pedro Sula. They were created in part to facilitate the extension of FACACH's activities to a broader range of the urban population.

Conversations with the General Manager of FACACH confirmed the interest of the organization to participate in the home improvement activity of this Project.

3. Land Tenure.

Available information supplemented by the results of the Tegucigalpa survey conducted in connection with the preparation of this paper, indicates that anywhere from 50-60% of the families in the marginal barrios, while not illegally squatting, are in subdivisions where the infrastructure is not in conformity with existing codes. This makes it impossible to title the individual lots, rendering the subdivision "illegal." The next largest category, representing approximately 30% of the marginal barrio families, is occupying public (municipal) land. Thus, nearly 90% of the target group has a tenure problem of one kind or another.

a. Illegal subdivisions and Decree 833. Fully 50% of all of the families in large barrios are living in illegal subdivisions. Despite the fact that they have complied with, and are continuing to comply with, the program and terms of what are in effect lease-purchase agreements with the legal owner of the land, these families will be unable to secure title to the individual lots because existing infrastructure, as installed by the developer is not in conformance with existing standards. After considerable effort, the CMDC secured the promulgation of Decree 833 on November 14, 1979, with its corresponding Implementing Regulation issued on January 24, 1980. In effect this empowers the District government, failing action on the part of the developer, to upgrade the physical infrastructure in any given illegal subdivision within its jurisdiction, and to receive from the residents all succeeding payments due to the developer as amortization and interest until such time as the District government has collected an amount equal to the cost of the infrastructure. After the cancellation of this amount, payments then revert to the developer. This action by the District then makes it feasible to give legal title to the buyers as they complete their payments. With the operation of this Decree, the District now has the necessary legal tools to provide the infrastructure in marginal barrios, hence resolving the most pressing land tenure problems of its urban poor.

b. Invaded municipal lands. The second major area which must be addressed in order to resolve questions of land tenure concerns those settlements produced as a result of the unauthorized occupation of municipal lands. This problem is further complicated by the existence of claims to the land by private individuals alleging to be the rightful "owners". Many of these claims stem from purchase in good faith by these "owners" from families who had earlier obtained certain "uses rights" from the municipality but not actual title. The alleged owners have been selling the land to the occupants, so that this is not a case of squatting. Conversations with officials in the Office of the President of the CMDC indicate a predisposition on the part of the CMDC to treat such sales, and frequently, re-sales, as valid and legal and to facilitate the sale of such property by the current "owners" to the current occupants. This project envisages financing the installation or physical upgrading of the infrastructure itself as a precondition to awarding legal title to the occupants.

Together, these two kinds of situations will embrace 80-90% of all land tenure problems in marginal barrios.

C. Technical Feasibility

The project is technically feasible. The technology is appropriate and the solutions are least-cost solutions acomodated to the municipal standards except as noted in the case of SANAA's standards. The municipal agencies and the executing agencies are competent, well staffed, and experienced with the types of project activities to be undertaken. Finally, there are no effective constraints of skilled or unskilled manpower. The only materials constraint might be occasional shortages of cement. The Project can be implemented rapidly and efficiently. The basis for this conclusion is given in the following sections.

1. Costs and Specifications. Annex E.1. provides the details of cost calculations and design specifications for the principal outputs. A summary of costs for typical infrastructure improvements are shown in Table 6.

TABLE 6

On-Site Infrastructure Costs
(Dollars per household)

<u>On-Site Infrastructure</u>	<u>Cost Per Household</u>	
	<u>Tegucigalpa</u>	<u>San Pedro Sula</u>
Street paving	\$ 70.00	\$ 70.00
Pedestrian walks	37.50	37.50
Storm drainage	25.00	25.00
Water line	95.00	45.00
Sanitary sewerage	117.50	50.00
Street lighting	12.50	12.50
TOTAL	<u>\$ 357.50</u>	<u>\$ 240.00</u>

The higher cost of water and sewerage in Tegucigalpa is due to the requirement that the physical layout be along the street instead of, as in San Pedro Sula, being shared between two rows of houses at the rear of lots. (See Annex E.1.)

The cost of installing the entire infrastructure package would be about \$358 per household in Tegucigalpa, \$240 in San Pedro Sula.

In addition to on-site infrastructure within a barrio, some off-site work might be needed to connect the barrio to the existing utilities and access streets. Annex E.1. presents the assumptions and design specifications which enter into the calculation of unit costs for access road connections, connections to main water lines and sewerage lines, and off-site storm

drainage connections. The total cost of off-site infrastructure will vary with the requirements for each community. These costs will be partially allocated to non-project communities which may share in the benefits of the off-site infrastructure thus helping to defray these costs for the Project beneficiaries. While the Project can finance off-site construction when it is the only feasible alternative for connecting community infrastructure systems to existing trunk lines or main access roads, such investments will be kept to a minimum.

The kinds of home improvements which will be financed are shown in Table 7.

TABLE 7

Home Improvement Costs 1/
(dollars)

<u>Home Improvement</u>	<u>Cost Per Household</u>	
	<u>Tegucigalpa</u>	<u>San Pedro Sula</u>
Additional room	\$ 640	\$ 622
Permanent roof	320	320
Permanent walls	230	230
Support structures	200	150
Concrete floor and foundation	150	170
Doors and windows	100	100
Sewerage connection <u>2/</u>	75	43
Water connection <u>2/</u>	50	25
Electricity connection <u>2/</u>	40	40

1/ The derivation of these numbers is described in the Engineering Report, Annex E.1.

2/ These costs will generally be included in the overall infrastructure package cost. By doing so it is expected that the various connection fees will be reduced due to economies of scale.

2. Infrastructure Design and Construction Process in Tegucigalpa. The patronato, or neighborhood organization works with the Community Development Department of the municipality to determine priorities for community upgrading activities. Metroplan, the municipal division which provides technical help to the communities, is then asked to present a project design for approval by the executing agency involved. For water and sewerage projects, for example, the agencies would be SANAA and the Infrastructure Department of the District Government. The agencies will then cost the plans as approved and submit them to the Programming Commission (Concejalía) of the District Government for authorization to carry out the work. The project will

comply with standards in each city. Although it is important that the infrastructure be well designed and constructed with high quality materials in order to minimize future maintenance and operating costs, it also is worthwhile to propose modifications in present standards which can reduce investment costs. Specifically, SANAA will be encouraged to permit the municipality of Tegucigalpa to use lower water and sewer design standards which are more appropriate for the marginal barrios. (See Section III-B, "Administrative Feasibility.")

The Legal Department of the District Government has a great deal of experience in bidding procedures and in judging the compliance of bids with design and cost estimates. For these reasons, no modifications in the CMDC bidding procedures will be required. Together with the office of the General Comptroller, the Legal Department will ensure that proper bidding procedures and cost controls are followed.

The Infrastructure Department is in charge of the construction and maintenance of streets and storm drainage systems in Tegucigalpa. It approves design plans and is competent to execute projects and to provide technical assistance and supervision to the barrio for its self-help participation.

ENEE and SANAA are autonomous government agencies responsible for (a) electricity and (b) water and sewerage services, respectively. ENEE has provided good service to the barrios with few interruptions of power. SANAA has been subject to some criticism in recent years because of poor service. It also is open to the criticism that its design specifications have not kept pace with modern standards and practices.

Construction will combine self-help, force account, and contract work. Self-help inputs for on-site infrastructure construction will be encouraged and supervised.

3. Infrastructure design and construction process in San Pedro Sula. The procedures in San Pedro Sula are analogous to those in Tegucigalpa and need not be described in the same detail. The Community Development Department works with the barrios, the Municipal Engineering Division and DIMA to design and cost the project. The Municipal Engineering Division and DIMA will either contract for construction or do it by force account.

The Municipal Engineering Division is large, well organized, and well staffed. It is quite competent to engage in project activities, which are similar to its routine operations related to streets and drainage works. DIMA is well staffed, well organized, and efficient. Its attitude is receptive to the project. DIMA has appropriate and acceptable design standards and, quite significantly, shows the flexibility to modify standards as required for this project.

4. Home Improvements. After consultation with the social workers in Tegucigalpa and San Pedro Sula, the homeowner will opt for improvements on terms which he can afford. The designs and cost estimates are routine. Minimal supervision will be required. In most cases, a "maestro de obra" or an engineering student can prepare these. INVA can offer this service. For loans made by FACACH, the municipalities will have to provide the service. The loan funds will be advanced in stages as work progresses. A construction technician working for either the municipality or the lending institution will ensure that the funds are properly used, that materials are appropriate, and that the work is done in accordance with normal technical procedures. He will certify and approve the completed work.

5. Environmental Analysis. Two IEEs have been prepared recently for HG-financed urban development projects in Honduras. One was for the Shelter for the Urban Poor Project (522-HG-005); the other for the present Project. (See Annex E.6.) The findings are similar. The IEE prepared for this Project contained a positive determination. This section further analyses the environmental problems confronted by this Project, and makes recommendations on how to address them.

a. Tegucigalpa

There are three major environmental problems which are pertinent to this Project in Tegucigalpa: shortage of water supply, sewerage treatment, and erosion and sedimentation.

(1) The shortage of water is the most serious environmental problem in Tegucigalpa. There is a compelling need to increase the supply of water to meet the demands of the burgeoning population. Most of the existing pipes are old and water loss through leakage is high. Infiltration of the leaky pipes is a source of serious contamination. Water treatment is deficient, consisting mainly of sedimentation and chlorination. Storage tanks are less than half filled during the summer (February-April) because of the shortage of water supply. Water pressure is low and booster pumps have to be used for settlements in the higher elevations which can pay for this service. The shortage is particularly severe in the lower-income barrios which do have piped water. Service is sporadic; barrios sometimes are without water for three days; and when water is available, it is rationed for a few hours at inconvenient times (e.g. 2:00am to 5:00 am). The District Government alleviates the problem somewhat by trucking water into the barrios, but the tankcar water is expensive.

The IDB made a loan to SANAA to study seven possible sources of increasing the water supply. A final project for one of the seven sources is to be submitted by 1984. (The loan also finances the improvement of 30 kilometers of the city water distribution system.) Engineers at SANAA, however, predict that the increased supply will be inadequate for the growing city population by the time the project comes into service. The GOH, however, has taken the

position that this supply problem must be shared by all of the population. It will not accept as a solution impeding access of some to the water system, notably the urban poor, to avoid having to ration water for others, notably the middle and upper classes. Accordingly, SANAA has agreed in writing to permit the connection of the water systems to be financed under this Project to its system. (See Annex E.3.).

As a fall-back option in some cases the present Project will rely on water from wells to be dug in the barrios. A good supply of water (80-120 gallons per minute) exists at an average depth of 300 feet in most of the city. Only in the Southeast of Tegucigalpa would wells not be a solution. There the water is hard and not potable; but none of the project barrios are in the Southeast.

(2) The sewerage collection, treatment, and discharge systems are quite inadequate for Tegucigalpa. All sewerage systems presently discharge somewhere into an exposed water course. A high percentage of the sewerage is collected in a major trunk line which eventually discharges into the San Jose River. The present Project will tie into the existing system and will discharge sewerage into an existing main pipe or into a polluted dry or wet disposal area. No provision has been made for primary or secondary treatment before the point of discharge. However, the Mission will explore the possibility of using funds available through the Development Support Bureau's Water and Sanitation for Health (WASH) program to provide technical assistance to Tegucigalpa for the design of localized sewage treatment systems. The WASH program will have at its disposal multi-disciplinary consultant teams whose services can be furnished at no cost to AID missions overseas to address sanitary engineering problems. In short, although this project does not directly address the overall sewage disposal problems facing Tegucigalpa, it will improve the handling of sewage in the particular areas in which it operates. Furthermore, it is likely that the proposed WASH program assistance will result in the inclusion of sewage treatment systems in some of the infrastructure packages.

(3) Erosion and sedimentation. Many of the low-income barrios are on steep slopes (20%-30% gradient) which are exposed to the dangers of erosion and landslides. Despite unstable soil conditions, low-income people persist in inhabiting hazardous sites (for example, Picacho, El Reparto, Barrio Buenos Aires) because they are near places of work in the city. Steep slopes require special measures to stabilize houses and roads.

Storm runoff, deforestation, and defoliation combine to produce high velocity water discharges which precipitate landslides (El Eden, San Francisco, Colonia Soto). Sedimentation modifies the bottom of major receiving water courses and causes unanticipated flooding. Deforestation and the expansive clay soils increase the instability of hillsides, thereby contributing to high velocity runoffs and consequent flooding. Localized measures to avoid aggravating such problems will be developed as part of the upgrading projects. Residents would resist relocation so defense barriers and retaining walls will be required in vulnerable barrios. Erosion controls could include the construction of water diversions, velocity checks, detention basins, and check dams.

b. San Pedro Sula

In San Pedro Sula, there are two main environmental problems: flooding and a very high water table.

(1) Flooding has been a major problem in the past. Most of the problem now has been relieved by the construction of a long Gabion's dike system along the shore of the Chamelecon River and by digging channels to divert flood waters into swampy areas.

(2) The high water table encourages the use of shallow wells. Forty percent of home water consumption is from wells. The high water table, however, leads to widespread water contamination; and the pollution is accentuated by the common absence of well coverings, which allows the entry of trash and animal wastes into the wells. The remedy for the problem is to deepen the wells to 100 feet and to use pumps and concrete well covers.

(3) Some additional environmental considerations should be taken into account in the Project. San Pedro Sula is in a hurricane belt. Precautions should be taken in the type of construction and materials employed, especially with regard to the fastening of roof covers and the location of buildings with reference to the prevailing winds. The heavy rainfall (55 inches per year) and the deforestation of nearby mountains produce high velocity, erosive water discharges which create gullies and strip away good topsoil. The corollary of this is the occurrence of sedimentation on flat land, mostly of unwanted heavy clay. Measures to combat erosion and sedimentation should be undertaken soon. The same kinds of measures recommended for Tegucigalpa are appropriate for San Pedro Sula. In the interim, the municipality should restrain the elimination of dense vegetation and discourage the bulldozing of green areas for new urban developments.

c. Proposed response to environmental concerns. Environmental concerns will be taken into consideration in each subproject to ensure that environmentally unsound conditions are not left unattended. The principal instrument which will be used in this regard is the subproject eligibility criteria checklist (See Annex E.2.) already alluded to. Part I of the checklist will ensure that subprojects are located in areas that are suitable for permanent settlement, that is:

(1) The long-term proposed land use in existing urban plans contemplates continued residential use of the site.

(2) No major rights of way affect the site.

(3) No major environmental hazards affect the site (flooding, landslides).

(4) Off site sources of basic services (water) are available.

Part II of the checklist, prepared after schematic designs are available, consider the solution given in subprojects design to the water supply, sewage disposal and landslide/land erosion concerns discussed above.

Both parts of the checklist will be reviewed by AID prior to approval of specific subprojects. RHUDG/ROCAP resident technical staff will advise the municipalities both in the identification of potential environmental issues and on possible design solutions. These actions are in conformity with the recommendations of the IEE. (See Annex E.6., pp. 8-9)

D. Economic Feasibility

The overall socio-economic situation of Honduras was discussed in some detail in the Mission's recent CDSS for FY82. The CDSS identified the need to continue borrowing at favorable terms as one of the most important policy choices that the GOH faced. This project helps to meet the requirement for covering the current account balance of payments deficit. Although the interest rate is not concessional, the 30 year term plus the 10 years of grace make the HG loan attractive in relation to the term structure of the GOH's debt.

Employment generation is a continuing concern. The CDSS observed that open unemployment was low, particularly among male heads-of-households but was quite high in the teen-age ranks. It also observed that a lot of the employment was low productivity, low wage work of an occasional nature. This Project directly will create an estimated 1,250 person-years of employment in real, productive work which will tend to absorb some of the unemployed teen-age labor either through direct employment in the Project or as teen-agers replace older men who move up to better jobs in Project-financed construction. In quantitative terms, the effect is not large, but it will be significant in qualitative terms in view of the skills to be acquired and of the increase in income of the target group.

The Project's construction activities will have direct backward linkages with a variety of domestic industries. Major among these are the manufacture of brick, cement, concrete pipe and block, lumber and plumbing fixtures. It is estimated that 95% to 98% of materials used in the project will be manufactured locally. On the consumption side, because the labor involved in these projects will be relatively low-income, most of the increased purchasing power will be spent on domestically produced goods. Honduran University and Central Bank economists have estimated the multiplier effect on income to be 5.56 to 6.67 times the initial capital investment. These estimates were made in times of greater slack in the economy than at present. Using 1978 IMF national income data we derive an Incremental Capital-Output ratio of 3.12. This much more modest and plausible relationship implies a gross rate of return (including depreciation) of 32 percent. Although it is not possible to estimate an economic rate of return to the shelter sector improvements themselves, this gross rate of return, significantly higher than either the opportunity cost of capital or the interest rate the HG Loan will carry, suggests that the Project will have a beneficial impact on the economy.

Moreover, the project will create benefits not captured in national income statistics. Particularly relevant are the health and safety benefits that derive from water and sewer installations, access improvements, street lighting and the title. Increased community spirit arising from the participation aspects of the Project is another unquantified benefit of the project.

One Project output, water distribution and connections, has the potential for providing beneficiaries with monetary savings. Survey data from marginal barrios show that families without household connections pay on the average \$10.90 a month for water delivered to the house, while families with household connections pay an average of \$6.77 a month for a larger quantity of water. The Social Soundness Survey concludes that approximately 55% of the target group households do not have piped water. Assuming that 55% of the 31,000 beneficiary families receive water connections as result of the project, and that the level of consumption is equal to that of the families in the survey with connections a savings of approximately \$600,000 a year will be achieved, even after considering the cost of amortizing the water infrastructure investments. The inclusion of sewer connections will tend to cause an increased consumption of water, which will have the effect of reducing or eliminating the monetary savings while increasing significantly health benefits.

In view of the fact that there are no basic negative economic arguments, and that there are strong positive economic benefits to be gained, we conclude that the Project is economically feasible.

E. Financial Feasibility

1. Affordability of Project Activities. Most of the target group are both able to pay for the Project sponsored improvements and willing to do so.

Table 8 illustrates the ability of the target group to afford the various components.

TABLE 8

Affordability of Project Items

(Percent of Target Group) 1/

<u>Item</u>	<u>Tegucigalpa</u>	<u>San Pedro Sula</u>
Total infrastructure package <u>2/</u>	81	86
Permanent roof	43	38
Permanent walls	65	63
Concrete floor and foundation	81	77

1/ For infrastructure terms are 15% p.a., 10 years. For other items, 17% for 3 years is assumed. It is assumed that 10% of family income is available to pay for project items. The cost of the various items for purposes of determining the loan amount was taken from Tables 6 and 7.

2/ Consists of street paving, pedestrian walks, storm drainage, water and sewerage, and street lighting. The survey in Tegucigalpa found that 70% of the households sampled were willing and able to amortize the total infrastructure services package over a 15-year period.

Source: Income: Direccion General de Estadisticas y Censos, Encuesta de Ingresos y Gastos Familiares, 1967-1968, updated by the Consumer Price Index.

Costs: Engineering estimates (see Section III-C).

2. Effective demand for project activities

Effective demand implies both an ability and a willingness to pay for a given item. Table 8, above, indicates that a large proportion of the target group can afford the various items.

The relatively high proportion of households which can afford the various types of home improvements is significant because the loan terms are stringent. At this time, a reasonable projection for the interest rate of the HG loan is 14.5 to 15.0%. Allowing for a two-point spread for the retail lender would require a relending rate of at least 17%. Honduran Central Bank regulations only permit such rates on commercial loans with a maximum period of three years. In fact, the existing policy of the savings and loan associations and the credit unions in Honduras is to make home improvement loans at these commercial loan terms.

The survey which was conducted in the barrios of Tegucigalpa reveals strong preferences among the target group for the same items. (See Section III-A and Annex C.1.). When asked if they would be willing and able to pay

for permanent walls, for example, the overwhelming response was yes among those who did not already have permanent walls. The survey evidence is strong for other project items as well.

3. Revolving Fund. A covenant will provide that Tegucigalpa and San Pedro Sula each agree to establish a revolving fund to further Project purposes. Reflows of interest and amortization payments will be used to repay the HG loan. The excess cash flow will be relet to the same target group for the kinds of activities financed by the present Project. During the 10-year grace period, the funds will be able to generate a total of \$27.2 million on the basis of the \$10.0 million HG loan (apart from the \$2.5 million of counterpart funds). ^{1/} The outstanding loans in the portfolios will grow most rapidly during the last 10 of the 30-year loan period, from \$10.9 million to 1 million. Annex D.1. shows the 30-year sources and uses of funds, the cash flows, and the average outstanding portfolio. The revolving funds provide an opportunity for the two cities to multiply the impact of the HG loan and, to some extent, give them additional income with which to extend services to the very bottom income families who cannot afford to pay initially for the minimal services.

4. Municipal Finances. Annex D.3. shows, for Tegucigalpa and San Pedro Sula, municipal income, operating costs and investment expenditures. The statements show that while the current income of San Pedro Sula increased at 8.6% annually between 1976 and 1979 to \$6.0 million, the income of the CMDC grew at a 42% annual compound rate, 1975-1979, to \$9.0 million. The extraordinary performance of the CMDC was due to Decree 309 of January 1976 which established a more efficient administrative organization; and to Decree 370 of August 1976, which completely restructured the tax system and established the right to assess valorization levies. (See Annex F.2.)

The financial posture of both cities is sound and, as is evident from their investment budget, the present Project will not strain their capacity to increase the kinds of activities which already figure heavily in their investment budget. Indeed the financial drain on their budget is minimal.

5. Cost Recovery.

a. The need for cost recovery derives from the relative scarcity of resources available to deal with the already serious and rapidly growing problems of urban marginal communities. Recuperating costs, is a realistic goal to provide almost all marginal community houses with water, sewerage, and electricity in Tegucigalpa and San Pedro Sula during the

^{1/} Since the sources of counterpart funds are loans which the municipalities will repay, these funds are excluded from the analysis.

three-year project period. About \$8.5 million would be required in Tegucigalpa, \$2.7 million in San Pedro Sula. It is not realistic, however, to expect that the municipal general tax revenues can be diverted to cover very much of this investment. The alternative to nearly complete cost recovery from the beneficiaries must be severe strains on municipal budgets or, more likely, the discontinuance of any significant upgrading activities after the life of the Project. Substantial subsidies would overly burden the municipal budgets. (Annex D.3. summarizes the sources and uses of funds for Tegucigalpa and San Pedro Sula for the past several years.)

b. Cost recovery mechanisms are available which in principle enable the municipalities to recover 100% of the investment costs. The principal mechanisms are:

(1) Valorization assessments already are used in Tegucigalpa and a request for approval of using valorization taxes in San Pedro Sula is expected to be approved by the Ministry of the Interior. (See Annex F.3.) In Tegucigalpa, valorization can be used to recuperate from the beneficiaries 100% of the cost of infrastructure improvements for water, sewerage and electricity. See Annex D.4. for a description of the steps followed in the valorization procedure in Tegucigalpa.

(2) The cost of water and sewerage investments can be amortized by a separate addition to the current consumption charge in monthly billings. This is to be used in San Pedro Sula where the existence of a municipal water authority, DIMA, facilitates the use of this mechanism.

(3) Promissory notes (letras) are signed by each beneficiary for his share of the cost of the improvement and (in San Pedro Sula) by the patronato for the community collectively.

(4) In the case of invasions of municipal land which are to be provided with basic infrastructure as a prerequisite to legalizing tenure, the cost of the infrastructure can be included in the cost of the land.

(5) Decree 833 permits the municipality to withhold payments by renters and those buying property on time to the extent necessary to defray the cost of installing basic infrastructure.

Over the long run, the trend should be toward a greater use of valorization as a cost recovery mechanism. The municipalities will determine which of the various mechanisms to apply in specific subprojects. This decision will be reviewed by AID in determining the eligibility of that subproject. (See Subproject Eligibility Criteria, Annex E.2.)

c. Community upgrading must include everyone in the community. Those who cannot pay their full share still are beneficiaries; and someone must bear their costs. The municipality has some leeway with its valorization tax to assess cost recovery taxes in proportion to the value of

the property benefitted. The tax could be assessed to recover 100% of subproject costs from those able to pay. This probably will not happen. Although some families cannot afford nearly enough to pay their full share of community upgrading costs, they should pay something. In Tegucigalpa, the procedure will be to bill everyone for full costs and then to tailor repayment terms for the lowest-income families who need longer repayment periods. Procedures in use already in Tegucigalpa allow the Community Development Department to consider requests from individual families for a partial waiver of assessed payments. When that Department establishes that there is, in fact, a case warranting an exception it can grant relief, including a temporary exemption from payment for up to six months. Beyond that period it must submit the case to the city council. Typical solutions used are an extension of the repayment period or annual escalating payments from a reduced base. The policy is that everyone must pay something. Similar procedures will be extended to San Pedro Sula. This establishes an accountability for all community families. For the families at the very bottom of the income distribution the municipality can use resources from its revolving fund to reduce their tax liability. Minimal drains on general tax revenues might be necessary.

d. Collections in Tegucigalpa will be handled by one of two units. Routine collections, those that are on time and for the full amount of the debt, are handled by the Treasury Division of the Finance Commission (Concejalía de Finanzas). Delinquent payments, as well as refinancing of incomplete payments, are referred to the Credit and Collections Committee, an administrative unit which responds directly to the mayor. About 30% of the \$4 million annual tax receipts are not paid on time and referred to the Committee. This unit, with a staff of twenty persons, assisted by law firms on contract to handle collections through judicial action, has been very successful in reducing delinquency in the municipality. In the last three years the figure dropped from \$3.5 million to \$0.5 million.

In San Pedro Sula both routine payments and collection of delinquent accounts are handled by the same Tax Control and Services Department (Departamento de Control de Impuestos y Servicios). As in Tegucigalpa, this Department has reduced delinquency in recent years, from roughly \$2 million in 1975 to \$600,000 in 1979.

6. Financial Plan

Tables 9 and 10 summarize the sources and uses of Project funds through the Project period. The \$10 million HG will be supplemented by a \$200 DG (plus \$200,000 of IIPUP funds already authorized) and a local contribution of \$2.5 million. \$1.0 million of the HG will be used for home improvement loans in Tegucigalpa (\$0.5 million) and in San Pedro Sula (\$0.5 million). A total of \$11.5 million will be used for community upgrading of basic infrastructure services. Calculations of the rate of investment of the HG funds derive from the Project Delivery Plan (See Annex D.2.). For the grant portion it was assumed that the cost of the TA would be spread evenly over the period during which such assistance will be provided. (See Annex B.1.)

TABLE 9

Summary Cost Estimate
and
Financial Plan
(\$,000's)

<u>Activity</u>	<u>A I D</u>		<u>Local Contribution</u>		<u>TOTAL</u>
	<u>HG</u>	<u>DG</u>	<u>TEG.</u>	<u>SPS</u>	
1. Community Improvement	9,000	-	2,000	500	11,500
2. Home Improvements	1,000	-	-	-	1,000
3. Technical Assistance	-	200	-	-	200
T O T A L	10,000	200	2,000	500	12,700

TABLE 10

Projection of Expenditures by Fiscal Year 1/
(\$ 000's)

<u>Application:</u>	FY 80	FY 81	FY 82	FY 83	TOTAL
<u>Activity</u>					
<u>Community Improvements</u>		2,055	5,510	3,935	11,500
Basic Services					
<u>Home Improvements</u>	68	204	360	368	1,000
<u>Technical Assistance</u>					
Cost Recovery	22	90	8	-	120
Community Development	16	64	-	-	80
Total	<u>106</u>	<u>2,413</u>	<u>5,878</u>	<u>4,303</u>	<u>12,700</u>

1/ Expenditure concept here is that of completed and accepted subprojects or portions thereof, no expenditures covered by interim construction financing.

Projection of Expenditures by Source 1/
(\$000's)

	FY 80	FY 81	FY 82	FY 83	TOTAL
<u>Source:</u>					
<u>AID</u>					
HG	68	1,810	4,664	3,458	10,000
DG	38	154	8	-	200
<u>Local Contribution:</u>					
CMDC	-	373	1,042	585	2,000
S.P.S.	-	76	164	260	500
Total	<u>106</u>	<u>2,413</u>	<u>5,878</u>	<u>4,303</u>	<u>12,700</u>

1/ See Table 10, note 1.

IV. IMPLEMENTATION

A. Implementation Plan

1. Participating Entities. Section III-B ("Administrative Feasibility") identifies the entities which will be involved in the Project, examines the role which each is to perform, and assesses their capability to implement the Project. In essence, Project administration will be under the supervision and responsibility of each municipal government. They will work through the departments of the municipality and with specialized infrastructure agencies and other entities for social and financial assistance to the beneficiaries.

2. Activities Scheduling.

a. Project legal documents

It is expected that the Project will be authorized in April, 1980. Project implementation involves negotiating and signing five separate legal documents as follows:

(1) For the Development Grant, a Project Agreement to be signed by the Ministry of Finance, CONSUPLANE and the two participating municipalities outlining the use of grant funds for technical assistance.

(2) For the Housing Guaranty an Implementation Agreement to be signed by the Ministry of Finance and the two participating municipalities outlining the use of the proceeds of the HG loan for basic service investments and home improvement loans and setting forth the covenants identified in this paper.

(3) A Loan Agreement between the Ministry of Finance, acting for the GOH, and an eligible U.S. investor setting forth the terms of the HG loan.

(4) A Guaranty Agreement, signed by AID, assuring the U.S. investor against any loss, and,

(5) A Host Country Guaranty, signed by the Ministry of Finance, acting for the GOH, providing a similar assurance to AID.

The Project and Implementation Agreements will be signed first, in May, 1980. Based on the Project Delivery Plan (See Annex D.2.) two HG Loan Agreements in the amounts of \$4 and \$6 million, respectively, are anticipated in approximately October, 1980 and August, 1982. These dates may vary depending upon financial considerations as viewed by the Ministry of Finance. The two Guaranty Agreements will be signed concurrently with the Loan Agreements. AID will concur in the selection of the U.S. investor made by the Ministry of Finance.

This entire schedule is expressed in the Project Planning and Tracking Network (See Annex B.1.)

b. Disbursements (HG)

The HG funds will be disbursed over a period of three years from the time of the signing of the Implementation Agreement. The first project in Tegucigalpa should be approved in May-June of this year and by 0 -November in San Pedro Sula. Although both municipalities have a number of discrete subprojects already in the final stages of preparation it will be necessary to insure that these subprojects meet the criteria established in the Eligibility Checklist regarding felt community priorities within a comprehensive upgrading framework. The first disbursement request, for construction advances, therefore, is expected in November, 1980, by which time construction will have begun in both cities. Disbursements will continue on a regular basis, approximately every three to six months, as shown in the Project Delivery Plan (Annex D.2.). Based on that schedule, it is anticipated that about \$3 million may be required for construction advances.

c. Disbursements (DG)

The first disbursement of Grant Funds to pay for technical assistance should occur during the last quarter of this fiscal year. The disbursement period of the Grant will be three years. It is expected that most Grant-Financed activities will be completed within 18 months.

d. Counterpart Funds

The local financial contribution of both San Pedro Sula and the CMDC will be provided mostly from borrowed funds with the remainder coming from general revenues. To the degree that most of the local contribution is available at the beginning of the Project it will be used for construction financing, and will be rolled over as construction financing until the last year of the Project.

With one exception, expenditures will only be accepted for counterpart attribution for work done after the Project authorization date. The USAID has agreed that expenditures already made on the recently initiated San Miguel (Tegucigalpa) water and sewer project will be accepted as a counterpart contribution, assuming the project is included in the Project for partial HG financing.

3. Procurement/HG disbursement procedures

a. TA Procurement

Contracting for the grant-funded technical assistance will be done in either of two ways. The municipalities will handle contracting for

any long-term assistance or for assistance to be procured locally (such as legal advice). In these cases, scopes of work will be prepared by the municipalities and submitted to USAID/H for review and approval. The municipalities will then proceed to procure the technical services in accordance with AID Project Guidelines. Upon submission of a draft contract, the Mission will confirm financing by an Implementation Letter.

The alternative procedure will involve the procurement of short-term assistance through existing AID indefinite or fixed quantity contracts. The municipalities will determine which procedure they want to utilize.

That portion of the technical assistance which relates to methodologies for applying a betterment tax (valorization) to the recuperation of investments in basic services may have to be procured outside the United States and Central America. Most of the experience in the use of such a tax is concentrated in South America, notably Colombia. Accordingly, the draft Project Authorization provides the procurement from AID Code 941 for the Grant portion of the Project.

b. Contracting for HG financed activities

Basic service upgrading subprojects in specific communities will be approved by RHUDO/ROCAP and USAID/H utilizing the eligibility criteria contained in the checklist in Annex E.2. Those offices will also review and approve the plans, specifications, costs, and any change orders for specific construction projects to insure, inter alia, that final costs of the solutions are affordable by the intended beneficiaries.

Contracting for the HG-financed basic service projects will be done by the municipalities. RHUDO/ROCAP and USAID/H will review bid and contracting procedures, pre-bid estimates and final contracts in accordance with standard HG program procedures.

For the home improvement loan activity RHUDO/ROCAP and USAID/H will review the procedures to be followed by the financial institution selected by the municipalities. Particular attention will be placed on criteria for eligibility of borrowers and of types of improvements that can be financed.

c. Disbursement procedures (DG)

Technical assistance contracts will be reimbursed upon receipt of vouchers from the municipalities and approval by USAID/H.

d. Disbursement procedures (HG)

HG funds will be disbursed against evidence of either:

(1) construction financing needs for a specified period of time (normally three to six months);

(2) completed investments in eligible basic service projects or home improvements.

It is anticipated that up to \$3 million in HG funds in addition to the local contribution will be required as advances for construction financing. All such advances will be cancelled with, the last disbursement against evidence of completed, eligible investments. Funds from the local contribution will be made available on no less than a pari passu basis with the drawdown of HG funds. They will initially be used to establish a rotating construction financing fund and be invested concurrently with the last HG drawdown.

AID may accept for HG financing expenditures incurred in or after the date of Project authorization for eligible items.

The request for drawdown will be prepared jointly by the two participating municipalities and forwarded to the U.S. investor and to AID by the Ministry of Finance. The municipalities and the Ministry will sign a "Memorandum of Understanding" setting forth their agreements on the procedures for requesting drawdowns of HG funds.

The Project Delivery Plan (Annex D.2.) will be updated quarterly and used to monitor the timing and volume of drawdowns. All disbursements of HG funds by the U.S. investor will require prior approval by RHUDO/ROCAP.

B. Monitoring and Evaluation

RHUDO/ROCAP will be responsible to USAID/H for monitoring the Project. This will include maintaining the schedule of Project activities and assuring the timely delivery of AID inputs.

Regular, annual evaluations are proposed approximately at each anniversary of Project authorization and following completion of all Project activities. These will follow procedures described in the DS/H evaluation manual. Project evaluation will focus on the extent of coverage and costs of services in the barrios affected by the Project. A final impact evaluation will be conducted using a modified version of the questionnaire used for the Social Analysis. This impact evaluation will measure changes in: (a) source and cost of water; (b) source and cost of waste disposal; (c) access to public transportation; (d) source and costs of household lighting; and (e) source and cost of home improvements. In addition, the attitudes of household heads toward participation of community patronatos will be measured. The survey will take two matching samples of families from Project and non-project barrios, to enable comparison of Project-financed upgrading to other types of community improvement. Evaluations will be financed from HG fee income.

C. Conditions Precedent, Covenants and Negotiating Status.

1. Conditions Precedent

The Project Agreement will include a Condition Precedent to the first disbursement which will read as follows: The Borrower shall submit, in form and substance satisfactory to A.I.D., an analysis of the potential impact of the Project on water supply in Tegucigalpa and the plans of the Borrower to deal with the increased demand for water.

2. Covenants

The Implementation Agreement will include the following covenants:

a. The CMDC and the Municipality of San Pedro Sula will each set up a revolving fund from the reflows of loan payments. The funds will not be commingled with other city revenues nor will they be used for any purpose other than to (i) relend to the same target group and for the same purposes as the present loan; and to (ii) service the HG loan.

b. Loans for infrastructure improvements will be restricted to communities where either there are no land tenure problems or where those that do exist can be resolved before construction begins.

c. Environmental conditions which could adversely affect a community will be taken into account in subproject planning and design.

d. The municipalities of Tegucigalpa (CMDC) and San Pedro Sula and the Ministry of Finance and Public Credit will subscribe by June 30, 1980 a Memorandum of Understanding describing the roles and responsibilities of each institution in the negotiation and drawdowns of the Housing Guaranty loan from an eligible U.S. investor and in the overall conduct of the Project.

e. The Government of Honduras (GOH) agrees to maintain in force in Tegucigalpa, and to extend to the Municipality of San Pedro Sula, the legal authority to impose and collect a betterment tax (valorization) and/or other appropriate and effective cost recovery techniques, by September 30, 1981.

2. Negotiating Status

Three separate meetings were held involving host country participants as follows:

a. March 26, 1980 with representatives of the Municipality of San Pedro Sula to discuss in detail project parameters and implementation procedures (including eligibility criteria) as described in this paper.

b. March 27, 1980 with representatives of the municipality of Tegucigalpa (CMDC) for the same purpose as above.

c. April 1, 1980 with representatives of both municipalities, of the National Planning Secretariate (CONSUPLANE) and of the Ministry of Finance (including the mayor of Tegucigalpa and the Director of Public Credit of the Ministry of Finance) to discuss arrangements for borrowing and disbursing HG funds.

A letter from the Ministry of Interior dated April 10, 1980 (Annex F.3.) expresses conformity with the substance of covenant e. specifically. The letter of application from the Ministry of Finance is attached as Annex A.8. Based on the three meetings and the two letters it is clear that all host country parties are in full agreement with this project as described in this paper, including the covenants stated above and subproject eligibility criteria as outlined in Annex E.2.

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Page 1 of 2

TAGS:

SUBJECT: DAEC REVIEW OF URBAN UPGRADING PID

THE DAEC REVIEWED AND APPROVED THE SUBJECT PID ON JANUARY 28, 1980. THE FOLLOWING GUIDANCE IS PROVIDED TO ASSIST THE MISSION IN PREPARING THE PROJECT PAPER.

1. TARGET POPULATION ATTITUDES AND INCOME. A NUMBER OF QUESTIONS AROSE CONCERNING THE PROPOSAL TO RECOVER THE COST OF CONSTRUCTING BASIC PUBLIC SERVICE FACILITIES THROUGH A COMBINATION OF USER CHARGES AND VALORIZATION TAX. THE FIRST BANMA PROJECT (LOAN 522-W-722) EXPERIENCED CONSIDERABLE DIFFICULTY IN RECOVERING COSTS THROUGH USER CHARGES, PRIMARILY BECAUSE THE TARGET POPULATION WAS UNABLE OR AT LEAST UNWILLING TO BEAR THE COST OF THE SERVICES. IN ADDITION, STUDIES OF URBAN UPGRADING PROJECTS IN MANY DEVELOPING COUNTRIES INDICATE THAT IMPROVEMENTS IN INFRASTRUCTURE (I.E. WATER, SEWERAGE OR DRAINAGE) AND THE CONSEQUENT RISE IN LAND VALUES OFTEN CAUSE THE DISPLACEMENT OF LOW INCOME HOUSEHOLDS. IN THIS RESPECT, FAMILIES WHO RENT THEIR DWELLINGS ARE PARTICULARLY VULNERABLE. TO ANSWER THESE QUESTIONS, THE MISSION SHOULD CLOSELY EXAMINE THE ANTICIPATED PAYMENT CAPACITY OF THE TARGET

POPULATION; PARTICULAR ATTENTION SHOULD BE GIVEN TO THE PROPORTION AND AVERAGE INCOMES OF RENTERS. IN ADDITION, THE MISSION SHOULD EXAMINE THE ATTITUDES OF THE TARGET POPULATION TOWARDS PAYING FOR THE SERVICES THEY RECEIVE.

2. PROJECT FOCUS. THE PP SHOULD EXPLAIN THE RATIONALE FOR CONCENTRATING ON THE NATION'S TWO LARGEST CITIES. ALSO, DURING INTENSIVE REVIEW, THE MISSION SHOULD EXAMINE THE FEASIBILITY OF INCLUDING THE LOWEST INCOME GROUPS IN THE PROJECT AND REPORT THE FINDINGS OF THIS EXAMINATION IN THE PP.

3. CONSTRUCTION ACTIVITIES. THE PP SHOULD PROVIDE A DESCRIPTION OF THE SCOPE OF CONSTRUCTION ACTIVITIES TO BE CARRIED OUT UNDER THE DOLS 10 MILLION PUBLIC SERVICE COMPONENT. FOR EXAMPLE, DOES PROVIDING WATER MEAN INSTALLATION OF HOUSE TO STREET MAIN CONNECTIONS, CONSTRUCTION OF SECONDARY DISTRIBUTION SYSTEMS, AND/OR INSTALLATION OF PRIMARY DISTRIBUTION SYSTEMS? ALSO, IN VIEW OF THE LARGE PORTION OF PROJECT FUNDS ALLOCATED TO CONSTRUCTION, IT IS SUGGESTED THAT AN A.I.D. ENGINEER BE INCLUDED ON THE PROJECT DEVELOPMENT TEAM.

4. RELATION TO OTHER A.I.D. ACTIVITIES.

(A) SHELTER FOR THE URBAN POOR (522-HG-005). SINCE THE ON-GOING SHELTER FOR THE URBAN POOR PROJECT INCLUDES HOME IMPROVEMENT LOANS, THE PP SHOULD PROVIDE A JUSTIFICATION FOR INCLUDING A SIMILAR ACTIVITY IN THE PROPOSED PROJECT. ALSO, IN VIEW OF THE PLAN TO PROVIDE WATER AND SEWER SYSTEMS UNDER THE PUBLIC SERVICES COMPONENT, THE PP SHOULD CLARIFY WHETHER THE INSTALLATION OF HOME PLUMBING WILL BE AN ACCEPTABLE ACTIVITY FOR HOME IMPROVEMENT LOANS.

(B) DOCTOR ASSESSMENT. THE PP SHOULD INDICATE THE SCOPE OF THE MISSION'S PLANNED URBAN/REGIONAL ASSESSMENT AND ITS RELATION TO THIS PROJECT. THE PP SHOULD ALSO INDICATE: (1) THE PROJECT'S RELATION TO THE NATIONAL STRATEGY ON HOUSING/URBAN DEVELOPMENT AS WELL AS THE STRATEGIES OF THE INDIVIDUAL MUNICIPALITIES; AND (2) HOW THE NATIONAL AND MUNICIPAL GOVERNMENTS WILL CONTINUE THE PROJECT OVER THE LONG TERM.

5. COORDINATION MECHANISMS. THE PP SHOULD CLEARLY IDENTIFY THE VARIOUS IMPLEMENTING AGENCIES AND ANALYZE HOW THEY RELATE TO EACH OTHER, PARTICULARLY IN THE HANDLING OF PROJECT FUNDS. FOR EXAMPLE, HOW WILL DECISIONS BE MADE

CONCERNING THE DISTRIBUTION OF PROJECT FUNDS AMONG THE VARIOUS ENTITIES AND ACTIVITIES. THE ANALYSIS SHOULD DEMONSTRATE THAT THE NECESSARY COORDINATION REQUIRED TO IMPLEMENT THE PROJECT WILL TAKE PLACE. IN THIS REGARD THE MISSION SHOULD CONSIDER DEVELOPING A NATIONAL LEVEL COORDINATING MECHANISM.

6. LAND TENURE. THE PID NOTES THAT IN SOME COMMUNITIES LAND TENURE PROBLEMS MUST BE RESOLVED. SHOULD NOT THIS RESOLUTION OCCUR BEFORE ANY OTHER PROJECT ACTIVITIES ARE INITIATED IN THESE COMMUNITIES? THE MISSION SHOULD EXAMINE THE PREVALENCE OF THIS PROBLEM AND DETERMINE TO WHAT EXTENT IT WILL DELAY PROJECT IMPLEMENTATION.

7. REFLWS. EXCESS REFLWS WILL BE GENERATED BECAUSE COMMUNITIES ARE EXPECTED TO PAY OFF CONSTRUCTION COSTS FOR THE PUBLIC SERVICE FACILITIES FASTER THAN THE HG LOAN HAS TO BE REPAYED. THE MISSION SHOULD REQUIRE AS A COVENANT THAT THE EXCESS REFLWS BE USED TO ESTABLISH A REVOLVING FUND FROM WHICH LOANS COULD BE MADE FOR ADDITIONAL COMMUNITY IMPROVEMENT PROJECTS.

8. SOCIAL SERVICES. ALTHOUGH AN OBJECTIVE OF THE PROJECT IS QUOTE TO DEMONSTRATE THE EFFECT OF INTEGRATED SOCIAL AND PHYSICAL IMPROVEMENT IN MUNICIPAL COMMUNITIES, UNQUOTE IT IS UNCLEAR WHAT KINDS OF SOCIAL SERVICES WILL BE PROVIDED. NOR IS THE RATIONALE FOR THIS ACTIVITY CLEARLY ARTICULATED. IF THIS ACTIVITY IS KEPT AS PART OF THE PROJECT, THE PP SHOULD CLEARLY SET FORTH WHAT HYPOTHESES ARE TO BE TESTED BY THESE PILOT PROJECTS, AND WHY IT IS IMPORTANT THAT THEY BE TESTED. THE PP SHOULD ALSO DEFINE THE SERVICES TO BE PROVIDED AND DESCRIBE WHO WILL PROVIDE THEM AS WELL AS HOW THEY WILL BE FUNDED. IN THIS REGARD, MISSION MIGHT CONSIDER WHETHER SOME TYPE OF LEGAL ASSISTANCE SHOULD BE INCLUDED AMONG THE SERVICES.

9. ENVIRONMENTAL CONSIDERATIONS. SINCE SOME OF THE COMMUNITIES THAT MAY BE INCLUDED IN THE PROJECT ARE IN ENVIRONMENTALLY UNSOUND LOCATIONS, THE COMMUNITY CRITERIA SHOULD BE SURE TO TAKE INTO ACCOUNT ENVIRONMENTAL CONDITIONS WHICH COULD ADVERSELY AFFECT A COMMUNITY. VANCE

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5C (1) - COUNTRY CHECKLIST

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?
2. FAA Sec. 481 Has it been determined that the government of the 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 U.S. unlawfully?
3. FAA Sec. 620 (b) If assistance is to a government, has the Secretary of State determined that it is not dominated or controlled by the international Communist movement?
4. FAA Sec. 620 (c). If assistance is to a 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) the debt is not denied or contested by such government?

5C (1) - COUNTRY CHECKLIST

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. The Project Paper demonstrates that the assistance will benefit the needy.
2. No such determination has been made.
3. The Secretary of State has determined that Honduras is not controlled by the international communist movement.
4. A.I.D. knows of no such case.

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), 6200; FY 80 App. Act. Sec. (511, 512 and 513.) Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos or Vietnam. Will assistance be provided to Afghanistan or Mozambique without a waiver?

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?

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?

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

10. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters,

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

5. There is no evidence of such action.

6. Honduras is not a communist country. Assistance will not be provided to North of South Vietnam, Cambodia or Laos.

7. A.I.D. has no vidence of any subversive or agression or of plans for such action.

8. In the past there have been incidents where the QDH had been unsuccessful in containing demonstrations aimed at the U.S. Embassy. This has not been the case in almost ten years.

9. The OPIC Investment Guaranty Program is in operation in the country.

10. Honduras has not seized or imposed any penalties or sanctions against U.S. fishing vessels because of their activities in international waters during recent years.

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

11. FAA Sec. 620; FY 80 App. Act Sec. (518.) (a) Is the government of the recipient country in default for more than six 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 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, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget 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?

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?

11. Honduras is not in default on any such loans.

12. N/A

13. No.

14. Honduras is not in arrears to the extent described in Article 19 of the U.N. Charter.

15. FAA Sec. 620A, FY 80 App. Act, Sec. (521.) Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? Has the country granted sanctuary from prosecution to any individual or group which has committed a war crime?

15. 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?

16. 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?

17. No.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

1.

a. FAA Sec. 102(b) (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.

a. Criteria for assessing progress in involving the poor in development have been set through Sector and Subsector assessments in Agriculture, Education, and Nutrition, and will be set in this years urban-regional and health sector assessments.

b. FAA Sec. 104(d) (1); IDC Act of 1979. If appropriate, is this development (including Sahel) activity designed 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, assistance to urban poor and through community-based development programs which give recognition to people motivated to limit the size of their families?

b. Through the provision of technical assistance to support the construction of basic infrastructure services, this development activity will improve nutrition, disease control and health services through community based programs which in turn will motivate people to limit family size.

2. Economic Support Fund Country Criteria.

2.

a. FAA Sec. 502B. Has the country (a) engaged in a consistent pattern of gross violations of internationally recognized human rights or (b) made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

a. Honduras has not engaged in gross violations of human rights.

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

b. 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?

c. N/A

d. FY 80 App. Act Sec. (510.) will assistance be provided for the purpose of aiding 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?

d. No.

e. FAA Sec. 620B, P.P. 94-329
Sec. 406. Will ESE be furnished
to Argentina or Chile?

e. No.

5C(2) - PROJECT CHECKLIST

5C (2) - PROJECT CHECKLIST

A. GENERAL CRITERIA FOR PROJECT

A. GENERAL CRITERIA FOR PROJECT

1. FY 80 App. Act Unnumbered;
FAA Sec. 634A; Sec. 653(b); (a)
Describe how authorizing and
appropriations Committees 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)?

1. a. This project was included in
the FY1980 Honduras Congressional
Presentation.
b. The assistance is within the
allocation reported to Congress.

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
reasonably firm estimate of the cost
to the U.S. of the assistance?

2. Yes.

3. FAA Sec. 611 (a) (2). If
further legislative action is required
within recipient country, what is
basis for reasonable expectation that
such action will be completed in time
to permit orderly accomplishment of
purpose of the assistance?

3. No legislative action will be
required within recipient country

4. FAA Sec. 611(b); FY 80 App.
Act Sec. (501.) If for water or
water-related land resource
construction, has project met the
standards and criteria as per the
Principles and Standards for Planning
Water and Related Land Resources dated
October 25, 1973?

4. 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?

5. Yes

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.

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.

8. FAA Sec. 601(b). 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).

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 services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

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?

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

6. The project is not suitable for execution as part of a regional or multilateral project.

7. The project will marginally contribute to increasing international trade due to import component of construction which the technical assistance provided by this project is supporting. Bidding procedures will discourage monopolistic practices. Technical efficiency of informal housing sector to be improved.

8. Contracted technical assistance will be provided by U.S. citizens.

9. The Government of Honduras is contributing \$2.5 million in local currency to help defray local cost expenditures.

10. The U.S. does not own such excess currency.

11. Yes.

12. FY 80 App. Act Sec. (521.)
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?

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b); 111; 113; 281a. 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 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?

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.)

12. Assistance under this program is not directed at promoting commodities for export.

B. FUNDING CRITERIA FOR PROJECT

1.

a. Community upgrading solutions are offered to poor who could not otherwise afford such improvements. Individual and group initiative is encouraged through participation in community groups.

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with programs carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under sec. 104 (h) or health under sec. 104 (c); if so, a. extent to which activity emphasized 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.

(4) [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; and b. extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(5) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: (i) (a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

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

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

(iv) reconstruction after natural or manmade disaster;

(v) for special development problems, 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.

(vi) Small labor intensive construction entities will be involved in home improvement program. Pilot community development efforts will help the urban poor participate in economic and social development.

c. [107] is appropriate effort placed on use of appropriate technology? (relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.)

c. 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)?

d. Yes.

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

e. Grant capital assistance will be disbursed within 3 years.

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 processes essential to self-government.

f. The project's design provided for the development of various types of low-cost basic infrastructure solutions tailored to the needs, desires and capacities of beneficiaries. All technical assistance will be provided to the Municipalities own personnel who will be responsible for project implementation.

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

g. The goal of the project is to improve the living conditions of the urban poor. By improving the institutional capacity to channel effective demand, the project will stimulate the productive sector that will have to supply this demand.

2. Development Assistance Project
Criteria (Loans Only)

2.

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

a. N/A

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, 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?

b. N/A

3. Project Criteria Solely for
Economic Support Fund

3.

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

a. The project will promote political stability by improving the living conditions of the urban poor in Honduras' two major cities. The project reflects the majority of the principles stated in section 102.

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

b. N/A

5C(3) - STANDARD ITEM CHECKLIST

5C (3) - STANDARD ITEM CHECKLIST

A. Procurement

A.

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

1. Yes.

2. FAA sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?

2. Yes.

3. FAA Sec. 604(d) If the cooperating country discriminates against U.S. marine insurance companies, will commodities be insured in the United States against marine risk with a company or companies authorized to do a marine insurance business in the U.S.

3. Yes.

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?

2. Yes.

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

3. N/A

C. Other Restrictions

C.

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

1. N/A

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

2. No international organization will have administrative responsibilities under this program.

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

3. Yes.

4. FAA Sec. 636(i). Is financing not permitted to be used, without waive, for purchase, sale, longterm lease, exchange or guaranty of motor vehicles manufactured outside the U.S.

4. Yes.

5. Will arrangements preclude use of financing:

5. The project agreement will provide for specific use of AID funds for agreed upon purposes and thus preclude allocation of such funds for the purposes covered by the legislation cited in items 5.a through 5.i.

a. FAA Sec. 104(f). To pay for performance of abortions as a method of family planning or to, motivate or coerce persons to practice abortions; to pay for performance of involuntary sterilization as a method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization?

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?

4. No such procurement is contemplated.

5. FAA sec. 608(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.

5. The project agreement will provide for compliance with this requirement.

6. FAA Sec. 621. If technical assistance is financed, to the fullest extent practicable will such assistance, goods and professional and other services from private enterprise, be furnished on a contract basis? If the 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?

6. Technical assistance to be financed under the program will be furnished to the fullest extent practicable by private organizations or individuals.

7. 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?

7. Yes.

8. FY 80 App. Act Sec. [505]. Does the contract for procurement contain a provision authorizing the termination of such contract for the convenience of the United States?

8. Yes.

B. Construction

B.

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 interests?

1. Yes.

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

d. FAA Sec. 662. For CILA activities?

e. FY 80 App. Act Sec. [504] To pay pensions, etc., for military personnel?

f. FY 80 App Act Sec. [506] To pay U.N. assessments?

g. FY 80 App. Act Sec. [507] To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending.)

h. FY 80 App. Act Sec. [511] To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields?

i. FY 80 App. Act Sec. [515] To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D.C. 20523

THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLIST

ANSWER YES/NO
PUT PP PAGE RE-
FERENCES AND/OR
EXPLANATIONS WHERE
APPROPRIATE

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

No

Yes

No

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?

Yes

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;

No

- 2 -

- (2) projects comprised of expandable core shelter units on serviced sites; No
- (3) slum upgrading projects designed to conserve and improve existing shelter; Yes
- (4) shelter projects for low-income people designed for demonstration or institution building; and Yes
- (5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor? No

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?

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

- 3 -

(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 _____

(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 _____

(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 _____

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 _____

B. 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 _____

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?

Yes _____

PROJECT AUTHORIZATION

Name of Country: The Republic of Honduras Name of Project: Urban Upgrading
Number or Project: 522-0155

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize The Urban Upgrading Project for the Republic of Honduras involving planned obligations of not to exceed Two Hundred Thousand (\$200,000) United States Dollars in grant funds over a three 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 cost for the project.

2. The project consists of providing technical assistance to the municipality of San Pedro Sula and the Metropolitan Council of the Central District in support of the development objectives of the Urban Upgrading Housing Investment Guaranty Program.

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 covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

4. Source and Origin of Goods and Services

Goods and services except for ocean shipping, financed by A.I.D. under the project shall have their source and origin in the Central American Common Market Countries, and in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing.

Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

Signature _____

Edward W. Coy

Assistant Administrator for
Latin America and the Caribbean
(Acting)

(DRAFT)

GUARANTY AUTHORIZATION

PROJECT 522-HG-006

Provided From: Housing Guaranty Authority
To : Government of Honduras
For : Urban Upgrading - 522-HG-006

Pursuant to the authority vested in the Acting Assistant Administrator, Bureau for Latin America and the Caribbean 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 ten million dollars (\$10,000,000) in face amount, for 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 urban upgrading projects ("Projects") in Honduras.

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 Honduras Guaranty: The Government of Honduras 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.

- 6. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary, including a covenant by the Borrower that the benefits of the loan will flow directly to families earning below the median income in the applicable urban area.

Edward W. Coy
Acting Assistant Administrator
Bureau for Latin America and Caribbean

Date

Clearances:

DS/H:David McVoy DM Date 4/15/80
 GC/H:Barbara Davis BW Date 4/16/80
 DS/H:Sonny Low SL Date 4/15/80
 FM/LD:Ernest Wilson EW Date 4/16/80
 LAC/DR:Robert Mathia _____ Date _____
 LAC/DR:Marshall Brown _____ Date _____
 LAC/CEN:William Luken _____ Date _____
 GC/LAC:Annette Adams _____ Date _____

DS/H:SLOW:prj:4/14/80



Secretaría de Hacienda y Crédito Público

Honduras, C. A.

S-66

Tegucigalpa, D.C., marzo 28, 1980

Señor
John R. Oleson
Director
Agencia Internacional para
el Desarrollo (AID)
Presente

Señor Director:

El Plan Nacional de Vivienda para el período 1979-1983, preparado por el Consejo Superior de Planificación Económica (CONSUPLANE), contiene un subprograma de mejoramiento de barrios que establece los objetivos siguientes para las comunidades marginales de Tegucigalpa y San Pedro Sula:

- Mejorar la situación habitacional de la población urbana de escasos recursos, los servicios básicos y el medio ambiente.
- Obtener la participación activa de la población en la solución de sus problemas.
- Utilizar los recursos humanos y materiales locales disponibles.
- Estimular el desarrollo de una tecnología de construcción apropiada.

Para ayudar a lograr estos objetivos, el Gobierno desea llevar a cabo un proyecto de mejoramiento urbano, de tres años de duración, en Tegucigalpa y San Pedro Sula, con la asistencia de AID, la cual financiará la entrega de servicios básicos incluyendo agua, alumbrado eléctrico, sistemas de alcantarillado, sistemas de drenaje pluvial y rutas pavimentadas para el servicio de transporte colectivo a las comunidades urbanas marginales identificadas por las municipalidades participantes. También se proporcionará financiamiento en forma de préstamo para mejoramiento de viviendas, a los residentes de las comunidades marginales beneficiarias. Además, se requerirá asistencia técnica financiada bajo donación para la aplicación de técnicas de valorización en la recuperación del costo de las mejoras, para el desarrollo de procedimientos para legalizar la tenencia de la tierra en las comunidades marginales y para el fortalecimiento de las habilidades de las

Sr. John R. Oleson
Página 2
Marzo 28, 1980

organizaciones comunales existentes de ayudarse asimismo y para tratar con instituciones nacionales.

Para financiar el proyecto, el Gobierno negociará un préstamo de diez millones de dólares bajo el Programa de Garantía para Inversión de Viviendas de AID. Además serán necesarios 0.5 millones de dólares adicionales en fondos de donación de la AID, para los servicios sociales y los aspectos de asistencia técnica conexos del programa. La municipalidad de San Pedro Sula y el Concejo Metropolitano del Distrito Central proporcionarán aproximadamente 0.5 y 2.0 millones de dólares respectivamente en fondos de contraparte.

El prestatario será el Ministerio de Hacienda y Crédito Público. Los fondos del proyectos se canalizarán a las municipalidades participantes a través del Banco Central de Honduras mediante préstamo sin costo adicional y a igual plazo.

Sin otro particular, aprovecho la oportunidad para suscribirme del señor Director con las muestras de mi más distinguida consideración y

estimo.



Leopoldo J. Mendoza A.
Ministro de Hacienda y
Crédito Público



MUNICIPALIDAD DE SAN PEDRO SULA
DEPARTAMENTO DE CORTES
HONDURAS, C. A.

OF. No.

Marzo 31 de 1980

Sr. John Olsen
Director de la Misión AID
en Honduras
Tegucigalpa, D.C.

Distinguido señor Director:

Con el debido respeto me dirijo a usted, para solicitarle muy formalmente a ese prestigiado Organismo el cual usted dignamente dirige la inclusión de esta Municipalidad dentro del programa de financiamiento de los proyectos tales como:

- a) Mejoramiento de Viviendas
- b) Alcantarillado Sanitario y Pluvial
- c) Agua Potable
- d) Energía Eléctrica
- e) Vías de Acceso o Penetración

Manifiéstole además estar totalmente de acuerdo con la participación del 20% como contra-parte de esta Municipalidad en el financiamiento del costo total del programa a desarrollarse.

Agradeciéndole anticipadamente su valiosa colaboración, me suscribo de - usted.

Atentamente,

HECTOR SABILLON CRUZ
ALCALDE MUNICIPAL

cc: Archivo.



CONCEJO METROPOLITANO DEL DISTRITO CENTRAL
TEGUCIGALPA, D. C., HONDURAS, C. A.

8 de marzo 1980
OFICIO No.000421-FCMDC80

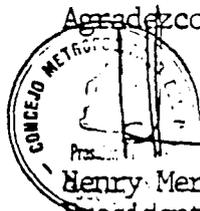
Señor Director
Agencia de los Estados Unidos
para el Desarrollo Internacional
Licenciado John Oleson
Su Despacho.

Estimado Licenciado Oleson:

De la manera más atenta deseo oficializar nuestra solicitud de préstamo para mejoramiento de barrios marginados.

En conjunto con la Municipalidad de San Pedro Sula, deseamos obtener fondos para dicha actividad por una suma aproximada de VEINTE MILLONES DE LEMPIRAS (LPS.20,000.000.00) de los - cuales CINCO MILLONES son para la Municipalidad de San Pedro Sula y QUINCE MILLONES para el Concejo Metropolitano del Distrito Central.

Agradezco su siempre gentil y decidida consideración.



Henry Merriam
Presidente del Concejo Metro
politano del Distrito Central.

cc. Señor Ministro de Gobernación
y Justicia.
Vice Presidencia, CMDC
arch.

PROJECT TRACKING NETWORK

Activity	FY 1980				FY 1981				FY 1982				
	April 1				October 1				January 1				
	3rd. Q.	4th. Q.	1st. Q.	2nd. Q.	3rd. Q.	4th. Q.	1st. Q.	2nd. Q.	3rd. Q.	4th. Q.			
1. Project Authorization	X												
2. Grant TA Agreement		X											
3. II PUP Agreement		X											
4. HG Implementation Agreement		X											
5. HG Loan Agreement				X									
6. Regular Evaluation						X							
7. Subprojects CMDC													
7.1 1	3	4	5	6									
7.2 2.3	3	4	5	6									
7.3 4.5.6.7	1	2	3	4	5	6	7	8	9	10	11	12	
7.4 8.9.10.11				1	2	3	4	5	6	7	8	9	10
7.5 12.13.14.15.								1	2	3	4	5	2/
8. Subprojects S.P.S.													
8.1 1	1	2	3	4	5	6	7	8	9	10	11	12	
8.2 2.3				1	2	3	4	5	6	7	8	9	10
8.3 4.5.6.								1	2	3	4	5	2/
9. Home improvements		1	2	3	4	5	6	7	8	9	10	11	2/
10. 10.1 Cost Recovery									1	2	3	4	
10.2 CD		1	2	3	4	5	6	7	8	9	10	11	
10.3 Design		1	2	3	4	5	6	7	8	9	10	11	

1. Numbers refer to project phases outlined in Section II- B-5: Project Implementation Cycle
 2. Continue until February, 1983

Project Title & Number: Urban Upgrading

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

NARRATIVE SUMMARY	Objectively Verifiable Indicators	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>A.1. Goal To improve the living conditions of the urban poor in the marginal settlements of Tegucigalpa and San Pedro Sula.</p>	<p>A.2. Measurement of Goal Achievement An increase in the percentage of low-income communities with basic infrastructure services. An increase in the number of houses with minimally accepted physical standards.</p>	<p>A.3. Municipal records. Comparison with base year data.</p>	<p>Assumptions for achieving goal targets: (A-1) Municipalities continue to give high priority to the upgrading of marginal communities. The beneficiaries will cooperate in the program.</p>
<p>B.1. Purpose To improve the capacity of the municipal governments of Tegucigalpa and San Pedro Sula to manage programs to upgrade marginal, urban communities through cost recoverable investments.</p>	<p>B.2. End of Project Status A system developed for upgrading living conditions in marginal areas based on self-financed projects. Ability of the system to utilize sufficient quantities of market rate funds to enable the upgrading program to continue.</p>	<p>B.3. Municipal budgets. Municipal plans for housing sector in post project years.</p>	<p>Assumptions for achieving purpose: (B-1) Low-income communities are willing and able to pay for improvements.</p>
<p>C.1. Outputs 1. Installation of basic services infrastructure in low-income areas 2. Legalized land tenure for residents in low-income areas. 3. Improvement of individual housing units in low-income areas. 4. Improved municipal capability to implement upgrading programs.</p>	<p>C.2. Output Indicators 1 31,000 households in approximately 80 marginal communities receive infrastructure services. 2. Land tenure problems resolved in same 80 communities. 3. 2,000-2,500 home improvement loans made. 4a. Basic services cost recovery mechanisms applied in 30 marginal communities. b. 400 patronato leaders trained c. methodology and manuals for municipal community development efforts developed.</p>	<p>C.3. Project records.</p>	<p>Assumptions for achieving outputs: (C-1) 1. Cost recovery systems are adaptable to marginal community upgrading. 2. Municipalities continue to provide beneficiaries with opportunity to legalize land tenure. 3. Capable financial institutions are identified to manage home improvement loans.</p>
<p>D.1. Inputs 1. Financial Inputs 1.1. HG Loan 1.2. Development Grant 1.3. Local Counterpart 2. Technical Assistance</p>	<p>D.2. Budget/Schedule 1.1. \$10,000,000 1.2. 200,000 1.3. 2,500,000 <u>12,700,000</u> 2. Approximately 24 person/months.</p>	<p>D.3. Project records.</p>	<p>Assumptions for providing inputs: (D-1) 1.1 HG Loan capital will be available in the U.S. market. 1.4. Municipalities will raise counterpart funds. 2. Suitable T.A. can be provided and will be accepted.</p>

SOCIAL SOUNDNESS ANALYSIS

I. INTRODUCTION

A. Purpose of the Project.

A primary purpose of the Urban Upgrading project is to demonstrate that the residents in low-income, marginal barrios (urban neighborhoods) in Tegucigalpa and San Pedro Sula are willing and able to pay for basic public services and home improvements if credit can be made available to them. At stake here is the viability in the two municipalities of using valorization taxes, a system of taxation by which the cost of the public works is allocated to neighboring properties in proportion to the benefits conferred.

A second theoretical issue inherent in the project design is that of local responsibility for and control of urban upgrading as opposed to central government direction and management. A fundamental aim of the project is to increase the institutional capacity of the municipal governments in Tegucigalpa and San Pedro Sula to promote and finance improvements in marginal urban barrios. The approach of the project, then, is two-pronged: to demonstrate to the municipalities that cost recuperation is a viable approach to urban upgrading and to increase their institutional ability to deal with the problem.

B. Methodology

1. Scope. The investigation undertaken in connection with this Project Paper consists primarily of a household survey of the socio-economic characteristics of families in marginal barrios vis-a-vis their willingness and ability to pay for improved housing and utilities. To date this survey has been conducted only in Tegucigalpa with a sample of 204 families in 29 marginal barrios, but the survey instrument could also be applied in San Pedro Sula.

Data from other surveys and other relevant secondary materials were drawn upon to supplement information not ascertained in the survey undertaken here. Studies of the housing sector by the GOH and by private consulting groups have been particularly useful. Furthermore, extended interviews were held with municipal officials in Tegucigalpa and in San Pedro Sula and marginal barrios were visited in both cities in an attempt to better understand the social reality of the housing situation.

A copy of the survey instrument and interviewer's manual are on file in USAID/Honduras. A complete set of the computerized data is on file at USAID/Honduras and at the Gerencia de Trabajo Social, CMDC.

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The time frame for the design and printing of the survey instrument and the interviewer's manual, the recruitment and training of the interviewers, the design of the sampling frame, and the time available for conducting the field work in Tegucigalpa was three weeks.

2. Selection of the Sample. Selection of the sample in Tegucigalpa presented very special problems. Although the barrio is a meaningful unit for analysis, there does not exist a comprehensive list of the barrios (official or unofficial place names) for the Tegucigalpa-Comayaguela area of the Distrito Central nor is there any agreement on the number of barrios which exist. The Cadaster for the city is nearing completion, but a truly representative, up-to-date sample cannot be drawn until the computerized information becomes available. Selection of the families to be interviewed also was a problem since there are no reliable estimates of the population in each barrio. Estimates used here are based upon Cadastral records on the number of inhabited structures per Cadastral zone.

In the absence of a uniform sampling base for all barrios, the consultant took a sub-sample of housing units in 44 marginal barrios, utilizing the sampling frame of the survey of all housing units in those barrios undertaken in 1979. ^{1/} A sample of 204 housing units was selected by a computer-generated random number program of the 7,479 families surveyed by the CMDC. Ideally, the present ROCAP survey would have been conducted with the families selected by the random number process, but that proved to be impossible. Residential turnover in marginal barrios appears to be rapid, and the existing land-use configuration also changes rapidly in the initial stages of settlement. Houses appear on every available empty space, often resulting in a honeycomb of winding passageways reached only by foot. There usually are no marked streets, nor is there necessarily any agreement among the residents upon place names, either of the transit routes or of the barrio itself. The location of the housing units in most cases could not be ascertained by the information supplied on the CMDC questionnaires. Efforts to find the families through the auspices of the patronatos (local community councils) also proved inadequate. After two days of frustrating attempts to interview the families selected by the random number generation, the contractor opted for a quota procedure, i.e., only the number of interviews per barrio was maintained. The number of sampled households per barrio can be assumed to be roughly proportional to the population in each barrio.

^{1/} Summary results for these barrios are presented in Melba Luz Zuniga M.'s report, "Caracterizacion de Pobladores Residentes en Barrios Urbanos Pobres." The Zuniga report cites widespread inconsistencies in the data. Upon her recommendation the CMDC is not using the data for purposes of planning and recently initiated the field work for another survey which, it is hoped, will provide the information on the barrios which the CMDC needs to perform its work.

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This sampling procedure produced results which are very comparable to a 1976 survey of 2,614 families in eight marginal barrios. ^{2/} The data from the ROCAP survey is internally consistent and highly associated. The quota sampling methodology is felt to be an appropriate alternative because the barrios in Tegucigalpa tend to be physically separate neighborhoods with a high degree of internal homogeneity. This homogeneity results from the settlement pattern as well as from topography. Even in areas of recent settlement where colonias (a term used indiscriminantly with barrios in urban Honduras) are often continuous, there are usually well-defined geographical boundaries and the residents closely identify themselves with their own barrio. ^{3/}

In a settlement area such as Tres de Mayo in Comayaguela, for instance, one can see the physical boundaries of the adjoining barrios. Tres de Mayo lies in a bowl-shaped depression or gully. Las Mercedes rises on a nearby hillside, and Los Profesores lies in an slightly higher linear depression above Tres de Mayo. Each of the barrios originated at different periods, and their socio-economic composition reflects the age of the settlement, as does their housing structures.

3. The Household Interviews. Interviews were conducted with the head of household, defined as the person other members considered the head, who was usually the chief source of economic support for the family. The 204 interviews were conducted in 29 of the 44 marginal barrios in eleven of the city's cadastral zones, thereby providing a study of a wide cross-section of the city's marginal barrios. The barrios selected are listed per cadastral zone with the number of interviews per barrio and the number of occupied housing units per cadastral zone in Table 1. Information on the number of occupied housing units is not available for two of the zones (8 and 16). ^{4/} The sample represents approximately one percent (0.95%) of the occupied housing units in the zones, excluding the two for which information is not yet

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- ^{2/} Junta Nacional de Bienestar Social. "Investigacion sobre la Poblacion Marginal, Programa Accion Familiar," 1976. Sometimes referred to as "Las Crucitas" study.
- ^{3/} Michael Conroy, a University of Texas urban economist, explains the origin of these homogeneous barrios in relation to the existing topography in a study recently completed for ASEPADA: "The Selection of Barrios and Families for the Study." Typescript in the possession of Melba Luz Zuniga M.
- ^{4/} Information supplied by the CMDC, Cadastral Division from a report on occupied housing units made on January 16, 1979. More current statistics will become available soon when the computerization of the remaining ten zones is completed.

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available. The estimated population in the 9 zones for which information was available as of January, 1979, was 130,704. Map 1 shows the location of the cadastral zones and the barrios which existed in 1977.

The survey field work was conducted between February 27 and March 3, following a training course on February 26 held at the CMDC. Staff from the Planning Division of the CMDC acted as field supervisors and the contractor supervised the training course and reviewed the completed questionnaires at the end of each day's work.

4. Data Analysis. The questionnaire was designed with a pre-coded format which eliminated extensive recoding. Staff from the CMDC and Honduran sociologists and social workers assisted in the preparation of the instrument. The data were processed by staff of USAID/Honduras at the Honduran Ministry of Finance utilizing the SPSS (Statistical Package for the Social Sciences). All frequencies, cross tabulations, and other statistical procedures presented in this report have been subjected to the proper statistical control, a built-in feature of the SPSS System. The survey data are significant at a Chi-square level of less than 0.01 unless otherwise specified.

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TABLE 1

HOUSEHOLDS SELECTED PER BARRIO/CADASTRAL ZONE

<u>Cadastral Zones</u>	<u>Barrios</u>	<u>Sample Households</u>	<u>Total No. of Occupied Dwelling Units Per Zone</u>
Zone 2	Miramesi	2	2,229
	Canteras	3	
Zone 3	Nueva Santa Rosa	4	1,467
	San Pablo	15	
Zone 5	Quebrada La Orejona	1	
	Cerro Juana Lainez	1	1,294
Zone 6	Guamilito	3	3,634
Zone 7	El Chile	8	5,794
	Bella Vista	2	
	Pat. 30 de Noviembre	1	
	El Pedregalito	5	
	La Laguna	5	
	La Haya	9	
	Quiroz	8	
	Villafranca	20	
	Alemania	5	
	La Pava y Amates	2	
Zone 8	Sagastume	6	
Zone 9	El Reparto (San Pablo Arriba)	18	2,280
Zone 13	Divanna	15	2,210
	San Francisco	22	
	Soledad	6	
	Santa Eduviges	3	
	El Socorro	7	
Zone 16	La Fraternidad	6	
	La Trinidad	2	
	La Providencia	11	
Zone 21	14 de Marzo	10	1,153
	Col. Monterrey	0	
	Col. San Jose de la Pena	2	
Zone 24	Henry Merriam	2	1,356
		<hr/>	<hr/>
		204	21,427

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II. OVERVIEW OF THE MARGINAL BARRIOS

A. Tegucigalpa

Approximately 84 of the estimated 191 barrios in Tegucigalpa can be classified as low-income or marginal, according to a recent assessment of existing barrios. It is estimated that approximately 45% of the population in the Central District lived in marginal barrios in 1976. ^{5/} Another estimate places the percentage of marginal families at 31.8% of the total number of families in the Central District. ^{6/}

It must be emphasized that there is no systematic list of all the city's barrios. Cadastral, Metroplan, census and District lists are incompatible and incomplete. Estimates range from 177 (1974 Census) to 181 (Esquema Directo de Ordenamiento Metropolitano commonly known as Metroplan, 1976). Sources in the CMDC state that at least 10 new barrios have appeared since 1976.

The formation of the marginal barrios, sometimes referred to as "repartos marginados," has been underway in Tegucigalpa for over 20 years. As population increased and the city expanded outward, vast areas of privately held land and in some cases ejidal (communal) lands were bypassed or were withheld from development for purposes of speculation. Consequently, large areas of undeveloped land are interspersed among neighborhoods which are zoned for residential and industrial use. This settlement pattern, coupled with the city's topography, has tended to preserve the homogeneity of the residential barrios, since they tend to be separated one from another. In the process of urbanization, undesirable lands in gullies and ravines and on steep slopes and hills were also bypassed.

It is in these undesirable areas that many of the city's existing marginal barrios began to develop in the 1960's and 1970's. The location of the barrios has moved steadily towards the periphery of the city, mostly to the Northwest (sector 7), East (sector 16), and South (sectors 21-24). The newest barrios do not appear on the 1977 cadastral map. The expansion and formation of the marginal barrios was fed by an ever-increasing stream of migrants into the center city. After a period of adjustment to city life, the migrants began to organize spontaneous land invasions, popularly referred to as "recuperations," in outlying areas.

The term "recuperation" refers to invasions of ejidal or communal lands which since the 16th century have been administered by the municipality. By law the municipality can recuperate ejidal lands when they are not being used for the purpose for which they were originally donated, i.e., agriculture, in

^{5/} Michael Conroy, op cit.

^{6/} PADCO, Data and Findings on the Target Groups and Their Living Conditions (Task A, Memorandum A) prepared for RHUO/ROCAP, USAID, Tegucigalpa, Honduras, September, 1979.

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most cases. In theory, ejidal lands cannot be sold to individuals; but in the late 19th century such transactions occurred in spite of laws prohibiting such sales, and the lands have subsequently been sub-divided, developed, and sold. ^{7/} The existence of illegally sold ejidal lands has proved to be a major problem for the municipality. It now finds itself in the role of negotiating between "rightful owners" and illegal squatters, who claim they are recuperating the ejidal lands.

The precedent for illegal land invasions of ejidal land was apparently set by the spontaneous seizure of ejidal lands in the area now known as Barrio La Divanna in 1962. La Divanna is located to the south-west of the city in Cadastral Zone 13 (see Map 1). The municipality legalized the takeover and thereby set a precedent for active involvement in the land and housing problems of the urban poor. A wave of invasions, not all on ejidal lands, followed in the 1960's and 1970's. Some were peaceful but others resulted in violent confrontations which in some cases led to forceable evictions by the police.

The tactics of the municipality with regard to legitimization of the land claims have varied, depending upon the type of land in question. In some cases, for example in Zapote Norte, the CMDC purchased invaded land from the owners. Illegally purchased ejidal lands have presented a special problem. In one hotly-contested case, the Colonia Alemania (located well to the west of the last barrio in Cadaster Zone 7 on Map 1), the District is encouraging the occupants to negotiate directly with the "owner," contending that he purchased the land in good faith. In another case, Guamilito, the CMDC exchanged lands with the legal landholder to legitimize the invasion settlement. ^{8/}

There are three types of land tenancy situations which the District must deal with in negotiating with invasions: ejidal lands, privately-owned lands (some of ejidal origin), and national lands. In addition, the District must enforce standards in the settlements it approves. Often sub-divisions are not in compliance with the municipal ordinances which require provision of basic public services to the lots. Decree 833 (Annex B) empowers municipalities to intercede directly between real estate developers and buyers to ensure the provision of services.

^{7/} An excellent study of the historical and legal background of the land tenure situation in the Distrito Central, is Gloria Marina Gomez Martinez, "Tenencia de la Tierra en el Area Metropolitana," Thesis submitted to the Department of Legal and Social Sciences of the National Autonomous University of Honduras in October, 1979.

^{8/} See CMDC, Gerencia de Trabajo Social, "Estudio de Casos sobre Proyectos de Vivienda de Interes Social Realizados en la Ciudad de Tegucigalpa, D.C., Guamilito, Zapote Norte, Pedregal del Norte." (Typescript) Tegucigalpa, D.C., October, 1978.

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Despite Decree 833, land disputes involving the right to settlement, conflicting claims, and the provision of adequate services can be expected to increase as the city continues to expand. Gloria Marina Gomez Martinez has pointed out that the city's growth corridor lies along lands which are concentrated in the hands of a very few families. This concentration has led to unregulated speculation in land and to a systematic violation of zoning, sub-division regulations, and building ordinances on the part of the developers. 9/

All these types of land tenancy situations are represented in the ROCAP survey. Families living on invaded private lands represented 0.5% of the sample households; invaded public lands, 31.4%; illegal sub-divisions, 16.7%; unauthorized sub-divisions with inadequate public services, 41.2%; and other types (legal sub-divisions with full infrastructure services and lands developed by the National Housing Institute or INVA), 10.3%. The characteristics of families are discussed in relation to land tenancy in Section III of this report.

3. Migration. Urban growth in Honduras was accelerated by the mechanization of the agricultural sector. This process displaced agricultural workers and peasants and spurred their migration to urban centers in search of jobs in the underdeveloped industrial sector. The results of the migration of largely unskilled workers into a limited job market are high unemployment and underemployment; a disproportionately large service sector composed largely of vendors or peddlers, domestics, and repairman; and a shortage of suitable housing and urban services. The end product was the creation of marginal barrios and the condition of "marginality", characterized by a lack of access to adequate housing, health, education, employment, etc., and low and often irregular incomes which contribute to family disintegration.

There is no systematic study of migration to Tegucigalpa, but data from a 1976 survey of marginal barrios in the Central District suggests a pattern of migration from rural communities in adjacent departments to the city center (the entrepot), followed by gradual dispersal to the periphery in the form of illegal settlements. About 82% of the heads of households studied had lived in Tegucigalpa for five years or more, but only 65% of the families had lived in the barrio for two years or more. 64.4% were rural in origin, mostly from adjoining departments. 10/ This interpretation is confirmed by social workers in the marginal barrios.

9/ Gloria Marina Gomez Martinez, op cit. p. 83.

10/ JNBS, loc cit. Data were processed in 1978.

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B. San Pedro Sula

San Pedro Sula has the highest growth rate of all urban centers in Central America. Its population, fed by an increasingly large in-migration of displaced agricultural workers, grew at an annual growth rate of 9.7% and 7.6%, respectively, in the periods 1950-1961 and 1961-1974, compared to 5.7% and 5.6%, for Tegucigalpa for the same periods.

The impact of this rapid growth can be seen in the unplanned spillover of settlements into the low-lying lands to the east of the city. The development of this sprawling slum community has led municipal planning officials to abandon the assessments and recommendations of the city's urban plan, the Estudio Plan Regulador del Urbanismo, conducted in 1976 by HIDROSERVICE-CINSA. This plan projected urban growth along the north-south axis. Cadastral officials in San Pedro Sula estimate that the population in the rapidly growing eastern corridor is now over 10,000. The Cadastral department conducted a study of this region in 1978 to prepare a case for extending the city's boundary to encompass the area. Their recommendations for incorporation of the area under the municipality's jurisdiction, entitled, Justificacion de la Ampliacion del Radio Urbano de la Municipalidad de San Pedro Sula, is still under consideration as of this writing. Only a small portion of this eastern growth sector, the older part of Rivera Hernandez, has been surveyed by the Cadastral department, since the population has spread east and south since 1978. Other colonias included in this growth corridor are Las Brisas, 6 de Mayo, and Central (see Map 2).

Improvement of housing and living conditions in the eastern zone is a major priority and this improvement entails regularization of the land tenure situation and incorporation by the municipality. At present the municipality has no legal authority to regulate conditions in the zone. It should be noted also that real estate developers are planning middle-class sub-divisions in the east-southeast growth corridor. This growth corridor can be identified in Map 2 as the area adjacent to the route southeast to La Lima, a community with a population estimated at 10,000. As a result of the population settlements along this new growth axis, the municipal planning officials encourage urban upgrading projects in this region and contend that the recommendations of the Plan Regulador have been superseded by events. 11/

11/ The only volume of the multi volume Plan Regulador currently in use is Vol. VI, Instrumentos Normativos, Ordenanza de Zonificacion y Urbanizacion, (1976).

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III. CHARACTERISTICS OF THE TARGET GROUP

A. Tegucigalpa

. Income Distribution. The majority (73%) of all families living in the 29 barrios surveyed have monthly family incomes below \$180, equivalent to the median monthly family income for Tegucigalpa. Consequentially, most of all of the barrio families fall into AID's target group. The income distribution is presented below.

TABLE 2

INCOME DISTRIBUTION OF SAMPLED HOUSEHOLDS

<u>Income Group</u>	<u>Income range</u>	<u>Mean Monthly Family Income</u>	<u>Cases</u>	<u>Percent of Total</u>
Low Target	Less Than \$ 99.50	\$ 63	56	27.5
High - Target	\$ 100 180	\$ 135	92	45.1
Non - Target	more than 180	313	56	27.5
			<u>204</u>	<u>100.0% *</u>

* Due to rounding off, the total percentage in this and other tables is sometimes not exactly 100.0%

The mean monthly household income for the sample was \$ 164 and the median was \$ 134.

Data were obtained on income per individual (12 years of age and older) and also by source, as a check on the data supplied. As expected, many female household members were economically active. Male heads of household, however, unusually declared as an initial response that the wife was a housewife or did nothing. Only when the head was asked specifically per item who in the household had contributed economically to the family budget during the past week by making articles or food for sale, selling or reselling, running a business, receiving a pension, etc., was the information elicited.

Often the interviewee forgot to mention that the family had a pulperia (small grocery store), for instance, or that the family received money from a son living in another country. Only when the interviewer specifically mentioned these items did the respondent volunteer the information. Economic activity, as such, apparently is not always perceived as "work." As a result of this difficulty in recall and systematization of economic activities performed by family members, the information supplied per individual on the

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second page of the questionnaire is incomplete, and for that reason is not treated in depth here. The information on amount of income per source, however, is felt to be fairly accurate. Data per individual is probably accurate only for salaried workers. This difficulty on the part of the interviewer and the interviewee in supplying the information desired, by individual and by source, has obvious design implications which should be taken into consideration in future survey work. These problems cannot be eliminated merely thorough more through training.

The breakdown of income by source for all families surveyed appears below, expressed as a percentage of the total.

TABLE 3PROPORTION OF TOTAL MONTHLY INCOME BY SOURCE

<u>Source</u>	<u>Percent of Total</u>
Salaries and Wages	88
In-Kind Income	3
Sales of Processed Foods	1
Sales of Own Agricultura or Animal Production	1
Manufacture of Articles for Sale	3
Business	2
Others - Pension, Trans- ferences, Rents.	<u>2</u>
T O T A L	<u>100 %</u>

2. Occupational Structure. Due to the difficulties described above in specifying economic activities per individual, these data do not lend themselves to an extensive treatment of the occupational situation of family members in marginal barrios. One difficulty is that work performed in the informal sector is often hard to classify, especially if it is sporadic, unskilled, and not regularly remunerated. This description applies to the majority of service workers and small businessmes and women interviewed.

The economically active persons for whom data was obtained worked in the following branches of economic activity:

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TABLE 4

BRANCHES OF ECONOMIC ACTIVITY

<u>Sector</u>	<u>Percentage of Total</u>
Manufacture	20.3
Construction	19.7
Services	23.9
Public	6.0
Military/Police	1.5
Business	20.3
Transportation	6.9
Agriculture	1.5
TOTAL	<u>100.0 %</u>

The majority of heads of household, however, worked in the construction industry as laborers, in services as domestic employees, repairman, and personal services workers, and in business activities.

TABLE 5

BRANCH OF ECONOMIC ACTIVITY BY ROLE OF HOUSEHOLD HEADS
(Percent)

Branch	Activity			Total
	Laborer	Domestic	White Collar	
Manufacturing	15.3			13.1
Construction	26.4			22.6
Services	15.3	100.0	11.1	19.0
Public	6.9		33.3	9.5
Military/Police	4.2			3.6
Business	18.1		55.6	21.4
Agriculture	1.4			1.2
Transportation	11.1			9.5
TOTAL	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

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The majority of household heads, 58.3%, receive weekly or monthly salaries. 26.2% are self-employed merchants and salesmen (peddlers, market vendors, tortilla makers, pulperia owners, etc.), and 8.3% are self-employed service workers such as repairman, laundresses, etc. 6.0% have no fixed employment; and 1.2% were classified as others (unremunerated family workers, etc.)

The proportion of salaried workers (68.5%) and self-employed vendors (19.9%) increases if all economically active household members are included. 6.3% of the total are self-employed service workers, 3.9% have no fixed employment and 0.9% are listed as "others". An analysis of the branch of economic activity for male and female leads of households was not statistically significant.

Housing

It has become an accepted practice in housing sector analyses to describe the income groups in terms of tenancy of dwellings, for instance, owners, renters of cuaterias, renters of single-family dwellings, and squatters. 12/ On the surface, this classification might appear to be a valid system for generalizing about income levels of barrio status groups. Findings from this survey indicate that the classification may not be an appropriate criteria for characterization of the income clusterings in the marginal barrios. The definition may be more misleading than helpful because the categories are not mutually exclusive.

Analyses of house tenancy by the mean monthly family income and by the mean per capital family income per year, were not significant, nor were similar analyses of the house structure by income (mean monthly family and mean per capita per annum) significant. Furthermore an analysis of house tenancy by income by type of structure was not significant. 13/ These findings suggest that the variation within each category is too great to warrant generalizations of the type currently in vogue. An obvious factor which skews the data when using a house tenancy-structure classification is the physical condition of the structure -- i.e., its age, construction materials, location, etc. Significantly, an analysis of a building materials typologies by per capita income level was significant at 0.0009 (Table 6).

12/ The PADCO, Inc., Honduran Integrated Improvement Program for the Urban Poor. Data and Findings on the Target Group(s) and Their Living Conditions. Washington, D.C.; PADCO, Inc. September, 1979, use this classification. The group based their report on hand-tabulated income data collected from 56 families not systematically selected. Cuarterias are a form of multi-family housing with shared sanitary facilities. See Manual de la Encuesta for housing definitions used in the survey.

13/ The Chi Square values for those analyses were greater than 0.10 in all cases.

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TABLE 6

CONSTRUCTION MATERIAL TYPOLOGIES BY MEAN PER CAPITA INCOME

Typologies 14/	Mean Per Capita Income (per annum)
	US\$
1. Unimproved	\$ 260.90
2. Improved roof	298.75
3. Improved roof and floor	490.55
4. Improved roof, floor and exterior walls	532.75

Significant at 0.0009

The analysis of construction material typographies with mean monthly family income was also highly significant (0.0000) (See Table 17).

TABLE 7

CONSTRUCTION MATERIAL TYPOLOGIES BY MEAN MONTHLY FAMILY INCOME

Typologies	Mean Monthly Family Income
	US\$
1. Unimproved	100.39
2. Improved roof	125.13
3. Improved roof and floor	203.97
4. Improved roof, floor and exterior walls	225.85

Significant at 0.000

Three-dimensional cross-tabulations of income by tenancy of the dwelling, controlling the use type of the structure, were not significant (0.9278).

This information may also be represented by income groups within the barrio, as Table 8 demonstrates.

14/ Improved roofs consisted of cement, asbestos, etc. Improved walls were cement block, bricks, stone, and wooden siding. Improved floors were tile, brick, cement or wood. See the questionnaire and interviewer's guide for more information.

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TABLE 8

FAMILY INCOME GROUP BY CONSTRUCTION MATERIAL TYPOLOGY (%)

Income Group	Unimproved	Typology Group by Percent of Total		
		Impr. roof	Impr. roof and floor	Impr. roof floor, walls
Low - Target	52.2	35.8	20.0	20.0
High - Target	43.5	47.2	36.7	32.7
Non - Target	4.3	17.0	43.3	47.3
	14.3%	32.9%	18.6%	34.2%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Significant at 0.0006

Families living in unimproved dwellings, popularly referred to as chozas (huts) in tugurios (urban slums), are heavily clustered in the target group, as are those with only improved roofs.

4. Barrio Characteristics. There is no significant variation in family monthly income level by barrio type. That is to say, the distribution in income within each barrio is too varied to permit description by the types of barrios, based on the land tenure situation, which we have defined. ^{15/} Subsequent studies should analyze income by different barrio definitions or a composite of definitions, such as distance from the market, age of the barrio, existing service and social infrastructure, etc.

^{15/} Nevertheless, even though the cross tabulation is not significant (0.191), it is worthwhile mentioning that families living on invaded public lands are not all drawn from the ranks of the poorest of the poor. 29.7% belong to the low-target group, 45.3% to the high-target group, and 25.0% to the non-target group. This data is felt to be valid since the families living on invaded public lands (for whom income information is available) represent 31.8% of the sample. The bearing and dress of patronato officers observed in a general meeting held in a land invasion settlement tends to confirm this finding. The presence of the non-poor in these areas is probably a good index to the critical housing shortage which exists.

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Tenancy

A slight majority (51.5%) of the families owned the house in which they were living. 14.7% were in the process of purchasing the house; 31.9% were renting; and 2.0% lived in borrowed accommodations as occupants or squatters. (Table 9).

TABLE 9
TENANCY OF DWELLING

	<u>Cases</u>	<u>Percentage</u>
Owners	105	51.5%
Purchasing	30	14.7%
Renting	65	31.9%
Other	<u>4</u>	2.0%
	204	100.0%

Most of the housing units were single family detached units (58.9%); 21.3% were attached (duplex or row type), and 19.8% were multi-family structures (mostly cuarterias). See Table 10.

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TABLE 10

HOUSING STRUCTURE BY USE AND TENANCY *

Structure and Use	House Tenancy Type				Percent of	
	Owners	Buying	Renters	Others	Total	
Single Family (Detached)						
One Family	67.3	73.3	25.4	50.0	109	55.3
Shared	1.0	3.3	0.0	0.0	2	1.0
Apartment	3.8	0.0	1.7	0.0	5	2.5
Single Family (Attached)						
One Family	20.2	20.0	13.6	50.0	37	18.8
Shared	1.9	3.3	1.7	0.0	4	2.0
Apartment	0.0	0.0	1.7	0.0	1	0.5
Multi-Family						
Cuarteria	5.8	0.0	49.2	0.0	35	17.8
Apartment	0.0	0.0	6.8	0.0	4	2.0
T O T A L	104	30	59	4	197	
	100.0	100.0	100.0	100.0		

Column percent only

- * This table illustrates why a classification of income typology groups based upon a "renters of cuarterias, squatters, renters of private homes and those making on terms" is not an adequate categorization. There is a confusion of land and house tenancy. Squatters on invaded lands classify themselves as owners of the dwellings. The three way crosstab of tenancy by structure and use was not significant, nor was the crosstabulation of barrio type by house tenancy by income significant. Likewise, income by land tenancy by house tenancy was not significant.

There is a decided preference for single-family detached housing, especially among buyers. Most renters live in cuaterias, 49.2%, although a quarter of the renters occupied single-family dwellings.

6. Family Structure of the Marginal Barrios. The average family size of the sample households is 5.8. Women-headed households comprise 41.2% of the sample and are somewhat larger (5.9) than are male-headed units (5.7). The proportion of women-headed households does not vary significantly by barrio type, according to the definitions used here. It is entirely possible, however, that other factors such as age of the barrio, distance from the center city, etc., would affect the distribution of women-headed households.

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It is more probable that their existence is closely related to the age of the head, and the family's past economic standing.^{16/}

Most families in the marginal barrios are nuclear, i.e., consist of two generations in direct lineal descent. Nuclear families constitute 77.0% of the sample families. Extended families, i.e., 3 generations under the same roof, represent 22.3% of the sample, and all other types, i.e., persons living alone, etc., 0.7%. Most nuclear families were organized, i.e., both partners were present, whereas most extended families were disorganized. (Table 11).

TABLE 11

FAMILY STRUCTURE IN MARGINAL BARRIOS

Family Type	Percentage
Nuclear Organized	58.7
Nuclear Disorganized	18.3
Extended Organized	1.5
Extended Disorganized	20.7
Other Types	0.7
	100.0%

Disorganized nuclear families are typically madres solteras (unmarried women with their children), although there are other variations.^{17/} Disorganized extended families often matriarchal in structure, consisting of a woman with her unmarried daughter and grandchildren and variations of that pattern. Often other non-lineal relatives are present. "Disorganized" is used to describe the absence of a partner or potential income generator. Disorganized families by definition are at a disadvantage in the job market since there is usually one less breadwinner and often a higher dependency ratio. The percentage of the population in these barrios under the age of 15 is 48.2%, compared to 43.7% for the city as a whole in 1974. (See Table 12).

^{16/} A recent study by Judith Fincher Laird, Rural Women in Paraguay: The Socio Economic Dimension (Asuncion, Paraguay: Direccion General de Estadistica y Censos, and USAID/Paraguay, 1980), suggests this is the case.

^{17/} Definitions of family types are given in the Manual de la Encuesta.

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The mean age of the surveyed population is 21 and the median is 16.2

TABLE 12
SURVEY AGE STRUCTURE
SURVEY 1980

Years of Age	Percentage
Less than 15	48.2
15-19	8.8
20-29	17.2
30-39	10.1
40-49	7.1
50-64	6.8
65-more	1.8

Women-headed households are found among all family types. The majority, 76.6% are disorganized. The largest proportion are found among nuclear disorganized families, 41.7%, followed by 31.0%, extended disorganized. The contrast with male-headed households is striking. Only 11.1% of male-headed units are disorganized.

TABLE 13
FAMILY STRUCTURE BY SEX OF HEAD OF HOUSEHOLD

	Sex and Head		TOTAL
	Male	Female	
Nuclear Organized	84.6 %	25.0 %	120
Nuclear Disorganized	5.1	41.7	41
Extended Organized	0.9	2.4	3
Extended Disorganized	6.0	31.0	33
Other	3.4	0.0	4
	117	84	201
	100.0 %	100.0 %	

Column percent only

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The analysis of sex of household by housing type, significant at less than 0.05, shows women-headed families were more prone than male-headed units to live in cuaterias: 23.8% compared to 13.7%. Male-headed units were more heavily clustered in row houses (attached single-family unit), than were female-headed units: 23.1%, compared to 12.5%. Near equal proportions lived in single-family detached units: 55.6% (male) and 55.09% (females).

The largest families are the extended disorganized type with a mean family size of 7.3. The mean family size of nuclear organized is 5.7. Nuclear disorganized families are the smallest, 5.22 (mean).

Family size is significantly related (at less than 0.05) to the barrio type. Mean family size per barrio type is given below.

TABLE 14

FAMILY SIZE PER BARRIO TYPE

Barrio Type	Mean Family Size
1. Land Invasion Private Lands	12.00
2. Land Invasion Public Lands	5.94
3. Illegal Sub-division	6.12
4. Legal Sub-division	5.44
5. Sub-division with Inadequate Services	5.74
6. Other	2.7
All	5.8

Women-headed households are poorer than are male-headed units. The mean monthly family income in women-headed units is \$91 and in male-headed units, \$145, or the latter earn 59% more. 18/ Expressed in terms of mean per capita family income (per annum), women-headed households earn \$218.85 and male-headed units, \$390.13. 19/

18/ Significant at less than 0.05

19/ Significant at less than .02

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The overwhelming majority, 76.5% of the houses surveyed have electricity. The remainder use candiles (tin cans with a wick), 15.2%; candles, 7.4%; or propane lights, 0.5%. The average cost of electricity per household is given below, by income group. Insufficient cost data was obtained to permit analyses of candiles and candles.

TABLE 15

AVERAGE COST OF ELECTRICITY

Income Group	Mean Monthly Cost US\$
All cases	\$ 5.40
Low-Target	3.72
High-Target	5.41
Non-Target	6.70

Significant at less than .05

Consumption of electricity rises per income group, undoubtedly because the non-target group utilize more electrical appliances, often in connection with a pulperia (small grocery store usually operated out of the residence). Several families volunteered information on the monthly installment payments they were making on items such as television sets and refrigerators.

The proportion of families in the marginal barrios with electricity has risen dramatically in the past four years. In 1976 only 36.1% of the households in the National Social Welfare Board (JNBS) survey had electricity. The minimum monthly rate charged by ENEE (Empresa Nacional de Energia Electrica) in 1980 in low-income areas was \$2.25. Low-income families surveyed on the average paid more than the minimum.

If electricity has ceased to be a problem for most of the marginal barrio families, provision of water has not. Barrio residents complain of sporadic service from SANAA (Servicio Autonomo Nacional de Acueductos y Alcantarillados), in those areas where potable running water is available. Less than half of the families (46%) have access to SANAA services. 48.0% purchase water from neighbors or from the motorized acarrea (water supply service).

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TABLE 16

SOURCES OF WATER SUPPLY

<u>Source</u>	<u>Percent of Total</u>
SANAA-tap inside dwelling	22.1
SANAA-outside tap	24.0
Public tap	2.9
Well	2.0
River or stream	0.5
Motorized water supply service	14.2
Purchased from neighbor	33.8
Other	0.5
	<hr/>
	100.0

It is estimated that for the city as a whole 56% of the population of Tegucigalpa has access to potable water. Renters and families living in areas with no service appear to be the most neglected groups. ^{20/}

The following table shows that the poorest families (low target group) pay disproportionately more for water piped into their homes than do other SANAA customers. It is possible that they resell the water to their neighbors and thereby consume more than one would expect at that income level.

The most expensive water is that purchased from the water supplier (\$10.90 on the average), followed by piped in water from SANAA. The minimum monthly fee for water is \$2.25.

^{20/} See PADCO, Inc., Honduran Integrated Improvement Program for the Urban Poor. Access of the Target Group to Potable Water. PADCO, Inc., Washington, D.C., September 1979.

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TABLE 17

SOURCE AND COST OF WATER, CONTROLLED BY INCOME GROUP

Water Supply by Income Group		Mean Monthly Cost US\$
All cases		<u>5.84</u>
1. <u>Piped in (SANAA)</u>		<u>6.77</u>
	Low Target	11.20
	High Target	4.35
	Non-Target	5.77
2. <u>SANAA (outside tap)</u>		<u>3.23</u>
	Low Target	1.94
	High Target	2.82
	Non-Target	4.75
3. <u>Public Tap</u>		<u>4.40</u>
	Low Target	4.00
	High Target	4.50
	Non-Target	4.75
4. <u>Well</u>		<u>2.25</u>
	Low Target	1.50
	High Target	3.00
5. <u>Motorized Water Supplier</u>		<u>10.90</u>
	Low Target	4.75
	High Target	12.84
	Non-Target	12.00
6. <u>Purchased from Neighbor</u>		<u>4.87</u>
	Low Target	6.57
	High Target	3.19
	Non-Target	5.43

Significant at less than .003

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Less than half of the families have bathing facilities. 51.5% have no facilities and resort to bucket baths often in the public alleys in the cuarterias, or bathe in streams. 38.4% have access to shared bathing facilities, often no more than a bucket tripped by a cord in an enclosure. 15.7% have a private bath facility.

About 29% of the families have no toilet facilities and often go into the hillsides near the dwelling to dispose of their bodily wastes. 27.6% have private latrines and 11.8% share latrines. Families whose houses are equipped with flush toilets constitute 15.8% and those who share flush toilets, 14.8% of the sample.

TABLE 18

TYPE OF SANITARY FACILITIES

Type	Percentage
Private latrine	27.6%
Shared latrine	11.8
Private flush toilet	15.8
Shared flush toilet	14.8
No facilities	29.6
Other	0.5

Table 19 shows the mean cost of water for families with sewerage connections to their private or shared flush toilet facilities.

TABLE 19

AVERAGE COST OF WATER PER INCOME FOR FAMILIES USING FLUSH TOILETS

Type of Family	Monthly Mean Cost US\$
Private Flush Toilet	5.72
Low Target	6.25
High Target	4.78
Non-Target	6.36
Shared Flush Toilet	3.57
Low Target	4.43
High Target	3.06
Non-Target	3.34

The mean monthly service (Table 20) expenses paid by the families surveyed are broken by income groups.

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TABLE 20

MEAN MONTHLY EXPENSES FOR ALL SERVICES * AND FUEL

<u>Group</u>	<u>Mean Monthly Expense US\$</u>
All	19.07
Low Target	15.27
High Target	18.17
Non Target	24.34

* Electricity, water, garbage collection, fire fighting, paving.

Table 21 shows the mean cost for electricity, water and fuel per income group.

TABLE 21

MEAN MONTHLY COST OF BASIC SERVICES* AND FUEL

<u>Group</u>	<u>Mean Monthly Expenses US\$</u>
All	18.40
Low Target	14.79
High Target	17.67
Non-Target	23.21

* Electricity and water.

It should be noted that the cost of fuel comprises a sizeable proportion of service-related expenses of the families surveyed. The mean fuel cost for the group as a whole is \$10.08 and the median is \$8.16. Fuel costs, then, represent over half of basic monthly expenses for the group as a whole.

The percentage of surveyed families with access to potable running water, electricity and sewage service (alcantarillado) is given below.

TABLE 22

PERCENTAGE OF FAMILIES WITH BASIC SERVICES

<u>Families who Have</u>	<u>Percent of Families</u>
Potable water (piped in SANAA)	44.6%
Electricity	74.5%
Sewage connection	34.3%
Other services	4.4%
No utilities or services	23.0%

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Services available in the barrios surveyed were also ascertained from the respondents. The percentage of barrios per types of services available are listed below.

TABLE 23

PERCENTAGE OF BARRIOS WITH BASIC SERVICES

<u>Services</u>	<u>Percentage of Barrios with services</u>
Potable water (SANAA)	56.4%
Electricity	51.0
Main paved street	4.4
Garbage collection	45.1
Sewerage system	30.4
Improved secondary routes	13.2
Storm drainage	10.8
Transportation	55.4
Other services	4.9

8. Perceived Needs.a. Home Improvements

Seventy five percent of the families wish to make improvements on their dwellings. Of this group, 15.5% are renters and 84.5% are non-renters. The major reasons respondents cited for not having made improvements were lack of money (81.3%), rental property (5.2%), land is not owned (5.2%), and others (5.8%).

The majority of the families who did not wish to make improvements were renters, 52.9%, or were planning to move, 21.6%. 17.6% had either recently remodeled their home or the structure was new.

Preferences for home improvements are given below in Table 24. Exterior walls led the list.

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TABLE 24

HOUSING IMPROVEMENT PREFERENCES FOR FAMILIES DESIRING HOME IMPROVEMENTS (%)

Priorities	Improvement					Total
	Roof	Exterior Walls	Floor	Toilet	Other*	
First Priority	11.0	48.8	10.2	14.2	15.7	100.0%
Second Priority	23.4	18.0	18.8	20.3	19.5	100.0%
Third Priority	10.9	11.7	22.7	19.5	35.2	100.0%
	58	100	66	69	90	
T O T A L	15%	26.1%	17.2%	18.0%	23.5%	100.0%

* "Other" included an additional room, retaining walls, bath facilities, doors and windows, window security bars and workshops.

Exterior walls led the list especially as the first priority, for the group as a whole. The preference for improvement to walls holds when controlled by type of structure and structure quality. See Table 25 & 26.

TABLE 25*

HOME IMPROVEMENT PREFERENCES BY STRUCTURE TYPE

Structure Type	Improvement				
	Roof	Walls	Floor	Toilet	Other
Single Family Dwelling	42.4	75.0	46.8	54.3	80.4
Duplex or Row Houses	56.7	86.7	70.0	50.0	36.7
Multi-Family (cuarteria & apartment)	33.3	83.3	50.0	66.	66.7

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TABLE 26*

HOME IMPROVEMENT PREFERENCES BY STRUCTURE QUALITY

Housing Quality	Improvement				
	Roof	Walls	Floor	Toilet	Others
Unimproved	63.6	100.0	54.5	45.5	36.4
Improved roof	52.6	72.5	70.0	60.0	45.0
Roof and floor improved	58.3	91.7	41.7	58.3	50.0
Roof, floor and walls improved	30.0	67.5	37.5	55.0	107.5

* The percentage given in Table 25 and 26 indicate the number of responses per category, irrespective of the ordering of preferences.

The preference for exterior walls is expressed by all income groups in the marginal barrios. Walls are a major priority for all income groups. 78.9% of the low-target group, 75.5% of the high-target group and 78.9% of the non-target group mentioned walls as one of their priorities. See Table 27.

TABLE 27

PERCENTAGE OF FAMILIES PER INCOME GROUP BY IMPROVEMENTS DESIRED *

Income Group	Improvements Desired					Total cases
	Roof	Walls	Floor	Toilet	Others	
Low-Target	42.1	78.9	60.5	55.3	63.2	38
High Target	52.8	75.5	47.2	56.6	66.0	53
Non-Target	39.5	78.9	50.0	50.0	81.6	38
Row percent only						129

* Each family had an opportunity to list three mentioned improvements. These four were the most frequently mentioned improvement categories.

It is thought that walls are particularly in need of repair due to the fact that houses in the marginal barrios are often built on steep hillsides, in ravines and on other unsound foundations. The additional stress caused by shifting soils leads to rapid deterioration. Recently an upper-middle class sub-division in Colonia Soto had to be abandoned due to erosion caused by subterranean water. The area now resembles an earthquake zone.

b. Demand for Services

Families in the survey who do not have potable water (SANAA) and/or electricity were asked if they could afford to pay a minimum of

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\$2.50 in users' charges for each service. The response revealed the tremendous desire for water in the capital city's poor barrios. 96% of those desiring water were prepared to pay the minimum rate, as opposed to 76.5% of those without electricity who desired the service.

The families also indicated their desire to obtain additional services in their barrios as Table 28 shows.

TABLE 28

BARRIO SERVICES DESIRED

<u>Service Desired for the Barrio</u>	<u>Percentage Desiring the Improvement</u>
Potable water (SANAA)	50.0 %
Pavement of the principal barrio street	88.7 %
Garbage collection	55.9 %
Electricity	50.0 %
Sewers	66.7 %
Improved secondary street	86.3 %
Storm drains	45.1 %
Others	7.8 %
None	7.8 %

When asked if they were willing to pay a monthly assessment for cost recuperation of the services infrastructure (at lot and community-wide), 71.1% stated they could pay a minimum of US\$6 monthly for 10 years; 15.5% would not, and 13.4% did not know.

Affordability

To determine the proportion of families who could afford various combinations of improvements, it was assumed a priori that families could afford to pay a maximum of 20% of their monthly incomes for housing related expenses. Calculations were made to determine in what combinations families could afford to pay for consumption of water and electricity (US\$5 minimum monthly charge), a housing improvement loan (\$7.00 per month for a \$400 average loan) and valorization (\$6.00 per month for service infrastructure worth about \$350) in addition to their rent or housing payments, up to 20% of their monthly income.

The mean rental payment for renters was \$17.30 per month and the median was \$15.07. The mean house payment for those families buying their homes was \$14.95 and the median was \$10.00. The analysis showed that house tenancy is

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closely associated with affordability and that the type of structure, quality of the materials, family size, and sex of household head were not closely associated with affordability. These latter correlations were not significant. Table 29 below presents these results for all families for whom data are available.

TABLE 29

PROPORTION OF FAMILIES SURVEYED WHO CAN AFFORD COMBINATIONS OF SERVICES
HOME IMPROVEMENTS AND COST RECUPERATION FOR SERVICE INFRASTRUCTURE
BY HOUSE TENANCY a/

Combinations (each includes rent and/or house payments)	House Tenancy and Percentage of Families Who can Afford Combination b/				% of All Families who can afford the combination
	Owners	Buying House	Renters	Others	
1. Water and Electricity service (consumption)	95.2	73.3	63.1	75.0	81.4
2. Water and Electricity plus cost recuperation for infrastructure services	86.7	56.7	49.2	75.0	70.1
3. Home Improve- ment only	92.4	60.0	60.0	75.0	77.0
4. The whole pack- package (1, 2, 3 above)	76.2	46.7	46.2	75.0	62.3

a/ 4 tables, all significant at less than .01

b/ The percentages compare the number of families per tenancy type who can afford the items to the total number of families per tenancy type.

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Table 30 presents the same information, but from the perspective of families who cannot afford the combinations of services and improvements. The affordability of renters and those who are purchasing their houses are very similar, presumably because both have higher fixed costs (rent and house payments).

TABLE 30

PROPORTION OF FAMILIES SURVEYED WHO CANNOT AFFORD COMBINATION OF SERVICES
HOME IMPROVEMENTS AND COST RECUPERATION FOR SERVICE INFRASTRUCTURE
BY HOUSE TENANCY

Combination (each includes rent and/or house payments)	House Tenancy by Percentage of Families who Cannot Afford Combination *				% of all Families who cannot afford each item
	Owners	Buying House	Renters	Others	
1. Water and Electricity service (consumption)	4.8	26.7	36.9	25.0	18.6
2. Water and Electricity plus cost recuperation for service infrastructure	13.3	43.3	50.8	25.0	29.9
3. Home Improvement only	7.6	40.4	40.0	25.0	23.0
4. The whole package (1, 2, 3, above)	23.8	53.3	53.8	25.0	37.7

* 4 Tables, all significant at less than 0.01

A simplified version of this data is presented in Table 31 only for families who indicated they wanted home improvements, and in Table 32 for those families who could not afford the desired improvements.

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TABLE 31

PROPORTION OF FAMILIES DESIRING IMPROVEMENTS WHO CAN AFFORD THEM BY KIND
OF IMPROVEMENT AND HOUSE TENANCY a/

Combinations (each includes rent and/or house payments)	House Tenancy		% of Total wanting Improve- ment who can afford them
	Renters <u>b/</u>	Non-Renters <u>c/</u>	
1. Water and Electricity service (consumption)	65.2	92.0	87.8
2. Water and Electricity plus cost recuperation for service infrastructure	43.5	80.8	82.4
3. Home Improve- ment only	60.9	86.4	82.4
4. The whole package (1, 2, 3 above)	39.1	69.6	64.9

a/ 4 tables all significant at less than .01

b/ This is the percentage of renters who want improvements and can afford them, by type.

c/ This is the percentage of non-renters who want improvements and can afford them, by type. Non-renters are owners and those who are purchasing their houses.

N.B. The data in Table 29 and 31 were also examined by type of quality of housing structure, sex of household head and number of persons in the family, but no significant correlations were found.

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TABLE 32

PROPORTION OF FAMILIES DESIRING IMPROVEMENTS WHO CANNOT AFFORD
THE IMPROVEMENTS AND SERVICE COMBINATIONS

Combination (each includes rent and/or house payment)	House Tenancy		% of Total Wanting Improvement who cannot afford them
	Renters	Non-Renters	
1. Water and Electricity service (consumption)	34.8	8.0	12.2
2. Water and Electricity plus cost recuperation service infrastructure	36.5	19.2	25.0
3. Home Improvement only	39.1	13.6	17.6
4. The whole package (1, 2, 3 above)	60.9	30.4	35.1

4 tables all significant at less than 0.01

B. Target Group (San Pedro Sula)

Systematic information on the income composition of San Pedro Sula's barrios does not exist, although partial results of a survey conducted in 1978 by the Municipal Planning Office are available for most barrios of the city. The mean monthly family income was calculated on a per barrio basis, but in many cases the size of the sample does not warrant this treatment. No information was obtained on the quality of housing, nor on the housing needs of barrio residents, although they were asked to comment on the need for basic public services (potable water, electricity, sewerage, etc.). No information on affordability was ascertained.

A measure of the perceived needs of marginal barrios can be inferred from the requests for services and facilities which the Mayor's office in San Pedro Sula has received from barrio community action groups (patronatos).

No information is available on the percentage of barrios which can be considered "marginal" in San Pedro Sula. In the absence of such information the contractor drew up a list of barrios which the Planning Office identified;

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as marginal. It includes the following eight barrios for which survey information is available: Colonia Tepeaca, Barrio Las Palmas, Barrio Cabanas, Barrio San Francisco, Col. San Jose, Col. Chamelecon, Col. San Antonio, and Col. Suyapa. The list is by no means exhaustive. None of the barrios in the eastern growth corridor is included. 21/

The following table presents data which are intended to be suggestive of the condition of residents in these barrios. There is no claim that these barrios are "representative."

TABLE 33

SOCIO-ECONOMIC DATA

San Pedro Sula (1978) Selected Barrios

	% of Families with monthly income less than US\$150	% with potable water service at lot	% with electri- city at	% with sewage at lot	Tenancy		Aver- age Fam- ily size
					% Owners	% Renters	
1. Col. Tepeaca	96.8	28.4	62.3	37.8	84.4	12.2	6.0
2. B. Las Palmas	83.7	42.3	84.4	60.7	35.6	61.5	5.9
3. B. Cabanas	86.2	40.5	85.8	82.5	46.4	52.0	5.9
4. B. San Francisco	87.4	22.2	67.8	63.7	40.2	56.5	5.8
5. Col. San Jose	65.1	92.3	97.4	100.	89.7	5.1	5.8
6. Col. Chamelecon	87.6	32.3	64.7	4.6	64.9	28.2	6.3
7. Col. San Antonio	86.4	16.1	79.0	16.1	84.7	2.7	6.3
8. Col. Suyapa	90.6	17.7	83.2	15.9	83.8	9.5	5.9

21/ Seccion Plan Regulador. El Proyecto Censo de San Pedro Sula, 1978. The term "censo" is misleading. The project was actually a sample, ranging from between 28% to 100%, per barrio. The data were hand tabulated and no information is presented on the confidence intervals, etc.

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This income data may be misleading, compared to the Tegucigalpa survey. The San Pedro Sula income data only reflect the earnings of wage laborers, whereas the income data for Tegucigalpa specifically include earnings from the "informal" sector for all family members.

Municipal officials in San Pedro Sula assert that there are no radical differences between housing types and the tenancy structure between San Pedro Sula and Tegucigalpa, although there appears to be a higher number of renters in San Pedro Sula. The municipality reportedly has been less active in pressuring developers to provide adequate services. ^{22/} The latter situation is complicated by the fact that the municipality has no legal power in the barrios which lie in the eastern growth corridor outside of its jurisdiction.

LOCAL ORGANIZATIONS

The barrio organizations with which this project is specifically concerned are the patronatos, the elected or sometimes self-appointed community councils. Patronatos have existed since the colonial period, but the appearance of patronatos in the marginal barrios is a direct response to felt community needs. Most marginal barrios have patronatos and the percentage of participants varies considerably per barrio. Women often play an active role and some assume leadership responsibilities. The leadership of the patronato is usually drawn from the ranks of those who expect to benefit directly from the projects or actions the group is formed to promote. That is to say, the leadership usually has a personal interest in the outcome of the project. Usually the patronato leaders are not the most affluent members of the community.

Patronatos originate from within the barrio in response to local problems. But often the solution of local problems, such as securing water, electricity or roads entails joint action by patronatos in adjoining barrios. Consequently, federations of patronatos sprang up in the 1960's to coordinate the efforts of the local patronatos in pressuring the government for services. The federations provide leadership training to the local patronatos and assist with specific projects. The first federation appeared in Choluteca and soon spread throughout the southern region and finally all over the country. There are four federations, two of which (FECOPAHN and FENAPCOM) have political affiliations. In Tegucigalpa these four federations represent approximately 250,000 residents in the 84 marginal barrios. The four federations are currently in the process of uniting into one federation and are so powerful that political parties and the military are seeking their support. Apparently the membership of the federations is co-extensive with that of the local patronatos. An indication of community-perceived needs are the requests for projects which the patronatos have filed with the

^{22/} PADCO, Informe Final, p. 14

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municipalities in Tegucigalpa and San Pedro Sula. These requests should be examined as a guide to the barrios which would be receptive to an urban upgrading project, i.e. barrios in which an effective, responsible community organization exists in a situation of perceived need.

IV. INSTITUTIONAL INTERFACE

The success of the project depends upon the willingness and ability of the participating agencies and institutions to cooperate. Communication between the parties involved is also of great importance and the roles of the promotores (community development social workers) and patronatos are critical.

The promotores will work with the barrios through the patronatos to originate requests for upgrading and to channel requests for home improvement loans to the municipalities. The municipalities will provide legal and engineering assistance for the proposed upgrading projects and, for home improvement loans, pass on its authorization to either INVA (the National Housing Institute) or the Federation of Cooperative Credit Unions (FACACH) who will make loans directly to the individual families.

In addition the National Social Welfare Board (JNBS) will provide training courses for patronato leaders.

V. PARTICIPATION PROFILES

A. The minimum participator profile for receiving home improvement loans requires that:

1. the families receiving these loans belong to the target group;
2. no more than 20% of the family's total monthly income will be required for basic housing costs--rent or house payment, services (consumption and cost recuperation), and home improvements desired.
4. participation in the barrio's patronato is encouraged, but not required. No favoritism will be shown to patronato leaders or members/participants.
5. participation is assured for all heads of household (or principal support of the family), irrespective of sex, age, or marital status.
6. participants in lands donated by the municipality should also comply with conditions inherent in their contractual agreements, i.e., joint agreement on improvements and/or sales of said property.
(Tegucigalpa)

B. The minimum participation profile for persons hooking into the service infrastructure requires that:

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1. their total monthly payments for basic housing-related expenses must not exceed 20% of their total family income.
2. participation is open to all heads of household (or principal economic support of the family) irrespective of sex, age, or marital status.
3. participation in the barrio's patronato is encouraged but not required.

VI. IMPEDIMENTS TO PROJECT IMPLEMENTATION

The major impediments to successful project implementation are the following:

A. Administrative and personnel problems within the Social Work Department (Tegucigalpa) and the Community Development Department (San Pedro Sula). 23/

1. Inadequate numbers of trained, professional promotores to provide the liaison between the social work departments within the municipalities and the marginal barrios. The municipalities must upgrade and expand their community development staffs.

2. High turnover among the promotores due to the lack of satisfaction with their jobs and the roles they perform. Many of the CMDC promotores are university students with conflicting demands upon their time and the majority of the students are pursuing courses other than social work.

23/ These reservations are based upon a personal assessment of the social work departments obtained over a three-week period, and upon the recommendations and conclusions reached by a consultant to the municipality in Tegucigalpa. See Melba L. Zuniga Mayorga, Informe Final. Diseno del Sistema de Promocion Social en Proyectos Integrales de Lotes y Servicios e Industrias de Barrio. Tegucigalpa: Sistema Nacional de Lotes y Servicios e Industrias de Barrio, Convenio ATF/TN 1636-HD, Octubre, 1979. Although Zuniga's analysis described the social work departments of various institutions in Tegucigalpa, her observations are felt to be a very accurate assessment of the level of social work in the country as a whole.

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3. Conflicting roles of the social work departments in promoting social improvements while at the same time providing feedback to the municipalities on potential trouble spots. Patronatos may view the municipalities with suspicion in cases of conflict involving land tenancy on with respect to enforcement of Decree 833.

4. Lack of sufficient numbers of trained professionals at the lower-echelons of the municipalities, e.g., engineers, city planners, survey specialists, etc.

B. Institutional hostilities and lack of professional cooperation between the participating institutions.

C. Unresolved land tenancy conflicts and enforcement of Decree 833.

VII. SPREAD EFFECTS

It is hoped that the municipalities will use recovered funds (reflows) from the initial loans to extend credit to other families in the marginal barrios for the same kind of project items, and that they will adopt the cost recuperation policy on a larger scale once it is demonstrated that the low-income families in the upgraded areas have assumed a business-like responsibility in repayment. Financial experts in the municipalities believe that cost recuperation will not be a problem and assert that low-income families are less prone to renege on loan payments than are middle-class families. The potential replicability of the project depends, therefore, in large measure upon the successful recuperation of the initial investment funds. The commitment of the municipalities to the upgrading approach and the response of the participating families are vital factors in the long-range success of the project.

VIII. SOCIAL CONSEQUENCES AND BENEFIT INCIDENCE

A. BENEFICIARIES

The direct beneficiaries will be those families in the marginal barrios who receive home loans or hook into water and sewerage lines. In addition, all home owners living in the communities which are upgraded will benefit in terms of the increased value of their properties. Barrio residents will have access to more amenities in what presumably should be a cleaner, healthier environment.

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B. NON-PARTICIPANTS AND THOSE ADVERSELY AFFECTED

1. Non-target group families will not qualify for housing loans, although they will benefit through access to the new infrastructure, i.e., paved roads, etc., in the barrios where upgrading takes place.

Some poor families may have a high monthly income because several of its members are working, but in per capita terms be extremely poor because of a large number of dependents. Care should be taken that the intent of the guidelines not be lost in the application of uniform criteria. Situations such as this are more probable in the case of extended disorganized families, especially those headed by women.

2. Renters might have the cost of improved services passed on to them in the form of higher rents, even if the owner does not agree to the installation of in-house water and waste disposal facilities.

3. To the extent that upgrading implies destruction of existing structures in the interest of "regularization" of the sub-division, families will be displaced. Hopefully, forced removals will be kept to a minimum, but it should be noted that the "bulldozing" concept of urban renewal is not an alien concept within the municipal planning departments.

4. To the extent that upgrading means higher costs which some families are either unwilling or unable to assume, additional displacement will occur. Some families may also opt to "cash out" as the barrio upgrades to rebuild or relocate in more desirable or cheaper areas. It is impossible to predict a priori to what extent these displacements will occur, because of the flexibility of repayment terms that may be offered to those that wish to stay and cannot afford the stricter terms. The proportion of renters and occupants with lease-purchase arrangements who cannot afford the improvements is higher than for owners. Therefore the non-owners are most likely to be adversely affected.

5. Women-headed households are substantially poorer than male-headed units. Proportionately and in an absolute sense, there will be fewer women-headed households who can afford to pay for home improvement loans, service charges (consumption), and costs for service infrastructure. The probability that women-headed households will participate is further reduced by the fact that many are also renters, the group less directly benefitted by the urban upgrading program.

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C. Changes in Power and Participation

The project design provides for the incorporation of a hitherto largely excluded stratum of the urban population into the formal credit system. At the same time linkages between residents in the marginal barrios and the governmental institutions charged with providing services and maintaining order in these communities are strengthened.

Thus, a result of the project will be that families in marginal barrios are increasingly linked to the larger urban society and to the urban power structure. Since one of the basic components of "marginality" is exclusion from basic services, land, capital and credit, it is felt that the project will help create a positive self-image among barrio residents by extending the outreach of credit and governmental institutions and by encouraging community organization at the barrio level. The response by target group families to the self-help philosophy of the project will also help dispel widely-held notions that the poor are chusmas, or urban riff-raff, who are incapable or unwilling to improve their living conditions.

CASH FLOW ANALYSIS OF THE HG LOAN

1. Cash Flow Assumptions. \$10.0 million loan will be made for 30 years term and 10 years grace period for payment of principal. Interest rate during term of loan will be 14.5 percent. Loan repayments will be in equal yearly payments.
2. The loan fund will be used for two types of activities:
 - A. \$9.0 million for community services sub-loans; and
 - B. \$1.0 million for home improvement sub-loans.

These funds will be drawn-down in a three-year period as follows:

<u>Year</u>	<u>Community Services</u>	<u>Home Improvements</u>	<u>Total</u>
One	\$ 2,250,000	\$ 250,000	\$ 2,500,000
Two	4,500,000	500,000	5,000,000
Three	2,250,000	250,000	2,500,000
TOTAL	<u>\$ 9,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 10,000,000</u>

3. Sub-Loan terms and rates are:
 - A. Community Services sub-loans will be lent for 15 years, no grace period, at 15% interest for 70% of the value of the loans and 30 years for the remaining 30% of the value of the loans.
 - B. Home Improvement sub-loans will be lent for 10 years, no grace period, at 15% interest.
4. Annual Payments of interest (to HIG 14.5%) were based on the average portfolio for the first three-year period. Starting with the 4th year, interest is computed on the full amount drawn down.
5. Annual Interest receipts (15%) were based on the average portfolio for each year.
6. Annual Collections of principal on all sub-loans are made the first year following that in which the sub-loans are made.
7. Rollover funds will be invested to the extent that cash is available.

URBAN UPGRADING PROJECT
 CONSOLIDATED CASH FLOW PROJECTION
 (In US\$ 000's)

	1	2	3	4	Y	E	A	R	S	15	20	25	30
<u>SOURCES:</u>													
Beginning Cash		14	223	437	279	264	255	294	686	1,235			
HIG Drawdowns	2,500	5,000	2,500										
Principal Collection		175	526	729	797	1,188	1,612	1,508	1,804	2,237			
Interest Collection	176	688	1,194	1,376	1,408	1,508	1,617	1,804	2,117	2,715			
<u>Total Sources</u>	2,676	5,877	4,443	2,542	2,484	2,960	3,484	3,606	4,607	6,187			
<u>USES:</u>													
Sub Loans HIG Drawdowns	2,500	5,000	2,500										
Sub Loan Rollover		14	398	963	1,008	1,360	1,764	1,758	2,423	3,374			
HIG Interest and Principal Repayments	162	640	1,108	1,300	1,300	1,300	1,423	1,423	1,423	1,423			
<u>TOTAL USES</u>	2,662	5,654	4,006	2,263	2,308	2,660	3,187	3,181	3,846	4,797			
Cash End of Year	14	223	437	279	176	300	297	425	761	1,390			
Average Portfolio	1,250	4,920	8,121	9,829	10,051	10,770	11,551	12,886	15,123	19,396			

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URBAN UPGRADING PROJECT
CASH FLOW PROJECTION - COMMUNITY SERVICES LOAN

	1	2	3	4	5	10	15	20	25	30
<u>SOURCES</u>										
Beginning Cash		8	180	353	202	158	87	58	170	278
HIG Drawdowns	2,500	5,000	2,500							
Principal Collection		153	458	633	686	987	1,269	1,157	1,293	1,438
Interest Collection	167	734	1,273	1,463	1,488	1,543	1,580	1,627	1,700	1,850
<u>TOTAL SOURCES</u>	2,687	5,895	4,411	2,449	2,376	2,688	2,936	2,842	3,163	3,586
<u>USES</u>										
Sub-Loans HIG Drawdowns	2,500	5,000	2,500							
Sub-Loans Rollover		8	333	811	835	1,075	1,286	1,187	1,436	1,704
HIG Interest and Principal Repayment	179	707	1,225	1,436	1,436	1,436	1,541	1,541	1,541	1,541
<u>TOTAL USES</u>	2,679	5,715	4,058	2,248	2,271	2,511	2,827	2,728	2,977	3,245
Cash end of year	8	180	353	202	108	177	109	114	186	341
Average Portfolio	1,251	4,928	8,543	9,820	9,983	10,354	10,608	10,926	11,419	12,450

URBAN UPGRADING PROJECTCASH FLOW PROJECTION - HOME IMPROVEMENT
(In US\$ 000's)

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>10</u>	<u>15</u>	<u>20</u>	<u>25</u>	<u>30</u>
<u>SOURCE</u>										
Beginning Cash		6	151	294	166	126	82	30	119	202
HIG Drawdowns	2,250	4,500	2,250							
Principal Collections		128	383	528	568	789	1,079	940	1,058	1,156
Interest Collections	169	666	1,155	1,327	1,348	1,397	1,423	1,458	1,508	1,609
<u>TOTAL SOURCES</u>	2,419	5,300	3,939	2,149	2,082	2,312	2,584	2,428	2,685	2,967
<u>USES</u>										
Sub-Loans HIG Drawdown	2,250	4,500	2,250							
Sub-Loans Rollover		6	279	677	694	865	1,097	947	1,155	1,337
HIG Interest and Principal Repayment	163	643	1,116	1,306	1,306	1,306	1,399	1,399	1,399	1,399
<u>TOTAL USES</u>	2,413	5,149	3,645	1,989	2,000	2,171	2,496	2,346	2,554	2,736
Cash End of Year	6	151	294	166	82	141	88	82	131	231
Average Portfolio	1,126	4,439	7,701	8,849	8,985	9,310	9,484	9,719	10,048	10,727

PROJECT DELIVERY PLAN

Period	Community Improvements				Home Improvements				Total Eligible		Permanent Financing			
	Tegucigalpa		San Pedro Sula		Tegucigalpa		San Pedro Sula		\$000's	\$000's	TEG	SPS	HG D'downs	
	H'holds	\$000's	H'holds	\$000's	Loans	\$000's	Loans	\$000's						
FY80 II	P	4340	\$1675	-	\$ -	60	\$24	60	\$24	\$1723	\$1350	373	-	1454
	C	4340	\$1675	-	-	190	76	190	76	1827	1454	373	-	1454
III	P	-	\$ -	-	-	60	\$24	60	\$24	\$ 46	\$ 48	-	-	-
	C	4340	1675	-	-	250	100	250	100	1875	1502	373	-	-
IV	P	-	\$ -	1500	\$380	90	\$36	90	\$36	452	376	-	76	424
	C	4340	1675	1500	380	340	136	340	136	2327	1878	373	76	1878
FY 82 I	P	5780	\$2230	-	\$ -	90	\$36	90	\$36	\$2302	\$1807	495	-	1807
	C	10120	3905	1500	380	430	172	430	172	4629	3685	868	76	3685
II	P	-	-	-	\$ -	120	\$48	120	\$48	\$96	\$96	-	-	-
	C	10120	\$3905	1500	380	550	220	550	220	4725	3781	868	76	3685
III	P	-	-	3000	\$820	120	\$48	120	\$48	\$916	\$752	-	164	848
	C	10120	\$3705	4500	1200	670	268	670	268	5641	4533	868	240	4533
IV	P	5940	\$2460	-	\$ -	120	\$48	120	\$48	\$2556	\$2009	547	-	2009
	C	16060	6365	4500	1200	790	316	790	316	8197	6542	1415	240	6542
FY83 I	P	-	-	-	\$ -	150	\$60	150	\$60	\$120	\$120	-	-	-
	C	16060	\$6365	4500	1200	940	376	940	376	8217	6662	1415	240	6542
II	P	5940	\$2635	45000	\$1300	150	\$60	150	\$60	\$4055	\$3210	585	260	3330
	C	22000	9000	9000	2500	1090	436	4090	436	12372	9872	2000	500	9872
III	P	-	\$ -	-	-	160	\$64	160	\$64	\$128	\$128	-	-	112
	C	22000	9000	9000	\$2500	1250	500	1250	500	12500	10000	2000	500	10000

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PDP ASSUMPTIONS

1. Rate of construction is as shown on the PPTN. (Annex B.1.).
2. The cost of basic infrastructure packages was inflated at

1.08	for investments completed in CY1981
1.16	" " in CY1982
1.24	" " in CY1983

This produces an average cost of

\$410	in Tegucigalpa
\$280	in San Pedro Sula

3. HG drawdowns and drawdowns of the local contribution are pari passu, that is the HG drawdown at any time is in the following relation with completed investments:

Tegucigalpa	HG Financing	$\frac{7,000}{9,000}$	=	.7778
	Total Financing			

San Pedro Sula	HG Financing	$\frac{2,000}{2,500}$	=	.80
	Total Financing			

4. The results indicate that the loan should be negotiated in two separate contracts, one to be negotiated during the second quarter of FY 1981 (more or less March, 1981) and the other during the third quarter of FY 1982 (more or less July, 1982). In each case the funds would be drawdown in a period of one year, with the first drawdown at the moment of the signing.
5. It is assumed that the rate at which home improvement loans will be placed is as follows:

	FY 80 II	III	IV	FY 81 I	II	III	IV	FY 82 I	II	III	IV	FY 83 I	II	III
Tegucigalpa	10	30	45	45	60	60	90	90	120	120	120	150	150	160
San Pedro Sula	10	30	45	45	60	60	90	90	120	120	120	150	150	160
Total	20	60	90	90	120	120	180	180	240	240	240	300	300	320
Volume of Loans	8.0	24.0	36.0	36.0	48.0	Balance of numbers shown in the PDP								
Cummulative		32.0	68.0	104.0	152.0									

FINANCIAL STATEMENTS
(thousands of Lempiras) ^{1/}

A. Tegucigalpa, 1975-1979

<u>Source of Funds</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Current Revenues	4,415	6,497	10,788	14,410	17,942
Direct taxes	1,460	2,341	4,199	5,573	6,390
Indirect taxes	1,598	2,186	3,198	4,258	5,817
Delinquent taxes	134	334	734	931	1,509
Services	968	1,143	2,049	2,396	2,712
Other	255	493	608	1,252	1,514
Capital Account	5,224	4,353	10,122	17,577	27,250
Domestic banks	3,603	3,603	6,432	14,726	21,669
Suppliers' credits	1,189	242	1,980	304	822
Capital transfers	-	20	600	1,011	1,954
Paving assessments	140	476	679	1,398	2,668
Other	391	13	432	138	138
Total Income	<u>9,739</u>	<u>10,850</u>	<u>20,910</u>	<u>31,986</u>	<u>45,193</u>
<u>Use of Funds</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Current Expenditures	4,186	5,746	9,984	13,259	14,543
Wages & Salaries	2,393	2,715	4,093	5,138	6,225
Other services	1,071	2,048	3,383	5,354	5,264
Materials	395	589	826	788	1,415
Other	327	394	1,682	1,979	1,640
Capital Expenditures	5,553	5,104	10,926	18,727	30,650
Machinery & Equipment	10	125	614	2,760	2,094
Construction	4,492	1,502	5,577	6,827	15,109
Land purchases	109	-	298	598	335
Debt service	942	3,477	4,436	8,294	12,217
Other	-	-	-	248	893
Total Expenditures	<u>9,739</u>	<u>10,849</u>	<u>20,910</u>	<u>31,986</u>	<u>45,193</u>

^{1/} Lempiras 2.00 = US\$1.00

Source: Concejo Metropolitano del Distrito Central

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B. San Pedro Sula

<u>Source of Funds</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1979</u> ^{b/}	<u>1980</u> ^{b/}
Current Revenues					<u>11,319</u>	<u>14,539</u>
Taxes					4,027	6,534
Public services					5,574	5,949
Other					1,719	2,056
Capital Account					<u>18,127</u>	<u>22,653</u>
Domestic borrowings					12,236	13,150
Capital transfers					201	439
Paving assessments					3,626	4,168
Other					2,064	4,896
Total Income	<u>9,396</u>	<u>11,888</u>	<u>13,380</u>	<u>12,049</u>	<u>29,446</u>	<u>37,192</u>
<u>Use of Funds</u>						
Current Expenditures					<u>10,711</u>	<u>14,314</u>
Wages & Salaries					6,625	7,448
Materials & Services					3,096	5,358
Other					990	1,508
Capital Expenditures					<u>18,736</u>	<u>22,878</u>
Physical investments					9,639	10,738
Debt service					8,403	11,382
Other					693	756
Total Expenditures	<u>9,396</u>	<u>11,888</u>	<u>13,380</u>	<u>12,049</u>	<u>29,446</u>	<u>37,192</u>

^{b/} Approved budget

Source: Municipality of San Pedro Sula

VALORIZATION PROCESS FOLLOWED IN TEGUCIGALPA

<u>PHASE</u>	<u>ACTIVITY</u>	<u>TIME (mos.)</u>
1	<ul style="list-style-type: none"> . Study plans and specs of proposed improvement to determine what its positive and adverse impacts (known as betterment and worsenment) might be. . Define the preliminary zone of influence of the project's impacts. . Obtain socio-economic profile of the community to be affected by the project. 	<p>1</p> <p>(1)</p> <p><u>2</u></p> <p style="text-align: right;">Total <u>3</u></p>
2	<ul style="list-style-type: none"> . Make a preliminary, general allocation of project costs. (The rule of thumb is that the cost/m² of the project should not be more than 10-15% of the current market value of the m² in the community. Should the percentage be much higher, the project is probably too expensive for the community.) . Obtain go-ahead from Programming Commission (Concejalía de Programación) to proceed with project based on cost recuperation. 	<p>1</p> <p style="text-align: right;">Total <u>1</u></p>
3	<ul style="list-style-type: none"> . Develop distribution maps showing the size and configuration of all the properties in the community. . Develop a complete census of owners with their addresses. 	<p>4</p> <p>(4)</p> <p style="text-align: right;">Total <u>4</u></p>
4	<ul style="list-style-type: none"> . Assign the proportionate share of the cost to each lot. This involves: <ul style="list-style-type: none"> (i) assigning "factors" to each lot (These take into account conditions in each lot which either increase or reduce the degree to which it benefits from the project. Typical factors include frontage, lot depth and its overall perimeter.) (ii) based on the factors, calculating the "equivalent area" (<u>area virtual</u>) of each lot, essentially this involves computing the net effect of the factors for each lot. (It is expressed as an area, i.e. in m².) 	<p>1</p>

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(iii) dividing the cost of the project by the sum of the equivalent areas to obtain the "conversion factor" (that is value/m2.)

(iv) calculating the betterment tax owed by each lot by multiplying its real area by the conversion factor.

- . Define the terms at which the tax will be financed (i.e. years and interest rate). Tegucigalpa has a policy of applying terms such that the monthly payment for the betterment tax assessment that is most frequent in the community is \$2.50 (Lps.5).

Total 1

- 5 . The owners are notified. Those who want to may make a single payment for the full amount of the tax at the Central Bank

- . The Credit and Collection Controls Committee obtains signed notes (letras) from those who want to accept the terms for a time payment.

n/a

9

ENGINEERING REPORT

I. CONSTRUCTION COSTS AND SPECIFICATIONS

It is very difficult to accurately estimate the construction cost of a project that has not been designed yet. Thus, certain technical assumptions have been made (See Appendix 1), basic outline specifications developed and schematic drawings prepared (See Appendix 8) supporting basic design ideas conforming to present construction codes and regulations in order to derive an approximate unit cost per house and per square meter. Needless to say, the actual design of the project may differ substantially from the hypothetical examples shown in this Annex. It is hoped however, that the final designs and specifications will reflect the technical considerations outlined in Appendix 2 in order to lower the construction standards to be more in line with the low-cost nature of the program and thus reach the target population.

Since this analysis applies to both Tegucigalpa and San Pedro Sula, separate references will be made when there is a difference in costs or specifications between the two cities.

For the purposes of this cost analysis, the range of community upgrading has been divided into three groups: off-site infrastructure, on-site infrastructure and home improvements.

A. Off-Site Infrastructure. This is all site development work, including utilities, that are located immediately adjacent to and connected with the improvement area. This work shall not include main thoroughfares or highways or main-city trunk lines for water, sewage or drainage. In general, the off-site infrastructure may include:

1. Roads. Normally with curb and gutter (See Figure 1-C) and bituminous concrete paving.
2. Water Lines. A 3" PVC main to supply water to the target community.
3. Sanitary Sewers. Normally an 8" reinforced concrete pipe placed in the center of the street.
4. Storm Drainage. Generally underground reinforced concrete pipes with sizes to be determined according to each particular drainage area.

B. On-Site Infrastructure. This is all site development work, including utilities, located within the community improvement area, such as:

1. Walkways. Basically two types are planned:
 - a. Sidewalks, a one meter stone or concrete block sidewalk.
 - b. Sidewalk and drainage combination: a 1.25m concrete sidewalk with a ditch on one side of stone masonry. See Figure 1.C.

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2. Streets. A seven-meter wide cobble stone paved street on a 4" compacted base of select material.
3. Water Lines. A 2" or 3" PVC line (placed a minimum 6 feet away from sanitary sewers) with a 1/2" PVC connection up to the property line of the lot.
4. Sanitary Sewer. An 8" concrete pipe with a 4" or 6" connection to the lot. See Figure 1-B.
5. Lighting. One street light each 50 to 100 meters.

Cost Estimate for On-Site Infrastructure

Based on the calculations shown in Appendixes four through seven, the following costs per house can be obtained:

	<u>Tegucigalpa</u>	<u>San Pedro Sula</u>
Street	Lps. 140.00	Lps. 140.00
Sidewalks and passages with drainage	75.00	75.00
Storm Drainage	50.00	50.00
Water Line	190.00	90.00
Sanitary Sewers	235.00	100.00
Street Lighting	<u>25.00</u>	<u>25.00</u>
Cost Per House	Lps. 715.00	Lps. 480.00

From Figure 1 (Appendix 8) the area occupied by 100 houses is (95 x 135) 12,825m². The cost of 100 houses in Tegucigalpa is (715 x 100) Lps.71,500, therefore, the square meter cost of on-site infrastructure will be (71,500 :- 12,825) Lps.5.59 or Lps.55,900 per hectare.

In the same manner the cost per square meter of on-site infrastructure in San Pedro Sula is (48,000 :- 12,825) Lps.3.75 or Lps.37,500 per hectare.

C. Home Improvements. This refers to all works to be performed inside the lot, according to the priorities set by the owner. Three basic improvements are:

1. New Room. Complete with concrete floor, brick or concrete blocks walls, support structure, roof, doors, windows and one light socket and outlet. (This option will be offered if loan repayment periods are restricted to three years.)
2. Floor & Foundation. Consists of a 3" concrete slab on top of a 2" gravel base.

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3. Support Structure. Consists of concrete columns, lintels, beams, and roof support.
4. Walls. Consist of 2 meter-high wall built of concrete blocks, bricks, or concrete panels.
5. Roof. Consists of a light cover of corrugated galvanized metal or corrugated asbestos.
6. Sanitary Sewer. Consists of a 6" concrete pipe for Tegucigalpa or a 4" concrete pipe for San Pedro Sula.
7. Water Line. Consists of 1/2" PVC connection to the house.
8. Private Lighting. Consists of one socket and one outlet.
9. Doors and Windows. Made of wood.

See Appendix 3 for home improvement cost estimate. The cost shown of Lps.1,280.00 for Tegucigalpa and Lps.1,244.00 for San Pedro Sula is for the addition of one 12m² room. No utility lines are included in these prices.

TECHNICAL ASSUMPTIONS MADE FOR BASIC HOME IMPROVEMENTS

- . Unit costs are the same in Tegucigalpa and San Pedro Sula. Although the cost of labor in San Pedro Sula is lower, the cost of some materials is higher than in Tegucigalpa, thus resulting in approximately the same cost for both locations.
- . Technically, the quality of workmanship is about the same in both cities.
- . The sanitary sewer and water lines are located on the streets in Tegucigalpa (Alternative A, Fig. 1-A) which results in higher costs. In San Pedro Sula these systems are permitted to be placed in a 3 meter right-of-way at the rear of the lots, for economy purposes. See alternative B, Fig. 1-D, Appendix 7.
- . The costs include all social benefits, 10% contingencies, 10% engineering and design cost and 5% additional for the higher cost of materials.
- . A 15% annual rate of inflation cost shall be considered at the time of construction.
- . Minimum standards and specifications are expected to be complied with.
- . Quality of construction materials should be controlled, to avoid expensive repairs or maintenance costs in the future.
- . Water is available in reasonable quantity and at a reasonable pressure at the boundary limits of the community to be served.
- . Sanitary sewers are to be connected to existing trunk lines, or septic tanks. See Appendix 2 for comments on standards.
- . Minimum standards and specifications of the water agencies shall be complied with. (It is important to mention that some of the requirements of "SANAA" appear to be stricter than those of other countries like Panama or the United States. San Pedro Sula has more acceptable requirements.)
- . The cost of land or legal fees to settle the title of ownership is not included in this section.
- . The cost of social charges are included in the cost.
- . The construction of an emergency water well and storage tank is included in the cost estimate for Tegucigalpa in order to prevent possible shortages of water. This tank is connected to "SANAA's" distribution lines for future maintenance.

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- The construction of a storage tank is also included in the community upgrading for San Pedro Sula.
- Sanitary and water connection fees, are not considered in the analysis; however, in practice, these fees generally will be included in the overall cost of the construction. By doing so it is expected that the various fees will be reduced due to economies of scale. These are: Lps. 85.00 and Lps. 210.00 respectively in Tegucigalpa and Lps. 55.00 and Lps.75.00 respectively in San Pedro Sula.
- Off-site sewage collection and treatment costs are not included in this analysis.

For utility location, see Fig. 1-A and 1-D, Appendix 8. All lots have been considered to be $5 \times 20\text{m} = 100\text{m}^2$.

OTHER TECHNICAL CONSIDERATIONS

In order to lower the construction cost of this project, simple and efficient technology should be utilized throughout the program. The present standards and specifications used by SANAA engineers, although no written regulations were available, are too strict and costly. They could be used for upper middle class residential construction but should not be used for this low-cost program. As an example of the strict requirements, the following is included:

- . Double water lines, one at each side of the street, instead of one line.
- . Fire hydrants instead of standpipes for fire hose connection.
- . Requirement of 1.50 meter cover in sanitary sewer lines instead of 1.00 meter in open areas and 1.20 meter on streets.
- . Requirement of 6" diameter sanitary sewer connection rather than 4" diameter, which is used everywhere else in the country.
- . Required distance between manholes of 100m. instead of 135m.
- . Requirement of anchoring for slopes steeper than 12%.
- . Peak water use values of 4 rather than 2.5 as used for this project.
- . Maximum depth for sanitary sewer is 4.50m. rather than 5.00m.
- . Use of 2" diameter pipe in main water lines (provided the number of families to serve is low) is not permitted.
- . Locally available stone for streets and sidewalk paving is not, ordinarily permitted, concrete is used.

HOME IMPROVEMENT COSTS

ALTERNATIVE A. Addition of a 12m2 room in Tegucigalpa. The estimate is based on a 20m2 house. See Fig. 2-A, Appendix 8.

Floor: Lps.15.00/m2 x 20m2	=	Lps.	300.00	
Structure: Lps.20.00/m2 x 20m2	=		400.00	
Walls: Lps.23.00/m2 x 20m2	=		460.00	
Roof: Lps.32.00/m2 x 20m2	=		640.00	Lps. 1,800.00
Sanitary Sewer: Lps.7.50/m2 x 20m2	=	Lps.	150.00	
Water Line: Lps.5.00/m2 x 20m2	=		100.00	
Lighting: Lps.4.00/m2 x 20m2	=		80.00	
Doors & Windows: Lps.10.00/m2 x 20m2	=			Lps. 200.00
				<u>Lps. 2,000.00</u>
Fixtures: Lps.10.00/m2 x 20m2	=	Lps.	200.00	
New Room: 12m2 = $\frac{2,000}{20} \times 12m2$	=	Lps.	1,200.00	
Lighting			<u>80.00</u>	
Cost of New Room in Tegucigalpa (Bathroom is not included)			<u>Lps. 1,280.00</u>	

ALTERNATIVE B. Addition of a 12m2 room in San Pedro Sula. Calculations are also based on a 20m2 house. See Fig. 2-B, Appendix 8.

Floor: Lps.17.00/m2 x 20m2	=	Lps.	340.00	
Structural: Lps.15.00/m2 x 20m2	=		300.00	
Walls: Lps.23.00/m2 x 20m2	=		460.00	
Roof: Lps.32.00/m2 x 20m2	=		640.00	Lps. 1,740.00
Sanitary Sewer: Lps.4.25/m2 x 20m2	=		85.00	
Water Line: Lps.2.50/m2 x 20m2	=		50.00	
Lighting: Lps.4.00/m2 x 20m2	=		80.00	
Door & Windows: Lps.10.00/m2 x 20m2	=			Lps. 200.00
				<u>Lps. 1,940.00</u>
Fixtures Bathroom: Lps.10.00/m2 x 20m2	=		200.00	
New Room 12m2 = $\frac{1,940}{20} \times 12m2$	=	Lps.	1,164.00	
Lighting			<u>80.00</u>	
Cost of New Room in San Pedro Sula (Bathroom is not included)	=		<u>Lps. 1,244.00</u>	

INFRASTRUCTURE COST ANALYSIS

1. ACCESS ROADS OFF-SITE-10m. Right of Way. See Fig. 3, Appendix 8.

a. Grading: 2m ³ /lineal meter (1.m.) at Lps.4.00/m ³	=	Lps.	8.00/1.m.
b. Sub-Base: 4" compacted: Lps.2.00/m ² x 8m	=		16.00/1.m.
c. Base Material 4" at Lps.3.00/m ² x 8m	=		24.00/1.m.
d. Bituminous Conc. 2" S-5 at Lps.10.00/m ² x 6m	=		60.00/1.m.
e. Curb & Gutter: at Lps.20.00/1.m. x 2	=		40.00/1.m.
f. Sidewalks: 3" conc. at Lps.15.00/m ² x 1.2m	=		<u>18.00/1.m.</u>

Cost per (lineal meter) 1.m. of street serving two houses = Lps. 166.00/1.m.

Cost per house: $\frac{166.00}{2} \times 5$ = Lps. 415.00

2. ACCESS ROADS ON-SITE-10m. Right-of-Way. See Fig. 1-B.

a. Grading: 1m ³ /1.m. at Lps.4.00/m ³	=	Lps.	4.00/1.m.
b. Sub-Base and Compaction: Lps.2.00/m ² x 8m	=		16.00/1.m.
c. Stone masonry or Conc. blocks: Lps.6.00/m ² x 6m	=		36.00/1.m.

Cost per 1.m. of street serving two houses = Lps. 56.00/1.m.

Cost per house: $\frac{56.00}{2} \times 5m$ frontage = Lps. 140.00

3. WALKWAYS - 5m. Right-of-Way. See Figure 1 and 1-C, Appendix 8.

a. Grading: 0.5m ³ /1.m. at Lps.4.00/m ³	=	Lps.	2.00/1.m.
b. Sub-Base and Compaction: Lps.2.00/m ² x 2m	=		4.00/1.m.
c. Base Material: 4" at Lps.3.00/m ² x 2m	=		6.00/1.m.
d. Conc. s/w at Lps.15.00/m ² x 1.2m	=		<u>18.00/1.m.</u>

Cost of 1.m. of walkway serving two houses = Lps. 30.00/1.m.

Cost per house: $\frac{30.00}{2} \times 5m$ frontage = Lps. 75.00

4. STAIRWAYS - at Lps.20.00/m² x 1.2m. = Lps. 24.00/1.m.

Cost per house = 0.25 1.m./house x Lps.24.00 = Lps. 6.00

5. STONE MASONRY DITCHES: See Fig. 1-B and Fig. 1-C

On site ditch at Lps.8.00/1.m. x 2	=	Lps.	16.00/1.m.
Off site ditch at Lps.8.00/1.m. x 0.50	=		4.00
Cost per 1.m. serving two houses	=	Lps.	20.00/1.m.
Cost per house: $\frac{20.00}{2}$ x 5m frontage	=	Lps.	50.00

6. STREET LIGHTING - See Fig. 1

Lps.500.00 per post, 50 meters apart each serving 20 houses:

Cost per house: $\frac{500.00}{20}$	=	Lps.	25.00
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SANITARY SEWER COST

TEGUCIGALPA

1. MAIN LINE - See Fig. 1-Z, Appendix 7.

Manholes: one every 50m. at Lps.600.00 serving 20 houses

Cost per house: $\frac{600.00}{20}$ = Lps. 30.00

Junction Boxes: one per each house = 60.00
Saddle or Y connection. Each house = 15.00
Surveying Lps. 1.50/1.m.

Excavation: 1m³/1.m. at Lps.4.00/m³ 4.00/1.m.
Bedding-Gravel 4.00/1.m.
Pipe: 8" concrete 7.50/1.m.
Installation 1.50/1.m.
Backfill and Compaction 1.50/1.m.

Sub-Total per house Lps. 20.00/1.m. x 5 = Lps. 50.00

Cost per house Lps.155.00

2. SANITARY SEWAGE CONNECTION TO PROPERTY LINE-5m. See Fig. 1-A, Appendix 7.

Excavation: 1m³/1.m. at Lps.4.00/1.m. Lps. 4.00
Bedding Gravel 4.00
6" Conc. pipe 5.50
Installation 1.00
Backfill Material & Compaction 1.50

Cost per house Lps. 16.00/1.m.x5m = Lps.80.00

3. SANITARY LATERAL CONNECTION TO MIDDLE OF LOT - See Fig. 1-A.

Excavation: 0.75m³/1.m. at Lps.4.00/m³ Lps.3.00/1.m.
Bedding 4.00/1.m.
6" Concrete pipe 5.50/1.m.
Installation 1.00/1.m.
Backfill and Compaction 1.50/1.m.

Cost per house Lps. 15.00/1.m.x10m = Lps.150.00

SANITARY SEWER COST

SAN PEDRO SULA

1. MAIN LINE - See Fig. 1-C, Appendix 7.

Manholes: One every 50m. at Lps.600.00 serving 20 houses			
Cost per house	$\frac{600.00}{20}$		= Lps. 30.00
No junction box			
Saddles or Y Connection. Each house			= 15.00
Surveying	Lps. 1.50/1.m.		
Excavation: 1m ³ /1.m. at Lps.4.00/m ³	4.00/1.m.		
Bedding-Gravel	6.00/1.m.		
Pipe: 8" concrete	7.50/1.m.		
Backfill & Compaction	1.50/1.m.		
Sub-Total per house	<u>Lps. 22.00/1.m.</u>	$\times \frac{5m}{2}$	= <u>Lps. 55.00</u>
Cost per house			= Lps. 100.00

2. 5m. SANITARY SEWER TO EASEMENT - See Fig. 1-D, Appendix 7.

Excavation = 1m ³ at Lps.4.00/m ³	Lps. 4.00	
Bedding - Gravel	6.00	
Pipe: 4" Concrete	4.50	
Installation	1.00	
Backfill Compaction	1.50	
	<u>Lps. 17.00/1.m.</u>	
Cost per house		17.00/1.m. x 5m = Lps. 85.00

WATER SUPPLY COST

1. MAIN WATER LINE (TEGUCIGALPA) - 5m. Frontages - See Fig. 1-A and 1-D., Appendix 7.

Excavation: 1m³/1.m. at Lps.4.00/m³ Lps. 4.00/1.m.
 Pipe: 3" and 2" at average $\frac{16+32}{2}$ 24.00/1.m.
 Installation: 1.00/1.m.
 Backfill and Compaction 2.00/1.m.
 Sub-Total per house Lps. 31.00/1.m. x $\frac{5}{2}$ = Lps. 77.50
 1 - 3" valve every 100m: Lps. $\frac{300}{40}$ houses = 7.50
 Cost per house = Lps. 85.00

WATER WELL - for 400 families at 50 gallons per day, per person - 300' deep well-pump 85 GPM

Cost: $\frac{20,000}{400}$, per house = Lps. 50.00
 Water tank - Lps. $\frac{2,000}{400}$, per house = 5.00

2. MAIN WATER LINE (SAN PEDRO SULA) - Same as above except for water well. No well is required in San Pedro Sula, therefore cost per house is Lps.85.00 + Lps.5.00 = Lps.90.00.

3. 5m. WATER CONNECTION TO PROPERTY LINE - See Fig. 1-D - Applicable in Tegucigalpa and San Pedro Sula.

Excavation: 0.75m³/1.m. at Lps.4.00/m³ Lps.3.00/1.m.
 Pipe: 1/2" PVC at Lps.4.50/1.m. 4.50/1.m.
 Installation 1.00/1.m.
 Backfill and Compaction 1.50/1.m.
 Cost per house Lps. 10.00/1.m. x 5m = Lps. 50.00

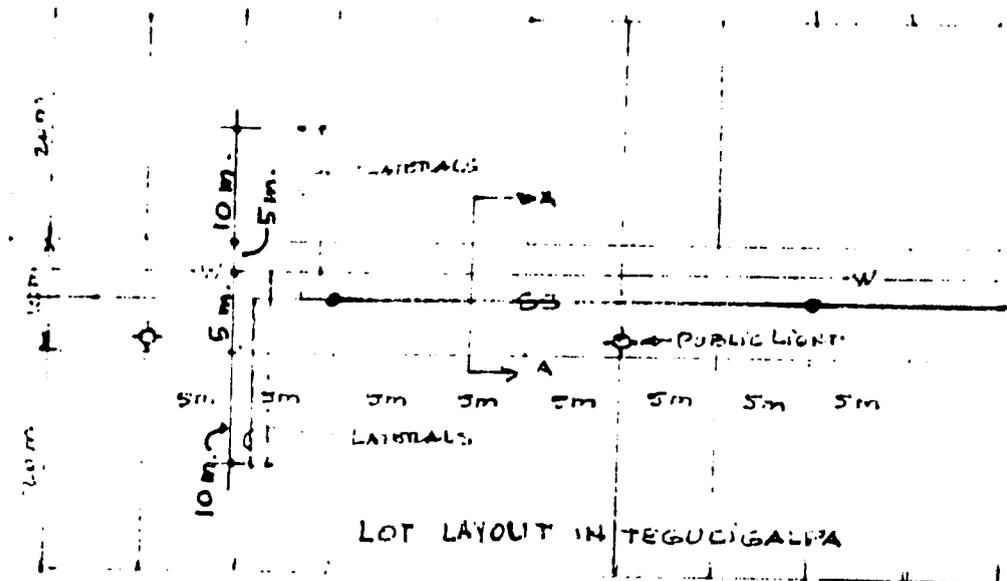
4. 10m. WATER CONNECTION TO MIDDLE OF LOT - ON THE LOT - See Fig. 1-A.

Applicable in Tegucigalpa

Excavation: 0.75m³/1.m. at Lps.4.00/m³ Lps.3.00/1.m.
 Pipe: 1/2" PVC at Lps.4.50 4.50/1.m.
 Installation 1.00/1.m.
 Backfill & Compaction 1.50/1.m.
 Cost per house Lps. 10.00/1.m. x 10m = Lps.100.00

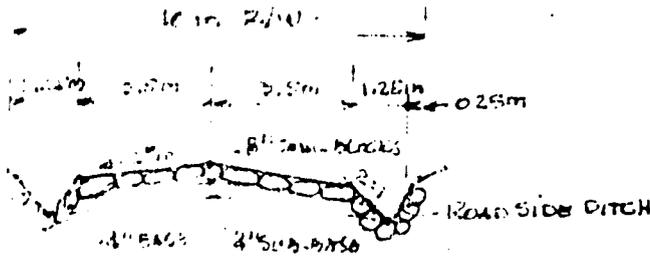
SUMMARY (Cost per House)

Cost of street water supply in Tegucigalpa	Lps.	190.00
Cost of in-lot water supply in Tegucigalpa		100.00
Cost of right-of-way water supply in San Pedro Sula		90.00
Cost of in-lot water supply in San Pedro Sula		50.00
Cost of street San. Sew. in Tegucigalpa = 155+80	Lps.	235.00
Cost of in-lot San. Sew. in Tegucigalpa		150.00
Cost of right-of-way San. Sew. in San Pedro Sula		100.00
Cost of in-lot San. Sew. in San Pedro Sula		85.00
5. STORM DRAINAGE (reinforced concrete pipe) - Average 18" See Fig. 1. for Off-Site Access.		
Excavation: 1m ³ /1.m. at Lps.4.00/m ³	Lps.	4.00/1.m.
Bedding - Gravel		4.00/1.m.
Pipe & Installation		42.50/1.m.
Backfilling & Compaction		2.50/1.m.
		<u>53.00/1.m.</u> x $\frac{5m}{2}$ = Lps.132.50
Manholes: Lps. $\frac{53.00 \times 6m}{20 \text{ houses}}$		15.50
2 curb inlets each 50m. = Lps. $\frac{2 \times 500}{20 \text{ houses}}$		50.00
1 area inlet for each 50 houses = <u>250</u>		<u>5.00</u>
Cost per house		Lps.203.00



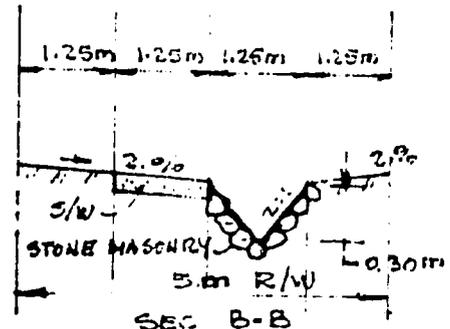
LOT LAYOUT IN TEGUCIGALPA

FIG 1-A



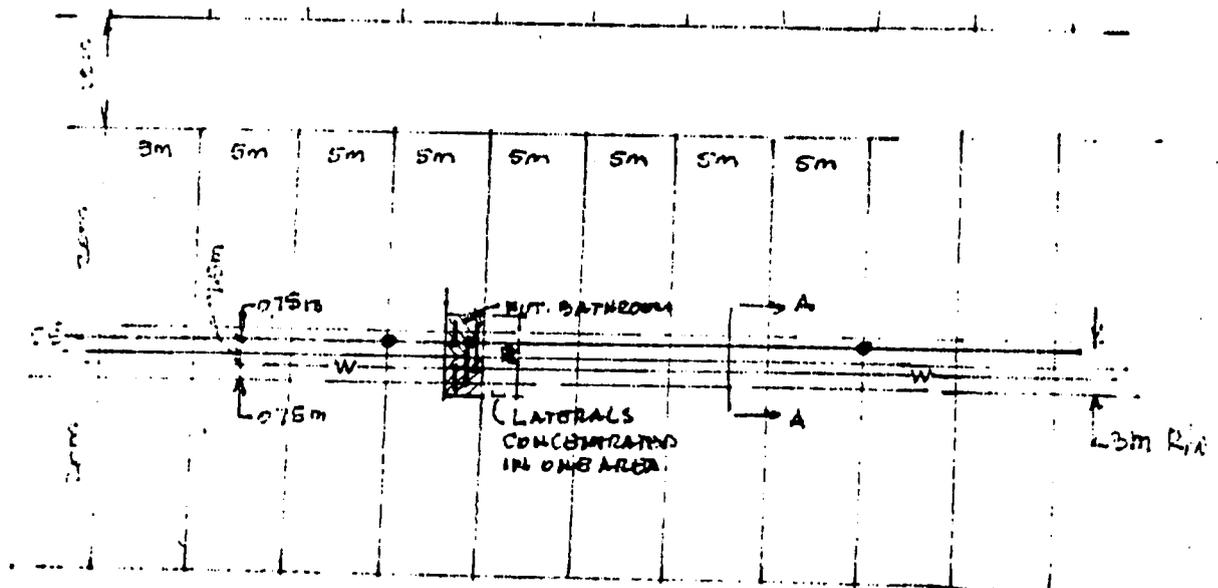
SECTION A-A
FIG 1-B

TYPICAL STREET SECTION



SECTION B-B
FIG 1-C

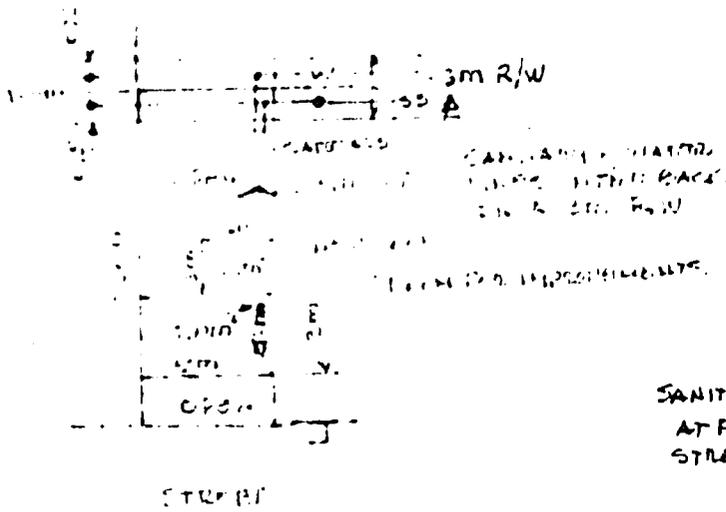
TYPICAL PASSAGE SECTION



LOT LAYOUT IN SAN PEDRO SULA

FIG 1-D

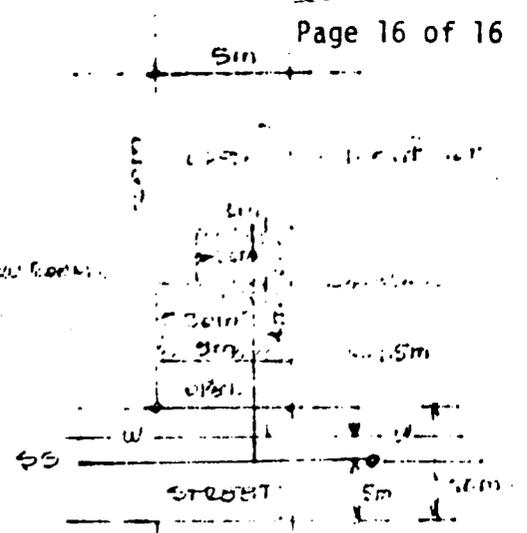
LOT LAYOUT AND DETAILS
FOR BASIC SERVICES



ALTERNATIVE "B" (SAN PEDRO)

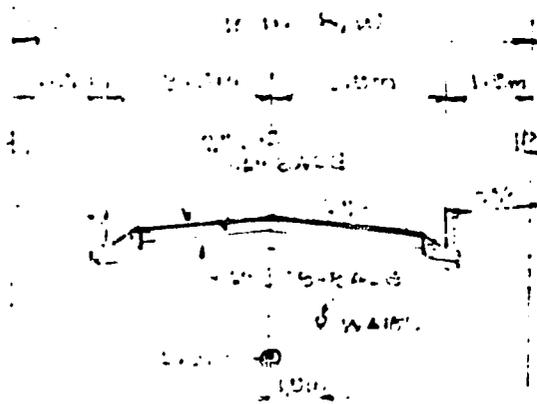
FIG. 2-B

TYPICAL LAYOUT FOR HOME IMPROVEMENT
 NO SCALE



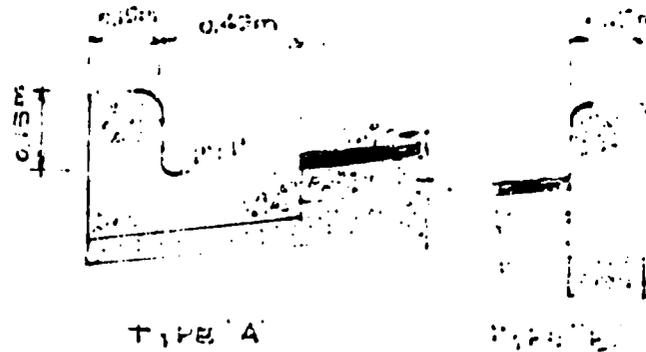
ALTERNATIVE A (TEGUS)

FIG. 2-A



TYPE A

FIG. 3



TYPE B

FIG. 4

DEFINITIONS FAVED ACCESS R: 40

SUBPROJECT ELIGIBILITY CRITERIA

I. General sub-project eligibility

1. Conformity with target group

- a) Community is characterized by:
 - . lack of access to piped water service (i.e. SANAA or DIMA).
 - . a preponderance of unimproved or partially improved housing (same definition as in survey).
 - . the existence of other basic service problems such as poor drainage or street systems.
- b) Residents of the community are characterized by having:
 - . Incomes below the median in the municipality.

2. Suitability for permanent settlement

- a. Land use
 - . The Government contemplates the long-term use of the site for residential purposes.
 - . The site is not affected by planned public works to the point of excluding its continued existence as a community.
- b. Environmental suitability
 - . The site is not affected by adverse environmental conditions which preclude its long-term residential use (e.g. flooding, land slides.)
- c. Access to offsite services
 - . Adequate vehicular access exists or can be provided.
 - . There is an identified source of water to supply the community.
- d. Those land tenure problems which exist can be resolved.

II. Eligibility of proposed community improvement program

1. Acceptance by the community (as expressed by its organization)

- a. Agreement on the priority of the proposed investments
- b. Acceptance of the charges to be imposed to recuperate the investments.

2. Adequacy of proposed improvements

- a. Solution to existing problems:

- 2 -

. All the required actions to provide missing services to individual residents are included in the program (e.g. water to each lot or public water taps within close access of all lots.)

. Actions to resolve the existing land tenure problems will be completed before construction of the improvements is concluded.

. Agreements have been formalized with a financial institution which will make home improvement loans in the community.

b. Cost recovery:

. The municipality has legal authority to apply the proposed cost recovery mechanism

. The information and methodology for allocating costs to individual residents are available

3. Adequacy of design

a. Water:

. A supply of water is available and required approvals have been obtained.

. The corresponding water authority has approved the designs and agreed to assume responsibility for the system when constructed.

b. Sewerage:

. Specific measures are included to mitigate adverse impact within the community of uncollected sewerage.

. Off site sewerage discharges do not contaminate presently unpolluted bodies of water.

. Approval has been obtained for hook-up to existing sewage trunk lines.

c. Erosion and sedimentation:

. Required defense barriers and retaining walls are included in the program in areas of steep slopes within the community.

. The project does not aggravate existing erosion and sedimentation problems and consideration has been given to measures to mitigate those problems (e.g. reforestation, velocity checks, detention basins...)

d. Storm drainage, flooding:

. Measures to mitigate problems caused by stagnant water within the community have been included.

. Localized flood protection measures have been included.

. Provision has been made for adequate off-site disposal of storm drainage and necessary approvals obtained.

SERVICIO AUTONOMO NACIONAL DE ACUEDUCTOS Y ALCANTARILLADOS

APTDO POSTAL No 437
Cable SANAA

TEGUCIGALPA, HONDURAS, C. A.

TELEFONOS:
22-8332, 22-8334, 22-8333OFICIO No. G-165-80

10 de Abril de 1980

Arquitecto
HENRY MERRIAM
Presidente del C/DC
Tegucigalpa, D.C.

Estimado Arquitecto Merriam:

Sirva la presente para hacer de su conocimiento, la buena disposición del SERVICIO AUTONOMO NACIONAL DE ACUEDUCTOS Y ALCANTARILLADOS (SANAA), en brindarle asistencia técnica en el desarrollo de los proyectos que para el mejoramiento de los barrios marginales llevará a cabo el Concejo Metropolitano del Distrito Central.

Además de esta asistencia técnica, el SANAA también está anuente a que las instalaciones del drenaje de aguas negras y red de distribución de agua potable que se construyan en las áreas mencionadas, sean conectadas a sus sistema general, limitadas a las condiciones de servicios pre-
vencientes en el área.

Sin otro particular es propicia la oportunidad para suscribirme de usted atentamente.

INGENIERO ROBERTO MAIRENA VALLE
SUBGERENTE SANAAcc: Señor Ministro de Salud Pública
cc: Archivo (2)
RMV:mbc



CONCEJO METROPOLITANO DEL DISTRITO CENTRAL
Tegucigalpa, D. C., Honduras, C. A.

CONVENIO INTERINSTITUCIONAL PARA LA ERRADICACION DE LA MARGI-
NALIDAD ENTRE EL CONCEJO METROPOLITANO DEL DISTRITO CENTRAL Y
EL SERVICIO AUTONOMO NACIONAL DE ACUEDUCTOS Y ALCANTARILLADOS.

A. OBJETIVO DEL CONVENIO

El objetivo del Convenio es el de erradicar la marginalidad o en todo caso mejorar las condiciones sanitarias de las zonas marginales de la ciudad Capital, mediante la acción conjunta del Concejo Metropolitano del Distrito Central y del Servicio Autónomo Nacional de Acueductos y Alcantarillados, en adelante identificados con sus siglas CMDC y SANAA.

Esta acción estará encaminada a la realización de los estudios y construcción de los proyectos necesarios, para poder instalar en esas áreas servicios de agua potable y alcantarillado sanitario y recuperar los costos de la inversión según el Art. 8, inciso C) del Decreto Ley 370 de 30 de agosto de 1977, cuando ésto sea factible.

B. COMPROMISOS DEL SANAA

El SANAA se compromete a:

- a) Realizar con diligencia los estudios o la revisión para los sistemas que se proyectan instalar.
- b) Suministrar toda la tubería, accesorios y demás materiales requeridos para la construcción de las obras de los sistemas de agua potable.
- c) Efectuar la instalación de las tuberías y accesorios para agua potable y construcción de las obras complementarias.
- d) Efectuar la supervisión necesaria para la buena ejecución de los trabajos.



CONCEJO METROPOLITANO DEL DISTRITO CENTRAL
Tegucigalpa, D. C., Honduras, C. A.

- e) Realizar la construcción o mejoramiento de obras especiales, según se definan en contrato separado.
- f) Instalar sistemas de líneas de alcantarillado sanitario.
- g) Suministro de los materiales necesarios para la construcción de pozos de visita y la instalación de las tuberías de alcantarillado sanitario.
- h) Asignar de su personal técnico a uno o más ingenieros que sean responsables de ejecución de los proyectos mencionados, quienes velarán porque éstos se ejecuten dentro del tiempo y los presupuestos previstos.
- i) Nombrar una persona responsable que actúe, en representación del SANAA, como coordinador entre el SANAA y el CMDC en estos proyectos.

C. COMPROMISOS DEL CMDC.

El CMDC se compromete a:

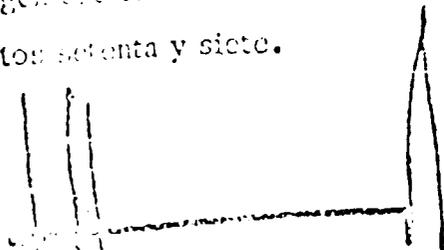
- a) Llevar a cabo la excavación, compactado y aterrado en las líneas de tubería de los sistemas de agua potable y alcantarillado.
- b) Proporcionar la tubería para las líneas de alcantarillado sanitario.
- c) Proporcionar los fondos para cubrir los costos de los estudios requeridos.
- d) Reintegrar al SANAA los costos de la tubería y accesorios, equipos y materiales que sean utilizados directamente en estos proyectos, a medida que las inversiones sean recuperadas.



CONCEJO METROPOLITANO DEL DISTRITO CENTRAL
Tegucigalpa, D. C., Honduras, C. A.

- e) Obtener de los vecinos de las zonas donde se ejecuten los proyectos, la cooperación necesaria para hacer las conexiones domiciliarias.
- f) Otorgar las servidumbres de paso que se requieran para las instalaciones requeridas en la prestación de los servicios aludidos.
- g) Seleccionar entre su personal responsable un funcionario que represente al CMDC actúe como coordinador entre el SANAA y el CMDC, para la realización de estos proyectos.

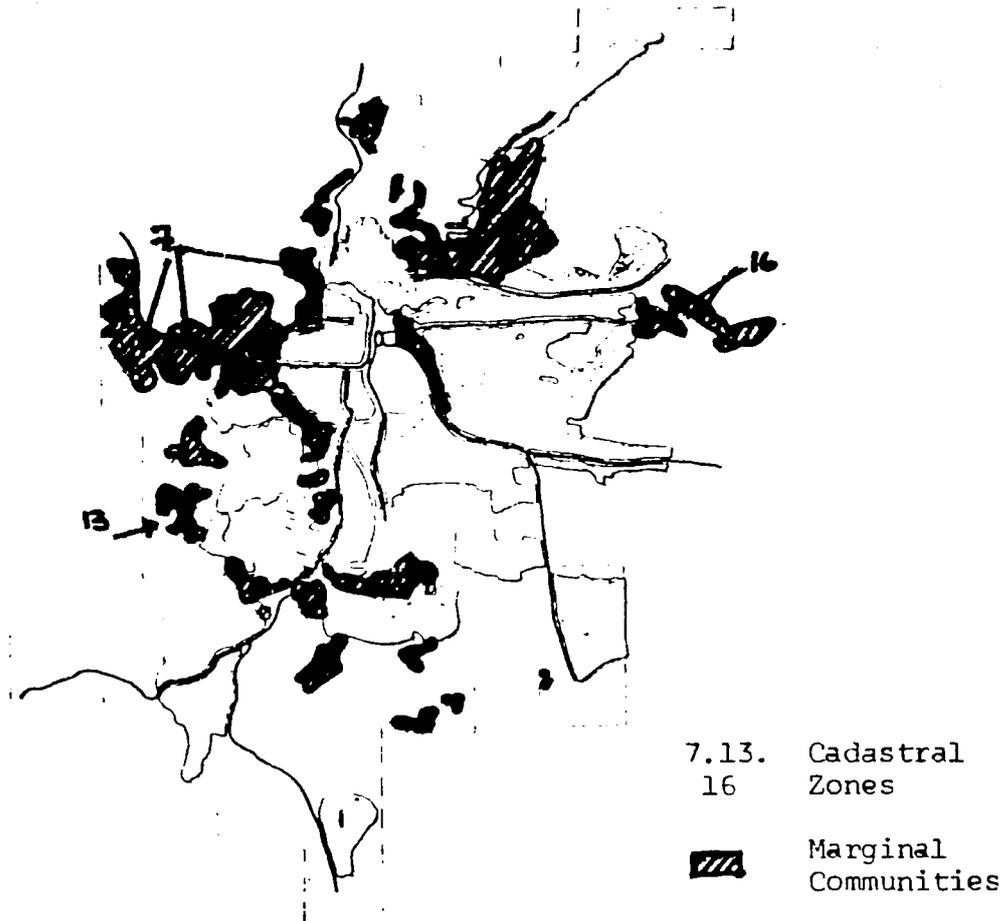
En fe de lo cual, por las Instituciones firman este Convenio el Presidente del CMDC, Arquitecto Henry Merriam W. y el Gerente General del SANAA, Ingeniero Rubén Flores Guillén, siendo el veintidós de marzo de mil novecientos setenta y siete.


HENRY MERRIAM W.


RUBÉN FLORES GUILLEN

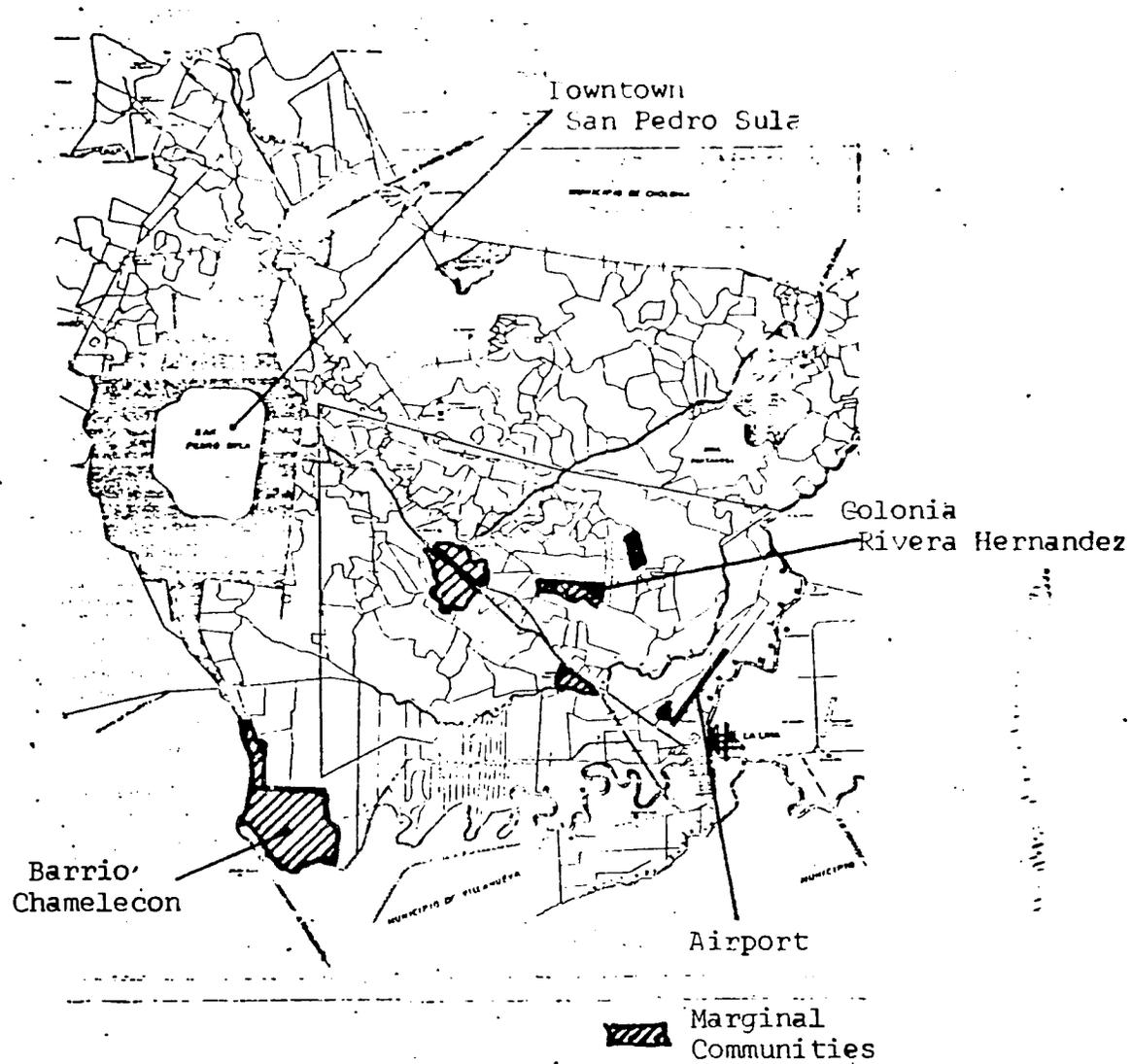
TEGUCIGALPA

LOCATION OF MARGINAL COMMUNITIES



SAN PEDRO SULA

LOCATION OF MARGINAL COMMUNITIES



ENVIRONMENTAL THRESHOLD RECOMMENDATION

Project: Honduras 522-HG-006

Project Title: Upgrading Low-Income Settlements

Funding: FY 1980 HG: US\$10.0 million
IIEU and Mission: .5 million
GOM: 1.0 million

Total: US\$11.5 million

IEE Prepared By: Peter A. Weber, Environmental Planner
National Savings and Loan League
for DS/Housing
December 1979

ENVIRONMENTAL ACTION RECOMMENDED:

Based upon the findings of the IEE, a Positive Threshold Determination is recommended for Honduras 522-HG-006. In order to ensure environmental soundness in project selection and development, an Environmental Criteria and Checklist shall be developed for inclusion in the Project Paper.

Office of Housing: _____ Date: _____
J. David McVoy
Acting Deputy Director

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HONDURAS
INITIAL ENVIRONMENTAL EXAMINATION

I. BACKGROUND INFORMATION

A. BASELINE ENVIRONMENTAL CONDITIONS

1. Natural Environment

Honduras is a small tropical country located between N. Lat. 13° and 16° in Central America. Pugged, jumbled mountain ranges cover over 80% of the country, leaving flat coastal fringes to the north (the Caribbean side) and to the south (the Pacific side). The north coast receives the heaviest amount of rainfall, distributed throughout the year. Inland and on the southern coast, there are pronounced wet and dry seasons. Honduras is tectonically quiet, although major earthquakes occur on either side, in Guatemala and Nicaragua.

a. Tegucigalpa

The capital city is located in the mountainous region. Tegucigalpa occupies part of a bowl-like area which is predominantly hilly, surrounded by wooded ridges in all directions. The elevation of center city is 930 meters (3,000 feet). Natural mixed evergreen/deciduous forest is almost entirely gone, replaced by urbanization and highland agricultural crops. There are pronounced dry and wet seasons. It is usually dry from November to April, with less than 60 millimeters (two inches) per month, and then the rains come from May to October. Annual average precipitation is 980 mm (40 inches). The Choluteca River and its main tributaries, Ríos Guacerique, Grande and San José have cut deep channels in the surrounding landscape. Figure 1 presents salient characteristics of potential sites.

b. San Pedro Sula

The second city of Honduras is located on the Caribbean side, approximately 50 kilometers (30 miles) upstream from the coast. As part of the coastal region, center city is 85 meters (280 feet) above sea-level. Mountains serve as its immediate backdrop to the west, reaching 1,800 meters (5,900 feet). The main settled area is on a gently sloping plain which descends to 20 meters (65 feet). The steep slopes of the nearby mountains and the low flatland area combine to produce severe seasonal

Figure 1. Salient Environmental and Demographic Characteristics of Several Potential WC Upgrading Sites

CITY	TEGUCIGALPA	SAN PEDRO SULA	CHOLUTECA
Ecological zone ^a	Highlands	Caribbean coast, inland	Pacific coast, inland
Precipitation ^a (Average annual)	980 mm (40")	1,373 mm (55")	1,912 mm (75")
Elevation ^{a,b}	930 meters (3,000 feet)	85 meters (280 feet)	48 meters (160 feet)
Land form ^a	Hilly with steep, narrow river channels	Flat sloping plain bordered on west by steep mountains	Coastal river valley
Climate ^a (modified after Köppen)	Semi-tropical wet and dry	Tropical wet with short dry season	Tropical wet and dry
Hazards	Steep slopes/landslides; deforestation for firewood; urban erosion; dust and smoke in dry season; expansive clay soils; localized flooding	Flooding/ponding	Flooding; seasonal drought
Population ^a (1961)	134,075	58,632	11,483
Population ^c (1974)	273,874	150,991	26,152

Sources:

- a. National Inventory of Physical Resources, 1966
- b. Topographic maps, scale 1:50,000
- c. PADCO 1978

flooding, particularly in the broad Chamelecón and Ulúa flood. Although not as well separated as in Tegucigalpa, there are alternating wet and dry seasons at approximately the same times of the year. Average annual precipitation is 1,400 mm (55 inches). Hurricanes occasionally strike the northern coast region with resulting heavy destruction, such as Fifi caused in 1974.

c. Other Potential Sites

The next rank of urban areas is exclusively coastal, located below 100 meters. One site is on the Pacific side (Choluteca), upstream from the coast in the Choluteca River valley. Its average annual precipitation is 1,900 mm (75 inches), distributed lighter or heavier by wet and dry seasons. There are three potential sites on the Caribbean coast (La Ceiba, Tela and Puerto Cortés) which receive as much as 2,500 mm (100 inches) per year, without any seasonal diminution.

2. Human Environment

a. Settlement Totals and Patterns

Honduras has been and remains a predominantly rural country. Just 31% of the population is classified as urban (1974 Census). However, projections are for the country's population distribution to change to an urban majority (55% of the total) by the year 2000. There are two main cities, Tegucigalpa (estimated 360,000 population in 1979) and San Pedro Sula (estimated 217,000 population). The next level of cities includes La Ceiba (38,000 people in 1974), El Progreso (29,000), Choluteca (26,000) and Puerto Cortés (26,000). Tegucigalpa urbanized at an annual rate of 5.6% between the 1960 and 1974 censuses; San Pedro Sula urbanized even faster, marking a 7.6% annual increase.

Extensive detail on the socio-economic environment is presented in the several PADCO reports (see References). In broad terms, the low-income population is spatially distributed in the following manner. Poor people live both in downtown areas and in peripheral, discontinuous areas. Downtown housing units are known as "cuarterías," "pasajes" or "mesones." Usually one family lives in each room, without private potable water or sanitary facilities. Both density and rents are high; structural conditions and environmental health conditions are deteriorating. Peripheral settlements are called "repartos marginados" and are scattered in left-over lands that previous urbanization bypassed or never reached.

b. Urban Services

Potable water and sewerage systems have not been maintained in existing downtown low-income areas or extended out to peripheral areas for the growing numbers of poor urban dwellers. In order to obtain potable water in areas where there is no municipal water supply, people pay between five and nine times the unit price which serviced areas pay (PADCO 1979). Sewage in peripheral settlements usually is disposed of in latrines and other rural-type methods, unsuitable for the existing high urban densities. Streets are predominantly made of earth, unpaved in any way, and without well-defined and functional storm drainage capabilities. Electricity is the one service that is relatively advanced and available in poor neighborhoods. Appendix C illustrates the existing infrastructure situation.

c. Quality of Life

The combination of settlement patterns and the lack of urban services has resulted in a dangerously reduced quality of life for the urban poor. As documented in PADCO investigations, illiteracy is greater than 50%. Participation in the formal economy is low and is frequently characterized by under-employment. Health conditions include infant mortality 33 times more frequent than in the upper half of the population, and malnutrition exists for over 80% of the poor children. Without external sources of credit and assistance, any improvement in the quality of life would be slow and fitful.

3. Environmental Planning and Institutions

At the present time, there is no comprehensive national environmental planning agency. No environmental laws have been promulgated; rather, health laws are the nearest legal basis for environmental concerns. There are several environmental planners located within various government institutions, but their effectiveness is hindered because of their absorption within larger, less focused institutions.

For urban upgrading programs, environmental information can be collected from several sources. Mapping (topography, geology) is available from IGN (Instituto Geográfico Nacional). Land-use inventory information is available from the Programa Catastral Nacional (National Cadastral Program), directed by CONSUPLANE (Consejo Superior de Planificación Económica, or National Council of Economic Planning). Within CONSUPLANE's Forestry Department there is a small but informative environmental planning unit. The major municipal governments have their own cadastral programs and thus have compiled some baseline environmental data.

B. DESCRIPTION OF THE PROPOSED PROGRAM

1. Characterization

The proposed program is to furnish urban upgrading services to existing low-income settlements located in the major cities of Honduras. Approximately \$10 million would comprise the HG infrastructure portion, and approximately \$375,000 from IIEUP and Mission funds would comprise the socio-economic portion. The borrower is to be a national institution, probably BANMA, the municipal development bank. Implementing authorities would be the respective municipal governments. Initial program development is planned for Tegucigalpa and San Pedro Sula with subsequent programs in smaller cities as experience is gained.

2. Specific Components

Low-income neighborhoods located on the fringes of each metropolitan region would be the target areas. In those cases where land tenure has not yet been established, the program would provide assistance in this legalization process. Next, the program would offer loans for improved municipal services such as potable water systems, sewerage, paving of streets and storm drainage installation, and garbage disposal systems, as well as for home improvement. Municipal governments, through their technical departments, would serve as the lead agencies. The project beneficiaries, organized as patronatos (similar to community organizations with their own elected leaders), would be an integral part of planning and implementation.

II. EXAMINATION OF POTENTIAL ENVIRONMENTAL EFFECTS OF THE PROPOSED HG PROGRAM

A. SUMMARY OF MAJOR BENEFITS AND CONCERNS

Because the proposed program involves upgrading of existing settlements, a number of benefits should be achieved. At the same time, there are several concerns which need to be addressed in subsequent program development.

1. Benefits

Advantages should be gained in neighborhood environmental health, personal hygiene, household economics, and greater opportunities for socio-economic advancement.

- Improved health environment for target population through water, sewerage and drainage programs;

- cheaper and more available potable water supplies;
- greater access and mobility through improved circulation network.

2. Concerns

As the program becomes more specific, decisions can be made for optimum site upgrading in order to minimize the following concerns:

- Settlements in existing hazardous environmental locations;
- scarce, high-cost infrastructure services;
- off-site detrimental influences from on-site upgrading activities.

B. DISCUSSION OF KEY ENVIRONMENTAL ISSUES TO BE CONSIDERED IN PROJECT DESIGN

1. Settlements in Existing Hazardous Environmental Locations

Low-income settlements frequently are found in hazardous or poorly located areas. Marginal populations literally live in marginal habitats. Prime land has already been urbanized or held for speculation. But it is this prime land which offers the hope of economic survival for the marginal inhabitants. In the case of Honduran cities, employment opportunities for the poor (as street vendors, occasional laborers and the like) most often are found in the older, well-established downtown areas. There usually are not significant concentrations of jobs outside the downtown area. As a result, flood plains, steep slopes, landslide locations, and unstable soils are some of the marginal lands which are inhabited by low-income families. For instance, in Tegucigalpa, the nearby steep slopes of Picacho are now inhabited, including the neighborhoods of El Reparto, Barrio Buenos Aires, and others, as a response to the need to live near downtown.

The hazards associated with the marginal lands are indicated in Figure 1. Steep slopes (particularly those over 30%) require extensive foundation measures to stabilize houses and roads. Potable water, if it is not found upslope, must be pumped from down below, adding cost to the service. Sewerage and storm water drainage facilities can use gravity for off-site disposal, but require special design features to minimize problems. Designs include energy dissipator methods so that the excess velocity created by steep slopes does not create damages downslope and cause breakages/accelerated wear of the sewerage lines and drainage channels. The hazard of urbanized steep slopes is prevalent in Tegucigalpa.

Other difficulties associated with the capital city include expansive clay soils (particularly on sloping ground) and deforestation. The soils characteristically swell and shift when they receive moisture so that further problems of stability are added to the slope hazard. To increase difficulties even further, the original vegetation has been cleared from the land to provide urbanization space and for firewood. The negative impacts have been to expose the ground to the full force of rainfall and to reduce the moisture-holding capacity of the soil. Thus the soil loses its protective vegetative cover and gets quickly eroded by downpours. Flash flooding results with increased sedimentation in the water courses. In the dry season, the wind spreads the soil throughout the region, creating dust pollution.

Hazardous conditions exist in low-income areas of San Pedro Sula. There, the most danger is caused by seasonal flooding of the rivers which drain the surrounding mountains. The flood plain area is extensive to the south and east of downtown. Settlements, such as Chamelesón, Colonia 23 de setiembre, and El Progreso get regularly inundated. Even a system of earthen dams along the riverside does not stem the worst floods. Ponding also occurs after heavy rains because the soil is only slowly permeable.

In order to stimulate sound urban and environmental planning, it should be understood that certain populated areas should not be upgraded. Rather, as in the case of Tegucigalpa, the municipal government should be supported in its program of purchasing and developing alternative sites for relocation of the most marginal communities. And the examples of San Pedro Sula should also be supported. In one action, the municipality ensures that no settlement is permitted on the steep slopes behind the city. In another action, the municipality is prohibiting a flooded neighborhood from being rebuilt in the flood plain.

The most difficult areas, such as those discussed earlier, should not be selected, wherever possible. In circumstances where upgrading is to occur in the marginal areas, appropriate and detailed design features likely will be required to minimize negative impacts.

2. Scarce, High-Cost Infrastructure Services

Potable water and sewerage systems, especially in the municipal context, are quite expensive to develop. The capacity of the existing systems for the major Honduran cities also is being overextended. As a result, high capital costs and insufficient distribution networks mean that the low-income neighborhoods usually are outside the current systems. In terms of future tie-ins to water and sewerage systems, there definitely shall be constraints as to which neighborhoods can be upgraded. Therefore, a detailed technical analysis shall be required in order to determine the feasible locations for upgrading.

3. Off-Site Detrimental Influences From On-Site Upgrading Activities

In the process of improving the on-site living conditions of the target population, there are several design problems to solve in order to minimize potential negative impacts off-site. Specifically, both on-site sewage and storm water need to be handled so that increased flows do not downgrade the existing quality of the rivers which receive the discharges. The upgrading program shall serve to collect and concentrate previously dispersed wastes, thereby adding to the impact on receiving off-site areas. Furthermore, small-scale, intermediate treatment systems for neighborhood sewage (which can eventually be tied into municipal systems as they are extended) should be considered so as to furnish the beginning of improved sewage treatment.

III. RECOMMENDATIONS

A. THRESHOLD RECOMMENDATION

On the basis of the foregoing environmental analysis, a Positive Threshold Decision is recommended. There are concerns to be met which should be addressed in Project Paper preparation.

B. INCORPORATION OF ENVIRONMENTAL ISSUES IN PROJECT DESIGN

In order to ensure an environmentally sound program, a detailed Environmental Criteria and Checklist should be developed along the following guidelines:

- 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, and street upgrading.

Project design should include the following components:

1. The reasonably foreseeable environmental effects of the proposed actions.
2. A comparison and selection among the reasonable alternatives of the proposed actions.
3. Evaluation of benefits versus adverse effects.

4. Indication of any irreversible or irretrievable commitment of resources.

The checklist should be worked out between RHUDO and the project implementers. It should be developed at the Project Paper stage. Prior to project funding, the checklist should be completed by the agency/agencies responsible for the specific site and activities.

In order to ensure full understanding and maximum benefits from such a checklist, RHUDO should assist in its familiarization. This assistance should be in the form of training performed in-country.

A P P E N D I C E S

- A. People Consulted/Places Visited in Preparation of IEE

- B. References

- C. Photographs

APPENDIX A

PEOPLE CONSULTED/SITES VISITED IN PREPARATION OF IEE

Tegucigalpa

Henry Merriam, Presidente, Consejo Metropolitano del Distrito Central
(D.C.) (Mayor)
Ing. Antonio Escobar, Infrastructure, D.C.
Ing. Gustavo Naudeles M., Land Commission, D.C.
Ing. Jorge Rodríguez, Chief, Solid Waste Department, D.C.

San Pedro Sula

Héctor Sabillón Cruz, Mayor
Ing. Alfonso Salvador Melgar, Community Development and Agricultural
Extension
Ing. Héctor Zúniga, Manager, DIMA (Potable Water and Sewerage Department)

SANAA

Ing. Roberto Gierlings, Chief of Operations and Maintenance, Distrito
Metropolitano (Tegucigalpa), National Water and Sewerage Service

CONSUPLANE

Lic. Jorge Betancourt, Environmental Planner, Forestry Department,
National Council of Economic Planning

SECOFT

Arq. Edgardo Derbes, General Division of Urbanism

Programa Catastral Nacional

Ing. Julio César Zepeda, Director, National Cadastral Program

Inter-American Geodetic Survey

Rodney Saubers, DMA, coordinated with National Geographic Institute

AID Mission/Honduras

Fredrik Hansen, RHUDO
Francis Conway, RHUDO
Roger L. Russell, Mission Environmental Officer
Mike Kramer, Forestry

Sites, Tegucigalpa (Sectors 6, 7, 16, 21)

Colonia Soto
Los Profesores
El Pastel
Zapote Norte
Pedregal del Norte
Santa Isabel
San José
Monterey
San Miguel
La Sosa
La Travesía
Colonia Reforma
Sanitary Landfill

Sites, San Pedro Sula

Chamelecón
Colonia Suliapa
San Cristóbal
23 de setiembre
La Lima

APPENDIX B

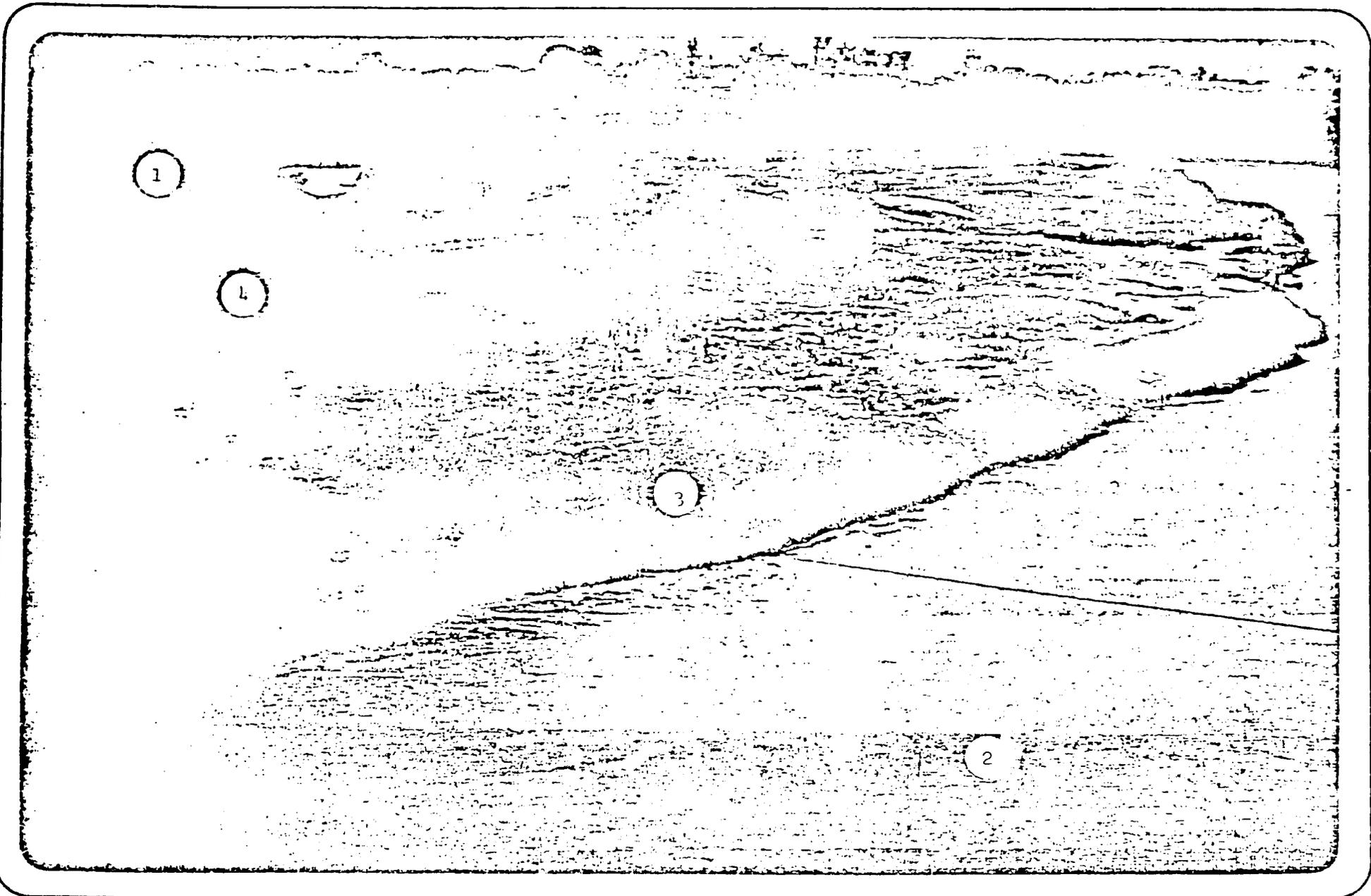
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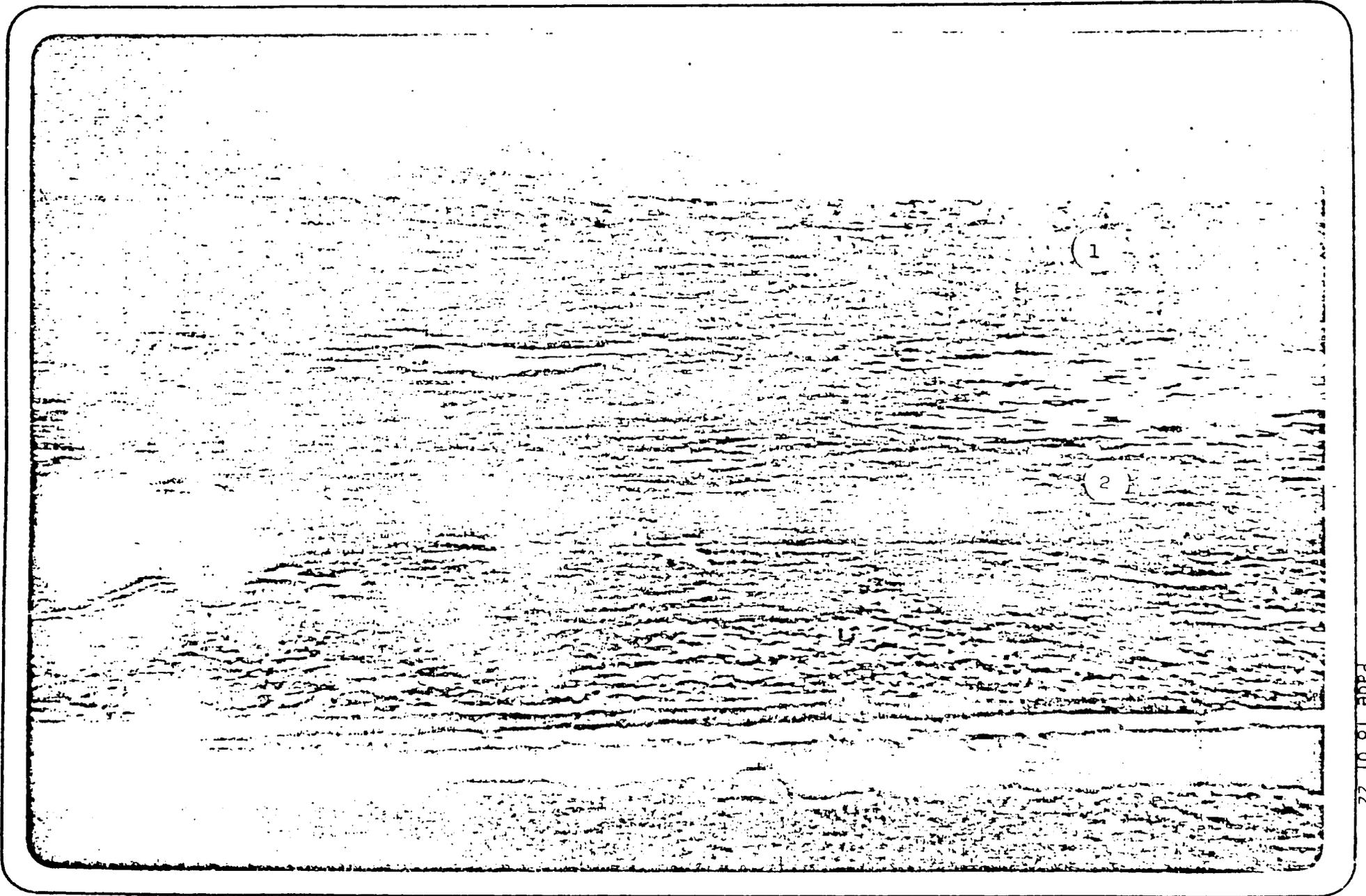
APPENDIX C

PHOTOGRAPHS

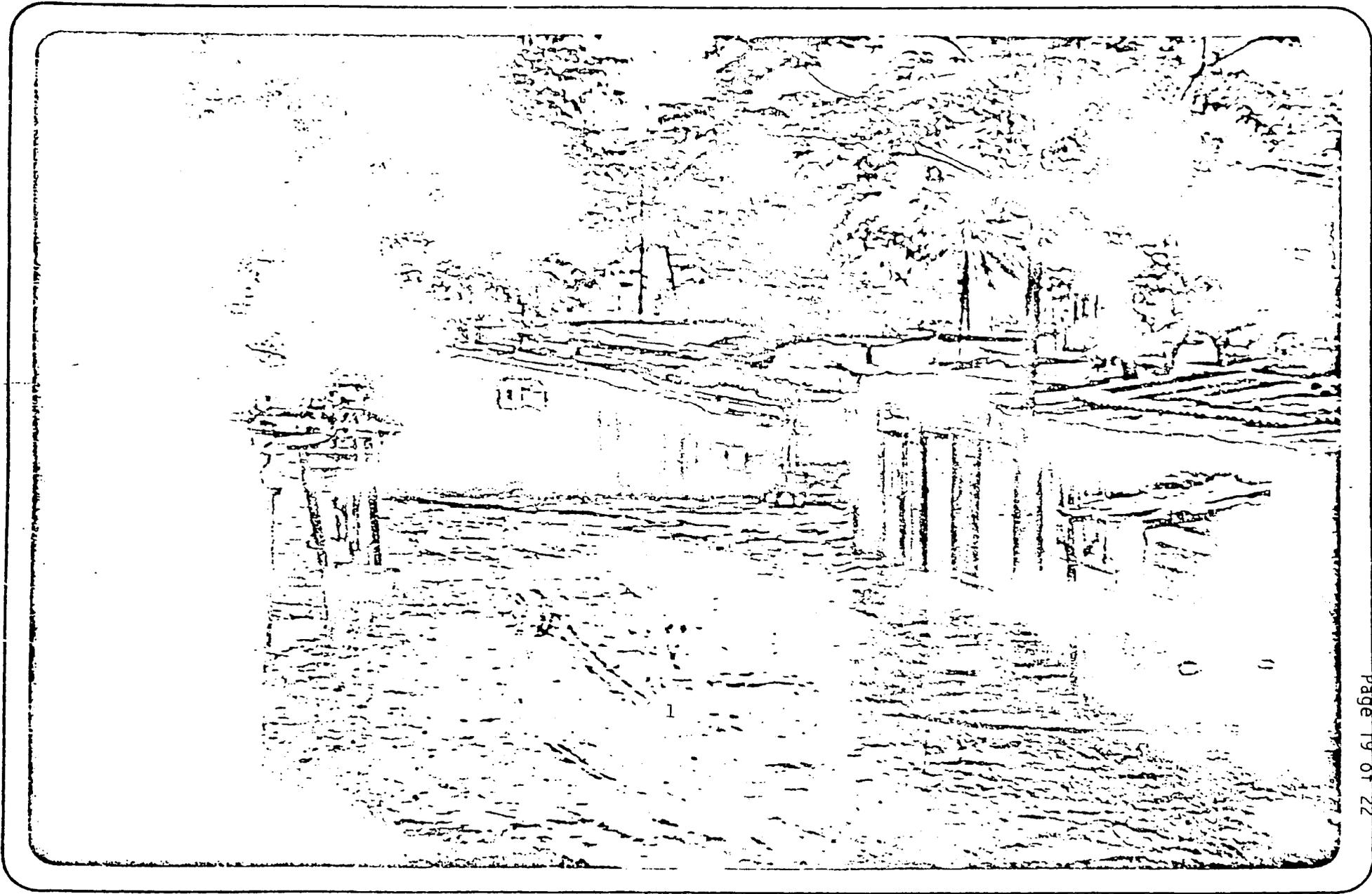
- Photo 1. Flood Plain Hazard Near San Pedro Sula
- Photo 2. Flooding Action
- Photo 3. Peripheral Slum Lacking Urban Services
- Photo 4. Sewage Disposal by Latrine, Tegucigalpa
- Photo 5. Dirt Street and Informal Storm Drainage
- Photo 6. Street Upgraded by Stone Paving



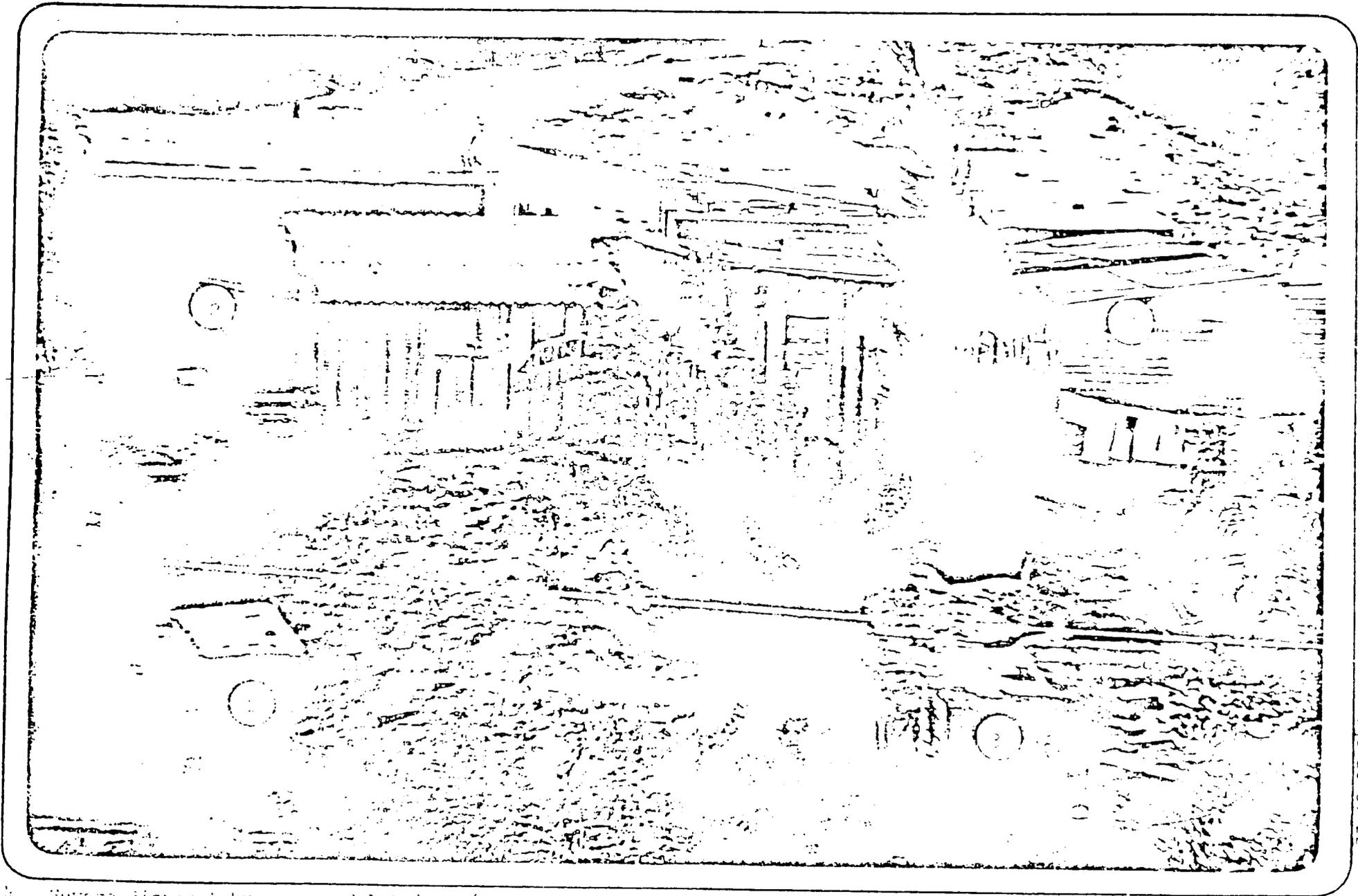
1. The flood plain of the Río Chamelecón, near San Pedro Sula. The settlement of Colonia 23 de setiembre lies to the left (1). The river (2) periodically overflows the bank (3) and crests over the man-made earthen wall (4), thus flooding nearby settlements.



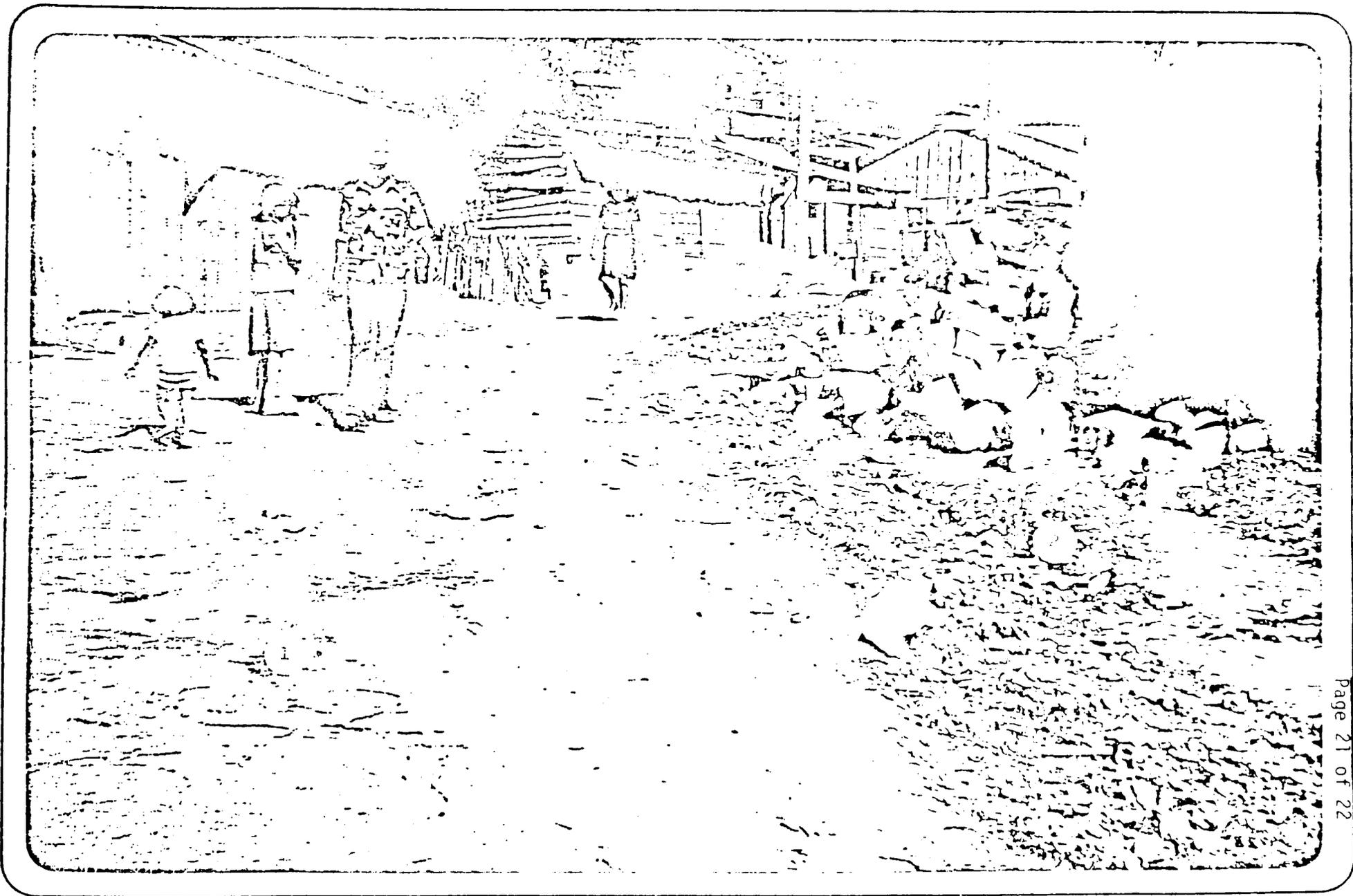
2. Ponding action on the lowlands near San Pedro Sula. Low clouds (1) dump heavy rains throughout most of the year. Clay soils serve to slow down infiltration of the rain water. As a result, much of the surface is covered with ponded water (2).



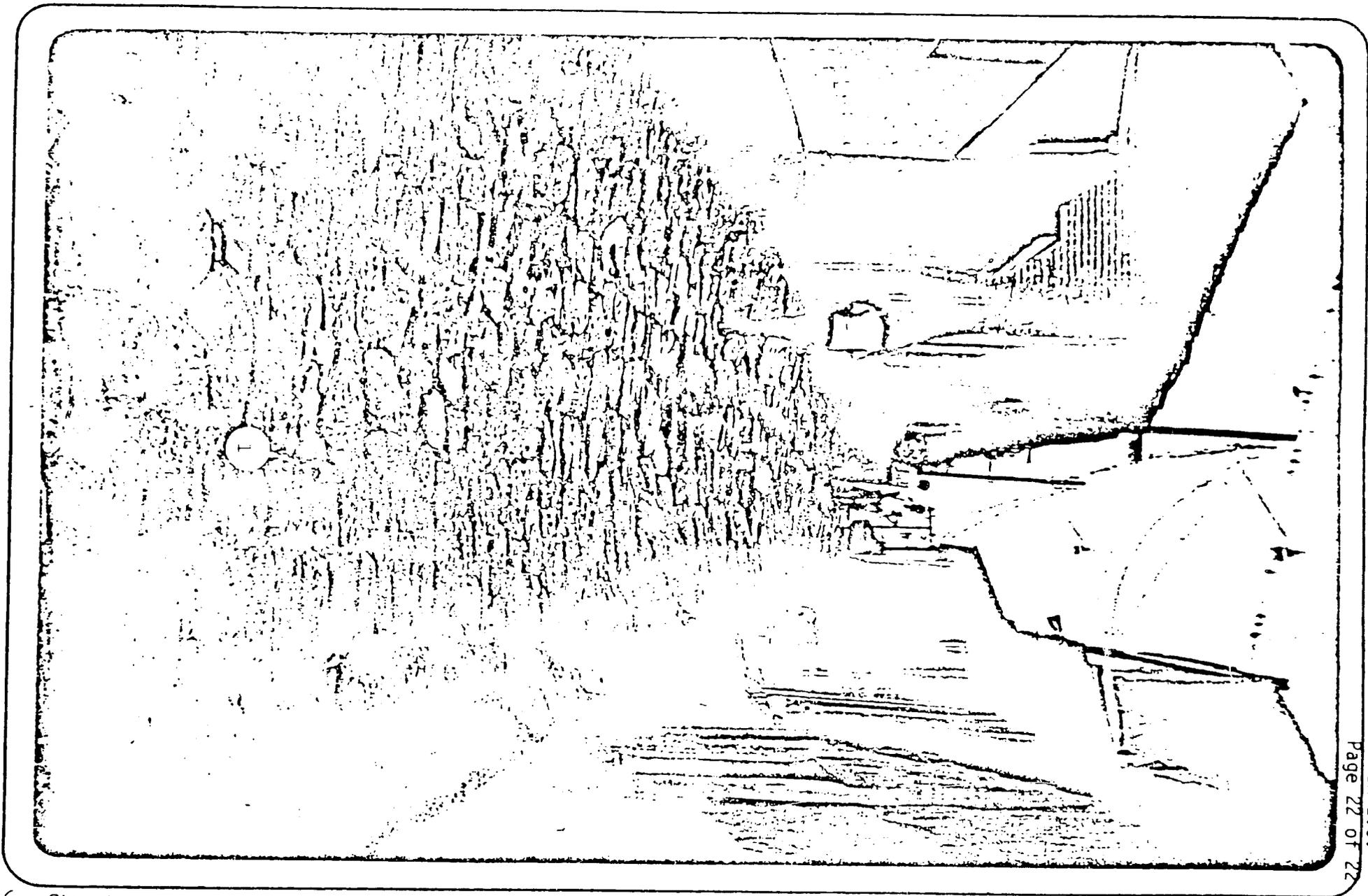
3. Peripheral slum near San Pedro Sula. Muddy street (1) lacks paving and storm water drainage. Potable water and sewerage system also are required.



4. Sewage disposal by means of latrines (1 and 3), which serve houses 2 and 4 respectively, Monterey, Tegucigalpa. Latrines are located downslope. Population density usually is much higher in peripheral settlements, thereby increasing the requirement for upgraded sewerage systems.



5. Neighborhood of El Castel, metropolitan Tegucigalpa, exhibiting dirt streets (1) and informal storm drainage (2). This settlement is located in a hilly section overlooking Comayagueta. Dust hazard occurs in dry season. Storm water runoff is rapid and highly erosive, creating both on-site and off-site hazards.



6. Street upgraded by cut stone blocks (1) near Parque La Leona, upslope from Tegucigalpa. Stone is readily available in the capital region, and labor supply is abundant. This street design is a feasible upgrading option.


 SECRETARIA DE ESTADO EN EL DESPACHO DE
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DECRETO NUMERO 833.

LA JUNTA MILITAR DE GOBIERNO, EN CONSEJO DE MINISTROS,

CONSIDERANDO: Que el Estado por medio de sus organismos o instituciones puede establecer restricciones, modalidades o prohibiciones generales o especiales, con el fin de imponer la obligación de mantener la salubridad pública y mejorar las condiciones higiénicas de los habitantes, quienes tienen derecho a la vivienda o habitación en condiciones dignas y justas.

CONSIDERANDO: Que en mérito a la consideración anterior es de conveniencia y de justicia social crear normas que regulen el desarrollo urbano; y específicamente las operaciones que en materia de urbanización y lotificaciones realizan algunas personas naturales o jurídicas sin dotar a los adjudicatarios o contratantes de viviendas o adquirientes en cualquiera de sus formas de lotes o inmuebles, de los servicios básicos y esenciales para la habitación.

POR TANTO: En uso de las facultades que le confiere el Decreto No. 1 del 6 de Diciembre de 1972,

D E C R E T A:

ARTICULO 1o.- El Concejo Metropolitano del Distrito Central y las Municipalidades en sus respectivas jurisdicciones, quedan facultados para exigir que los propietarios de parcelamientos o lotificaciones, doten a los mismos de los servicios que la salubridad y comodidad exigen, en toda vivienda urbana o de áreas sub-urbanas. Los servicios exigibles por la autoridad distrital o municipal, se determinarán conforme a las especificaciones que dicha autoridad establezca a través del respectivo Departamento y atendiendo a las normas generales y especiales sobre materia de la vivienda.



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ARTICULO 2o. Cuando los propietarios de parcelamientos o lotificaciones, hubieren sido requeridos para la dotación de los servicios a que se refiere el Artículo anterior y no hubieren dado cumplimiento a ello, lo hará el Concejo Metropolitano del Distrito Central o la Autoridad Municipal en su caso a cuenta y riesgo del propietario del parcelamiento o lotificación, para cuyos efectos todos los pagos de las personas que tengan celebrado contratos para la adquisición de lotes, incluso aquellos en los que se haya iniciado demanda judicial, serán efectuados por dichas personas en la Institución Bancaria que el Concejo Metropolitano del Distrito Central o la Municipalidad designen, o en la Tesorería Distrital o Municipal si no hubiere Oficina Bancaria.

Los fondos provenientes de los pagos efectuados en la forma establecida en este artículo, serán manejados en cuenta especial y sólo podrán ser utilizados para la realización de las obras y servicios requeridos y calificados por la Autoridad Distrital o Municipal.

ARTICULO 3o.- Los contratantes de lotes o parcelamientos sujetos a control por lo dispuesto en esta Ley, una vez que hubieren cancelado el pago del precio de adquisición, podrán requerir del propietario, previa exhibición del documento de pago respectivo, el otorgamiento de la escritura de tradición correspondiente.-En caso de negativa del propietario, el Concejo Metropolitano del Distrito Central o la Municipalidad impondrán y aplicarán multas hasta por L. 50.00 por cada día de retraso en el otorgamiento de la escritura pública respectiva, sin perjuicio de que después de transcurridos 10 días, el Jefe de Letras de la jurisdicción pueda otorgar la escritura en referencia en nombre del propietario.

Las multas establecidas en este Artículo serán exigidas al propietario y su pago será a cargo del propietario.

SECRETARIA DE ESTADO EN EL DESPACHO DE
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fracar las obras y servicios de la lotificación o parcelamiento.

El impuesto de tradición de Bienes y Muebles será cubierto por el propietario del parcelamiento o lotificación.

Los gastos de escrituración y registro podrán ser por cuenta del adquirente del lote, pero en tal caso él seleccionará al Notario autorizante.

ARTICULO 4o.- En el caso de que los fondos recaudados por el Concejo Metropolitano del Distrito Central o la Municipalidad conforme a lo dispuesto en el Artículo 2o. de este Decreto excedieren del valor de las obras o servicios ordenados por la autoridad, se devolverá al propietario dicho excedente, previa comprobación de las cuentas en la forma en que lo reglamentará la autoridad Distrital o Municipal.

Si dichos fondos fueren insuficientes para la ejecución de las obras requeridas se procederá a la venta de los lotes disponibles y a la expropiación de bienes del propietario, con sujeción a lo que dispone el Código de Procedimientos en la parte correspondiente al juicio ejecutivo; y a lo que dispone la Ley de Expropiación Forzosa vigente.

En ambos casos los actos y demás documentos que se produzcan en cada expediente iniciado ante la Autoridad Distrital o Municipal tendrán el carácter de Título Ejecutivo.

ARTICULO 5o.- El propietario de parcelamiento o lotificación podrá hacer que no se aplique lo dispuesto en esta Ley si otorga garantía depositaria o hipotecaria por el monto del presupuesto de las obras, más un 15% de dicho presupuesto para gastos imprevistos. Concluidas las obras y comprobado el buen funcionamiento de los servicios se cancelará la garan -

SECRETARIA DE ESTADO EN EL DESPACHO DE
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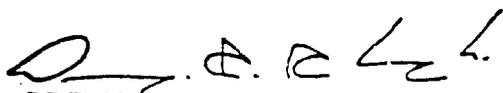
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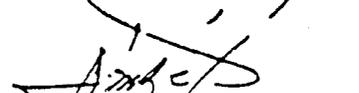
tfa previa solicitud del propietario.

ARTICULO 6o.- El presente Decreto entrará en vigencia desde el día de su publicación en el Diario Oficial "La - Gaceta".

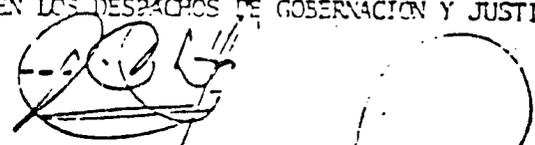
Dado en la Ciudad de Tegucigalpa, Distrito Cen - tral, a los diez días del mes de noviembre de mil novecientos setenta y nueve.


POLICARPO PAZ GARCIA


DOMINGO ANTONIO ALVAREZ CRUZ


AMILCAR ZELAYA RODRIGUEZ

EL SECRETARIO DE ESTADO EN LOS DESPACHOS DE GOBERNACION Y JUSTICIA,


JOSE CRISTOBAL DIAZ GARCIA

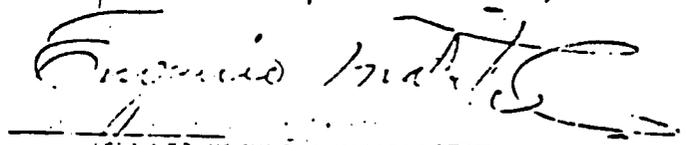
EL SECRETARIO DE ESTADO EN EL DESPACHO DE RELACIONES EXTERIORES,


ELISEO PEREZ CADALSO

EL SECRETARIO DE ESTADO EN LOS DESPACHOS DE DEFENSA NACIONAL Y SE - GURIDAD PUBLICA, POR LEY,


OVIDIO MENDOZA

EL SECRETARIO DE ESTADO EN EL DESPACHO DE EDUCACION PUBLICA,


FULGENCIO MARTINEZ CARDENAS



SECRETARIA DE ESTADO EN EL DEPARTAMENTO DE
GOBERNACION Y JUSTICIA
REPUBLICA DE HONDURAS CENTRO AMERICA

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EL SECRETARIO EJECUTIVO DEL CONSEJO SUPERIOR DE PLANIFICACION ECONOMICA,

VIRGILIO CACERES PINEDA

EL DIRECTOR EJECUTIVO DEL INSTITUTO NACIONAL AGRARIO.

FABIO DAVID SELGADO.

DECREE NUMBER 370

August, 1976

Article 3: An improvement tax is hereby created, to be paid by property owners and other recipients of the benefits of public works projects such as streets, potable water systems, sewerage systems, electric lines, environmental improvement projects and, in general, any other project completed for the improvement of a community within the Metropolitan Region. The Metropolitan Council of the Central District (MCCD) is hereby authorized to collect payment in the following cases:

- a) When the investment and the implementation of a project was undertaken by the MCCD.
- b) When the project was financed by the MCCD.
- c) When an autonomous or semi-autonomous Institution cannot recuperate an investment made for a project, that Institution may name the MCCD to act as its collection agent.
- d) When the Central Government of Honduras undertakes a project and explicitly authorizes the repayments to be made to the MCCD.



SECRETARIA DE ESTADO EN EL DESPACHO DE
GOBERNACION Y JUSTICIA
REPUBLICA DE HONDURAS CENTRO AMERICA

Tegucigalpa, D.C. 10 de abril de 1980

OFICIO N° 0049-S

Señor
DON JOHN OLESON
Representante del A.I.D.
en Honduras.
Presente.

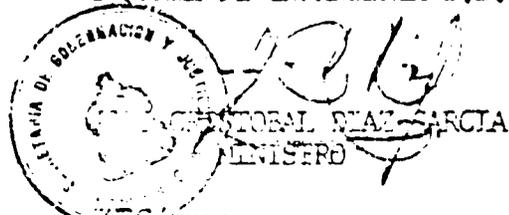
Distinguido Señor:

Por medio de la presente y en uso de la facultad de iniciativa de Ley que tiene este Ministerio hago -- constar nuestra intención de proporcionar a la Municipalidad de San Pedro Sula un Instrumento Legal que le permita la recuperación de los costos invertidos -- en obras para el mejoramiento de la Comunidad como -- son: agua potable, drenaje de aguas negras, drenaje de aguas lluvias y otras, similar al artículo 8 Decreto 370 del Concejo Metropolitano del Distrito Central.

Lo anterior es para los fines del préstamo que por valor de Lps. 5.000.000,00 la Agencia Internacional para el Desarrollo otorgará a la Municipalidad de San Pedro Sula.

Muy atentamente,

CORONEL DE INFANTERIA D.E.M.



REC/ingge.
CC: Archivo.