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

ROCAP

PROJECT PAPER

CA SECONDARY MORTGAGE MARKET DEVELOPMENT

Project Number: 596-0087
596-HG-005

AID/LAC/P-032

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

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9. ESTIMATED DATE OF OBLIGATION: A. INITIAL FY 79; B. QUARTER 4 (Enter 1, 2, 3 or 4); C. FINAL FY 79

10. ESTIMATED COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	FIRST FY C. L/C	FIRST FY D. TOTAL	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. TOTAL
AID APPROPRIATED TOTAL						
(GRANT)						
(LOAN)						
OTHER U.S. 1. HG				25,000		25,000
OTHER U.S. 2.						
HOST COUNTRY (CABEI)		15,000	15,000		50,000	50,000
OTHER DONOR(S)						
TOTALS		15,000	15,000	25,000	50,000	75,000

11. PROPOSED BUDGET APPROPRIATED FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE C. GRANT	PRIMARY TECH. CODE D. LOAN	E. 1ST FY ___ F. GRANT	E. 1ST FY ___ G. LOAN	H. 2ND FY ___ I. GRANT	H. 2ND FY ___ J. LOAN	K. 3RD FY ___ L. GRANT	K. 3RD FY ___ M. LOAN
1)									
(2)									
3)									
4)									
TOTALS									

A. APPROPRIATION	N. 4TH FY ___ O. GRANT	N. 4TH FY ___ P. LOAN	Q. 5TH FY ___ R. GRANT	Q. 5TH FY ___ S. LOAN	LIFE OF PROJECT T. GRANT	LIFE OF PROJECT U. LOAN
1)						
(2)						
(3)						
(4)						
TOTALS						

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14. ORIGINATING OFFICE CLEARANCE

SIGNATURE: Harry Ackerman

TITLE: Director, ROCAP

DATE SIGNED: MM DD YY

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM 07 DD YY

AID 1330-4 (3-76)

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

GUARANTY AUTHORIZATION

PROJECT 596-HG-005

Provided From: Housing Guaranty Authority

For : Central American Bank for Economic Integration (CABEI)

Pursuant to the authority vested in the Deputy 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 twenty-five million dollars ($25,000,000) in face amount, 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 housing projects in Central America. This guaranty will assist CABEI in establishing a viable secondary mortgage program capable of supporting housing finance institutions and housing projects in Central America.

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

1. Term of Guaranty: The loans 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 loans shall extend for a period beginning with the first disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.

2. Interest Rate: The rate of interest payable to the Investor pursuant to the loans 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 U.S. capital markets.

3. Fee: The fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding guarantied amount of the loans plus a fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.

4. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

The Project shall be subject to the following covenants and conditions:

1. Conditions Precedent

Prior to the first disbursement of HG funds, CABEI shall submit to A.I.D., in form and substance satisfactory to A.I.D., evidence that it has:

a) Contracted for and drawn down the full $23 milion third tranche of project 596-HG-003.

b) Established a permanent Housing Coordination Committee responsible for furthering, coordinating and expediting all activities pertaining to CABEI's Housing Fund.

c) Revised the Housing Operating Plan and Guidelines (Documento BCIE, DFV-2) in a manner which is consistent with the Bank's housing policy and the HG loan Implementation Agreement.

d) Formulated an agreement and programmed the purchase of mortgage-backed securities to be issued by a national housing finance institution in each of at least three Central American countries. The agreement will set forth the understanding regarding the terms of the bond transaction between CABEI and each national institution.

e) Revised the Housing Fund financial accounting system to collect and produce pertinent information on a timely basis, especially regarding the uses of the HG loan and the CABEI matching funds, per the provisions of the Implementation Agreement.

2. Covenants:

The drawdowns will be supported by evidence of completed investments by CABEI in mortgages or mortgage-backed securities which have provided the initial long term financing for new housing. Disbursement of HG loan funds will be such that they:

a) Represent not more than one-third of CABEI's total investments in middle and low-income housing subsequent to July, 1979 (the beginning of CABEI's 1979-80 fiscal year);

b) Provide financing only for CABEI's investments in housing affordable by families with below medium incomes in a proportion not to exceed 2/3 of CABEI's total investment in such housing during the same period.

c) The project will be subject to such other terms and conditions as A.I.D. may deem necessary.

Edward W. Coy
Deputy Assistant Administrator

SEP 27 [illegible]

Clearances:
DS/H:PKimm [illegible] Date [illegible]
DS/H:MSorock [illegible] Date 9/25/79
GC/LAC:JKessler [illegible] Date [illegible]
FM/LD:ASmith [illegible] Date [illegible]
LAC/DR:MBrown [illegible] Date 9/25/79
LAC/CEN:PFarley [illegible] Date [illegible]
GC/H:MGMITAY:prj:09/21/79

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LIST OF ACRONYMS

GENERAL

BIAPE	Banco Interamericano de Ahorro y Prestamo
PVO	Private Volunteer Organizations
S&L	Savings and Loan
TSO	Technical Service Organization (coop housing)

CENTRAL AMERICA (region)

BCIE	Banco Centroamericano de Integracion Economica
CABEI	Central American Bank for Economic Integration
CACM	Central American Common Market

COSTA RICA

DECAP	Departamento Central de Ahorro y Prestamo
IMAS	Instituto Mixto de Asistencia Social
INSS	Instituto Nacional de Seguridad Social
INVU	Instituto Nacional de Vivienda y Urbanismo
SBN	Sistema Bancario Nacional

EL SALVADOR

BH	Banco Hipotecario
FNV	Financiera Nacional de la Vivienda
FSV	Fondo Social para la Vivienda
FSDVM (FUNDASAL)	Fundacion Salvadorena de Desarrollo y Vivienda Minima
IVU	Instituto de la Vivienda Urbana

GUATEMALA

BANVI	Banco de la Vivienda
FENACOVI	Federacion Nacional de Cooperativas de Vivienda
PROMETESA	Programa de Majoramiento Tecnico

HONDURAS

BT	Banco de los Trabajadores
FEHCOVIL	Federacion Hondurena de Cooperativas de Vivienda
FINAVI	Financiera Nacional de la Vivienda
INVA	Instituto de la Vivienda

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D	CABEI Documents 1. Housing Policy 2. HG-003/III-Status of Obligations 3. HG-004 - Cash Flow 4. Housing Fund-Summary of Investments 5. Comparative Statement of Condition (Housing Fund) 6. Comparative Statement of Condition (CABEI) 7. 30-Year Housing Fund Cash Flow
E	AID Assistance to Central America
F	Detailed Social Analysis

SHELTER SECTOR INSTITUTIONS CENTRAL AMERICA *

Country	PUBLIC SECTOR				PRIVATE SECTOR			
	Central Housing Finance Banks	National Housing Institutions	Housing Trust Funds	Other public Institutions	Housing PVO's	Coop Housing TSO's	S & L Associations	Other private Institutions
COSTA RICA	DECAP	INVU	N/A	IMAS INSS SBN	N/A	N/A	Mutuals (7)	(mortgage banks)
EL SALVADOR	FNV	IVU	FSV	N/A	FSDVM	(proposed)	Stock (7)	mortgage banks(1)
GUATEMALA	BANVI	BANVI	N/A	FHA	PROMETESA	FENACOVI	(Stock/mutuals)	mortgage bank (1) commercial bank(2)
HONDURAS	FINAVI	INVA	(proposed)	Municipal governments	APRHU (Fundación pro Vivienda Mínima)	FENCOVIL	Stock (5)	commercial banks(3)

* For detail on names of institutions, see list of acronyms. Proposed institutions shown in ( ).

I. RECOMMENDATIONS, SUMMARY AND ISSUES

A. RECOMMENDATIONS

ROCAP recommends authorization in FY 79 of a $25,000,000 Housing Guaranty for the use by the Central American Bank for Economic Integration (CABEI) for the purpose and in the manner indicated in this Paper.*

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*Nicaragua is a member country of CABEI. Recent events in the country are such that its participation in this project is impossible to determine at this time. Thus, project feasibility has been analyzed without including Nicaragua.

B. SUMMARY BACKGROUND AND PROJECT DESCRIPTION

1. Background

By 1980, the total population of Central America will be 20,300,000, an increase of 28% since 1970. The population of the six major cities alone will be 5,000,000. Annual growth rates range from 2.8 to 3.8% in the various countries. Urban growth rates are generally double those of rural areas.

These accelerated population growth rates create a substantial need for new shelter in Central America, compounded by the large, accumulated deficit of approximately 1,500,000 units defined as those existing units considered to be unsafe, unhealthy and overcrowded.

The deficit is growing because production by the formal sector, primarily due to inadequate financial resources, but also due to institutional inabilities, is insufficient to satisfy even a major portion of the new demand, let alone reduce the existing deficit. National production by the formal sector is providing 20% of the new demand in El Salvador, and Honduras, 40% in Guatemala and 80% in Costa Rica. As a result, most families in Central America, in particular the poor, must obtain their housing through the informal sector. This housing is most often located in uncontrolled settlements where the essential urban services such as water and sewer are not available in one-third and two thirds of the units respectively. Families of six typically rent and share one 10'x12' room and share a bathroom with other families. The structures are typically dilapidated with a dirt floor.

AID is assisting the countries of Central America to improve their production of housing to alleviate some of the demand, by providing technical assistance and bilateral and regional loans to the national housing institutions and CABEI. These loans and technical assistance are directed toward reinforcing the formal sector and supporting the informal sector to better provide affordable shelter for the poor. In this context, $206 million in bilateral and regional loans have been authorized. Of that amount $92.2 million has been for CABEI's housing program which was established in 1963.

CABEI has recognized the magnitude and significance of this shelter problem confronting the poor in Central America. It is the Bank's stated policy to support national programs which address the problem.

To this effect, CABEI established a Housing Fund in 1963. It has invested the resources of the Fund through the purchase of mortgages originated by the various housing finance institutions in Central America or through the purchase of participations in those mortgages. This activity has come to be known as CABEI's regional secondary mortgage market program.

In this paper the term Housing Fund will be used to refer to the financial unit set up by CABEI to provide and administer the resources which it invests in housing. The term regional secondary mortgage market program will be used to refer to the means through which these resources are invested by the Bank.

To date, CABEI has authorized $160 million in investments to finance 29,100 new housing units. Of that amount, $55 million has financed 13,000 low-cost housing units, all in the last four years, a clear indication of the Bank's growing commitment to financing housing for the region's poorer households.

CABEI represents a unique regional resource that can serve as a complement to AID's bilateral housing assistance efforts by providing continuing financing for the new housing programs developed through those efforts. By building on CABEI's commitment, and by assisting in the continued development of its secondary mortgage market operations, this project seeks to provide new opportunities for the poor in Central America to obtain decent shelter by increasing the volume of funds available to finance shelter affordable by the poor majority in each of the countries of the region.

2. Project Description

a) Purpose

In pursuit of that goal, this project will establish a viable secondary mortgage market program in CABEI capable of and dedicated to supporting housing finance institutions and housing projects for the poor in Central America.

b) Project Funding and Implementation

Project funding will include a $25 million Housing Guaranty (HG) loan to CABEI and $50 million provided by the Bank in funds obtained through its general borrowing or from the profits and recuperations of the Housing Fund. In providing a two to one counterpart to the HG loan, CABEI will be reversing its historical dependence on AID for nearly 70% of the funds used to finance its housing investments. Such a reversal provides further evidence of the Bank's commitment to housing.

The implementation period for the project will coincide with the last four years of CABEI's current five-year investment program - from July, 1979 to June, 1983.

The funds will be invested by CABEI through the purchase of mortgages, mortgage participations and mortgage-backed securities from national housing finance institutions including S&L associations, housing banks, cooperatives and housing trust funds.

c) Outputs: Housing Units

CABEI will invest $41 million (55%) of the combined $75 million, including the entire $25 million HG, in providing the initial, long-term financing for new housing units affordable by families with incomes below the urban median income levels in each of the Central American countries. The balance will be used to finance middle-income housing.

The expected distribution of houses to be financed is as follows:

Level of Financing ($ millions)	Type of Solution	Approximate Number of Solutions	Affordable Income Percentile Groups
34.0	Single Family detached & apartments	2,900	50 + %
27.0	Single family attached	4,500	40 to 50%
14.0	Core & Small single family attached	3,300	25 to 40%
75.0		10,700	25 to 50+

To adjust to variations in income levels as well as available mortgage financing terms among the countries, the expected cost of typical solutions will also vary, as follows:

Cost/Affordability* of typical units		COSTA RICA (San Jose)	EL SALVADOR (San Salvador)	GUATEMALA (Guatemala)	HONDURAS (Tegucigalpa)
single family attached	cost	$ 6,000	$ 7,000	$ 8,000	$ 4,000
	pctl.	45	40	40	46
core and small single-family	cost	4,000	-	3,500	2,500
	pctl.	28		30	28

*Affordability is based on income in specific cities, as shown. See also Table V.

There will be other, indirect project beneficiaries, including those who will be able to rent a room in one of the new units. Such families on an average will have lower incomes than direct beneficiaries.

The low-cost units, those affordable by families in the poorer half of the urban population, will range from a $2,500 partially complete or core

house in Honduras with a constructed area of 20-25M^2 and a 75M^2 lot to a $7,000 two-bedroom house in El Salvador on a 105M^2 lot. The production of some 7,800 such units will be an important output of this project.

d) Outputs: Institutional Changes

However, to assure that the poor in Central America will continue to have access to long-term financing for similar housing units, the project will serve, as well, as an actual working context in which to design, test and implement changes in the manner in which CABEI operates its Housing Fund and secondary mortgage market activities.

Such changes specifically will:

. Develop a solid, ongoing financial base for CABEI's Housing Fund by instituting financial management procedures which will permit the Bank to make full use in financing housing of available sources of funds, most notably CABEI's general borrowing in international capital markets.

The sale of the Bank's housing bonds in Central America will also be re-initiated with terms modified to overcome past difficulties.

. Provide support to national secondary mortgage markets in Central America through CABEI's housing program by relying more heavily on the purchase of nationally issued mortgage-backed securities as the means for channeling the Bank's resources into housing. The investment in such securities with variable maturities will also contribute to the feasibility of using CABEI's short-term general borrowing as a principal source of resources for the Housing Fund.

Respond to the housing needs of the poor in Central America by instituting procedures which will permit CABEI to identify both the housing needs of the poor and the types of solutions which they can afford. The project will also involve a wide range of public and private institutions in constructing and financing such housing.

. Provide greater agility and better coordination in the internal management of CABEI's housing program by expediting and simplifying loan and disbursement review and approval procedures and by modifying the Bank's organization of its housing program.

Up to 28 person/months of technical assistance and 30 person/months of participant training will support the implementation of these changes, complementing the Bank's own efforts.

CABEI's growing access to international capital markets as a source of investment resources and the Bank's recent adoption of a policy which confirms its commitment to finance housing units affordable by the poor, make this an opportune moment to consider this project. So do other

changes such as the positive change in attitude toward the Bank's housing program by El Salvador and Guatemala; the increasing use of traditional mortgage financing for low-cost housing, including core units; and the advanced stage of efforts to issue mortgage-backed securities in several countries of the region.

e) End of Project Status

By the end of the project CABEI will have demonstrated that the Housing Fund can be supported without financial risk by the Bank's short and medium term lending. CABEI will be operating a viable regional secondary mortgage program with an annual volume of $25-30 million in transactions. Up to 60% of this volume, or about $15 million, will be invested annually by the Bank in mortgage-backed securities issued by national housing finance institutions as a measure of support for national secondary mortgage markets. Finally, no less than 50% of CABEI's housing investments, or $10-15 million, will be directed to housing affordable by urban families in the 25th to 50th income percentile groups or below in the various Central American countries.

f) Source and Application of Funds

Project costs and proposed funding (in thousands of U.S. dollars) are:

	AID	CABEI	TOTAL	%
Technical Assistance	180	-	180	less than
Training	40	20	60	1%
Low-cost	25,000	16,000	41,000	55%
Middle-cost housing	-	34,000	34,000	45%
TOTAL	25,220	50,020	75,240	100%
%	33	67	100	

The technical assistance and the training of personnel from national institutions will be funded using HG fee income. As such it can be expanded, if necessary. CABEI will fund its own training out of the Housing Fund's operating expenses.

C. ISSUES

This paper is responsive to the specific guidance provided by the DAEC following its review of the PID for this project. The issues and concerns expressed in the PID review cable.(See Annex C) have been addressed in determining project design. They are discussed in depth in the PP. What follows is a summary of that discussion, which provides direct answers to each of the five issues raised in the PID review cable:

1. CABEI's Housing Policy

In August of this year CABEI's Board of Directors approved the "General Policy Framework" for the Bank's housing finance program. (See Annex D) The following quotations are from that document.

a) CABEI's Commitment to Housing

"...the Bank considers that housing is one of the sectors which must receive its attention and support."

"...the Bank will orient its housing program to providing financing and technical assistance for the development and construction of housing intended for low- and middle-income families, making its best effort to approve no less than 50% of the financing granted through that program for housing for low-income families..."

"...low-income families will be defined as those whose income is below that of the 50th income percentile group..."

"...the Bank will make further concerted efforts so that of the 50% of its funds targeted for low-income families, 20% is targeted on families whose income is below that of the 40th percentile group."

"...CABEI will provide financing through its Housing Fund at a level of about $25 million yearly over the next five years."

b) Sources of Funds

"The financing for this program will be obtained from various sources, such as recuperations and profits from previous investments, the sale of securities backed by the Bank's mortgage portfolio (Investment Certificates, Housing Bonds, etc.), through secondary mortgage market operations in Central America and in international markets, and through international agencies such as AID, BIAPE, IDB, etc."

"The fact that the Bank has a strong international financial standing allows it to provide ample support to the housing sector."

c) Secondary Mortgage Market

"The secondary mortgage market established by CABEI on a regional level has proven to be an important mechanism for mobilizing resources and for providing a constant flow of financing to participating institutions. For such reason, CABEI will dedicate its efforts to strengthening that system."

"...CABEI will provide the bulk of its financing to participating institutions through the purchase of mortgages and/or mortgage participations, of securities backed by mortgages including mortgage-backed bonds, and of mortgage participation contracts in accordance with existing national legislation."

2. Relation to Previous AID-CABEI Programs

a) Current HG Pipeline*

With regard to the issue of authorized but undisbursed HG funds, CABEI has already committed the $23 million of the third and last tranche of 003 to projects which have been approved by RHUDO/ROCAP. Almost $19 million of the $23 million has already been disbursed by CABEI on an interim basis using its own short-term financial resources. CABEI has been waiting for more favorable market conditions before requesting the loan. It now appears that CABEI will be requesting the funds prior to calendar year 1980. At that time the $23 million will be disbursed all at once on the basis of eligible mortgages already generated.

HG-004, which was combined with $11 million of CABEI's resources for Guatemala earthquake reconstruction, was delayed first due to a change of governments in Guatemala and then due to difficulties between CABEI and the GOG in regard to the type of guarantee to be provided for the loan. The loan contract has now been signed and project designs and specifications for the $30 million have been completed and approved.

Preparations for construction contracting are now in process. The recently-completed cash flow for this project calls for a disbursement period of 42 months with a starting date of January 1980. The first HG disbursement to CABEI is anticipated in 1981.**

b) CABEI's Secondary Mortgage Market: AID's Expectations and Actual Results to Date

The central purpose of a secondary mortgage market is to expand the availability of capital for housing. This is accomplished

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*(For data on this subject see Annex C, exhibits 2. and 3.)

**Annex D, Exhibits 2 and 3.1 has detailed data on these two projects.

by the purchase of mortgages through a variety of instruments for use as collateral in attracting money from the open capital market.

In doing so, the secondary market also serve to alleviate problems of excess liquidity by reallocating capital from areas of surplus to areas of deficiency.

The purpose of the various AID loans to CABEI, most notably the $46 million HG-003, has been to develop the necessary housing finance expertise and financial capability in the Bank to create and to sustain the operation of such a market. The goal of these loans, as conceived clearly since the HG-003 project, has been to utilize the secondary mortgage market in Central America to increase the volume of funds available to finance housing for the poorer half of the region's urban population. This is important in a region in which the scarcity of long-term financing is one of the constraints limiting the production of such housing.

In this regard, HG-003 specifically sought to "consolidate CABEI's position as a reliable and continuing source of secondary mortgage financing in the Central American Common Market (CACM)." This was to be accomplished by the sale by CABEI of mortgage participation contracts or mortgage-backed bonds to be issued in the CACM. The underlying assumption was that CABEI could thus transfer funds from capital surplus to capital short areas within the region.

In 1976, CABEI initiated the sale of such instruments in Central America using the name "Housing Investment Certificates". A total of $60 million in certificates have been sold, $39 million have been redeemed and a net $21 million are outstanding. Such a volume is nearly double the $11.5 million anticipated in the PP for HG-003. These instruments have a number of limitations, however:

- To be marketable in the region the certificates have had to be sight redeemable, severely limiting their usefulness in housing finance.

- The Central Banks of the various countries complained that the sale of such certificates was competing with their government's own bonds.

- While short-term excess liquidity problems do arise (especially in Guatemala and El Salvador) these are in large measure the product of conservative government fiscal policies. None of the Central American countries over the long run can be considered a capital surplus area.

Based on this experience, it would seem that the prospects for reallocating housing investment capital within Central America are limited. This, in turn, is symptomatic of the more basic problem which CABEI has had to confront in developing its secondary mortgage market. CABEI, advised by AID, has based the design of its regional market on the U.S. model, which is an excellent and readily available example of the successful operation of such a market. After fifteen years of actual working experience in

Central America, and especially after that of the last five years under HG-003, it is evident that this region must develop its own model which reflects the following realities:

- The market is operating among five sovereign countries. Thus, it must be responsive to competition within the countries for relatively scarce capital. The regional market must be consistent with national efforts and policies to mobilize capital. The transfer of capital between countries must be viewed as a limited resource, applicable mostly to dealing with short-term excess liquidity problems.

- The primary mortgage markets and institutions are unevenly developed among the countries. The regional secondary market must be structured in such a way as to provide direct support to the continued development of these national markets and institutions.

- CABEI's regional housing operations are expected to target on the poor. This requires a direct link between activities involving the purchase and resale of mortgage-backed instruments and the investments made with the proceeds of such transactions.

c) Current Expectations: The Establishment of a Viable Market

The model which is beginning to emerge from this experience can be characterized by:

- A reliance on extra-regional sources for additional capital - The attraction of funds from the international capital markets within the context of CABEI's general borrowing is now viewed as the main vehicle whereby the Bank can generate the financial resources which it will need to sustain its secondary mortgage market operations. CABEI's growing access to such markets for medium- and long-term loans confirms the viability of such an approach. Recent borrowing includes a fifteen year, $20 million bond sale in Europe and a $7 million loan with the same term from a U.S. insurance company. (See Section III.C.1.)

- The use of intra-regional sales of mortgage-backed instruments in the secondary market primarily as a mechanism to alleviate short-term excess liquidity problems of national housing finance institutions - CABEI will continue to sell its Housing Investment Certificates in Central America on a limited basis. Such sales, as well as the resale to national institutions of mortgage-backed instruments sold originally to CABEI, will be used by the Bank mainly as a stabilizing mechanism.

- The use of the regional secondary market to support national secondary markets. This approach has two advantages. The national secondary markets are operated within the guidelines of the prevailing fiscal policy of the respective governments. By functioning in support of those markets, and by limiting its intra-regional bond sales, CABEI will minimize

possible conflicts with government policies. Further, the support of national secondary markets will strengthen the housing finance systems and institutions in the countries. (See the discussion in the following section, I.C.3., as well as III.C.2.)

The existence of an active secondary market in Costa Rica and to a lesser in Guatemala, as well as the proposed development of such markets in Honduras and El Salvador, make this an auspicious moment in which to attempt this approach.

- The linkage of the regional secondary mortgage market to the financing of specific housing units affordable by the urban poor in Central America - (See the discussion in the following section I.C.4., as well as, III.C.2.)

U.S. bilateral assistance efforts, and those of other international agencies, such as the World Bank, are promoting the development of ever lower cost housing in all of the region. CABEI's housing program will play an important role in assuring the continuity of these new programs.

The regional secondary mortgage market model which will be developed through this project will have an assured financial base and be responsive to the concerns of the participating countries and to the needs of the poor in those countries.

3. Operation of the Regional Secondary Mortgage Market

a) Purchasing Procedures and Criteria

Under the new model for a regional secondary mortgage market CABEI will reorient its operations to provide a more important role to national institutions, mostly to key public sector institutions such as central housing finance banks ("cajas de ahorro"). These institutions will assume greater responsibility for reviewing and approving specific projects and mortgages. They will also issue their own mortgage-backed instruments destined primarily to national secondary markets.

CABEI will purchase these instruments based on two sets of criteria:

- Financial considerations will include the terms of the instrument, such as yield, maturity, denominations; the quality of the mortgages offered as collateral and availability of procedures to substitute those which become delinquent; the guaranties offered in addition to the collateral, such as that of the issuing institution or national government; and the expected marketability of the instrument should CABEI wish to resell it.

- Policy considerations will focus on the proposed use of the proceeds of the sale with regard to the type of housing to be financed, as discussed below.

b) Relation to National Secondary Mortgage Markets

Costa Rica already operates a national secondary market. DECAP and the S&L associations sell some $20 million per year in six-month to 2½-year participations. Current yields are at 13¼%. The national banking system sells some $1.5 million in whole mortgages to the general public. The commercial banks in Guatemala sell participations in whole mortgages to the general public. BANVI, also in Guatemala, FINAVI in Honduras and FNV in El Salvador have just issued or will issue shortly $25 million, $10 million and $10 million in mortgage-backed bonds respectively.

By buying nationally-issued instruments as these, CABEI will assist the development of national housing finance systems in a number of ways:

- The Bank can offer technical assistance to the national institution in designing and programming the sale.

- CABEI's own financial review of the instrument will become a de facto rating which the public can rely on.

- By acting as a major institutional buyer of national instruments CABEI will help establish a market for them.

c) Restrictions on the Use of the Proceeds: Targeting on the Poor

These changes in CABEI's procedures must be designed in such a way as to guarantee that the regional secondary mortgage market does in fact serve to provide the initial, long-term financing for housing affordable by families with incomes below the urban median in the various countries.

This will be accomplished in two ways:

- CABEI's current procedures which tie disbursements to the certification that specific mortgages of a certain value have been generated in projects reviewed and approved by the Bank will be used in those cases where housing for the target group is still produced reluctantly and in relatively small volumes. This will be the case initially with all financing for core housing and with complete, low-cost units everywhere but in Costa Rica. By project termination probably as much as 50% of CABEI's investments in such housing or 30% of its total housing investments will still follow such procedures.

- Middle-income housing and some low-cost housing is produced as a matter of routine in all countries, with the possible exception of Honduras. For such housing it is expected that long-term financing will have been pre-arranged, for example, between an S&L association and its corresponding central housing finance bank which will issue a mortgage-backed

instrument to finance its commitments. CABEI will determine which portion of the new mortgages which will be financed by the sale of the instrument (as opposed to those which may be serving as collateral) will be on housing for middle and low-income families in accordance with its policies. CABEI will then agree to purchase up to that portion of the planned issue. This agreement will be stipulated in a separate contract so that the national institution does not have to issue a special instrument just for CABEI. The actual purchase by CABEI will be contingent on the certification by the national institution that it has complied with the agreement.

In both instances, CABEI will have to improve its auditing capacity. This is already a condition precedent to the third tranche of HG-003. It will be dealt with this year.

4. Target Group

a) Profile of Expected Beneficiaries

This project will provide direct benefit to some 10,700 families in Central America. Of interest to AID are the 7,800 families which will have access to the low-cost and core-housing to be financed by the $25 million HG and $16 million in CABEI's own funds. (See tables on page 4). These are AID's target group. They share the following characteristics:

- Housing conditions - On an average, the current house in which the families live is such that one-third lack domestic water service, two-thirds have no sewage disposal, half or more are not owner occupied. Space is at a premium, with families of six sharing rooms that are 10' x 12'. The structures are unsafe and unsanitary.

- Socio-economic conditions - All of AID's target families are in the poorer half of the urban population of the major cities in Central America. Monthly family incomes will range from a low of about $100 in Honduras to $386 in Guatemala. Although unemployment is high among the target group, actual beneficiaries will have to be employed or have some source of regular income in order to meet mortgage payment. Typical employment will include lower level store or office clerks, skilled and semi-skilled construction or factory workers and mechanics. Families have 1.5 wage-earners on an average.

b) Increased Target Group Accessibility to CABEI's Program

CABEI's importance lies in its ability to mobilize increasing resources for housing finance. Our experience has shown that bilateral AID efforts are more effective in inducing the adoption of new institutional procedure and shelter programs which address the needs of the poor. Regional loans through CABEI are most effective when a country has become basically committed to carrying out minimum cost shelter programs

and after its institutions have acquired the minimum expertise needed to implement them.

What it can and has been doing is assume the responsibility of providing continuing financing for such programs once established. This is already the case with core housing. In this sense there is no limit to the type of housing which the regional secondary mortgage market can finance. As the secondary market shifts more to the purchase and resale of mortgage-backed instruments, and not of specific mortgages, the proceeds of such transactions can be used to finance such minimum cost solutions as serviced sites, in keeping with AID and CABEI's stated policies. Further, the construction of new units provides indirect benefits through the trickle-down effect or by sub-renting of one room. Generally, such indirect beneficiaries have lower incomes yet than those occupying the new units.

The real limitation on the secondary mortgage market then is lack of national programs to produce such housing. This problem is being addressed in bilateral assistance programs, as discussed below.

5. Absorptive Capacity

a) Relation to Bilateral Programs

AID's regional and bilateral assistance programs are complementary. Current bilateral programs are a $10.5 million HG in Honduras and an $11.4 million HG in Costa Rica. Of these, only INVU is expected to obtain loans for $.5 million in the fourth year of this project. By that time the bilateral loans will have been fully disbursed. The loans from CABEI will provide continuing financing for the types of programs to be developed in the bilateral program. In fact, CABEI in financing these core-housing and maybe sites and services units in major cities will make it feasible for AID's follow-on bilateral efforts to concentrate on extending such programs to secondary cities and rural settlements.

A similar process will occur in Guatemala where the two institutions participating in CABEI HG-004, BANVI and FENACOVI, will begin receiving the first funding from this project as the previous loan is finally disbursed. Continued support of FENACOVI is particularly important because they will receive extensive technical assistance under 004 and have limited sources of financing for future projects.

BANVI is also the recipient of a $20 million World Bank loan. For this reason, BANVI is not expected to begin drawing on funds from this project until 1983, and then only $.5 million. Even then, the financing will be for units other than the sites and services units being financed by the World Bank. Eventually, however, CABEI should absorb the follow-on financing for such units.

The other major foreign assistance program in housing in Central America is the $8.5 million World Bank loan to the Fundacion Salvadorena

de Desarrollo y Vivienda Minima (FSDVM)* The institution will not participate in this program at all. The only reason for that is the reluctance of the FSDVM to use other than concessional funding. Should that position change, they would be a welcome addition to CABEI's sub-borrowers.

b) Capacity of CABEI's Sub-Borrowers

Nearly 80% of the funds of this project will be used by CABEI's traditional sub-borrowers, principally the S&L systems, but also some commercial banks and FEHCOVIL. All of these institutions have a proven record with regard to the use of CABEI's resources. During visits by CABEI and ROCAP representatives during this past summer these institutions projected a combined demand in the next five years which is two times that expected in this project. No difficulties are anticipated as a result of the lack of capacity to absorb project funds.

c) Amelioration of CABEI's Past Management Problems

The preceding discussion under "outputs: institutional changes" (I-B-2.d), addresses the need to revise both CABEI's internal procedures and organization to improve the management and coordination of its housing program.

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*This institution is the forerunner in Central America in promoting minimum cost shelter solutions for the poor, having already constructed some 8,000 core units and sites and services with an equal number under construction.

II. PROJECT BACKGROUND AND DETAILED DESCRIPTION

A. BACKGROUND

1. Population Growth and Urbanization in Central America*

Between 1950 and 1970 the population of Central America doubled. In 1980 the estimated total population for the five countries will be 20,303,000 people. A population breakdown and projections for each of the countries reveals the following (in millions of inhabitants):

Country	1960	1970	1980	1990	2000
Costa Rica	1,336	1,872	2,286	2,954	3,695
El Salvador	2,511	3,549	4,813	6,595	8,803
Guatemala	4,445	5,679	6,940	9,108	11,582
Honduras	1,885	2,897	3,595	4,997	6,881
Nicaragua	1,536	1,878	2,669	3,672	4,812
TOTALS	11,713	15,875	20,303	27,326	35,773

Central America population trends are characterized by a rapidly falling death, high birth rates and large population under the age of 20. Average annual rate of population growth is between 2.8 and 3.8% for the region.

If between 1950 and 1980 the population of Central America will grow two and one half times, that of urban areas (over 10,000 in population) will grow five times. The urban sector will continue to expand at a pace roughly two times that of rural areas until at least the year 2000. The number of small urban centers (over 10,000 but under 50,000 in population) will grow to 95 by 1980. There were only 26 in 1950. The only secondary city in Central America that is outstripping capital city growth is San Pedro Sula in Honduras. All of the capital cities in the other countries dominate the urban sector. They have 60-75% of their countries' urban population.

The following table shows the population of the capital cities in 1950 and their estimated population in 1980.

City/Country	1950	1980
San Jose, Costa Rica	146,000	508,000
San Salvador, El Salvador	213,000	858,000
Guatemala City, Guatemala	337,000	1,430,000
Tegucigalpa, Honduras	72,000	406,000
Managua, Nicaragua	109,000	662,000

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*Annex F, "Detailed Social Analysis", presents a more extensive discussion of the material covered in this section. Sources of the data are footnoted in the annex.

2. Housing Conditions in Central America

The effects of the accelerated population and urban growth rates in Central America are many. Of interest to this paper are those reflected in the region's housing conditions among the countries. They can be characterized generally by:

- A large (in both absolute and relative terms), accumulated housing deficit which is growing.

- A need for new housing which creates demands in excess of the current levels of financing and production generated by formal housing institutions.

a) The Housing Deficit

The table below summarizes the findings of two studies on the housing deficit in Central America:

Country	Estimate by: United Nations	Estimate by: RHUDO/ROCAP
Costa Rica	154,000	130,000
El Salvador	353,000	450,000
Guatemala (Pre-1976 Earthquake)	532,000	480,000
Honduras	256,000	300,000
Nicaragua (Pre-War)	180,000	200,000
TOTAL	1,375,000	1,500,000

"Deficit" in this context refers to the substandard, overcrowded units that do not meet the construction and density norms established by the respective countries. Although these codes vary from country to country, the units that would have to be replaced or upgraded are unsafe, unsanitary and overcrowded.

Efforts to improve housing conditions in Central America must confront not just the need for new housing, but also the unsatisfied or partially unsatisfied need of those living in such conditions.

b) Housing Production and Need

This leads to the discussion of how much and what type of housing is being produced in the five countries. The table below compares aggregate production and need for the period 1976-77:

	Costa Rica	El Salvador	Guatemala	Honduras
Need (New Household Formation)				
Urban	6,780	13,400	15,230	10,580
National	10,400	30,200	35,300	25,580
Total Production				
National	8,180	5,020	14,800	5,740
Production as a % of Need				
Urban	1.20	.33	.65	.54
National	0.78	.16	.41	.22

The fact is that housing units being financed and produced by public and private institutions are insufficient to meet the need for new housing, even in the major cities. Correspondingly, most housing is being financed and produced by what is known as the informal sector; that is, outside the context of formally constituted institutions. Most of this housing is substandard, overcrowded and occurs in uncontrolled settlements where urban services are not available. In the meantime, the deficit continues to grow.

A Response to the Housing Conditions

Given the two basic characteristics of the housing situation in Central America, as discussed above, it is evident that a program to attempt to improve them would include at least:

- an increase in both the financial and productive capacity of formal housing institutions.

- a reorientation of that production to lower cost solutions both so that the units are affordable by a larger portion of the population, and so that more units can be financed with available funds.

- an effort to support the informal production of housing through upgrading of existing units, home improvement loans, etc.

3. AID's Shelter Assistance to Central America

a) History and General Trends

AID has been providing assistance in housing in Central America for about fifteen years. During that period it has authorized $206.6 million for such assistance.* Funds disbursed and invested in housing to date amount to $132.7 million. The balance, $73.9 million

*For more complete details see Annex E, "AID Assistance in Housing to Central America".

corresponds to ongoing programs and is expected to be disbursed over the next four years.

Some 60,000 families, or about 300,000 persons, will have obtained either new or improved shelter in Central America once the full amount is invested.

Over the last five years the emphasis in AID's housing assistance in Central America has shifted toward the promotion and support of shelter programs affordable by the poor majority in the region, and in support of informal shelter sector efforts as well.

AID bilateral assistance, as projected in the CDSS and ABS for the five Central American countries, is expected to retain this emphasis on assistance to public sector institutions in support of minimum cost shelter and of informal shelter activity. The assistance, as shown in Annex E, will also emphasize a shift to secondary cities and larger rural settlements.

b) Regional Assistance/CABEI's Housing Program

Slightly less than half of the $206 million in authorized AID housing assistance for Central America, or $92.2 million, has been channeled through CABEI. Of this amount, $66 million has been for general regional relending through the Bank's secondary mortgage market operations.

In March of 1963, CABEI established its Housing Fund in order to increase the flow of resources into mortgage financing. CABEI has invested the resources of the Housing Fund through the purchase of mortgages generated by various housing finance institutions in Central America. This activity has come to be known as CABEI's secondary mortgage market program. In this paper the term Housing Fund will be used to refer to financial unit set up by CABEI to provide and administer the resources which it invests in housing. The term secondary mortgage market program will be used to refer to the procedures followed by CABEI in investing the resources of the Fund and to the manner in which it interacts with national housing finance systems.

AID assistance to CABEI's Housing Fund has included a $10 million seed capital loan authorized in 1963 (596-L-003); a $10 million housing guaranty (596-HG-001) authorized in 1969 for general relending throughout the savings and loan systems of the CACM; a $11 million housing guaranty (596-HG-002) authorized in 1972 for relending by CABEI for two specific model community projects (one each in Costa Rica and El Salvador); a $46 million housing guaranty (596-HG-003) authorized in January 1976 for the purpose of establishing and strengthening a secondary mortgage maket in Central America ($23 million has been borrowed by CABEI to date); and a $19 million housing guaranty (596-HG-004) which is intended to pass through to Guatemala for housing reconstruction after the 1976 earthquake.

To date, CABEI has disbursed $85.9 million for housing and has entered into firm commitments for an additional $74.1 million. The fully disbursed loans have provided financing for 13,800 units and loans partially disbursed or committed will finance an additional 15,340 units. Totals for CABEI are as follows:*

Financing	AID Contribution	Units
$160 million	$92.2 million	29,140

Of AID loans all except the $23 million third tranche of HG-003 and the full $19 million of HG-004 have been disbursed, a total of over $50 million. The status of the undisbursed funds has been discussed in the Issues section of this paper.

There are two significant trends in CABEI's housing program. The rate of disbursements has increased dramatically. The Bank's disbursements for housing in 1977 were greater than those from 1964 to 1972 combined and about equal to those from 1973 to 1975. From 1976-1978 CABEI more than duplicated its total activity in its first twelve years ('64-'75). (See Table I)

TABLE I

History of Disbursements of CABEI's Housing Fund

YEAR	AMOUNT ($000's)	SUB-TOTAL ($000's)
64 - 65	400	
66	3,700	
67	3,400	
68	1,100	
69	470	
70	104	
71	1,700	
72	5,350	
		16,224
73	6,460	
74	6,060	
75	6,230	
		18,750
76	10,040	
77	18,260	
78	15,150	
		43,450
79 (to date)	7,500	
	85,925	85,925

*Complete details of Housing Fund investments are available in Annex D.

The second trend is CABEI's growing commitment to low-cost housing. Of the $160 million; $54.7 million is for low-cost housing. The following table presents this trend for the housing fund (excluding the $30 million special reconstruction for Guatemala).

New Loans Approved: Housing Fund

	1964 - 76 (12 years) Amount	%	1976 to present (2 years) Amount	%
Financing:				
Total	$ 75.3	-	$ 54.7	-
Low-Cost Housing	9.5	12	15.2	27
Units:				
Total	13,790	-	10,355	-
Low-Cost Housing	3,290	23	5,050	48

CABEI's most recent plans provide further evidence of this evolution. The Housing Fund which has been an important part of CABEI's overall lending program, will continue to represent 12.6% of CABEI's investments. This percentage compares favorably with that projected for other priority sectors such as industry (14%) and energy (13%). The Bank's five year investment program for 1979-83 includes $115 million for housing, of which the $29 million for the first year has already been approved by the Board of Directors and Governors and are in the process of being invested in specific housing projects. The details of the five-year program are as follows:

Price Range	Type of Housing Program	1979-83 Investment (millions)	% of Investment
$ 8-15,000	Middle-income housing	$ 53	46
4- 8,000	Low-cost housing	52	45
2.5- 4,000	Core Housing	10	9
		$115	100

Of interest to this paper are the two significant trends that are evident in this five-year investment program. One is the continuing CABEI commitment to housing affordable by the urban poor. In fact, approximately 55% of the $75 million proposed project and the proposed five-year program of $115 million is for housing affordable by the below 50th percentile group and at least 9% is for shelter affordable by as low as the 28th percentile It should be noted that these figures are conservative since in Costa Rica and Guatemala, housing above $8,000 is affordable by below the 50th percentile group. The investment in very low cost solutions ($2.5 - 4,000) is most significant because the Bank has never before programmed funds specially for such solutions. Although the volume of the investment ($10 million) may not seem very high, it is an important addition in a region

where current or proposed investment of national funds in such programs may not reach $30 million in the same projected five-year period.

The other significant trend is the increased utilization by CABEI of its own resources to finance its investments in housing. Of the $73 million disbursed by CABEI for housing projects to date, $49 million or 66% have been AID funds. For this proposed project CABEI will invest its own funds at a ratio of no less than two to one with regard to HG funds. This will effectively reverse the historical trend, since at least 66% of the Bank's projected housing investment will be funded from CABEI sources outside the HG.

The expectation of such a reversal is supported by the most recent facts. CABEI has a housing investment program for 1979 of $28.5 million. Of this amount, 72% will come from internal sources (profits, recuperations and proceeds, from the sale of housing investment certificates).

4. An AID Approach to Shelter Assistance in Central America Bilateral Versus Regional Housing Programs

The existence of a regional development bank in Central America, CABEI, has permitted AID to develop a combined program of regional and bilateral housing assistance loans to address the shelter needs of the region's population. Although frequently viewed in terms of a conflicting regional-bilateral dichotomy, the program is, in fact, just the opposite. It is an attempt to enhance and strengthen the impact of AID's contribution to the solution of the shelter problems in each of the five Central American countries by making full and effective use of a unique regional resource.

Even so, it is legitimate to determine when it is most convenient and effective to provide regional or bilateral housing loans. Fifteen years of experience with both possibilities in Central America allow a reasoned judgement on this issue.

CABEI's Regional Role

CABEI's importance lies in its ability to mobilize increasing resources for housing finance. Its level of financial expertise and sophistication enables it to borrow, particularly from sources outside Central America, amounts far superior to that of any other housing finance institution in the region. In this and in many other ways, CABEI is superior to any regional housing organization in the developing world. As a result, it has the potential to mobilize funds to finance housing programs from these sources in addition to those funds which can be mobilized by individual national housing finance institutions. We see AID's role as supporting the development and expansion of this potential and, most importantly, directing its use in support of those minimum cost housing solutions which benefit the poor majority of the population.

Our experience has shown that the initial effort to establish such minimum cost programs is best carried out with a bilateral AID loan. For a variety of reasons, bilateral efforts are more effective in inducing the adoption of new institutional procedures and shelter programs which address the needs of the poor. They are also preferable when the loan must be complemented by extensive technical assistance to implementing institutions not accustomed to working at the lower end of the housing market. CABEI, as a regional bank controlled by its member countries, is sometimes unable to require severe policy or institutional changes as conditions for its loans as AID can in conducting its bilateral programs. Thus, we have seen that regional loans through CABEI are most effective when a country has become basically committed to promoting specific types of shelter programs and after its institutions have acquired the minimum expertise needed to implement them.

When this point is reached it is not only feasible but also highly desirable to adopt a regional approach. In doing so AID can seek to commit CABEI to providing financing from its own funds for the national shelter programs developed through the bilateral efforts. Such a commitment can have an important effect, since it is clear that the five Central American countries will need external financial support in housing for many years. CABEI, as a unique regional source of external financing, can help to provide continuity to national shelter programs developed through the bilateral loans by giving preference in allocating its financial support to those programs.

An Example: Support of the S&L System in Central America

The history and the prospects of AID's involvement with the savings and loan systems in Central America provide an excellent example of the complementary nature of bilateral and regional shelter programs. In four of the five Central American countries (with the exception of Guatemala) AID has been successful in promoting the development of a savings and loan system by providing varying types and levels of assistance ranging from seed capital and HG loans to technical advice. The regulations and administrative structure of these systems are largely in place. The various S&L banks have developed a respectable level of expertise.

AID's bilateral role to these institutions is now directed to responding to sporadic requests for very specialized technical assistance, e.g., Costa Rica in reviewing its housing finance legislation, or El Salvador in planning a mortgage bond issue. This is possible because CABEI has assumed the role of providing financing for the projects promoted by these S&L's. In doing so, CABEI's present policies favoring low cost housing have been a major force for maintaining the commitment of these private finance institutions to the conventional low cost housing area. In fact, CABEI has been instrumental in extending this commitment to ever lower-cost units. This new project will continue this effort and attempt to induce the S&L's to finance housing affordable by an even greater proportion of the region's poor.

Current Prospects

In addition to work with S&L's, AID and CABEI have followed a similar pattern in supporting the cooperative housing movement in Honduras through FEHCOVIL, a pattern which will be repeated in Guatemala and hopefully in El Salvador. It is our opinion that the project proposed herein will provide continuity to CABEI's support for cooperative housing in much the same way as it will for the Bank's support of the S&L's.

The major potential, however, is that this proposed project will allow CABEI to begin assuming responsibility for financing government - and PVO - sponsored core housing projects. Current or recent AID and World Bank efforts in the major cities of all five Central American countries in support of such projects have already begun to confirm the basic commitment to such programs and to develop the minimum capability to deliver such solutions among the implementing institutions. The funding for new, similar efforts by these institutions beyond the bilateral AID financing is unresolved. CABEI, by assuming in part the responsibility for financing these new minimum and low cost housing efforts, will become a key factor in providing continuity to the gains obtained in the bilateral assistance programs.

CABEI's now traditional role in support of housing finance institutions will also acquire new relevance as FINAVI in Honduras, BANVI in Guatemala and FNV and Fondo Social in El Salvador undertake their first experiments in the emission of mortgage-backed securities.

It is in this context, then, one of the need to expand housing production and one in which CABEI can provide continuity and support through its regional financial role to developing housing finance institutions and housing programs, particularly for the poor, that this project has been conceived.

B. DETAILED DESCRIPTION

1. Project Goal

This project seeks to provide new opportunities for the poor in Central America to obtain decent shelter by increasing the volume of funds available to finance shelter affordable by the poor majority in each of the five countries of the region.

As described above, Central American housing institutions, including CABEI, have recently begun to make substantial commitments to low-cost housing. However, the annual need is many times present available capital resources for housing. Now that housing institutions are becoming increasingly willing and able to address the needs of the target group, it is crucial that external resources be made available to further and expand local capabilities.

2. Project Purpose

This project will establish a viable secondary mortgage market program in CABEI capable of and dedicated to supporting housing finance institutions and housing projects for the poor in each of the five countries of Central America.

A number of factors have coincided to make this an opportune moment in which to pursue this project:

- CABEI has obtained access to international capital markets for medium-term loans which could be developed into the source of funds for the Bank's housing finance activities.

- CABEI has made its most definitive and clearest expression of its continued commitment to housing, including a growing commitment to housing for the poor in its Housing Policy (see attached Annex D) and in its five-year planned investment program.

- Guatemala and El Salvador, countries with some of the most severe housing problems in the region, have reversed their historical reluctance to utilize financing for housing from CABEI, largely in response to their growing need for such support.

- Traditional mortgage finance is being utilized in ever lower cost housing, including core housing, making it feasible for CABEI to finance such units.

- Public housing banks in El Salvador, Honduras and Guatemala are quite advanced in their efforts to issue mortgage-backed securities for the first time. CABEI can now support these emissions as a major buyer, as it has been doing in Costa Rica for the past years.

Given these factors, and upon the successful conclusion of the project it is anticipated that:

- CABEI will have the financial and managerial capability to provide annually $20-30 million in financing for housing in Central America through its secondary mortgage market program.

- CABEI will further use this program to purchase (and to a lesser degree resell) some $15 million in mortgage-backed securities issued by national housing finance institutions, thus providing vital support to the capital mobilization efforts of these institutions in their countries.

- CABEI, finally, will use the secondary mortgage market program to increase the flow of funds for housing for the poor in the region to a level of $10-15 million per year.

3. Project Outputs

Institutional changes: The project will lead to the development within CABEI of:

a) A Solid, Ongoing Financial Base for the Bank's Housing Fund

CABEI has proven its ability to attract funds on increasingly more favorable terms in the international capital markets. It is assumed that the Bank will continue to expand its access to such markets based on the its own efforts, as it has in the past. Obviously, the proposed HG loan of $25 million for 30 years with a 10-year grace period will reflect positively on the Bank's long-term debt structure; but, this loan will represent only a small part of CABEI's borrowing during the next four years.

A major innovation of the project which will have substantial impact is that CABEI will commit funds from its international borrowings to housing. CABEI will be provided with the skills and the procedures which it needs to use its medium-term borrowing to finance its long-term lending for housing. Of equal importance, the project will provide the Bank with four years of experience in such an effort while it is still receiving the long-term HG loan.

Specifically, it is expected that this will include:

- One member of the staff of the Bank's Financial Division will be trained to monitor, plan and execute the flow of financing for the activities of the Housing Fund.

- Improved procedures for the recording, accounting and reporting of financial information on a more timely basis will be developed and

implemented to facilitate the effective use of investment resources available to the Housing Fund, including not just those obtained from the Bank's general borrowing but also the reflows from the Fund's past investments.

- Increased capital for the Housing Fund from within Central America. CABEI will revise its Housing Investment Certificates to make their increased sale acceptable to national financial officials and more reliable for housing investment purposes. Interest rates will be made compatible with those of other similar investment opportunities in the region. The certificates will be issued with short term but specific maturity dates.

b) The Capability to Provide Support to the Capital Mobilization Efforts of the National Housing Finance Institutions

CABEI has been making construction loans with mortgage takeouts and purchasing mortgages or mortgage participations generated in specific CABEI approved projects. This project will attempt to reorient the Bank's secondary mortgage market program to place greater emphasis on its financial role and less emphasis on project specific concerns which will be left up to national institutions.

By so doing, the Bank can provide vital support to the incipient efforts of national finance institutions, such as FINAVI in Honduras, FNV in El Salvador and BANVI in Guatemala, to support the establishment of national secondary mortgage operations through the use of mortgage backed certificates (bonds) in their own countries. Thus, CABEI not only will be financing housing with funds obtained largely from sources external to the region, but also, with the same effort, will be leveraging additional funds for housing from national sources.

Such a capability will include:

- One member of the staff of the Bank's Financial Division (probably the same person referred to with regard to the previous output) trained to monitor national programs to mobilize capital for housing and to recommend the most effective use of the Bank's investments in housing support of those.

- The development and implementation of procedures to effect the transactions of the secondary mortgage market program through the purchase of nationally-issued mortgage backed securities instead of through the take out of project specific mortgages. These procedures will provide the means whereby the Bank can support the national housing finance programs and the establishment of local secondary mortgage operations.

The purchase of mortgage-backed securities with varying maturity dates will also make it easier for CABEI to use its own medium-term borrowing to finance its Housing Fund.

The implementation of the new secondary mortgage market procedures by CABEI will become feasible as national housing finance institutions, particularly central housing finance banks ("cajas centrales') design and program bond or other securities issues in such a way as to provide the replenishment of their cash flow in time to meet their commitments to buy mortgages. Under these conditions, CABEI would enter into an agreement to purchase a portion of the bond issue following a specific schedule.

Ideally, this agreement, and any other conditions which CABEI might want to include, would be stated in a contract separate from the bond instrument, so that the bonds or securities themselves could be traded freely once issued.

Similarly, CABEI might simply issue a standby commitment to buy a specified number of the bonds. The issuer would use the standby commitment to guarantee his cash flow if no other buyer could be found or as a last recourse if more favorable terms for the sale were not available in the national capital markets.

c) A Capability to Respond to the Housing Needs of the Poor in Central America

To have this capability CABEI must be able to identify the demand for housing among the poor, define the type of solutions which that population can afford and provide financing for projects which produce such units. It must also be able to do this for each country, as conditions vary among them.

Therefore, the capability will include:

- The use of targeting techniques, similar to those used in AID's housing assistance program, by the Promotions and Programming Division. Basically, CABEI will rely on annually updated income distribution curves to determine need for and affordability of housing among the poor in each country. With this information the Division will identify housing projects in the various countries which address the need of the target group, that is, those families whose incomes fall below the urban median.

- Instances in which a continuation of existing project specific loan approval and disbursing procedures is necessary to guarantee that housing units affordable by the poor are in fact financed with the funds made available by CABEI. These procedures may conflict with those described previously which stressed the purchase of general mortgage backed securities versus the mortgages of specific projects. They may conflict as well with de-emphasizing the review of engineering plans and specs and project cost data. These conflicts are not surprising and need not be a problem.

Middle-income housing is now being built as a routine matter in Central America generally, as is low-income housing at least in Costa

Rica. It is with financing for this type of routine projects that the new procedures will be attempted.

With low-income housing in countries other than Costa Rica and with core housing everywhere CABEI will probably have to use its current procedures which provide a definite guarantee that the housing units are built and financed as targeted by the Bank. This will mean that the Bank will have a dual system of procedures for its secondary mortgage market operations.

The expected benefit to the poor certainly warrants such a dual system. In any case, the situation will only last as long as it takes to establish low-cost and core-housing production as a routine in Central America. By the end of the project no less than 60% of CABEI's operations should be following the new procedures - the 45% related to middle-income housing and 10-15% related to low-income housing in Costa Rica and core housing with institutions such as FEHCOVIL.

The long-term trend would be for 100% of the operations to follow the new procedures.

d) Greater Agility and Better Coordination in the Internal Operation of CABEI's Housing Program

The project will seek specifically to:

- Develop and implement new loan approval procedures involving fewer steps, concentrating responsibility in fewer divisions and utilizing a format for the presentation to the Board and its subsequent resolution approving the loan ("dictamen") which is less detailed and delegates greater responsibility for dealing with amendments to the staff. This will become easier as CABEI moves more to the purchase of securities and de-emphasizes project-specific concerns with greater reliance on national institutions for dealing with these concerns. The changes will also expedite the processing of loans for low-cost and core-housing projects.

- An adjustment to CABEI's organization to facilitate internal coordination consisting of the designation of a "housing" staff member in each division with substantial authority on housing matters. The various designated staff members would constitute a coordinating committee which would complement and support the efforts of the head of the Promotions and Programming Division who is already in charge of overseeing the overall housing program.

- A revision of the manual for the housing program in CABEI, "Normas y Plan Operativo, Documento BEIE-DFC-2" last revised in 1974, to reflect the new procedures, staffing patterns and divisions of responsibilities discussed in the various outputs, above.

Housing Units Financed: Project outputs will include $75 million in housing investments by CABEI, of which up to $40 million will finance about 8,000 low-cost housing solutions. The technical specifications of these solutions will vary from country to country, as will their cost. A $2,500 core house in Honduras will offer a sanitary core, 20 to 25M^2 of construction and a 70M^2 lot. The core house in Costa Rica will offer 38M^2 of construction and a 75M^2 lot at $4,000. More conventional low-cost houses will range from $3,500 one-bedroom 35M^2 houses on a 200M^2 lot in Guatemala to a $7,000 two-bedroom house in El Salvador on a 105M^2 lot.

The constant factor will be the target group, as various solutions are tailored to the purchasing potential of families in the 25th to 50th income percentile groups and below when feasible in their respective countries. Such solutions will represent 55% of the investment and over 73% of the number of units produced.

In addition, CABEI will finance some 2,900 units with a maximum cost of $15,000 and including typically 60M^2 + of construction and a 150-200M^2 lot. These will be affordable by families with incomes above the 50th percentile.

The following table summarizes the number and type of units expected to be financed.

Projected Housing Financed by the Project

House Type	Cost Range	Affordable by Household Income Percentile Range	Approximate number of Units	Level of investment (millions)	% of investment
Core Houses	$2,500- 4,000	25-35%	2,400	$ 6.50	9%
Other Low-Cost Houses	6,000- 9,500	40-50%	5,400	34.50	46%
Middle-Cost Houses	5,000-15,000	50+%	2,900	34.00	45%
TOTAL	$2,500-15,000	25-50+%	10,700	$75.00	100%

4. Inputs

Financial inputs: Total project funding of $75,240,000 will be provided from the following sources:

	Amount	%
AID:	$25,220,000	33
Housing Guaranty Fee Income	220,000	
Housing Guaranty Loan	25,000,000	
CABEI:	$50,020,000	67
Operating Expenses	20,000	
Housing Fund	50,000,000	
TOTAL	$75,240,000	100

These project resources* will be applied to the following activities:

Project Activity	CABEI	AID	Total	%
Technical Assistance	-	180,000	180,000	Less
Participant Training	20,000	40,000	60,000	than 1
Low-Cost Housing	16,000,000	25,000,000	41,000,000	55
Middle-Cost Housing	34,000,000	-	34,000,000	45
TOTAL	$50,020,000	$25,220,000	$75,240,000	100

Technical Assistance/Training Inputs: CABEI's staff in general, and those participating in the Bank's housing program specifically, are experienced and capable. The TA and training program has been designed on the assumption that this staff is qualified to design and implement the projected institutional changes. The various inputs, therefore, have been conceived as a complement to CABEI's own efforts. The TA will provide the services of experienced specialists in housing finance and management. The training will include on the job experience in money management and secondary mortgage market operations as well as participation in AID's Housing Institute. Table II summarizes these inputs.

As indicated in the financial input section, AID will fund the technical assistance, utilizing its various IQC's to provide the consultants, as well as training costs for personnel of national institutions. CABEI will fund all the costs of the training of its own personnel including the salary of the trainee, travel and per diem, as well as course or training fees, if any.

a) Financial Base of Housing Fund

The AID office of Housing will provide technical assistance in the form of financial/accounting systems consultants with

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*Project resources do not include down payments made by house purchasers or shares of mortgages not purchased by CABEI. These are excluded because of the wide variations in these amounts fro country to country. Historically, CABEI investments have averaged 75 to 80% of purchase prices, thus the total project input probably will approximate $100 million.

TABLE II

Technical Assistance Inputs

(person/months)

Proposed Assistance	Short-term Advisors	Participant Training	
		CABEI	Nat. Inst.
Financial Base of Housing Fund:	6	4	12
Money management training...	-	4	12
Financial information system...	3	-	-
EDP procedures...	2	-	-
CABEI Housing Fund financial procedures...	1	-	-
Support of Housing Finance Institutions:	4	4	6
Secondary mortgage market operations training...	-	4	6
Design of mortgage-backed securities instruments...	2	-	-
Study of mortgage insurance (FHA)...	1	-	-
CABEI mortgage-backed security trading procedures...	1	-	-
Responsiveness to Housing Needs of Poor in Central America:	2	4	-
CABEI procedures for targeting needs of poor...	2	-	-
AID/Office of Housing Institute...	-	4	-
Revised Internal Procedures/Organization:	1.0	-	-
CABEI loan-processing...	.5	-	-
Study of CABEI staffing/organization for housing...	.5	-	-
Short-term Advisors, Totals...	13.0	12	18
TA to Respond to Findings of Evaluations:	3	-	-
Resident Advisor (one person half-time for first two years):	12	-	-
Project Totals	28	12	18

experience in housing portfolios. This consultancy will work with CABEI to design and install the necessary new financial information systems, using existing CABEI computer hardware (and/or that which CABEI will soon acquire in any event).

Additional assistance will be provided to design techniques for properly meshing the cash flows of loan repayments of CABEI's general borrowing with maturities of 0 to 30 years with the cash flows of the Bank's existing mortgage portfolio and mortgage-backed securities to be purchased by CABEI from national financial institutions. This assistance will include advice on the revision of the Housing Investment Certificate terms such that difficulties posed by the present sight-redeemable characteristics will be remedied to make the cash flow from this source more reliable.

Finally, at least one, and perhaps two, members of the staff of the Financial Division will be provided the opportunity to work alongside money managers either of an S&L Association, or if appropriate, of one of the Federal Home Loan Banks. Similar training will be offered in Central America to at least one staff member of the central housing finance bank from each country and from other institutions as appropriate.

b) Support of Housing Finance Institutions

Short-term consultants will be provided from among the Office or Housing contractors to design mortgage-backed securities instruments, mechanisms and procedures for the effective management and marketing of bonds by the central housing finance banks ("cajas centrales"), housing banks and other housing finance institutions participating with CABEI. These bond issue programs would be developed by the consultants working closely with CABEI and the other institutions to ensure that the securities are acceptable to each institution and are marketable.

Private residential mortgages in Central America mostly are insured by public sector entities in each of the countries which are named "Fomento de Hipotecas Aseguradas" (FHA). The FHA credit insurance is in turn guaranteed by the Government of each country. The cost of this insurance goes from 0.5 percent to 1.0 percent of the mortgage amount. For low-cost houses affordable by lower income households, this is a significant cost. There is some uncertainty as to the value of this insurance, considering the mortgage guarantees which are made by the Governments and the mortgage-originating financial institutions. The AID Office of Housing will provide technical assistance by a short-term consultant to analyze the merits of the various mortgage guarantees, including FHA insurance, to determine their necessity and cost-effectiveness from the points of view of the household, originating lender, central savings and loan institutions and CABEI.

Finally, assistance and training will be provided with regard to the operation of CABEI's reoriented secondary mortgage market transactions, e.g., qualifying and eligibility procedures and requirements for trading

institutional securities. In addition, training on the operation of national secondary mortgage markets will be provided in Central America to appropriate personnel of national institutions.

c) Responsiveness to Housing Needs of the Poor in CA

The emphasis in this case will be on the participation by members of CABEI's senior staff and hopefully of top management as well in the Housing Institute being prepared by AID's Office of Housing. The one-month seminar offered by the Institute will provide a strong policy background in housing for the poor, as well as techniques and programmatic approaches needed to implement the policy.

The technical assistance will complement the training offered by the Institute, particularly in the area of targeting techniques utilizing income as a key variable for identifying needs and for designing appropriate solutions. The assistance will deal with methodologies for updating and estimating national income distribution as well.

d) Revised Internal Procedures/Organization

Both loan processing procedures and the organization and staffing best adapted to a streamlined housing program will be covered in short-term assistance to CABEI. Of particular emphasis will be the revision of the "Normas y Plan Operativo" in general, as well as the format of the document presented to the Board and used by it in expressing its decision, or the "dictamen" as it is called in CABEI.

e) Other Technical Assistance

Additional technical assistance will be provided as specific needs are identified through the annual evaluations. Moreover, a resident advisor located in the offices of RHUDO/ROCAP, will devote one-half time to this project during the first two years. Besides generally monitoring this project this resident advisor will provide advice to CABEI on specific financial programming and managerial issues.

III. PROJECT ANALYSES

A. SOCIAL ANALYSIS*

1. Description of the Target Group

In general terms, the target group for this project are the urban poor living in the major cities of Central America. About one third of the units to be built will be for middle-income families in those areas. These units will not be financed with AID funds. Of interest to AID are the 8,000 families which will have access to new housing to be financed with the $25,000,000 HG loan and with $16,000,000 of CABEI's own funds. These are the families referred to as the target group.

a) Housing Conditions

In terms of this project, the most relevant description of the target group is in terms of their housing conditions.

As the following table shows, there is a great similarity in the condition of housing among the various Central American countries. The only notable exception is that less families lack water in Costa Rica.

Units	Costa Rica	El Salvador	Guatemala	Honduras
Lack water				
% National	22.3	-	78	73.4
Urban	2.4	34	43	44
Impermanent Materials				
% National	83.1	-	84	88.3
Urban	67	76	75	67.5
Overcrowded				
% National	22	-	-	40.6
Urban	15.6	56	-	25.2
Not owner Occupied				
% National	39.7	-	42	28.2
Urban	47.5	64	50	50.6

There are several examples of the shelter available to the target household. The downtown rental room is one. The neighborhood once

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* Annex F, "Detailed Social Analysis", presents a more extensive discussion of the material covered in this section. Sources of the data are footnoted in that Annex.

housed individual families but now each room in each house has been converted into a dwelling unit. The structures themselves are generally severely deteriorated. Rickety staircases, exposed wiring and rotting beams are apparent. The typical family of six share a 10' x 12' room. An enclosed courtyard generally contains a toilet, a water tap and laundry facilities. The toilet facilities may be shared with as many as twenty other families. It is not unusual for water to be available only two hours a day to flush toilets, bathe and do laundry. As a result, there is a higher incidence of diarrhea and other intestinal diseases than for the population as a whole. The environment is unhealthy and unsafe.

Another typical target group solution to the shelter problem is the improvised unit on the city's periphery. These spontaneous settlements ring the major urban areas in Central America. They are the products of what has come to be known as the informal sector.

Spontaneous settlements are located on both public and private lands. The settlements are not products of the legally recognized building and construction process. Sometimes the settlers pay intermediaries for parcels of land in these areas in hopes of acquiring legal title. A slow building process takes place and new homes are added to the area by individual families. The structures are almost exclusively made of second hand materials, wood for the walls and corrugated tin for roofing. The interior space is generally one room which might be partitioned by hanging curtains. There is the same scarcity of furniture as in the rental rooms. The families living in spontaneous settlements must haul their own drinking and bathing water, generally for long distances over hilly terrain. Water is sold on trucks from certain distribution points outside the settlements themselves. The water is often sold in unsanitary rusted barrels and is hauled to the dwelling in rusted cans. Some families dig latrines for their homes or share one with several other families. Frequently there is no disposal system at all for human wastes and they accumulate in the area surrounding the dwelling unit.

b) Income and employment

As defined by income, this project's target group will be the poorer half of the population in major cities in Central America. Table III shows the income distribution curves for the capital cities of these countries (except for Nicaragua). Incomes of target families will range from a low of about $100 per month in Honduras to a high of $386 in Guatemala.

Although unemployment may run as high as 20% among this poorer half of the urban population, target families either male or female

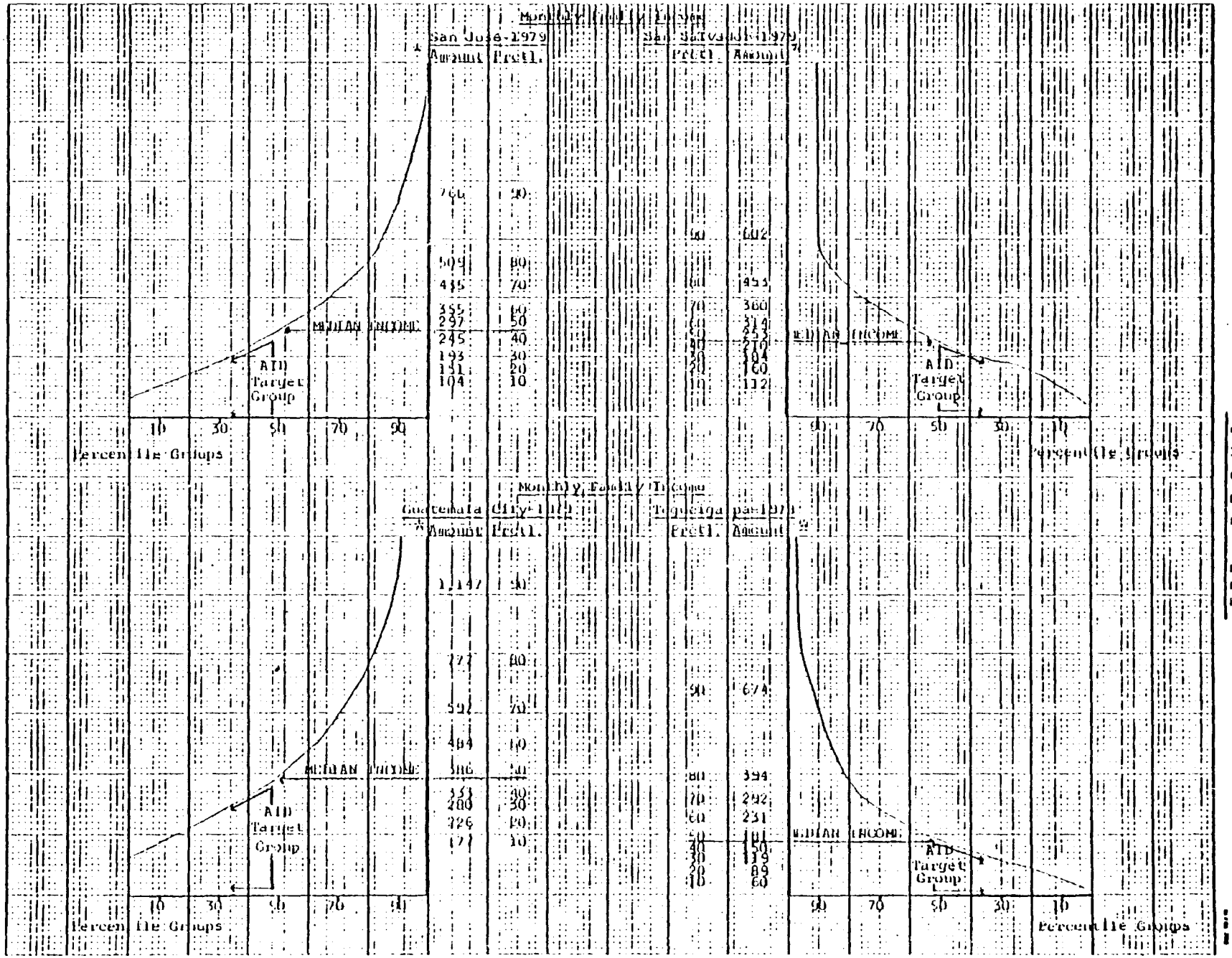
Monthly Family Income
San José-1979
Amount Pctl.
San Salvador-1979
Pctl. Amount
766 90
509 80
435 70
355 60
297 50
245 40
193 30
151 20
104 10
60 602
80 455
70 360
60 314
50 253
40 210
30 164
20 160
10 112
MEDIAN INCOME
AID Target Group
10 30 50 70 90
Percentile Groups
90 70 50 30 10
Percentile Groups
Monthly Family Income
Guatemala City-1979
Amount Pctl.
Tegucigalpa-1979
Pctl. Amount
1,147 90
777 80
592 70
484 60
386 50
353 40
280 30
226 20
177 10
90 674
80 394
70 292
60 231
50 181
40 150
30 119
20 85
10 60
MEDIAN INCOME
AID Target Group
10 30 50 70 90
Percentile Groups
90 70 50 30 10
Percentile Groups

Figure 1

headed, will have to be employed or have some form of regular income from the practice of a trade or other sources to qualify for a mortgage loan to purchase the units to be financed by this project.

Typically, the principal wage earner in the family will be a lower level office or store employee, a bus or truck driver, a skilled or semi-skilled construction worker, a mechanic or a factory worker. Family income will be augmented by the presence of more than one wage earner. The average is estimated to be 1.5 wage earners per family.

Surveys conducted in poor communities have shown that target families spend 20-25% of their income on housing in San Jose; 20-30% in San Salvador and 20-25% in Tegucigalpa.

2. Need and Effective Demand

Given conditions such as those described above, it is evident that there is a considerable need for new housing, as well as for an improvement to existing housing stock in Central America. For purposes of this discussion, "need" represents only that generated by the formation of new households.

AID bilateral housing assistance is beginning to concentrate on the improvement of existing stock. This is the case of the $11.4 million HG loan to Costa Rica which is just now in initial stages of implementation. Assistance to the informal sector is proposed as well in the CDSS for Honduras, Guatemala and El Salvador.

This regional housing assistance project is concerned with the equally important need to increase production of new units affordable by the poor. In the background discussion it was shown that in general terms new housing produced in Central America is falling short of the need generated by population growth alone. The accumulated deficit is growing.

A more detailed analysis of production versus need in the major cities is shown in Table IV. Production of housing for families between the 35th and the 50th income percentile groups in San Jose is at levels which are adequate to meet the demand generated by growth (as shown). The critical area is production for families below the 25th percentile. To make major gains in dealing with the needs of these families will require a reorientation of the programs of the national housing agency, INVU. Such a reorientation is the goal of the current bilateral HG loan. This project will contribute to that goal by providing financing to private sector production, especially above the 35th percentile, to substitute for projects built by INVU at that level. For the year shown in the table, 1976-77, 72% of INVU's units went to families above the 35th income percentile group.

TABLE IV

HOUSING PRODUCTION VERSUS NEED IN CENTRAL AMERICA

Income percentile groups:	Costa Rica: San José Metropolitan Area — Need 1977-78	Affordable cost of Units	Production at that cost	Production as % of Need	El Salvador: San Salvador Metropolitan Area — Need: Average 1977-82	Affordable cost of Units	Production at that cost	Production as a % of Need	Honduras: San Pedro Sula & Tegucigalpa — Need: Average 1974-79	Affordable cost of Units	Production at that cost	Production as a % of Need
1. All families with income below the median	5,525	less than $7,600	5,080	0.50	5,100	less than $6,300	1,250	0.24	4,400	less than $3,150	670	0.16
2. All families 45-50	565	$5,365 to $7,600	1,330	2.35	510 1,530	4,400 to $6,300	810	0.52	440	$2,900 to $3,150	-	0
3. All families 35-45	870	$3,825 to $5,365	2,470	2.83	1,020				880	$2,500 to $2,900	70	0.07
4. All families 25-35	910	$2,410 to $3,825	870	0.95	1,020	$2,120 to $4,400	440	0.43	880	$1,900 to $2,500	600	0.68
Below the 25th	3,180	less than $2,410	410	0.12	2,550	less than $2,120	-	0	2,200	less than $1,900	-	0

In the other countries, Honduras and El Salvador, the problem is simpler. More production is needed at all levels. The production shown for Tegucigalpa/San Pedro Sula was all by FEHCOVIL. It includes 600 units of the pilot core housing project financed by CABEI. These are the first of the kind in Honduras. The AID bilaterial loan to INVA will finance, on an average, some 750 units for families in the 25th to 50th income percentile group in those two cities over the next three and half years. This is one third of the need of those groups. Therefore, the continued availability of financing for FEHCOVIL from CABEI will be important and necessary.

In the case of El Salvador there is no other external financing available for housing affordable by families in the 25th to 50th income percentile groups. The World Bank has made loans to the Fundacion Salvadorena de Desarrollo y Vivienda Minima for the poorest families. The financing which CABEI will make available to the S&L Associations and the Fondo Social will be necessary to keep production even at the levels shown in the table. It may also increase such production by as much as 50% to some 1,200 units. This is still only 80% of the need.

Data on production and need by income groups was not available for Guatemala in sufficient detail to include in the Table IV. In the project paper for the combined AID/CABEI loan to Guatemala, the analysis of housing market supply and demand (Section III c.7., pp. 30-32) documented the existence of a large, unsatisfied need for housing in the 20th to 50th income groups with production accounting for a scarce 5% of that need. This project will complement that loan at those levels.

3. Project's Impact on the Target Group

The foregoing discussion demonstrates need and effective demand among the target group for the units to be financed by this project. This new housing is expected to provide various benefits to this group:

a) Secure Tenure And Personal Access To Capital Goods

Half or more of the target group occupy units which they do not own. The majority are either renting or have some variation of a lease purchase agreement. This condition of itself is not a problem. However, in a survey done as part of the Urban Assessment of San Jose, 83% of the families renting their home expressed a desire to become homeowners. This project will be instrumental in realizing this aspiration since the units will be sold to participating families. Ownership will signify, as well, that house payments are being capitalized by the target families, as opposed to rental payments which are an expense not an investment. For many of the families the housing unit will become their only significant capital good, in effect making them small property owners.

Sales contracts used by housing finance institutions in the project will specify the rights and obligations of the parties. Being registered contracts they will provide recourse to the courts in the case of disputes. Such conditions are not currently available to most target families who are parties to unregistered, private contracts which do not specify their rights and which cannot be taken to the courts. (See example in Annex F).

b) Improved Quality Of Site And Structure Of The House

For as many as one third of the target families the housing unit obtained through this project will be their first with a direct water connection. The site will be designed to provide proper drainage. Proper disposal of sewage will be available for the first time for as many as two thirds of the families. Aside from convenience, the impact of these measures will be felt in improved health, particularly in the reduction of the incidence of amoebic and bacterial dysenteries, enteritis and other diseases which are directly related to water supply and sanitary conditions.

The quality of the structure will be an improvement as well to the two-thirds or more of the families who live currently in a structure made of impermanent materials. The project will probably not have an immediate beneficial effect on the problem of overcrowding which many of the families face. All the units will be small to reduce costs. As the units are expandable by the owners, over time there will be less overcrowding. This improvement will occur after project completion.

4. Women In Development

Women have been and will continue to be beneficiaries of the shelter to be financed by CABEI. In none of the five member countries is there a legal barrier to property ownership by women. Although statistics are seldom disaggregated by sex, the government agencies that sponsor low-cost housing estimate that one-fourth to one-third of the families purchasing housing units are headed by females. Furthermore, these agencies report a high incidence of male abandonment of the household, meaning that the percentage of female headed households is probably closer to fifty.

There are few studies which have been done on the female headed household in Central America. However, where some preliminary data does exist (primarily for Costa Rica), it shows that the plight of the female headed household tends to be worse than that of its male headed counterpart. Incomes tend to be lower and the incidence of illness is higher. There also is less stability in terms of family unit composition and place of dwelling.

CABEI is an intermediary credit institution and, as such, relies upon the national institutions to mount programs which will enhance women's access to credit for shelter. Some specific efforts have been designed to

enable women to participate more fully in shelter programs. It has been found that the need for adequate shelter is combined with a need for job training and skill upgrading. Again, in Costa Rica, the shelter program has been combined with a community employment effort, with a significant proportion of the training opportunities going to women. Women are receiving training in the non-traditional fields of carpentry and furniture making. The Honduran Federation of Housing Cooperatives (FEHCOVIL) has recently added an employment training component to complement its shelter program. While the training is not targeted toward women, they can and will be encouraged to participate.

B. TECHNICAL ANALYSIS AND AFFORDABILITY

Table V presents the characteristics of the types of housing solutions to be financed by CABEI. As shown the solutions vary from a one-room, one-bath core unit up to three-bedroom, two-bath house. It should be noted that the units to be financed through the Fondo Social * are affordable by the target group even though the house sales price is relatively high. Rather than construct core house solutions the Fondo Social prefers to construct the same two-bedroom unit and provide both lower interest rate financing as well as variable or graduated payments schedules for lower income families. The Fondo Social obtains its funds from taxes, therefore they have no cost, and the ratio of their yearly income from taxes to CABEI's yearly contribution is sufficiently high to permit the Fondo to continue with this policy when it starts borrowing additional funds at market rate conditions for the first time.

Affordability, expressed as percentile income group level, was calculated on the basis of a 20 year loan and using 25% of income for house payments. Downpayment varied from 5 to 10%, and interest rates from 12-13% depending on the practice of the lending institution. The Fondo Social interest rates varied from 2 to 6%.

Land and urbanization costs as a percent of total sales price vary between 30 and 42% depending on the location of the site in relation to the city center and on the level of housing solutions constructed.

Sales price inflation for the last five years has averaged about 12% a year except for Guatemala where the earthquake multiplied the demand for labor and supplies, and caused the rate to be higher.

The costs presented in the table are estimates for 1980. The inflation rate which is greater than wage inflation will imply that the solutions are accessible only to higher percentile groups. This will not affect the project goal of 55% of financing for the lower 50% percentile. It will require that the financing to be provided during the last years be directed more to National Institutions' core house solutions. It will require, as well, that institutions reduce the size and the amenities of the solutions to meet the projected target group.

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*The Fondo Social is an El Salvadorean government institution. It receives its funding from salary contributions, employer contributions and government capital funds. The monies are destined for housing production.

T A B L E 7

TYPICAL SOLUTIONS TO BE FINANCED BY CABEI AND AFFORDABILITY TABLE

Country and Institution	Type of House	No. of Bedrooms	No. of Bathrooms	House Size M^2	Lot Size M^2	Selling Price $	Monthly Income req. $	Percentil Income Group
Costa Rica								
DECAP	Attached town house	3	1	62	85	10,600	445.	above 50%
	single detached	3	2	67	140	13,500	568.	above 50%
	single attached	3	1	49	120	6,000	252.	45%
INVU	core house	0	1	38	75	4,000	158	23%
El Salvador								
Fondo Social	Attached single	2	1	45	105	7,000	140-200	20% to 4
FNV	Apartment	3	1	67	---	15,000	630	more 50%
	single attached	3	1	55	140	12,000	504	above 50%
Honduras								
FEHCOVIL	single detached	3	1	73	200	12,500	525	above 50%
	core house	0	1	25	70	2,500	105	23%
INVA	single attached	3	1	45	80	5,000	209	above 50%
	core house	0	1	20	70	2,500	105	23%
FINAVI	single attached	3	1	60	140	14,000	590	above 50%
Guatemala								
BANVI	apartment	3	1	64	---	9,500	377	48%
BANVI (secondary cities)	single detached	1	1	35	200	3,500	138	32%
FENACOVI (capital)	single attached	3	1	53	160	8,000	336	42%

C. INSTITUTIONAL ANALYSIS

The feasibility of this project will depend on four factors:

- the development of a sound, ongoing financial basis for CABEI's Housing Fund to provide the resources for the reginal secondary mortgage operations of the Bank.

- the procedures and instruments used by CABEI in investing the resources of the Housing Fund via its secondary mortgage market operations, while targeting a portion of those investments on the poor.

- the manner in which CABEI organizes and operates its housing programs internally.

- the ability of CABEI's sub-borrowers in each country to generate and implement projects for financing by the Bank.

The history and performance of CABEI's housing program as developed over the past fifteen years with AID assistance was recorded and evaluated by a team of Office of Housing consultants during June-July of this year. Their report, the case study of CABEI, has provided much of the information on which this institutional analysis is based. The analysis has also benefited from a separate consultant's evaluation of the procedures used by CABEI in processing housing loans and in recording related information. The discussion which follows, then has combined the findings of both of these studies with the knowledge and experience gained by the RHUDO/ROCAP in collaborating with CABEI in the development of its housing program.

Financial Base of the Housing Fund

A secondary mortgage market can be defined as one in which a specialized financial institution moves mortgage funds from capital strong to capital weak areas by the purchase of mortgages as investments through a number of different instruments for use as collateral in attracting money from the open capital market.

CABEI has been struggling with some success since 1963 to institute such a market in Central America. This section of the institutional analysis will consider the difficulties confronted by the Bank in attracting money from open capital markets to provide additional mortgage financing for the region.

a) Housing Investment Certificates

Originally, it was anticipated by AID that CABEI's secondary mortgage operations would be supported not only by the AID

loans but also by the proceeds from the sale of mortgage-backed bonds issued and sold by CABEI in Central America. Prior to HG-003, CABEI had sold and designated for the housing program $2.3 million in bonds receipts. HG-003 required that CABEI sell additional bonds. In 1976, CABEI initiated an active bond sale program using the name of "housing investment certificates".

A total of $60 million in certificates have been sold and $39 million have been redeemed and repurchased, leaving approximately $21 million outstanding, as shown in Table VI.

Unfortunately, because of the nature of the market for securities in Central America, the certificates have had to be sight-redeemable, even though they have a 20-year maturity. This has limited their utilization as a source of funds for long-term lending. Their placement has also caused an adverse reaction on the part of the commercial banks and Central Banks in the region due to the competitive advantage vis a vis national bond issues of CABEI certificates which pay higher interest rates (8.75%) and have special tax benefits. As a result of complaints from the various Central Banks, CABEI's Board of Directors has restricted the sale of certificates to the $25 million outstanding.

The certificates, despite their name, are not backed by just the mortgages held by the Bank, but rather by its general assets, since CABEI's covenants with its lenders preclude the segregation of a portion of the assets as collateral for specific debts. In effect, the regional bond sales have been a part of the Bank's general borrowing.

In view of these problems CABEI is actively considering a number of alternative means of developing a sound financial base for the Housing Fund to provide resources for the Bank's secondary mortgage market operations. The regional capital markets are still viewed as a potential source of funds. CABEI is expected to renew its promotion of housing investment certificates in these markets as short term investments with fixed maturities. This is a limited source, however, principally because liquidity within the countries is affected by the political unrest in the local area and as well by agriculture prices.

b) International Borrowing

The attraction of funds from the international markets within the context of the Bank's general borrowing is now viewed as the main vehicle through which CABEI can generate the financial resources which it will need to sustain its secondary mortgage market operations. CABEI's paid-in capital by the five Central American countries was $55 million in 1975. The Board of Governors approved an increase in authorized capital to $200 million in January 1979. CABEI's rate of return on equity and investments has been steadily rising. (See IV.B.1. Financial Statement Analysis.)

TABLE VI

CABEI's Regional Bond Sales

Issue			
1. Bonds	2.300.000.00		
2. Housing Investment Certificates	25.000.000.00		
Total Issued			$27.300.000.00
Sales			
1. Bonds	2.300.000.00		
2. Housing Investment Certificates(1)	59.494.109.97		
Total Sold		$61.794.109.97	
Less			
Repurchases			
Housing Certificates		$41.650.178.08	
Total Securities in Circulation			$20.143.931.89
Securities Issued and Unsold			$ 7.156.068.11
Redemptions and Repurchases			
Total Securites Sold		$61.794.109.97	100%
Total securities redeemed by CABEI plus repurchase		$38.645.070.00	63%
Total securities held by Securities holders		$23.149.039.97	37%

(1) The issue of Housing Investment Certificates of $25.000.000.00 is the limit of Certificates that may be in circulation. However, because of repurchases, the gross sales may exceed $25.000.000.00.

As a result of its strong financial position, CABEI is beginning to have considerable success in attracting international loans for Central America. From its establishment in 1963 to 1975, CABEI secured $440 million (42% of its total borrowing) on non-concessional terms. Since 1975, the date of HG-003, CABEI has obtained an additional $350 million in external, non-concessional loans. The most notable are now more recent ones which include a twelve-year $20 million loan with million loan with European banks and a fifteen-year $20 million bond sale in Europe. As such longer terms become more prevalent in the Bank's borrowing, they will facilitate the investment in housing of CABEI's own resources.

This is a particular interest because the Bank's equity position participants do not include major developed nations as do the Inter-american Development Bank, the World Bank, or the Asian Development Bank. It can be inferred, therefore, that CABEI's entry into the international capital market has been based directly upon its demonstrated creditworthiness. As the Bank's financial position continues to improve, and as international lenders become more familiar with the institution, CABEI's access to international capital markets should continue to expand.

The ability of CABEI to borrow from international sources and the Bank's commitment to make available a portion of the proceeds of such loans to the Housing Fund is fundamental. It will not, of itself, provide the viability which the Fund has lacked. Consequently CABEI will have to improve and expand its ability to monitor, plan and manage the finances of its housing program.

c) Financial Information System of the Housing Fund

Improved monitoring will require a revision of the current systems of the Housing Fund to improve both the recording, accounting and reporting of information. A consultant's study of this system identified the following problems:

- The basic data bank is costly, is time-consuming to create and maintain and is cumbersome to use because of the accumulation of unnecessary information, repetition of data, etc...

- The financial information system has not been planned and designed to perform the various functions which are required: control of the portfolio, processing and control of disbursements, preparation of reports to comply with borrowing agreements and statistical analyses to provide inputs to the management of the Housing Fund. As an example, although the data is on file in computers, the information required for a drawdown of HG loans must be produced and recorded manually.

Personnel of both the Financial and the Analysis and Supervision Divisions have agreed to the need for this revision. They appear to be able to perform most of the work needed. Technical assistance will be provided to complement their effort.

d) Financial Management of the Housing Fund

Another area which will require improvement is in financial management. As described in section IV.B. Financial Feasibility, CABEI has an excellent record in the financial management of both its consolidated operations and the Housing Fund. Nevertheless, there are some shortcomings.

CABEI has lacked effective coordination in certain areas which has hindered housing investments. For example, the Financial and Promotion Divisions at times have failed to keep one another adequately informed on both the need for investment funds and the availability of funds, especially reflows and profits for reinvestment.

Another problem has been the constant high state of liquidity of the Housing Fund. This is a consequence, in part, of the sight-redeemable characteristic of the $25 million in housing investment certificates issued by the Bank. CABEI has felt compelled to maintain ample liquid resources, since such sight-redeemable resources can upset the most carefully programmed cash flows.

Financial management of the Housing Fund has been adversely affected as well by the fact that when housing loans are approved by the Board of Directors, it is the practice to earmark the amount of funds needed and place that amount in short-term investments. Since many months, and sometimes up to two years, elapse before disbursement of the loans, the volume of short-term, non-housing investments of the Housing Fund has been large.

The net effect is that housing investments and consequently earnings on those investments, are less than they could be. As a result the Housing Fund has not been capitalized at as fast a rate as it might have been with more agressive financial management.

One of the causes of the high state of liquidity will be corrected to a great extent as CABEI orients its housing investments to the purchase of bonds with variable maturity dates from eligible housing institutions. This will facilitate and accelerate the investment of Housing Fund resources by reducing the long lapses of time which now occur between loan approval and actual disbursement of funds, as well as reducing the reserve requirements and permitting increased levels of investment of short-term liquid funds for housing.

To further reinforce CABEI's ability to manage and optimize the resources of the Housing Fund, the project will provide training in money management as it relates to housing finance to one or two staff members of the Bank. With the training, this personnel should learn to relate the flow of investments to the obtainment of resources and to prepare the necessary cash flows for the prompt investment of new resources and

reinvestment of recuperations. This capability will be crucial to the proper use of the Bank's growing access to international capital markets to provide a continuing source of resources for the Housing Fund. Finally, to assure that the training is put to good use, the project will provide technical assistance to the Bank to design revised financial management procedures.

It is fully expected that this combination of CABEI's growing success in international borrowing with the improved financial monitoring, planning and management capability that this project will lead to, will provide the viability required for CABEI's Housing Fund and thus the resources to sustain the Bank's secondary mortgage market operations in Central America.

2. The Purchase of Mortgages in the Secondary Market

This section will consider the difficulties confronted by CABEI in the purchase of mortgages as investments. In this aspect of its operation, the secondary mortgage market in Central America has experienced an evolution. Starting from the initial $2 million distributed to each Central American country through commercial banks, CABEI has moved to the purchase of specific eligible mortgages (individual and global) and participation contracts in assigned mortgages from a variety of housing finance institutions. In this regard, CABEI has been serving essentially as a rediscounting facility. In performing this function the Bank has confronted a number of difficulties which need to be addressed. Further, the growing expertise and experience of housing finance institutions in the region provides a new and different context for the operation of a regional secondary mortgage market which must be considered as well.

a) Problems Confronted in Purchasing Mortgages

CABEI's housing investment to date have been mostly in mortgages and mortgage participations originated by savings and loan associations in specific projects. The practice has been for the Bank to conduct a detailed technical and financial review of these projects prior to issuing a commitment. Interim disbursements have been contingent on field inspections of the construction process. Final disbursements have been made on the basis of either the outright transfer of title of specific mortgages to CABEI or of their assignment to the Bank. These purchased or assigned mortgages require a lengthy and detailed check of the documentation prior to disbursement.

The intervention by CABEI in each step of the construction and mortgage purchase process has been necessary to ensure that the Bank was financing housing of a certain quality and price. Such an assurance was required by AID as a condition to its loans, given the reluctance of builders and other local institutions to produce low and middle cost

housing. It was required by CABEI as well as a means of protecting its investments, given the relative inexperience of local housing finance institutions in project review and construction supervision.

CABEI's project-specific concerns have been instrumental in the Bank's success to date in promoting and financing low cost housing in Central America. They have also been a source of problems.

CABEI's borrowers complain that loan and disbursement review and approval procedures are slow and cumbersome. They also represent an added cost to the Bank. The same is true with the procedures involved in transfering or assigning mortgage titles to the Bank which are both legally cumbersome and costly.

Dealing only in new mortgages has signified that all of CABEI's investments in housing are for periods of no less than twenty years. Added to this financial burden is the fact that individual mortgages, while secure, represent an asset which is not easily traded or converted. Monitoring and controlling the mortgage portfolio has created an extensive and expensive record-keeping burden.

b) Potential in Developing National Housing Finance Institutions

Such problems as these require attention. Fortunately, there is an opportunity to do so given the growing potential of the various national housing finance institutions in Central America. Most of these institutions, such as DECAP and the S&L system in Costa Rica, the Fondo Social in El Salvador or FINAVI and the S&L system in Honduras, did not exist in 1963 when CABEI began its regional secondary mortgage market operations. Today, just the Central American S&L associations alone have originated over 40,000 mortgage loans for a value of nearly $340,000,000. Even the most recent of these, the associations in Honduras have originated 2,400 loans worth over $26,000,000. This activity represents experience and a growing technical and financial expertise.

The same is true of some cooperative technical service organizations (TSO) such as FEHCOVIL (Honduras) and FENACOVI (Guatemala) and of a few national housing institutions, most notably INVU (Costa Rica).

This accumulated experience and growing expertise make it possible for CABEI to rely more and more on the technical and financial review of specific projects by the public sector institutions, such as the central housing finance banks ("cajas de ahorro"), which are legally responsible in the various countries for such a function. TSO's could assume a similar responsibility for cooperative housing.

The growing expertise of national housing finance institutions extends beyond review of housing projects. Costa Rica and Guatemala have a fairly well established market for mortgage participations and other mortgage-backed instruments. FNV and FINAVI are actively taking steps to institute such a market in El Salvador and Honduras, respectively. The existance of such instruments provides an opportunity for CABEI to shift from buying specific mortgages to dealing in available mortgage-backed securities which are controlled with greater ease. They can also represent investments with variable maturities ranging from five to twenty years, thereby diversifying CABEI's mortgage protfolio and providing greater investment opportunities for shorter term financial resources. Finally, the purchase of such instruments precludes the need to transfer or assign the titles to CABEI.

c) Reduced Costs

The new procedures will also permit a reduction in loan processing costs. As CABEI reduces its direct project financing in favor of a secondary finance role, the burden on the staff which reviews plans, specs and disbursements and performs accounting functions of the portfolio will decrease. This reduced staff burden in this phase of the operation will permit CABEI to increase the number of its staff dealing with the financial aspects of the Housing Fund and secondary mortgage market without increasing overall costs.

In fact, CABEI may be able to reduce the overall cost of running the housing program even after shifting its staffing pattern.

Administrative expenses as a share of gross income are already low, the accepted range is 25-33%, while the Housing Fund ratio only exceeded 25% once and it has been declining since 1975. In recent years, CABEI's interest rate spread, i.e., the difference between its costs of money and its investment rates, has been 1%. The present favorable administrative expense/gross income ratio combined with the potential for reductions in the administrative expenses attributable to fewer housing projects to supervise and larger, more-standardized investment transactions could enable CABEI to reduce this spread. This, of course, would contribute to making CABEI's housing program more attractive to the national housing finance institutions.

d) Support of National Housing Finance Institutions

CABEI must reorient the manner in which it operates the regional secondary mortgage market to provide a more important role to the housing finance institutions in the various countries. Such a reorientation would concentrate mostly on key public sector institutions such as the central housing finance banks ("cajas de ahorro"). It would not exclude other public or private sector associations.

Under the new relationship CABEI would rely on national housing finance institutions to review projects. The Bank's housing investments would be more and more in mortgage-backed instruments issued by these institutions. In doing so, CABEI will be providing significant support to the development of the housing finance capability in each country.

The mechanics of this new orientation for CABEI's secondary mortgage market operations are simple. It is expected that each national housing finance institutions will float its bonds within its country to its member institutions and other investors. As the maturity dates arrive, the institutions will sell new bonds to replace the old ones. Since CABEI will be an important share of the total market, it will be desirable for CABEI to adopt specific policies expressing the criteria it will use in determining which bonds to buy, when and under what conditions.

The bonds will be guaranteed by the institutions and backed by specified mortgages with an aggregate value to be determined.

The selling institutions will be obligated to substitute mortgages for any which are in arrears, default or foreclosure to ensure the integrity of the bonds.

Such changesin CABEI's procedures for buying mortgages must be designed also in such a way as to guarantee that the proceeds of such purchases are used to finance housing which conforms AID guidelines and to CABEI's own policies with regard to housing.

This issue was discussed at a meeting with the Bank's staff held on March 26 of this year. CABEI suggested that the Bank could buy regular bonds issued by national housing banks, while agreeing in a separate document to certain conditions to the purchase of these bonds by CABEI. These conditions would include requirements wiht regard to the use of the proceeds of the sale.

This is only one of several possible mechanisms. The important fact is that CABEI accepts the need to develop such mechanisms. The details will be worked out by CABEI with HG fee-financed technical assistance before the first loan disbursement.

It should be pointed out to the benefit of CABEI, that they will also continue to purchase mortgages and participation contracts in mortgages depending on the legal status and ability of the borrowing institution. This is particularly important when the borrower is a non-profit coop institution, for example, incapable of selling bonds or obtaining a government guarantee. These are the institutions also which are likely to produce low-cost housing. When required CABEI

will also provide loans to National Housing Institutions based on their guarantee and the requirement to generate eligible low cost housing mortgages.

e) Targeting the Poor

The manner in which CABEI will operate its secondary mortgage market to guarantee that a fixed portion of its financing is targeted on the poor is important to this project.

CABEI currently determines eligibility for its mortgage purchase program in two manners. For middle cost housing there is a maximum allowable selling price of $12,000. It is anticipated that CABEI will increase this to $15,000. Mortgages presented to CABEI for purchase are certified by the borrowing institution to have the registry number, FHA number, purchaser name, and selling price as presented in the disbursement requrest. If the unit selling price as shown is under $12,000 it is accepted. CABEI performs periodic audits to certify the data presented.

For construction financing leading to long-term mortgage financing, CABEI determines the eligibility of the project on the technical review of the plans, specs and cost breakdown. Increased costs due to inflation of labor and materials are then allowed up to the maximum of $12,000.

For a low cost project, CABEI established a ceiling selling price based on the standard established in HG-003 by AID of $3,000 as of January, 1975, adjusted to reflect increases due to inflation of the cost of materials, labor, and land. Only those increases which can be documented and verified by CABEI's technical staff are allowed. Accordingly, for example, the agreed selling price of low cost housing in Costa Rica is now $5,300. The use of a single cost figure of $3,000 is not equitable because cost and particularly incomes vary throughout the region. For this reason low cost housing will now be defined as housing with a selling price affordable by families with incomes below the urban median level in major cities. CABEI will establish a base line income figure for each country. It will also determine the variables which can be measured on a periodic basis to adjust the income data. This will then be converted to a selling price based on the prevailing terms for loans, such as interest rate, mortgage period, down payment and % of family income allocated to housing. Technical assistance will be provided to CABEI on this subject.

In order to ensure that at least 55% of CABEI's investment are in low-cost housing, CABEI will require institutions to certify which specific mortgages, giving their monetary values, are for eligible low-cost houses. In the event of problems with any of these mortgages, they

will be replaced with other eligible mortgages. CABEI will be required to audit the records of mortgages which are financed with the proceeds of bonds it purchases to ensure compliance with these requirements. CABEI, if necessary will continue to use it current procedures for approving loans and disbursements. These procedures are such that financing is tried directly to the generation of eligible mortgages.

3. Management of the Housing Fund

a) Organization and Staffing

At the outset in 1963, each one of CABEI's lending programs was organized as a self-contained department. There was a Home Loan Department (Departamento Financiero de la Vivienda), responding to the Executive Vice President (EVP), which included all the staff which originated housing loans, reviewed the plans and specs of projects to be financed and supervised the use of loan proceeds.

CABEI's organization along departmental lines worked adequately for many years, until the Bank grew to have so many departments (all responsible to the EVP) that the administrative and supervision functions became increasingly complex and time-consuming. In addition, some programs began to bog down awaiting the EVP's attention, as others were able to receive preferential or speedier attention. The organizational structure of the Bank was reorganized on a "functional" basis in 1976.

The Bank is now divided into "gerencias" or management areas, which are: Administration, Finance, Programs and Promotion, and Analysis and Supervision. (See Table VII) There is also a separate Legal Office. Each of these now has some relation to the housing program.

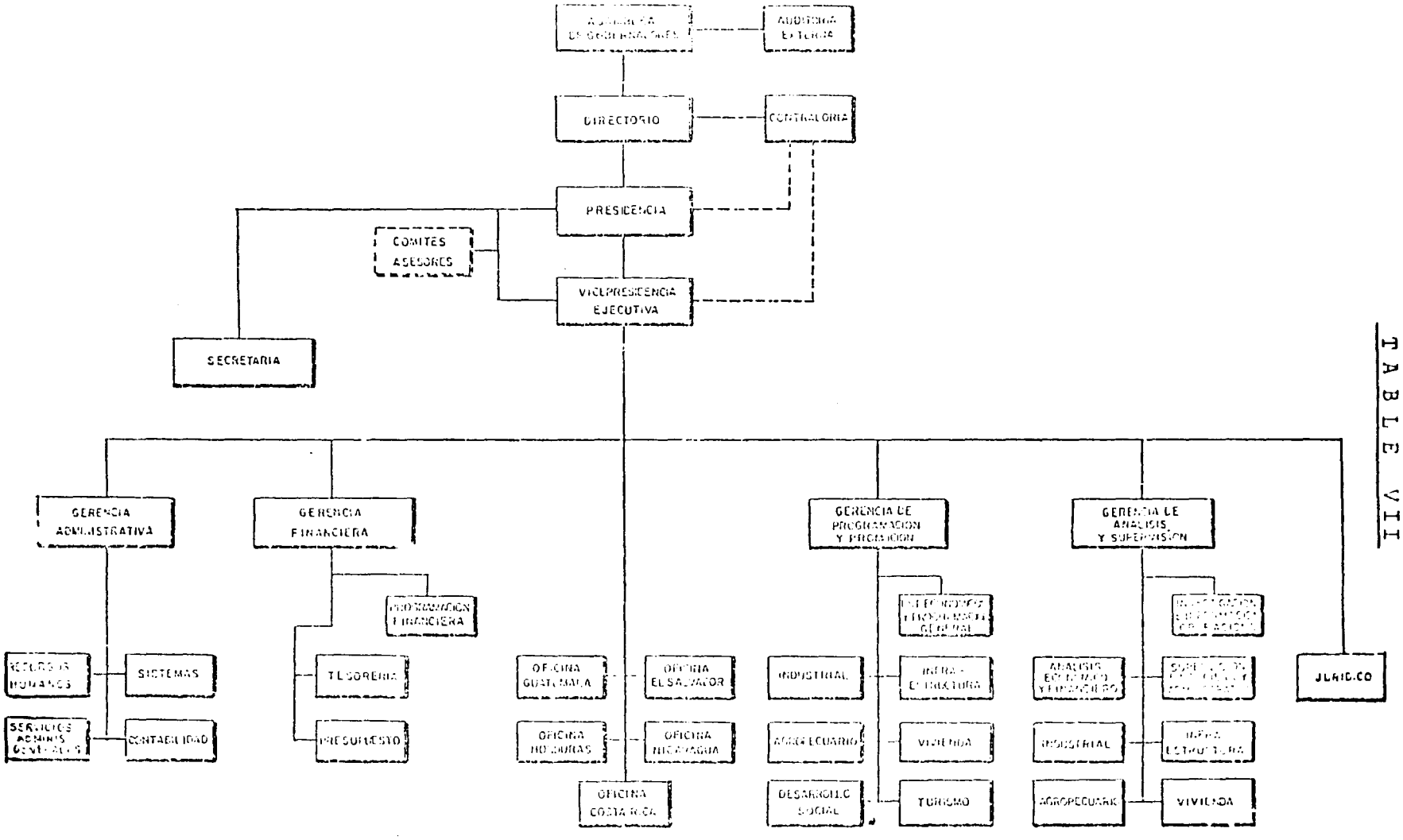
Housing loans are originated by the Programs and Promotion Division ("gerencia") which also prepares the Bank's yearly and multi-year housing plans, as well as all the documentation need for Board approval of the loans. The head of this Division is the coordinator of CABEI's housing program. There are three full-time and one part-time professionals assigned to housing in the division.

The Analysis and Supervision Division assumes responsibility for review and approval of final housing project plans and specs once the loan is approved. The division also supervises the bidding and construction processes and approves disbursements based on its site inspections. This function is handled by two engineers who work part-time on housing matters.

A separate sub-section of the same Analysis and Supervision Division supervises and audits the institutions which borrow from CABEI. A full-time auditor works with the housing finance institutions to

ORGANIGRAMA ESTRUCTURAL DEL BCIE

APROBADO POR EL DIRECTORIO EN SESION Nº 691
DEL DIA 12 DE FEBRERO DE 1979 (ACTUALIZADO)



* La creación de estas áreas quedaría pendiente para el futuro, cuando el crecimiento de actividades lo justifiquen.

TABLE VII

analyze their financial status before they are approved to receive a loan. He also audits the mortgage portfolio which has been sold or assigned to CABEI as collateral for the loan. He has the support of another employee part-time.

The only other full-time person assigned by CABEI to its housing program is in the Financial Division. He is assisted by one more part-time employee in projecting the resources available for housing loans, managing the funds allocated for housing and handling loan disbursements. This function is important because, although CABEI no longer has a Home Loan Department, it does maintain a separate Housing Fund for which it keeps separate books and prepares income and expense statments and balance sheets. The assets of this Fund are not mixed with those of the other Funds in CABEI, so that its profits and roll-overs are reinvested exclusively in additional housing loans. Furthermore, disbursements are made on the basis of a list of eligible mortgages which needs to be verified by the division.

b) Improved Coordination

There have been problems of coordination among the several divisions regarding housing loans and investments. To improve coordination and expedite the overall process of the Housing Fund, CABEI has designated the Director of the Programming and Promotion Division as the coordinator for housing. While this person is effective, the other divisions are not always responsive due to other priorities. Also, since the coordinator has responsibilities regarding each of the other investment sectors, this action alone is not enough to permit the Bank's housing program to operate satisfactorily.

Within the framework of CABEI's present organization, the most appropriate remedy is to explicitly and formally designate housing officers in each key section. This personnel would devote its time and attention to housing on a priority basis. Further, one housing officer from each of the divisions would belong to a permanent Housing Committee chaired by the representative of the Programming and Promotion Division. One of the powers of the chairman should be the right to assign tasks to the designated housing officers. The primary purpose of the Housing Committee would be to ensure the efficient and effective implementation of the CABEI Housing Program. The committee would be required to meet periodically to discuss and plan for dictamens, disbursements, reflows, investments and other housing matters.

These changes would result in a network organization of housing officers working closely with one another and benefiting by the technical support of their associates in each of the sections.

c) Internal Procedures

The development of a secondary mortgage operation by CABEI has been delayed and confined not only by the lack of mechanisms such as a functioning primary market, excess liquidity within the system and the lack of standardized mortgage documents and legal transfer practices, but also due to the conditions that were imposed on its operation. Since the housing programming was almost entirely financed by AID, its procedures were largely dictated by AID, e.g.: AID required mortgages purchased by CABEI be insured by FHA, that CABEI sell bonds backed by mortgages in Central America, purchase only new mortgages, and record and maintain special data in the accounting system. Some of these requirements have now become an impediment to the efficient operation of the secondary mortgage market.

Those changes that relate to the manner in which the secondary mortgage market will be operated were discussed in the two previous sections.

In addition, it now appears necessary to effect a thorough revision of the Housing Operating Plan and Guidelines which were adopted in 1964. This document mixes policies and operating procedures, thereby complicating the roles of the staff and the Board of Directors. Moreover many of the procedures are laborious, time-demanding and redundant. For example, for fifteen years CABEI has been using a "Dictamen" process whereby each staff group writes its opinion of each matter to go before the Board of Directors. Over the years, this process has become very elaborate and the opinion reports extremely long and detailed. As a result, the burdens on the staff and the Board are great. Moreover, the process encourages the Board to be come involved in operational details which would be better left to the staff. CABEI now is committed to revise its Housing Operating Plan and Guidelines so that it conforms to the new Housing Policy statement and streamlines day-to-day procedures. This project will provide technical assistance to CABEI to support this revision.

4. Capabilities of National Housing Institutions

In order to CABEI to function effectively as a secondary finance institution, there must be both an adequate amount of new houses constructed and mortgage loans made for the purchase of these houses. It was demonstrated in the Social Analysis that there is ample need and demand for the units to be financed by this project. Considered here are the capabilities of institutions in Central America to build and finance the needed housing.

A brief description of thehousing delivery capabilities of institutions in each of the five countries is presented below. Of

particular significance to this project is the rapidly increasing secondary mortgage market activity in most of the countries. This new capability is fundamentally important to CABEI's new orientation to the regional' secondary mortgage market, i.e., investing in bonds issued by these national housing institutions.

a) Absorptive Capacity of National Institutions

COSTA RICA

The Savings and Loan System was created in 1969. DECAP, the Central Savings and Loan Department of the Banco Credito Agricola de Cargago, has obtained most of its capital from nine CABEI loans for a total of $35 million. DECAP also obtains funds by selling mortgage participations to the public.

While DECAP is attempting to generate more capital within Costa Rica, it also expects to continue to be one of CABEI's largest borrowers. In the last few years almost 50% of DECAP production has been financed by CABEI and BIAPE. The figures presented in Table VIII showing proposed disbursements to DECAP by CABEI under this project are considerably below the actual levels of the last years. DECAP's pending requests to CABEI for 1979, shown in the first column of Table VIII, and the experience to date tend to demonstrate that DECAP could easily absorb four times the amounts projected for them in this project.

INVU, the national housing institution, constructs houses for sale or rent, operates housing finance programs and develops urban land for the sale of residential lots. INVU is currently the recipient of a bilateral loan (HG) directed toward providing home improvement loans and core house solutions to low-income urban poor. Disbursement of this bilateral $11.4 million loan should begin within the next several months. It is anticipated that once INVU has established the regulations, staff, etc., for these types of projects that the follow-on funding for similar projects will be provided by CABEI. INVU has requested funds (as shown in Table VIII) for the financing of eligible but larger conventional housing units with bedrooms. It is hoped that based on the experience from the bilateral program and the directives of the proposed national housing policy INVU will do only very low-cost housing and DECAP the other, more conventional solutions.

In addition to INVU and DECAP there are several other institutions such as IMAS, Banco Nacional and the National Insurance Institute which are active in the financing of higher cost housing. These institutions will not participate in the CABEI loan.

TAB E VIII

Use of CABEI's Housing Fund in Millions of Dollars

Country & Institution	Fiscal Year	1979→1980 Requested	1979→1980 Expected	1980→1981 Requested	1980→1981 Expected	1981→1982 Requested	1981→1982 Expected	1982→1983 Requested	1982→1983 Expected	1983→1984 Requested	1983→1984 Expected
Guatemala	(July)										
* FENACOVI				2.0	1.0	3.0	1.0	4.0	2.0	5.0	2.0
* PROMETESA		0.5		1.5		2.5		4.0			
* BANVI				3.0		3.0		4.0	0.5	5.0	2.0
Banco Occidente		1.0		1.5	1.0	2.0	1.0	3.0			
Costa Rica											
* DECAP		3.0	4.0	6.0	6.0	6.0	6.0	6.0	2.5	6.0	1.5
DECAP		3.0	2.0	5.0	3.0	5.0	2.5	5.0	2.0	5.0	1.0
* INVU				3.0		4.0	1.25	4.0	1.25	4.0	.5
El Salvador											
FNV		5.0	2.0	6.0	5.0	6.0	4.0	7.0	3.0	7.0	3.0
* Fondo Social		5.0	4.0	5.0	4.0	5.0	4.0	6.0	1.0	6.0	
Honduras											
FINAVI		8.0	2.5	8.0	2.0	9.0	2.0	10.0	2.0	10.0	3.0
FEHCOVIL				1.5		2.0	1.0	2.5	1.0	2.5	
* FEHCOVIL				1.0	1.0	1.25	1.25	1.5	1.25	1.5	1.5
* Banco Trabajadores		1.5		3.0	1.0						
Banco Trabajadores		2.0	0.5	2.0	1.0	2.0	1.0				
Banco Sogerin		1.5		2.5		2.5					
* INVA				2.0		3.0		3.0		5.0	.5
TOTALS		30.5	15.0	53.0	25.0	56.25	25.0	64.0	25.0	57.0	15.0

* Indicates Low Cost Housing

TABLE VIII

CABEI 005
Schedule of Completed Investments
by Country and by Type of Housing

	80	81	82	83*	Total
Guatemala	-	2.0	3.0	2.5	7.5
core	-	-	-	0.5	0.5
low-cost	-	1.0	2.0	1.0	4.0
middle-cost	-	1.0	1.0	-	2.0
Costa Rica	6.0	9.0	9.75	3.25	28.0
C	-	-	1.25	1.25	2.5
L	4.0	6.0	5.5	1.0	16.5
M	2.0	3.0	3.0	1.0	9.0
El Salvador	6.0	9.0	8.0	2.5	25.5
C	-	-	-	-	-
L	4.0	4.0	4.0	0.5	12.5
M	2.0	5.0	4.0	2.0	13.0
Honduras	3.0	5.0	4.25	2.75	15.0
C	-	1.0	1.25	1.25	3.5
L	-	1.0	-	0.5	1.5
M	3.0	3.0	3.0	1.0	10.0
TOTAL	15.0	25.0	25.0	10.0	75.0
C	-	1.0	2.5	3.0	6.5
L	8.0	12.0	11.5	3.0	34.5
M	7.0	12.0	11.0	4.0	34.0

* The investments shown for 1983 are only those which complete the use of project resources. The total for that year will be about $25 million, of which about $15 million is for below median income families.

The demand for these mortgage participation contracts has been very strong. DECAP's volume of mortgage participations was over $24 million 1978. The SBN had purchase requests totaling nearly $24 million in actual mortgages, with sales of $1.2 to 1.4 million in 1978. The projection for this year is lower, a reflection of the competion presented by other short-term investments currently offering rates of 13½%.

Costa Rica has a well developed construction industry. Costa Rica has a special law permitting the sale of mortgage participation contracts. These participations are mostly sold through S&Ls and DECAP. Sometimes security brokers are used. While the stock exchange has been of limited use thus far, the intention is to use it more extensively. The interest rate on these mortgage participations is 13½%. While some are sight redeemable, most are for terms of 6 months to 2½ years.

EL SALVADOR

The Financiera Nacional de Vivienda (FNV) was established in 1964. It regulates eight savings and loan associations. The system has been very successful and until several months ago had sufficient liquidity in the form of savings to finance all its housing. The lowering of coffee prices and the political unrest of the area has caused this situation to change. As a result, interest rates on savings and allowable interest rate on mortgages were increased. The figures shown in Table VIII for disbursement to the FNV are considerably below the absorptive capacity of the system. To assist the FNV in its current problem, CABEI just approved a $6 million housing loan for the system for this year.

El Salvador is in the process of implementing a plan for FNV to sell mortgage-backed bonds which would be guaranteed by the Government of El Salvador. Under the proposal, these bonds would pay 11% interest (tax free) and have a maturity of seven years. The S&L associations now pay 9½% on passbook savings accounts which are tax free to depositors. The Banco Hipotecario already is active, in selling mortgage participations to the general public.

The Fondo Social, created in 1973, is funded by salary deductions (0.5%) employer contributions (5.0%) and government capital contributions. It wants to increase its production by 1,000 units a year. In addition, the Fondo Social has invested in and committed itself to a very large land purchase program and does not have the funds to maintain its past production levels. Consequently, the level of loans from CABEI to the Fondo Social under this project is within the current capacity of the institution.

In addition to the Fondo Social and the FNV there are the Banco Hipotecario, Instituto de la Vivienda Urbana (IVU) and Fundacion Salvadorena de Desarrollo y Vivienda Minima (FSDVM) which are also financing housing.

The Banco Hipotecario does high-cost housing. The FSDVM has a line of credit with the World Bank. The IVU does very limited housing with GOES contribution. It is not at this time an effective institution capable of borrowing from CABEI.

There is a well developed construction industry in El Salvador.

GUATEMALA

BANVI is the national housing bank which currently has a $30 million loan from CABEI. It is implementing a major World Bank loan on low-cost reconstruction housing. It has also requested, as shown in Table VIII, additional funds for a secondary cities project of low cost housing. It is highly questionable, based on BANVI's previous history, if it can absorb another loan. Consequently, the expected absorption of CABEI's project funds by BANVI is minimal.

FENACOVI is a new national cooperative housing federation which has and is receiving considerable financial and TA support from the UN and CIDA of Canada. It will also be the recipient of $5 of the $30 million CABEI-BANVI loan and TA from an USAID/G grant. The $5 million is already committed to specific projects. FENACOVI is a well run institution that plans to produce up to 2,000 units a year. Based on the TA to be provided by AID, and the experience to date it is anticipated that it can absorb the funds indicated in Table VIII.

There are also private banks which use FHA insurance and operate a cedula system for a secondary mortgage market operations to finance high cost housing in Guatemala.

These private banks use the secondary mortgage market in quite different ways, as illustrated by the following examples. The Banco Granai & Townson places mortgages with bank clients, other banks, insurance companies, pension funds, finance companies, and the general public. No attempt has been made to sell these mortgages outside Guatemala. The bank issues certificates of custody with a repurchase agreement. The certificates are issued in denominations of $100, but in the future the plan is for $1,000 denominations. The bank has approximately $10 million in mortgages placed at one time. As of 3/31/79 it had a mortgage portfolio of $16.6 million. With a favorable political situation, the prospects for future mortgage placements at 10½% interest is considered very good by bank officials.

The Banco Inmobiliario buys and sells mortgages based on liquidity considerations primarily. Like the Banco Granai & Townson mortgages, these are insured by FHA. However, Banco Inmobiliario issues certificates in $1 million denominations to other financial institutions.

The redemption date is unspecified, but usually 1-3 months. The interest rate is 8% on these certificates, while the mortgage interest rates are between 10½-11%. The bank has $10-15 million placed at one time, with a mortgage portfolio of $25-30 million.

In total, the private banks in Guatemala held $56 million in mortgages (May 1979) and had sold $78 million in mortgages to other banks -- a total of $134 million.

PROMETESA is a non-profit institution which requested a CABEI loan but it is highly questionable if they can obtain the necessary guarantee and financial status required for qualifying for a CABEI loan within the time frame of this loan.

It is anticipated that a S&L system will be established in Guatemala in the near future. RHUDO/ROCAP is assisting the BANVI in this regard.

There is a well developed construction industry in Guatemala but its capacity and the supply of cement will be strained if the industry has to take on much more than is projected in Table VIII for the next few years.

HONDURAS

The National Housing Institution (INVA) is currently the recipient of a bilateral loan for home improvement and sites and services type solutions. It is receiving considerable amounts of TA from RHUDO/ROCAP in order to improve its administrative and technical capacity to implement the bilateral loan.

INVA is not expected to have the capacity to absorb additional funds in the near future. Therefore, no new funds are projected for INVA.

The Financiera Nacional de la Vivienda (FINAVI) is the regulatory body for the savings and loan system in Honduras. It has recently completed disbursement of an AID seed loan and will be initiating a bond sale program within the next three months. The S&L system has grown rapidly and successfully. The system has the capacity to absorb the relatively modest amounts of financing projected for it in Table VIII.

The projected funds for FEHCOVIL, the national housing cooperative federation, are essentially the same as it has been receiving in the past few years. FEHCOVIL is an extremely efficient and conservative institution that could, if it wanted, absorb more than the funds it has requested.

The Banco de los Trabajadores has also produced housing before with CABEI and should not have any difficulty utilizing the modest funds shown in Table VIII.

The construction industry in Honduras is not as well developed as in the other countries. However, it will be able to produce the levels required for the projected CABEI financing. The government has initiated a training program through INFOP for skilled construction labor. Furthermore, extensive construction activity in the last three years in Honduras has substantially increased the capacity and capability of construction companies. There is a problem with cement production which may have to be solved by the GOH permitting imports.

b) Interest Rate Considerations

In the present money market it is very difficult to estimate at what interest rate CABEI will be able to borrow in early 1980 and what yields it will obtain on its investments. Present trends in the U.S. capital markets would indicate that the HG interest rate will be in the range of 9½-11%. CABEI's borrowing in international markets will be at similar rates. Bond sales within Central America should be about 1% below these figures. With the ½% HG fee, the cost of the proposed HG loan would be 10-11½%. Assuming no mixture of these new funds with CABEI's current funds, the addition of CABEI's spread of 1% brings the total interest rate to 11-12½% to national housing finance institutions. These institutions will add another 2% (on the average) to cover their costs and yield, thus increasing the rate to 13-14½% to the institutions originating the mortgages.

At this time in Central America it would seem reasonable to conclude that this rate of 13-14½% would be competitive on the national mortgage markets. These rates are high by recent historical standards, but they are not so high as to be unsupportable or unaffordable, even by lower income households.

The subject of interest rates was discussed by CABEI and RHUDO/ROCAP with each of the borrowing institutions at the recent country meetings. The response was one of reluctant acceptance; in those cases where interest rate ceilings were established by law, the consensus was that the limit would have to be changed. The rate has changed in the last two years in El Salvador and Guatemala due to the changing market conditions. The changes occured after a careful analysis of the housing situation and financial market conditions was presented to the appropriate officials. The general consensus from all the meetings was that in light of the enormous demand for CABEI's financing the interest rates had to be accepted and that, where required, changes to laws and regulations could be made.

Presented below as Table IX is the current interest rate situation with the anticipated borrowers. The situation falls into two categories, one where a limit is set by the government and other where there is no maximum but rather a maximum allowable spread above the cost (interest rate) of the funds to be borrowed, to cover administration costs.

TABLE IX

Institution	Current Lending Rate	Current Max Allowable Rate	Comment
HONDURAS			
FINAVI	12%	12%	Set by National Bank.
INVA	10%	12%	Will mix GOH contribution with CABEI funds.
FEHCOVIL	11.5%	No max depends on cost of funds.	
Banco de los Trabajadores	12.75%	12.75%	Set by National Bank.
EL SALVADOR			
Fondo Social	2-8%	8%	Will mix tax funds with CABEI's. Set by internal rates.
FNV	12%	13%	Set by National Bank.
GUATEMALA			
BANVI	8%	11%	Set by National Bank.
FENACOVI	N/A	a) 11%	For National resources. Set by internal policy (FENACOVI).
		b) 4%	Over cost of external resources.
COSTA RICA			
DECAP	14%	No max depends on cost.	
INVU	-	No max depends on cost.	

The expected rates for CABEI's money are lower than the cost of resources mobilized within Costa Rica, currently 13.25 per cent for 6 month 2½ year participations. The prevailing maximum rate of 13% in El Salvador for the Savings and Loan system (FNV) is such that these institutions should be able to utilize CABEI's funds under this program. The Fondo Social has the option of either mixing CABEI's funds with its own to keep rates within their current 8% policy or, of amending its internal policy with regard to such rates. In Honduras, FINAVI has already initiated a request to the Central Bank that the maximum rate be

increased to 14% or that they be allowed to charge a fixed spread over the cost of external resources.

BANVI is allowed to apply such a surcharge to the cost of external borrowing under prevailing Central Bank regulations in Guatemala. The difficulty if any, with this institution would come from the traditional reluctance of the Guatemalan Monetary Council to authorize expensive external borrowing. Such difficulty will have a minimum impact on the feasibility of this project, however, because BANVI is not expected to be a major borrower as explained in the previous section. FENACOVI, which is outside the banking system is not subject to these constraints.

D. ECONOMIC ANALYSIS

This project entails an investment of $75 million over a four-year period, or $19 million per year average. Foreign exchange of $25 million is involved through the HG loan from a U.S. investor. A portion of the $50 million of other CABEI resources will also be foreign exchange from bond sales and other loans in international money markets. The remainder will be CABEI earnings, principal recuperations, bond sales and borrowings of various types within Central America.

1. Foreign Exchange

A very important consideration is that foreign exchange will flow into Central America in the first few years and outflows will occur gradually over many years. In the case of the HG loan, the $25 million will most likely flow in two annual installments; interest payments will flow out at a rate of, say, 9½-11% per year over 25 to 30 years; principal repayment probably will not commence for ten years and then be over the remaining 15-20 years of the loan.

2. Employment and Personal Income Effects

Assume that the 5-10% downpayments made by housing purchasers is roughly equal to raw land costs. Thus, the $75 million is absorbed in construction of houses and land development.

It is estimated that 25% of construction cost is direct labor cost. Moreover, a substantial share of the material cost will be labor cost within Central America since building material imports to Central America are only 5-10% of total material cost. The share is low because most everything is produced in one or more of the five countries. Assume 10% import value for this analysis. The calculation of primary employment and personal income effects is as follows:

Annual Investment (Average)	$18,750,000
Direct Labor Component	4,500,000
Total Construction Payroll	4,500,000
Construction Employment ($5.00 per day average wage and 288 work days per year)	3,125
Employment in Materials Industry (1 job for 2 in construction)	1,560
Total Construction and Material Industry Employment	4,685
Payroll for Construction and Material Industry Workers ($1,440 per year)	$6,750,000

Studies of employment effects of housing investment data drawn from Mexico, Peru, Columbia, Venezuela, Brazil, Korea, Pakistan and India have demonstrated that each $10,000 housing investment produces between 7 and 14 additional jobs.

$75,000,000 total investment means 13,125 additional jobs created yearly for 4 years, assuming 7 jobs are created per $10,000 investment.

1,875 x 7	=	13,125	
Less direct jobs created	=	4,685	(Per previous calculation)
Secondary Jobs/year created		8,440	

Total Direct Payroll	18,740 x ($5 x 288) =	$26,985,000
Total Secondary Payroll	33,760 x ($3 x 288) -	29,170,000
Total Project Payroll (4 years)		$56,155,000

These estimates are subject to considerable error because of the gross generalizations intrinsic to such an analysis. Nevertheless, the rough magnitudes and relative scales probably are reasonable. These effects would be for the five years of construction activity. Beyond the five years, there would be positive employment and payroll benefit, but in much smaller amounts.

In 1975 it was projected that the employment gap in Central America would be 60,000 jobs per year. That is, additional jobs would be 60,000 less than additional labor force each year, so that cumulative, unemployment would increase by 300,000 in five years. In this perspective, the average of 13,125 jobs created by this project makes a significant contribution. Importantly, most of these jobs are for readily trained workers, although at relatively low wages.

Econometric analysis based on data for Peru, Columbia and Korea, where like Central America the housing construction market uses domestic materials for approximately 95% of the needed construction materials, housing investment can be shown to have a higher multiplier effect than investments in plant and equipment. Estimates for the multiplier in Central America vary from 5 to 7. While it could be assumed that shelter investment would yield a higher multiplier, taking an average of the estimates the combined multiplier effect of HG investments in shelter will yield an increase in national income at least 6 times as great as the initial investment.

E. ENVIRONMENTAL ANALYSIS

On July 20, 1979, the Assistant Administrator for Latin America and the Caribbean issued a Negative Determination for this project. (See Annex [illegible].)

IV FINANCIAL PLAN AND ANALYSIS

A. FINANCIAL PLAN*

1. Summary Cost Estimate

The principal activities in this project involve the financing of housing units by CABEI in Central America, including some 7,800 core and conventional housing affordable by families with incomes below the median. These activities will represent 55% of total project investment of $75 million. The balance, 45%, will be applied to financing approximately 2,800 housing units for middle income families in the region.

The $75 million of project costs which will be utilized to finance housing units will be invested by CABEI through a variety of means including purchase of mortgages and mortgage participation contracts, loans to housing institutions and purchase of mortgage-backed securities such as bonds.

A small (less that .4%), but very important part of project costs will be incurred in the two remaining activities. Advisors will provide 28 person-months of technical assistance in the design of new administrative and financial procedures and systems and in conducting specialized studies on housing finance in Central America. Finally, 30 person months of training will be provided to members of CABEI's staff and that of participating national institutions. Total cost for both activities will be $240,000.

2. Sources of Funds

a) AID Resources

AID resources for this project will include a $25 million loan to be obtained by CABEI under the Housing Guarantee program (HG) from an eligible U.S. investor. This will be complemented by $220,000 in HG fee funding for technical input. The HG loan will be for 30 years with a 10 year grace period on principal repayments. Interest rates are not known, but estimated to be between 9½-11% from the lender, with an additional ½% HG fee. There will be a one-time AID front-end fee of $250,000 payable with the drawdowns.

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*Table X, Financial Plan, summarizes the following discussion on source and application of funds.

TABLE X

Financial Plan
(Thousands of U.S. Dollars)

	FY 80	FY 81	FY 82	FY 83*	Totals
Project Costs:					
Activities:					
Technical	115	85	25	15	240
TA	95	65	10	10	180
Training	20	20	15	5	60
Investments	15,000	25,000	25,000	10,000	75,000
Core housing	-	1,000	2,500	3,000	6,500
Low-cost housing	8,000	12,000	11,500	3,000	34,500
Medium housing	7,000	12,000	11,000	4,000	34,000
TOTALS	15,115	25,085	25,025	10,015	75,240
Source of Funds:					
AID	4,610	7,580	9,020	4,010	25,220
HG loan	4,500	7,500	9,000	4,000	25,000
HG fee income	110	80	20	10	220
CABEI	10,505	17,505	16,005	6,005	50,020
Investment Funds	10,500	17,500	16,000	6,000	50,000
Operating expenses	5	5	5	5	20
TOTALS	15,115	25,085	25,025	10,015	75,240
(Non-add:)					
(HG Loan Agreements)	(12,000)		(13,000)		

* The investments shown for 1983 are only those which complete the use of project resources. The total for that year will be about $25 million, of which about $15 million is for below medium income families.

b) CABEI Resources

CABEI will contribute $50 million of its own investment resources, as well as $20,000 from operating expenses for participant training.

CABEI will obtain its investment counterpart from the following sources, in approximately the amounts indicated:

Recuperations (Housing Fund)	$12,000,000
Earnings on investments (Housing Fund)	5,000,000
Sales of Housing Investment Certificates in CA	8,000,000
International loans and bond sales CABEI)	25,000,000
	$50,000,000

Recuperations: Annual recuperation of principal on CABEI housing investments has been growing rapidly to $3,000,000 now and a projected $5,000,000 in 1983-84. It is the policy of CABEI to reinvest these recuperations in housing. The amount of recuperated funds varies substantially, depending on loans outstanding and their amortization schedules. Another important consideration is the future need by CABEI to repay the principal on its loans. As the grace periods on major loans expire, these obligations will become substantial. Nevertheless CABEI projects that in the seven years 1979-80 through 1985-86, recuperations will be $30,000,000 while amortization of debt will be $11,000,000 resulting in average recuperations of nearly $3,000,000 per year more than planned amortization.

Earnings: In this same seven-year period, investment interest and commissions is projected to be $79,000,000, while financing costs total $68,000,000--a difference of $1,500,000 per year which will be available to finance housing and to cover CABEI operating costs.

Housing Investment Certificates: Another major source of capital for the Housing Fund is the Housing Investment Certificate program which CABEI initiated three years ago. CABEI has determined to limit the total outstanding value of these certificates to $25,000,000. While these certificates have 20-year maturity dates, they are, in fact, sight-redeemable. Thus they are not a very dependable source of long-term capital. While nearly $60,000,000 in certificates have been sold, only $21,000,000 worth are presently outstanding. It is planned to sell an additional $8 million in bonds (housing investment certificates) over the next four year time frame.

International Borrowing and Bond Sales: Because nearly all CABEI housing investments were directly and indirectly in 20-year mortgages, it was desirable to have resources committed for long-terms also. Prepayment of mortgages is common in Central America, but because houses are not bought and sold as frequently as they are in the U.S., most mortgages go to full term or nearly full term. HG loans are the only financing available to CABEI for 20 years and more.

CABEI's current portfolio of purchased or pledged mortgages varies in terms of maturity dates from 6 to 20 years with a significant proportion of them at 14 years. Interests rates paid to CABEI by the borrowing institutions vary from 6 to 10 5/8%. The HG loans made to date to CABEI have maturity dates between 16 to 24 years. The bond sales (housing certificates) sold in Central America, basically are sight redeemable.

CABEI has recently demonstrated the ability to both borrow and sell bonds in the international market with maturity dates of between 7 to 15 years. As CABEI moves into a program of bond purchases from housing institutions with maturity dates of between 5 and 20 years it seems obvious that with the variety of variables as given above that CABEI's housing investments can significantly be increased using non-HG funds obtained in international capital markets without causing an inordinate financial risk for CABEI. (This will be the subject of TA to be provided to CABEI.) Therefore, a major source of CABEI's resources for the housing program, $25 million, will be its general borrowing and selling of bonds in that market.

B. FINANCIAL ANALYSIS

1. Financial Statement Analysis*

A financial analysis of CABEI is unique in that no real basis for comparison with "industry" standards exists. While the idea of regional development institutions is not new, CABEI stands by itself through the simple fact that its equity participants include no major industrialized nations.

There is no question that CABEI, over the last 15 years, has performed impressively in terms of financial development. Its net annual growth rate registered 33.42% for the period. Based on its demonstrated credit worthiness the Bank has succeeded in penetrating the international capital markets for a major portion of its funds.

a) Capitalization

The Housing Fund's capital adequacy ratio ** has, for the most part, remained between 5% and 15% (the desired rate). Because the Housing Fund received no initial capital contribution, the ratio for the early years was low and remained so through 1967. As the Housing Fund's profitability increased, so did its net expansion. On the other hand, CABEI, as a whole, has shown a propensity to remain overcapitalized. By 1978, the overall capital adequacy ratio for CABEI had fallen, yet still remained high at 26.67%.

The Housing Fund's capital adequacy performance has been impressive since the late sixties due primarily to three factors: (1) seed-capital concessional funding; (2) the differential in amortization periods between loans payable and loans receivable; and (3) a high degree of liquidity maintained by the fund and invested in high yield, sight-redeemable deposits with member country central banks.

b) Assets

Durin- the period 1967-78, CABEI as a whole has maintained an average liquidity ratio (cash and other liquid assets to total assets) of 14.8%. Over the 5-year period 1974-78, the ratio was 9.75%. Both of these ratios are considered reasonable. The Housing Fund, however, shows the ratios of 25.96% and the 25.84% for the same periods, respectively. Causes of and possible solutions to this high liquidity were discussed in the Institutional Analysis.

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*Annex D has a comparative analysis of CABEI's financial statements for the past years.

**The ratio of net worth divided by risk assets (portfolio) which defines the amount of default the Bank can absorb and still remain solvent.

From 1967 through 1978, the Housing Fund's average assets grew at an annual compounded rate of 22.65%; the Fund's long-term portfolio grew at about the same rate, tracking at 22.29% per year. During the same priod, CABEI registered an annual compounded growth rate on average assets of 24.40%. CABEI's overall portfolio grew at the faster rate of 27.62%. These rates are impressively high.

Most finance institutions attempt to develop loan portfolios that contirbute to a majority of their asset structure, or between 75% to 90% of total assets. CABEI has succeeded in doing just that; from 1967 through 1978, the ratio of average risk assets to total average assets has averaged 79.27%. Since 1970, the average has been 83.42%.

The Housing Fund's situation has been different since 1967, the average ratio of risk assets to total assets has been 71.44%. In 1973, 1974, and 1975 the ratios had increased to 79.34%, 87.97% and 86.21%, respectively. Then in 1976, 1977 and 1978, the ratios fell off drastically to 66.98%, 57.18% and 65.09%, respectively; during these same three years, the Housing Fund's total average assets increased by over 81%, yet its portfolio only increased 76%.

c) Results of Operations

Rates of net return on investment above 1.5% per year are usually considered satisfactory by most financial institutions. CABEI did not consistently begin achieving this mark until 1968. Since then, this indicator has remained above 2%, averaging 2.84% for the 1969-1978 period. Net return on investment is a guage used to measure net profits against the risk portfolio of an institution. It reflects the institution's performance across the entire income and expense spectrum, which includes all financial and administrative costs (including inflation). The Housing Fund's net return on investments has been quite favorable over the 1967-78 period, averaging 3.44% per year. In recent years this ratio has fallen off, due almost to the rising costs of the financial resources available to the Housing Fund.

A financial institution will generally attempt to maintain the ratio of administrative expenses to gross income at less than 25%, trying never to allow it to rise to more than 33%. The Housing Fund's ratio of administrative expense to gross income, during the 1967-78 period, has never surpassed 33%, only slightly topped the 25% mark once, and has been on the decline since 1975.

Deliquency rates can contribute to a decline in net returns on investments; however, the Housing Fund's problems in this area have been negligible throughout the years. In 1978, delinquency was considered low at only 1.9% of the portfolio balance.

Since 1970, CABEI's net return on equity has averaged 9.62%, and since 1975, 11.01%. This is a testament to CABEI's profitability as engineered by its management, even with its present overly capitalized position. CABEI is generating sufficient profits to make the investment worthwhile. The average ratio for the housing fund from 1975-78 was 13.38% demonstrating an excellent leverage position.

2. Housing Fund Cash Flow Analysis

The cash flow presented in Annex D along with its corresponding assumptions for CABEI's Housing Fund over 30 years demonstrates in broad terms the loan's, as well as the Fund's, viability.

CABEI estimates it can cover its costs with a 1% spread over borrowing costs. This 1% spread is what they are planning on using in this project. The incentive to CABEI is that some of the resources they're lending out are internal or acquired at a low cost. Thus in reality they will generate a small profit from this project. CABEI plans to borrow international monies as well as using their own resources in this project.

The cash flow takes high cost monies into consideration and still the Fund remains solvent and intact after 30 years. In summary, the Fund from the strictly financial point of view is viable.

V. IMPLEMENTATION PLAN

A. PROJECT RESPONSIBILITIES

RHUDO/ROCAP will be responsible for managing the TA and the HG loan and for the review and approval of HG disbursements.

Technical assistance will be arranged by RHUDO/ROCAP in coordination with CABEI and with assistance of the Office of Housing (DS/H).

RHUDO/ROCAP will be responsible for monitoring CABEI's performance regarding this project. The institutional requirements, procedures, and reporting requirements for this proposed loan are already familiar to CABEI from HG loan 003.

CABEI will be responsible for the promotion, implementation and servicing of the HG loan with its borrowers. It will review and approve projects, mortgage purchases, mortgage participation contracts, and purchase of mortgage backed securities based either on the eligibility of the available mortgages or of those to be generated. In the latter case, CABEI will be responsible for determining that eligible mortgages are generated by the borrower within the specific time period.

B. CONTRACTING OF HG LOANS AND DISBURSEMENT PROCEDURES

The Housing Guarantee funds will be disbursed over a period of four years. CABEI will seek and enter into loan contracts with eligible U.S. investors directly, with prior AID concurrence. It is expected that the total $25 million HG loan will be negotiated in at least two separate contracts by CABEI.

The drawdowns will be supported by evidence of completed investments by CABEI in mortgages or mortgage-backed securities which have provided the initial long term financing for new housing. Disbursement of HG loan funds will be such that they:

a) Represent not more than one-third of CABEI's total investments in middle and low-income housing subsequent to July, 1979 (the beginning of CABEI's 1979-80 fiscal year);

b) Provide financing only for CABEI's investments in housing affordable by families with below medium incomes in a proportion not to exceed 2/3 of CABEI's total investment in such housing during the same period.

RHUDO/ROCAP will determine the eligibility of the investments as part of the review of documentation presented by CABEI, prior to AID approval of the request for disbursement.

C. PROCUREMENT PROCEDURES

Contracting for HG fee income funded technical assistance contractors will be handled by RHUDO/ROCAP and/or the Office of Housing (DS/H).

D. CONDITIONS, COVENANTS AND NEGOTIATING STATUS

The project will require the execution of four separate documents. CABEI and AID will subscribe to an Implementation Agreement setting forth the implementation procedures, the conditions precedent to disbursements and special covenants.

A Guaranty Agreement, signed by AID, will assure the U.S. investor against any loss. The CABEI Guaranty, signed by CABEI, will provide similar assurance to AID. Finally, the Loan Agreement, to be signed by CABEI and the U.S. investor, will set forth the terms of the loan.

The Implementation Agreement will be negotiated and signed first. A full set of documents will be negotiated and signed for each loan tranche, allowing such time as may be needed to permit CABEI to seek the loans at the most propitious moment in the U.S. capital market, prior to the first disbursement.

1. Conditions Precedent and Covenants

Prior to the first disbursement of HG funds, CABEI shall submit to AID, in form and substance satisfactory to AID, evidence that it has:

a) Contracted for and drawn down the full $23 million third tranche of project 596-HG-003.

b) Established a permanent Housing Coordination Committee responsible for furthering, coordinating and expediting all activities pertaining to CABEI's Housing Fund. This committee will be comprised of the designated housing officers in each division of the Bank, as appropriate. With the exception of Legal Office, this personnel will devote their efforts on a priority basis to their housing responsibilities.

The designated housing officer of the Programming and Promotion Division will be the permanent chairman of the Committee.

c) Revised the Housing Operating Plan and Guidelines (Documento BCIE, DFV-2) in a manner which is consistent with the Bank's housing policy and the HG loan Implementation Agreement.

d) Formulated an agreement and programmed the purchase of mortgage-backed securities to be issued by a national housing finance institution in each of at least three Central American countries. The agreement will set forth the understanding regarding the terms of the bond transaction between CABEI and each national institution.

e) Revised the Housing Fund financial accounting system to collect and produce pertinent information on a timely basis, especially regarding the uses of the HG loan and the CABEI matching funds, per the provisions of the Implementation Agreement.

2. Negotiating Status

RHUDO/ROCAP and CABEI senior staff have had many discussion meetings in the process of designing this project and drafting this Project Paper. The CABEI Board of Directors is aware of this proposed project. In adopting the CABEI housing policy statement in August 1979, the Board committed CABEI to policies which are fully consistent with this project. Accordingly, there are no major issues to be negotiated at this time.

Specific details of this project will be further defined in the process of preparing the Implementation Agreement.

E. EVALUATION PLAN

1. AID Evaluation

As part of its responsibilities RHUDO/ROCAP will conduct four regular annual evaluations, and a final evaluation following project completion. The annual evaluations will be programmed to precede the approval of loan disbursements to CABEI.

CABEI's records and interviews with its executives will be the sources of most evaluation information. In addition, the annual evaluations will include interviews with a total of six participating institutions in at least three countries. One aspect of these institutional interviews will be to determine on a sample basis the progress made in financing housing affordable by the poor by each of these institutions and countries. Sample mortgage portfolios financed with the proceeds of securities purchased by CABEI will be reviewed for compliance with Implementation Agreement requirements.

The final evaluation will be similar to the annual evaluations except that investigations will be more intensive and more emphasis will be placed on actual "end-of-project status".

RHUDO/ROCAP has received assurance of cooperation in these evaluations from CABEI and several of the other participating institutions. The Implementation Agreement will, of course, specify this cooperation.

Baseline data for the planned evaluations will be obtained largely from: (1) the case study evaluation of CABEI just completed and (2) the household income distribution/housing costs estimates to be made through technical assistance early in 1980. In addition, CABEI will continue to provide quarterly reports on all of its AID-assisted housing projects, including this new project.

2. CABEI Evaluations

CABEI will systematically audit and evaluate the management practices and financial solvency of its borrowing institutions.

The fact that CABEI will invest more in mortgage-backed bonds and less directly in housing projects will require some changes in the criteria and procedures used in these audits and evaluations. The changes will be considered in the process of updating the Housing Operating Plan and Guidelines.

A N N E X A.

L O G F R A M E

AID 1020-26 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project
From FY 1979 to FY 1984
Total U.S. Funding $25,000,000
Date Prepared August 1979

Project Title & Number: (596-HG-005)

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes:	Measures of Goal Achievement:		Assumptions for achieving goal targets:
To provide new opportunities for the poor in Central America to obtain decent shelter by increasing the volume of funds available to finance shelter affordable by the poor majority in each of the five countries of the region.	An increase in the volume of investment in housing loans for units affordable by the region's poor.	Comparison of pre-project baseline data with post-project national, housing investment statistics in each Central American country.	The lack of financing is one of the constraints limiting the production of housing for the poor in Central America.

ANNEX A

AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 1979 to FY 1984
Total U.S. Funding $25,000,000
Date Prepared: August, 1979

Project Title & Number: (596-HG-005)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose: This project will establish a viable secondary mortgage market program in CABEI capable of and dedicated to supporting housing finance institutions and housing projects for the poor in each of the five countries of Central America.	**Conditions that will indicate purpose has been achieved: End of project status.** 1. CABEI is committing funds obtained through it general borrowing to the Housing Fund. 2. These and funds from other sources (recuperations, return on investments) are being combined to finance a $20 to 30 million housing program yearly in the Bank. 3. CABEI is using these funds to: 3.1) purchase (and to a lesser degree resell) some $15 million in mortgage-backed securities issued by national housing finance institutions in the region and, 3.2) increase the yearly flow of funds for housing for the poor in the region by $10-15 million	Review of CABEI yearly and multi-year investment program during the end-of-project evaluation.	**Assumptions for achieving purpose:** CABEI can continue to obtain medium-term loans (5-15 years) in the international capital markets.

ANNEX A

AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 1979 to FY 1984
Total U.S. Funding $25,000,000
Date Prepared August, 1979

Project Title & Number: (596-HG-005)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs: 1. Institutional Changes: The project will lead to the development within CABEI of: 1.1 A solid, ongoing financial base for the Bank's Housing Fund. 1.2 The capability to provide support to the capital mobilization efforts of the national housing finance institutions. 1.3 The capability to respond to the housing needs of the poor in Central America. 1.4 Greater agility and better coordination in the internal operation of the Bank's housing program. 2. Housing units financed	**Magnitude of Outputs:** 1.1 a) One member of the staff of the Financial Division trained to monitor, plan and execute the flow of financing for the Housing Fund. b) Improved procedures for the recording and reporting on a more timely basis of the financial information of the Housing Fund are implemented. 1.2 a) One member of the staff of the Financial Division trained to monitor national programs to mobilize capital for housing and to recommend the most effective use of the Bank's investments in housing to support these efforts. b) Procedures to effect the transactions of the secondary mortgage market program through the purchase of nationally issued mortgage-backed securities are implemented. 1.3 a) The use of targeting techniques to identify the housing needs of the poor. b) Procedures to guarantee that housing units for the poor are in fact financed with the Bank's resources are implemented.	1. The institutional changes will be confirmed through the evaluation process. The development of the various procedures and their implementation is easily verified by observation. The impact of the new procedures is somewhat harder to determine. This will require the design of more detailed indicators during the initial implementation of the project. That activity will be a part of the evaluation plan. 2. The type and number of units financed will be a matter of record. The information will be available at the moment of the various drawdowns.	**Assumptions for achieving outputs:** 1. CABEI has the desire and the basic skills and experience that are necessary to effect the projected institutional changes. 2. Public and private housing institutions in Central America will generate a demand for CABEI financing for the type and number of units projected. 3. CABEI has the capability to promote and implement the projected volume of loans.

ANNEX A

AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 1979 to FY 1984
Total U.S. Funding $25,000,000
Date Prepared August, 1979

Project Title & Number: (596-HG-005) (Continuation)

PAGE 3 Cont

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs:	**Magnitude of Outputs:**		**Assumptions for achieving outputs:**

1.4
a) Loan approval procedures involving fewer steps, concentrating responsibility in fewer divisions and providing greater authority over details to the Bank's staff are implemented
b) An adjustment to the Bank's organization to facilitate internal coordination of the housing progra, consisting of designated "housing officers" in each division.
c) A complete revision of the manual for the housing program "Normas y Plan Operativo, Documento BCTF DFV-2" has been implemented.
2. Type and approximate number of units to be financed:

House type	cost range	No. units
core	$2.5-4,000	2,400
low-cost	$6. -9,500	5,400
middle cost	$5. -15,000	2,900
		10,700

ANNEX A

AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 1979 to FY 1984
Total U.S. Funding $25,000,000
Date Prepared: August 1979

Project Title & Number: (596-HG-005)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs:	Implementation Target (Type and Quantity)		Assumptions for providing inputs:
1. Financial inputs:		The inputs will be verified during project monitoring and recorded in the evaluation reports.	1. HG loan capital will be available in the U.S. market
1.1 AID/HG loan	1.1 $25,000,000		2. CABEI's counterpart investment will be available
1.2 AID/HG fee income (for TA)	1.2 90,000		3. The TA is necessary only as a complement to CABEI's own capability to design and implement the desired institutional changes.
1.3 CABEI contributions to the Housing Fund	1.3 50,000,000		
1.4 CABEI operating expenses (for training)	1.4 20,000		
	$75,110,000		
2. Technical assistance:	2.1 Aprox - 10.½ person/months		
2.1 Consultant services	2.2 Aprox - 12 person/months		
2.2 Participant training			

ANNEX A

A N N E X B.

P P T N

ANNEX B

PROJECT PLANNING AND TRACKING NETWORK

Event/ Activity	FISCAL YEAR 79 4	80 1	80 2	80 3	80 4	81 1	81 2	81 3	81 4	82 1	82 2	82 3	82 4	83 1	83 2	83 3	83 4	84 1	84 2	84 3	84 4
Project Implementation:																					
1 Authorization	1																				
2 Sign IA			2																		
3 Sign Loan					3								3								
4 Drawdown					4			4					4			4					
5 Evaluation			5				5				5				5						
Inputs Financial:																					
AID ($millions)				4.5				7.5				9.0				4.0					
CABEI ($millions)				10.5				17.5				16.0				6.0					
Technical:																					
Short Term TA (P/M)		3	2	2	2	2	2	1					1						1		
Resident TA (P/M)				6				6													
CABEI Trg (P/M)				4				4			2		2								
Other Trg (P/M)				7				7					4								
Outputs Institutional Changes:																					
Housing Fund Finances	—	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Secondary Mortgage																					
Market Operations	—	—	—	—	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revised organization	—	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revised procedures	—	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Targeting urban poor	—	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Legend:

Event

Design new procedures

Implement new procedures

ANNEX C.

PROJECT AUTHORIZATION DOCUMENTS

Exhibits.

No.	Content
1.	Statutory Checklist
2.	Borrower's request
3.	DAEC PID review cable
4.	Draft HG authorization
5.	Negative Determination

ANNEX C
Exhibit 1.

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

THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLIST

(COUNTRY)

Answer YES/NO (* Items Requires Reference to Project Paper Pages)

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; — Yes * (14)

(2) is intended to assist in marshalling resources for low-cost housing; — Yes * (16)

(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 — No *

(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 * (16.19)

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) projects comprised of expandable core shelter units on serviced sites; — Yes • (21)

(3) slum upgrading projects designed to conserve and improve existing shelter; — No •

(4) shelter projects for low-income people designed for demonstration or institution building; and — No •

(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? — NA •

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 1 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 • (13-15)

(3) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of housing and other institutional arrangements? — Yes • (16-21)

(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 * (21-26)

(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

DS/H

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA

TEGUCIGALPA, D. C., HONDURAS, C. A.

PRESIDENTE

DIRECCION CABLEGRAFICA
BANCADIE

24 de agosto de 1979

Señor Harry Ackerman
Director de ROCAP
Guatemala, Guatemala

Estimado señor Ackerman:

Tengo el agrado de dirigirme a usted en relación con el Programa de Vivienda que el Banco viene realizando con la ayuda de fondos garantizados por la Agencia Internacional para el Desarrollo (AID).

Este Programa de Vivienda, que se ha desarrollado desde hace más de diez años y que ha logrado atender el problema habitacional de la región en más de 30.000 unidades, proporcionando techo a una población de aproximadamente 150.000 centroamericanos, ha tenido siempre el apoyo valioso de AID, particularmente mediante su Programa de Garantía para Vivienda.

Como he tenido a bien manifestarle en diversas ocasiones, constituye política del Banco continuar haciendo esfuerzos en el campo de la vivienda, a través de nuestro fondo, habiéndolo expresado así en nuestro Plan Quinquenal, que el día de hoy tengo el gusto de remitirle, con lineamientos generales que cuentan con la aprobación de nuestro Directorio.

Estos lineamientos de política señalan los criterios de nuestro financiamiento en un futuro de corto plazo, indicando parámetros, montos estimados de financiamiento, fondos a ser invertidos, tipos de vivienda a construirse, así como sectores de población a ser atendidos.

Todo lo anterior es concordante con las políticas y gestiones llevadas a cabo entre funcionarios de la Representación de la AID Vivienda en Honduras y funcionarios del Banco que han iniciado negociaciones sobre las condiciones de una nueva garantía de AID, en respaldo a nuestro Programa Quinquenal para el Sector Vivienda.

Sr. Harry Ackerman
ROCAP

Por lo antes expuesto, me permito solicitar, por su digno medio, garantía hasta por US$25.0 millones dentro del Programa de Garantía para Vivienda de AID, con el objeto de reforzar nuestras necesidades financieras en el campo de vivienda con recursos obtenidos en base a dicha garantía.

En la confianza de que nuestra petición, al igual que en otras ocasiones en el pasado, recibirá la más cordial acogida, hago propicia la oportunidad para agradecerle de antemano su valioso apoyo, renovándole el testimonio de mi más alta consideración y personal aprecio.

Alberto Galeano M.
Presidente

Guatemala 4982

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CLASSIFICATION

Jul 31 19 05 79

ANNEX C
Exhibit 3

R 302240Z JUL 79
FM AMEMBASSY GUATEMALA
TO AMEMBASSY TEGUCIGALPA 6528
BT
UNCLAS GUATEMALA 4982

AIDAC//ROCAP

E.O. 12065: N/A
SUBJ: CA SECONDARY MORTGAGE DEVELOPMENT PID

FOLTEL DTG P262342Z JUL 79 SENT ACTION GUATEMALA PRIORITY
REPEATED FOR YOUR ACTION:

QUOTE

UNCLAS STATE 194724

AIDAC-FOR ROCAP

E.O. 12065: N/A
SUBJ: CA SECONDARY MORTGAGE DEVELOPMENT PID

REF: STATE 174929

THE CA SECONDARY MORTGAGE DEVELOPMENT PID, WHICH WAS RESUBMITTED FOR REVIEW, HAS BEEN APPROVED BY THE DAEC. THE FOLLOWING SPECIFIC GUIDANCE IS PROVIDED TO ASSIST THE MISSION IN PREPARING THE PROJECT PAPER.

1. CABEI'S HOUSING POLICY. THE PID INDICATES THAT CABEI HAS MADE A SIGNIFICANT COMMITMENT TO HOUSING AS ONE OF ITS SECTORS OF INVOLVEMENT AND HAS ASSIGNED PRIORITY TO LOW COST HOUSING AFFORDABLE BY THE REGION'S POOR. THE PID PROVIDES EVIDENCE OF THIS COMMITMENT WITH AN ANALYSIS OF CABEI'S FIVE YEAR INVESTMENT PROGRAM FOR 1979-83, AND STATES THAT A REVISED CABEI HOUSING POLICY STATEMENT CONFIRMING THESE INTENTIONS WILL BE AVAILABLE SHORTLY. IT IS CONSIDERED ESSENTIAL, AND A CONDITION OF THE INTENSIVE REVIEW, THAT THIS POLICY STATEMENT BE SUBMITTED AS AN ANNEX TO THE PP. IT SHOULD INDICATE THE NATURE AND EXTENT OF THE BANK'S COMMITMENT TO THE HOUSING SECTOR, INCLUDING CABEI'S [illegible] IN THE SECONDARY MORTGAGE MARKET IN CENTRAL AMERICA.

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2. EXPERIENCES UNDER PREVIOUS HG PROGRAMS. PAST A.I.D. HG PROGRAMS HAVE HAD THE OBJECTIVE OF INSTITUTIONALIZING CABEI'S HOUSING ACTIVITIES AND CREATING A SECONDARY MORTGAGE MARKET. THE PP SHOULD, THEREFORE, DESCRIBE THE EXPERIENCES TO DATE UNDER PREVIOUS PROGRAMS AND THE DIFFICULTIES EXPERIENCED IN CREATING A SUCCESSFUL SECONDARY MORTGAGE MARKET IN CABEI; THE NATURE OF THE CURRENT HG PIPELINE; AND WHY AND HOW IT IS EXPECTED THAT THIS PROPOSED HG PROGRAM WILL LEAD TO INSTITUTIONALIZING A SECONDARY MORTGAGE MARKET OPERATION WITHIN CABEI.

NAN

3. SECONDARY MORTGAGE OPERATIONS. THE PP SHOULD INDICATE IN DETAIL HOW THE SECONDARY MORTGAGE PROGRAM WILL FUNCTION, INCLUDING ELIGIBILITY CRITERIA TO BE EMPLOYED BY CABEI IN THE PURCHASE OR ACQUISITION OF MORTGAGE SECURITIES, RESTRICTIONS ON THE USE OF THE PROCEEDS BY NATIONAL INSTITUIONS AND CONTROL AND EVALUATION MEASURES. THE PP SHOULD ALSO DESCRIBETHE LINKAGES BETWEEN DOMESTIC SECONDARY MARKETS IN INDIVIDUAL CA COUNTRIES AND THE PROPOSED REGIONAL SECONDARY MARKET.

4. TARGET GROUP. THE PID INDICATES ABOUT 55PERCENT OF THE DOLS 75 MILLION PROGRAM, INCLUDING ALL OF THE PROPOSED HG RESOURCES, WILL BE AVAILABLE TO FINANCE HOUSING AFFORDABLE BY THE POOR. THE PP SHOUD PRESENT FUNDING ALLOCATIONS OF THE PROGRAM'S RESOURCES FOR DIFFERENT TYPES OF SHELTER (E.G., CORE HOUSING, LOW COST HOUSING, SITES AND SERVICES, ETC.). IT SHOULD DEMONSTRATE THE RELATIVE INCOME LEVELE OF THE FAMILIES WHICH CAN AFFORD THE PROPOSED TYPICAL HOUSING, INCLUDING THE NUMBER AND TYPE OF SOLUTIONS EXPECTED TO REACH BELOW THE 40TH PERCENTILE. THE ALLOCATION SHOULD BE BASED ON FURTHER ANALYSIS OF HOW FAR DOWN THE INCOME SCALE WE CAN REASONABLY PUSH NATIONAL INSTITUTIONS THROUGH THE USE OF A SECONDARY MARKET FACILITY. INCOME DISTRIBUTION DATAAND TARGET GROUP PROFILES SHOULD BE INCLUDED FOR THE LIKELY BENEFICIARIES IN EACH COUNTRY, AS WELL AS A DISCUSSION OF THEIR ABILITY TO AFFORD THE TYPE OF HOUSING SOLUTIONS CONTEMPLATED AND THE EXPECTED DEMAND FOR HOUSING.

5. ABSORPTIVE CAPACITY. SINCE THERE ARE BILATERAL HG PROGRAMS IN MOST OF THE CENTRAL AMERICAN COUNTRIES, THE PP SHOULD CLARIFY THE RELATIONSHIP BETWEEN THE VARIOUS PROGRAMS, PARTICULA
LY IN TERMS OF THE TARGET GROUP TO BE SERVED, AS WELL AS DISCUSS THE CAPACITY OF CABEI AND THE NATIONAL HOUSING INSTITUTIONS TO IMPLEMENT THE PROJECT WITHIN A REASONABLE TIME FRAME. IN PARTICULAR, THE PP SHOULD ANALYZE LOCAL DELIVERY MECHANISMS AND MEANS TO AMELIORATE COORDINATION AND MANAGEMENT PROBLEMS EXPERIENCED BY CABEI. THE MAGNITUDE OF OTHER DONOR AND COMMITTED OR PLANNED AID FINANCED HOUSING PROGRAMS SHOULD BE DISCUSSED, AND THE CAPACITIES OF PARTICIPATING INSTITUTIONS TO EFFECTIVELY UTILIZE ADDITIONAL RESOURCES SHOULD BE ANALYZED. VANCE UNQUOTE

ORTIZ

BT
#4982

ANNEX C/EXHIBIT 4

GUARANTY AUTHORIZATION

PROJECT 596-HG-005

Provided From: Housing Guaranty Authority

For : Central American Bank for Economic Integration (CABEI)

Pursuant to the authority vested in the Deputy 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 twenty-five million dollars ($25,000,000) in face amount, 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 housing projects in Central America. This guaranty will assist CABEI in establishing a viable secondary mortgage program capable of supporting housing finance institutions and housing projects in Central America.

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

1. Term of Guaranty: The loans 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 loans shall extend for a period beginning with the first disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.

2. Interest Rate: The rate of interest payable to the Investor pursuant to the loans 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 U.S. capital markets.

3. Fee: The fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding guaranteed amount of the loans plus a fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.

4. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

The Project shall be subject to the following covenants and conditions:

1. Conditions Precedent

Prior to the first disbursement of HG funds, CABEI shall submit to A.I.D., in form and substance satisfactory to A.I.D., evidence that it has:

a) Contracted for and drawn down the full $23 million third tranche of project 596-HG-003.

b) Established a permanent Housing Coordination Committee responsible for furthering, coordinating and expediting all activities pertaining to CABEI's Housing Fund.

c) Revised the Housing Operating Plan and Guidelines (Documento BCIE, DFV-2) in a manner which is consistent with the Bank's housing policy and the HG loan Implementation Agreement.

d) Formulated an agreement and programmed the purchase of mortgage-backed securities to be issued by a national housing finance institution in each of at least three Central American countries. The agreement will set forth the understanding regarding the terms of the bond transaction between CABEI and each national institution.

e) Revised the Housing Fund financial accounting system to collect and produce pertinent information on a timely basis, especially regarding the uses of the HG loan and the CABEI matching funds, per the provisions of the Implementation Agreement.

2. Covenants:

The drawdowns will be supported by evidence of completed investments by CABEI in mortgages or mortgage-backed securities which have provided the initial long term financing for new housing. Disbursement of HG loan funds will be such that they:

a) Represent not more than one-third of CABEI's total investments in middle and low-income housing subsequent to July, 1979 (the beginning of CABEI's 1979-80 fiscal year);

b) Provide financing only for CABEI's investments in housing affordable by families with below medium incomes in a proportion not to exceed 2/3 of CABEI's total investment in such housing during the same period.

c) The project will be subject to such other terms and conditions as A.I.D. may deem necessary.

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

LAC/DR-IEE-79-41

ASSISTANT ADMINISTRATOR

ENVIRONMENTAL THRESHOLD DECISION

Location : Central America Regional

Project Title : CA Secondary Mortgage Development, 596-0087

Funding : HIG - $25 million

Life of Project: Continuing

Recommendation:

The Development Assistance Executive Committee of the Bureau for Latin America and the Caribbean has reviewed the Initial Environmental Examination for this project and concurs in the recommendation of the Office of Housing for a Negative Determination as subject project involves a contribution to a regional organization which is not for the purpose of carrying out a specifically identifiable project (see Section 216.2F).

AA/LAC Decision:

Pursuant to the authority vested in the Assistant Administrator for Latin America and the Caribbean under Title 22, Part 216.4a, Environmental Procedures, and based upon the above recommendation, I hereby determine that the proposed project is not an action for which an Environmental Impact Statement or an Environmental Assessment will be required.

Edward L. Cox
Assistant Administrator for
Latin America and the Caribbean

Nov. 20 1979
Date

Clearances:
LAC/DR:Environmental Advisor:ROtto
DAEC Chairman:MBrown

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

ENVIRONMENTAL THRESHOLD DECISION
Central American Bank for Economic Integration (CABEI)

The project of AID support for the Central American Bank for Economic Integration (CABEI) is a housing guaranty loan of US $25 million, as described in the attached PID. CABEI is a multi-national housing finance bank whose members are public institutions of the Central American countries.

A NEGATIVE DETERMINATION is recommended, thus requiring no further environmental assessment, based upon the August 1976 "Guidelines for the Preparation of IEEs" and the following findings:

1) In serving its member countries, CABEI is a regional credit institution, not a project financing agency.

2) The HG loan activities of CABEI are not designated for specific projects, nor even specific countries.

3) The primary intent of the loan is to help capitalize CABEI, increasing its ability to purchase mortgages on the secondary mortgage market.

Office of Housing David McVoy
David McVoy
Assistant Director
for Operations

Date 6/7/79

Attachment: a/s

A N N E X D.

C A B E I D O C U M E N T S

Exhibits

No.	Content
1.	Housing Policy
2.	HG-003/III - Status of obligations
3.	HG-004 - Cash flow
4.	Housing Fund-Summary of Investments
5.	Comparative Statement of Condition (Housing Fund)
6.	Comparative Statement of Condition (CABEI)
7.	Thirty year Housing Fund cash flow

ANNEX D, PART 1

GENERAL POLICY FRAMEWORK
CABEI's HOUSING FINANCING PROGRAM

The housing problem in Central America and CABEI's contribution

A. Central America has one of the highest annual rates in population growth in all of Latin America, a phenomenon which is reflected in the expanding housing needs of both the urban and rural areas. This constant and accelerated growth, as well as natural and political phenomena which have affected Central America in recent years have increased the housing deficit of the region alarmingly. At present it is estimated to surpass 1.5 million housing units. Should it continue to increase at the present rate, it will have reached close to 3.0 million housing units by the year 2000.

For several years CABEI has supported Central American efforts to alleviate the area's housing problem. It has participated in the financing of more than 30,000 units, thus providing housing for a population of more than 150,000 Central Americans. At the same time, it has fulfilled a great need by acting as a "stabilizing entity" in stimulating the creation of the new savings and loans institutions through which the greatest part of personal savings have been mobilized. Likewise, CABEI established and initiated the operation of a Secondary Mortgage Market, at regional level. This mechanism has helped to solve the acute liquidity problems faced by the participating institutions caused by the relatively slow recuperation rate of long term loans.

CABEI's contribution until now has been of great importance and significance, especially if we take into account that this contribution has constituted a complement to the effort that both public and private institutions of the area should make to help solve the existing housing problem.

The necessity to double the efforts

B. Despite the joint efforts and tremendous investments made by the Bank, the central governments, international agencies, and all other organizations which promote housing development projects, these efforts are not equal to the actual magnitude of the problem, which has been growing in a dramatic way, especially among the low-income sectors whose capacity for acquiring housing on their own is practically nil.

The housing problem in Central America represents a tremendous challenge to which a rapid and effective

solution should be found, not only because adequate housing creates the social climate needed to achieve the orderly development of society, but because this sector has broad repercussions over the economic development process of the region.

Adequate housing, in other words, housing which combines favorable conditions of security, livability, durability, and hygiene, not only directly contributes to the betterment of the population's health and living standards but is essential to human dignity and fulfillment, providing the physical environment within which the essential economic and cultural resources of the individual are externalized, enriched and integrated, all of which contribute to increased economic development.

Based on the above considerations, the Bank considers that housing is one of the sectors which should receive its attention and support.

With this purpose in mind, CABEI will continue to provide financial and technical assistance to the housing sector in Central America throught its Regional Housing Finance Program.

Special assistance to low-income groups

C. Low-income population groups in Central America are the most affected by the housing problem. A great percentage of these groups obtain their housing through what is known as "informal sector" by establishing illegal settlements and slums without formal planning. In the majority of the cases these settlements lack the basic urban services. For this reason, CABEI will orient its housing program to providing financial and technical assistance for the development and construction of housing intended for low and medium-income family groups, making its best effort to approve no less than 50% of the financing granted throught that program for housing for low-income families. The other 50% will be available for financing medium-income family housing, for which the maximum acceptable sale price by the Bank will be $CA.15,000.

In order to define family income parameters, low-income families will be defined as those whose income is below that of the 50th income percentile group. Medium-income families will be those falling between the median and that which will allow the purchase of a dwelling at the maximum price allowed by the Bank of $CA.15,000.

The sales price of those dwellings which can be financed by the Bank will be determined in accordance with the purchasing capability of the purchaser, whose monthly payment cannot be less than 15% nor more than 30% of the income of the head-of-household or of the family group as a whole (Ref. BCIE-DFV-2/6.3.6).

The Bank will make further concerted efforts so that of the 50% of its funds targeted for low-income housing, at least 20% is targeted on those family groups whose income is below that of the 40th percentile group.

CABEI's housing program

D. The Secondary Mortgage Market System established by the CABEI on a regional level, as well as the sale of housing investment certificates (CIV-BCIE) has proven to be an important mechanism for mobilizing resources and for providing a constant flow of financing to the participating institutions. For such reason CABEI will dedicate its efforts to strengthening that system.

In the same manner, efforts to acquire funds throught AID's Housing Guaranty Program, as well as through other outside financing sources, will be increased. New schemes and mechanisms useful in the acquisitiion of funds for the program will also be adopted.

The Secondary Mortgage Market System at regional level will continue to be the principal housing finance mechanism within the Bank's Housing Program. CABEI will provide the bulk of the financing to participating institutions throught the purchase of mortgages and/or mortgage participations; of securities backed by mortgages, including mortgage-backed bonds, and of mortgage participation contracts in accordance with existing national legislation.

Considering:

a. the magnitude of the housing deficit accumulated to date in Central America and to redouble efforts in order to provide an adequate solution to the problem;

b. The necessity of strengthening the economic development process of the region, which can be assisted by stimulating construction of new housing units; and

c. the fact that the Bank has a strong international financial standing that allows it to provide ample support to the housing sector.

CABEI will provide financing, through its Housing Program at a level of approximately $CA.25.0 million annually over the next five years.

The resources to finance this program will be obtained from various funding sources such as recuperations and profits from previous investments; through the emission and sale of securities backed by the Bank's mortgage portfolio (Investment Certificates, Housing Bonds, etc.); through the Secondary Mortgage Market operations in Central America and in International markets, and through international agencies such as AID, BIAPE, IDB, etc.

To provide greater dynamism and agility to its Housing Financing Program, the Bank will concentrate its efforts on three basic activities:

1. Foment:

a. The development of housing projects that qualify within the Bank's established specifications and regulations; and

b. Operations regarding the purchase and resale of mortgages and/or mortgage-backed instruments, providing permanent supervision and auditing for these operations. The responsibility of complying with the specifications and regulations of the Bank's Housing Program, as well as the supervision of the actual construction of the housing units, will be delegated, as far as the Bank's interests allow, to participating institutions.

2. Assist and/or collaborate with the various Central American governments in obtaining the best possible utilization of the financial resources available to address the housing problem.

3. Participate actively in local and international conferences on housing and human settlements, as well as in public and private meetings and conferences related to the development of housing programs.

Organizational adaptation of the program

E. To achieve this objective of a dynamic, flexible and adaptable housing program, the Bank will provide a highly qualified and experienced staff, with technical, financial and programming experience to coordinate and to provide the needed assistance to the housing program.

During the current year the Bank will make a study to determine the convenience of making such changes in the organization and coordination of the staff in charge of housing activities as are necessary to provide for the current and future needs of the program.

The operational procedures of CABEI's Housing Finance Program specified in Document DFV-2 will also be revised this year to adapt them to the increased efforts in the housing sector by the Bank.

LINEAMIENTOS GENERALES DE POLITICA

PROGRAMA DE FINANCIAMIENTO DE VIVIENDA DEL BCIE

A.- El Problema Habitacional de C.A. y la Contribución del BCIE.

La población de Centroamérica es una de las que registran mayor tasa de crecimiento anual en toda latinoamérica, fenómeno que viene acrecentando contantemente las necesidades de vivienda, tanto en las áreas urbanas como e las rurales. El acelerado y constante crecimiento de la población, así como la incidencia que han tenido fenómenos naturales y políticos como los que h venido azotando a Centroamérica en los últimos años, han incrementado alarm temente el déficit habitacional de la región, el cual en la actualidad se e tima que sobrepasa de 1.5 millones de unidades habitacionales y que de cont nuar incrementándose el ritmo actual, para el año 2,000 llegará a unos 3.0 millones de unidades habitacionales.

Desde hace muchos años el BCIE ha estado brindando su apoyo a los esfuerzos que se hacen en Centroamérica para atender el problema habitacional de la región, habiendo participado en el financiamiento de más de 30,000 unidades para darles techo a una población de más de 150,000 centroamericanos, habie do cumplido por otra parte una gran labor como "Organismo Estabilizador" po medio del cual se ha estimulado la creación de nuevas instituciones de ahor y préstamo a través de las cuales se movilizan gran parte de los ahorros de público. En igual forma el BCIE ha establecido y puesto en vigencia las ope raciones de un Mercado Secundario de Hipotecas a nivel regional, por medio del cual se ha contribuido a solventar el agudo problema de iliquidéz que se le presenta a las instituciones participantes en razón de las lentas recuperaciones que tienen los créditos a largo plazo.

La contribución hecha por el BCIE hasta el momento es de gran importancia y significación, especialmente si se toma en cuenta el hecho de que dicha contribución es una complementación del esfuerzo que las instituciones públicas y privadas del área deben realizar para aliviar el agudo problema habitacional que existe.

B.- Necesidad de Redoblar Esfuerzos.

Pese a la labor realizada y a la gran inversión que en forma conjunta se ha hecho por el Banco, por los Gobiernos de Centroamérica, por las Agencias Internacionales y en fin por todos los organismos que promueven el desarrollo de la vivienda, estos esfuerzos no corresponden a la verdadera magnitud del problema, el cual ha venido creciendo en forma dramática, especialmente en los sectores poblacionales de bajos ingresos cuya capacidad para la adquisición de vivienda por su propia cuenta es practicamente nula.

El problema de la vivienda en Centroamérica plantea un reto tremendo al que es preciso encontrarle una respuesta rápida y efectiva, no solo por cuanto una vivienda adecuada crea el clima social que se necesita para lograr el desarrollo ordenado de la sociedad, sino también porque este sector tiene amplias repercusiones en el proceso del desarrollo económico de la región.

Una vivienda adecuada, o sea aquella que reúne las condiciones favorables de seguridad, habitabilidad, duración e higiene, no solo contribuye directamente a mejorar los niveles de vida y de salud de la población, sino que es esencial para la dignidad y la plena realización humana, proporcionando el

medio ambiente físico dentro del cual se exterioriza, se enriquece y se integran los recursos humanos esenciales, económicos y culturales del individuo, todo lo cual contribuye a incrementar el desarrollo económico en general.

Con base en las consideraciones antes expuestas, el Banco considera que el sector de la vivienda es uno de los que deberán recibir toda su atención y apoyo.

Con este propósito, el BCIE continuará brindando su asistencia financiera y técnica para el sector habitacional de Centroamérica a través de su Programa Regional de Financiamiento de Vivienda.

C.- ecial asis- cia a los os de ba- ingresos.

Por otra parte, tomando en cuenta que los grupos poblacionales de bajos ingresos en Centroamérica son los más afectados con el problema habitacional de la región, ya que un gran porcentaje de estos grupos obtienen su vivienda a través de lo que se conoce como "Sector Informal", estableciendo con ello asentamientos ilegales y cobachas sin ningún control y en la mayoría de los casos sin ninguno de los servicios urbanos básicos, el BCIE orientará su programa habitacional a dar financiamiento y asistencia-técnica para el desarrollo y la construcción de viviendas destinadas a los grupos familiares de bajos y medianos ingresos, haciendo sus mejores esfuerzos para que por lo menos el 50% de las aprobaciones de financiamiento otorgadas a través de dicho programa sean usadas para financiar viviendas destinadas a los grupos familiares de bajos ingresos, pudiendo destinarse el otro 50% al financiamiento de viviendas para los grupos familiares de medianos ingresos, en cuyo caso el precio de venta máximo que será aceptable para el Banco será de $CA.15.000 por unidad habitacional.

Para efecto de definir los parámetros de ingreso familiar, se considerarán "ingresos bajos", aquellos que se encuentren dentro del 50 percentil de la escala salarial, mientras que los "ingresos medios" serán los que se ubiquen entre dicho percentil y el percentil que les permita la adquisición de una vivienda del precio máximo de $.15.000 aprobada por el Banco.

El precio de venta de las viviendas que puedan ser financiadas por el Banco se determinará de acuerdo a la capacidad de pago de los adjudicatarios, cuya cuota mensual para la compra de su casa no podrá ser menor del 15% ni mayor del 30% del ingreso del jefe de la familia ó del grupo familiar (Ref. BCIE-DFV-2/6.3.6)

En igual forma, el Banco hará sus mayores esfuerzos para que del 50% de los recursos destinados a la vivienda de bajo costo, un 20% se otorgue a los grupos familiares comprendidos en el 40 percentil.

D.- Programa itacional BCIE.

El establecimiento por parte del BCIE de un Sistema de Mercado Secundario de Hipotecas a nivel regional y la venta de certificados de inversión para vivienda (CIV-BCIE) han demostrado ser un mecanismo importante de consecución de recursos que podría permitirle al Banco proporcionar una corriente permanente de fondos a las Instituciones Participantes. Por esta razón, el BCIE hará sus mejores esfuerzos para procurar el fortalecimiento de dicho sistema.

En igual forma se incrementarán los esfuerzos para la captación de recursos a través del Programa de Garantías de la AID, así como de otras fuentes externas de financiamiento; y se procurará sean adoptados nuevos esquemas y mecanismos de captación de recursos para el Programa.

El Sistema de Mercado Secundario de Hipotecas a nivel regional seguirá siendo el principal mecanismo de financiamiento de viviendas dentro del Programa Habitacional del Banco, por lo que el BCIE concentrará sus esfuerzos en conceder financiamiento a las Instituciones Participantes por medio de la compra de hipotecas y/o de participaciones hipotecarias; de valores respaldados por hipotecas: Cédulas hipotecarias, bonos hipotecarios, etc., y/o de la compra de contratos de participación hipotecaria donde las leyes del respectivo país así lo permitan.

Tomando en cuenta:

a) La magnitud a que ha llegado en la actualidad el déficit de vivienda en Centroamérica y la necesidad de redoblar esfuerzos para darle una adecuada solución a este problema;

b) La necesidad de vigorizar el proceso de desarrollo económico de la región, lo cual puede lograrse satisfactoriamente estimulando la construcción de nuevas viviendas; y

c) El hecho de que el Banco está en una posición financiera internacional privilegiada que le permite brindar amplia ayuda al sector de la vivienda.

El BCIE mantendrá una asistencia financiera a través de su Programa Habitacional por un monto de aproximadamente $CA.25.0 millones anuales durante los próximos 5 años.

El financiamiento de este programa se logrará a través de diferentes fuentes de recursos tales como recuperaciones y utilidades obtenidas de financiamientos anteriores, la emisión y venta de valores respaldados con la cartera hipotecaria del Banco (Certificados de Inversión, Bonos de Vivienda, etc.), a través de operaciones del Mercado Secundario de Hipotecas tanto en Centroamérica como en el mercado internacional, y las negociaciones de préstamos con instituciones internacionales como AID, BIAPE, BID, etc.

Con el propósito de dinamizar y agilizar el Programa de Financiamiento de Vivienda del BCIE, el Banco concentrará sus esfuerzos en 3 actividades básicas:

1. Fomentar: a) El desarrollo de proyectos habitacionales que califiquen dentro de las normas y especificaciones establecidas por el Banco; y
   b) Las operaciones de compra y venta de hipotecas y/o de valores respaldados con hipotecas, suministrando una permanente supervisión y auditaje de estas operaciones. En esta forma se delegan a las Instituciones Participantes elegibles y calificadas, hasta donde sea posible y conveniente para los intereses del Banco, la verificación del cumplimiento por parte de los ejecutores de los proyectos de las normas y especificaciones del programa, y la supervisión de la construcción de las viviendas.
2. Asistir y/o, colaborar con los Gobiernos Nacionales de Centroamérica para que se logre la mejor utilización posible de los recursos financieros destinados a la atención de los Problemas Habitacionales.
3. Mantener una estrecha y activa participación en conferencias locales e internacionales sobre vivienda y asentamientos humanos, así como también en reuniones y conferencias públicas y privadas relacionadas con el desarrollo de Programas Habitacionales.

E.- Adecuación Organizativa del Programa.

Para lograr la realización de un Programa de Vivienda dinámico, ágil y flexible, el Banco mantendrá un equipo humano altamente calificado y de suficiente experiencia técnica, financiera y de programación que en forma coordinada pueda proporcionar la debida asistencia a los Programas Habitacionales. En relación con lo anterior, durante el presente año, el Banco llevará a cabo un estudio para determinar la conveniencia de introducir ciertos cambios a la organización y coordinación del equipo humano encargado de las actividades de vivienda con el propósito de que su funcionamiento sea adecuado a las necesidades actuales y futuras del Programa.

En relación con los procedimientos de operación para el Programa de Financiamiento de Vivienda del BCIE que actualmente se encuentran detallados en el Documento DFV-2, estos también serán revisados durante el presente año para adecuarlos a los más amplios esfuerzos que el Banco se propone realizar en el campo de la vivienda.

HG-003/III

STATUS OF OBLIGATIONS

ASIGNACION DE LOS RECURSOS PROVENIENTES DE LA GARANTIA
AID- 596-HG-003
(Al 26 de febrero de 1979)
-Cifras en US$-

Ptmo No.	Prestatario	Asignado	Reembolsado por AID Tramo 1 y II	Por Reembolsar Tramo III.	Pendiente Desembolso
	Vivienda Media Regular				
3-038	La Vivienda ,S.A.	2.700.000.00	1.700.000.00	1.000.000.00	
3-044	La Vivienda de Sula, S.A.	150.000.00	150.000.00	-	-
3-045	Banco Hipotecario	247.849.00	247.849.00	-	-
5-043	Banco Crédito Agrícola de Cartado	9.500.000.00	9.500.000.00	-	-
3-047	FEHCOVIL	975.876.00	537.435.00	438.441.00	-
3-048	Banco de los Trabajadores	600.000.00	391.155.00	208.845.00	-
3-049	La Vivienda S.A.	825.000.00	358.480.15	439.012.35	27.507.50
5-050	Banco Crédito Agrícola de Cartago	10.500.000.00	3.215.080.85	7.284.919.15	-
	Sub-total Vivienda Media	25.498.725.00	16.100.000.00	9.371.217.50	27.507.50
	Vivienda de Bajo Costo				
3-048	Banco de los Trabajadores	32.775.00	22.950.00	9.825.00	-
5-053	INVU	15.000.000.00	1.281.473.88	3.465.480.49	10.253.045.63
3-049	La Vivienda S.A.	275.000.00	-	-	275.000.00
1-051	BANVI	5.000.000.00	2.461.986.30	2.538.013.70	-
5-050	Banco Crédito Agrícola de Cartago	4.500.000.00	3.133.589.82	1.366.410.18	-
3-056	Instituto Nacional de La Vivienda	400.000.00			400.000.00
3-055	FEHCOVIL	830.000.00	-	-	830.000.00
5-057	Banco Crédito Agrícola de Cartago	5.000.000.00	-	-	5.000.000.00
	Sub-total Vivienda Baja	31.037.775.00	6.900.000.00	7.379.729.37	16.758.045.63
	Total $CA	56.536.500.00	23.000.000.00	16.750.946.87	16,785.553.13

NOTA: Se encuentra en trámite de aprobación un préstamo a FECESITLIH por US$3.0 millones para financiar Vivienda Bajo Costo.

HG-004 - CASH FLOW

MOVIMIENTO DE INGRESOS Y EGRESOS

PRESTAMO F.O.S.-1

B.C.I.E. - BANVI

(POR TRIMESTRE)

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Nov-Dec 1979													
A INGRESOS														
1 APORTE BCIE (CAPITAL DE TRABAJO)	1,000,000	500,000	600,000	1,500,000	1,022,000									
2 APORTE BANVI (BONOS)	1,200,000			1,200,000	600,000	700,000	1,200,000	400,000	400,000				[illegible]	[illegible]
3 PRESTECAS (B.C.I.E.)						400,000	1,000,000	1,600,000	4,000,000	2,500,000	2,500,000	2,300,000	[illegible]	[illegible]
4 [illegible] USUARIOS					117,760	149,000	264,000	264,000	338,000	353,000	368,000	[illegible]	[illegible]	[illegible]
5 [illegible] USUARIOS						35,000	78,711	157,542	236,313	336,964	441,542	551,396	[illegible]	[illegible]
6 SUB-TOTAL INGRESOS	2,200,000													
7 SALDO ANTERIOR		44,014	51,827	21,208	52,665	78,722	56,019	32,130	91,784	68,456	105,968	114,661	42,157	[illegible]
8 TOTAL INGRESOS	2,200,000	544,014	651,827	2,721,208	1,792,425	1,660,931	2,599,750	2,454,632	5,066,657	3,258,700	3,415,960	3,356,137	[illegible]	[illegible]
B EGRESOS														
1 [illegible]	2,145,886	469,493	536,493	690,589	804,703	[illegible]	690,558	693,522						
2 [illegible]				1,934,608	908,964	1,554,068	1,554,068	1,554,068	4,445,810	2,948,624	2,550,247	2,310,655	[illegible]	[illegible]
3 TOTAL [illegible]	2,145,886	469,493	536,493	2,625,197	1,713,703	1,554,068	2,244,626	2,247,590	4,445,810	2,948,624	2,550,247	[illegible]	[illegible]	[illegible]
4 [illegible]	30,000	5,000	6,000	15,000	10,000	6,000	10,000	10,000	40,000	25,000	25,000	20,000	[illegible]	[illegible]
5 [illegible] DE OPACIA	-	22,500	32,750	47,250	81,000	123,045	124,245	146,745	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
6 [illegible] PRESTATE B.C.I.E.									240,000	370,070	455,408	531,746	[illegible]	[illegible]
7 [illegible] DE BANVI			54,000	- 0 -	109,000	- 0 -	156,500	- 0 -	238,000	- 0 -	256,500	- 0 -	[illegible]	- 0 -
8 [illegible] DE TESORERIA	100	50	60	150	102	50	100	160	400	250	250	235	[illegible]	[illegible]
9 [illegible]		225	338	473	810	1,040	1,262	1,467	1,827	2,727	4,554	5,[illegible]	[illegible]	[illegible]
TOTAL EGRESOS	2,155,986	492,[illegible]	630,619	2,668,070	1,713,703	1,874,912	2,567,620	2,362,848	4,993,435	3,152,732	3,293,459	3,202,[illegible]	[illegible]	[illegible]
[illegible] (DE S/P USUARIO)									4,726	7,066	8,840	11,026	[illegible]	[illegible]
[illegible]									4,598,201	3,152,[illegible]	3,301,299	3,313,[illegible]	[illegible]	[illegible]
[illegible]														
[illegible]														
[illegible]	44,014	51,827	21,208	52,665	78,722	56,019	32,130	91,784	68,456	105,968	114,661	42,157	[illegible]	[illegible]
[illegible]					128	160	288	288	368	354	400	424	[illegible]	[illegible]
[illegible] ACUMULADAS						288	576	864	1,232	1,616	2,016	2,440	[illegible]	[illegible]

* Generation of eligible mortgages for HG drawdowns begins

HOUSING FUND - SUMMARY OF INVESTMENTS

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA
SITUACION FINANCIAMIENTOS APROBADOS
PROGRAMA DE VIVIENDA
AL 30 DE JUNIO DE 1979
CIFRAS EN $CA

Financiamiento No.	INSTITUCION	Resolución No.	Fecha Aprobación	Fecha Escrituración	Tasa Interés %	Plazo Amortización (Años)	Monto Aprobado	Monto Pendiente	Monto Desembolsado	Saldo por Desembolsar	Tipo de Viviendas: Media	Tipo de Viviendas: Baja costo	Total Viviendas	Monto Desembolsado: Media	Monto Desembolsado: Bajo costo	
	I. Financiamientos [illegible]															
1-00[illegible]	Banco [illegible] & [illegible]	29/65	25-11-65	16-12-65	6	20	526 000		526 000		95		95	526 000		
1-004	Banco [illegible], S.A.	55/65	[illegible]-4-65	25-11-65	6	20	500 000	225 000	275 000		48		48	275 000		
1-005	Crédito Hipotecario Nacional	66/65	15-5-65	29-9-65	6	20	417 000		417 000		70		70	[illegible]		
1-006	Banco de [illegible], S.A.	71/65	[illegible]-8-65	29-9-65	6	20	250 000		250 000		47		47	250 [illegible]		
1-010	Banco [illegible] & [illegible]	[illegible]	8-3-66	19-5-66	6	20	517 [illegible]		517 [illegible]		63		63	517 [illegible]		
--	Crédito [illegible] Nacional	[illegible]			6	20	115 171		115 171		--		--	------		
1-051	Banco Nacional de la Vivienda	[illegible] 11/76	9-6-76	2-7-76	7	20	[illegible]		[illegible]			1914	1914		[illegible]	
	(1) Sub-Total [illegible]						2 [illegible]	[illegible]	2 [illegible]		[illegible]	1914	[illegible]	695 [illegible]	[illegible]	
2-001	Banco Hipotecario de El Salvador	120/64	13-12-64	16-12-64	6	20	1 [illegible]		1 000 000		222		222	1 000 000		
2-00[illegible]	Banco [illegible] de El Salvador	104/65	2[illegible]-9-65	27-12-65	6	20	1 [illegible]		1 [illegible] 000		222		222	1 [illegible] 000		
2-035	Financiera Nacional de la Vivienda		---	----	-	-	750 000	750 000	---		---		---	---		
2-041	[illegible] Cooperativas, S.A.	69/74	21-5-74	----	-	-	[illegible]	[illegible]	---							
	(2) Sub-Total El Salvador						3 [illegible]	[illegible]	2 [illegible]		444		444	2 [illegible]		
3-011	Cía. Seguros Interamericana, S.A.	74/66	6-[illegible]-66	10-8-66	6	20	250 000		250 000		16		16	250 000		
3-012	La Vivienda, S.A.	41/66	8-6-66	5-8-66	6	20	1 500 000	500 000	1 000 000		145		145	1 000 000		
3-013	Banco Hipotecario, S.A.	127/69	11-12-69	25-5-71	8 9 1/4	20	750 000	[illegible] 019 50	711 [illegible] 50		129		129	711 [illegible] 50		
3-016	[illegible]	[illegible]/70	15-[illegible]-70	21-12-71	8	20	150 000	[illegible] 265 16	149 734 84		19		19	149 734 84		
3-021	Bco. Hipotecario/Bco. Trabajadores	156/70	21-12-70	15-6-71	9-1/4	20	2 477 500	10 974 50	2 466 525 50		462		462	2 466 [illegible]		
3-022	Banco Hipotecario, S.A.	3/71	14-1-71	25-5-71	9-1/4	20	91 000	2 398 75	88 601 25		19		19	88 601 25		
3-023	Banco Hipotecario, S.A.	135/70	27-10-70	25-5-71	9-1/4	20	750 000	178 125 00	571 875 00		101		101	571 875 00		
3-024	La Vivienda, S.A.	133/70	27-10-70	19-6-71	9-1/4	20	150 000	13 628 99	136 371 01		21		21	136 371 01		
3-029	La Vivienda, S.A.	[illegible]/72	2-6-72	24-5-72	9-1/4	20	150 000		150 000		22		22	150 000 00		
3-031	Banco Hipotecario, S.A.	129/72	3-11-72	6-12-72			200 000	200 000			--			----		
3-032	Banco Hipotecario, S.A.	130/72	3-11-72	6-12-72	9-1/4	20	720 000	4 000	716 000		83		83	716 000 00		
3-033	Banco Hipotecario, S.A.	139/72	28-11-72	7-11-73	9-1/4	20	[illegible]	136 800	165 600		23		23	165 600 00		
3-035	Casa Propia, S.A.	141/72	25-11-72	2[illegible]-5-73	9-1/4	20	170 000		170 000		30		30	170 000 00		
3-036	La Vivienda, S.A.	12[illegible]/73	2[illegible]-6-73	27-11-73	9-1/4-10-5/8	20	1 775 795		1 775 795		359		359	1 775 795 00		
3-039	La Vivienda de Sula, S.A.	13[illegible]/73	2[illegible]-6-73	[illegible]-8-73	9-1/4	20	150 000		150 000		23		23	150 000 00		
3-044	La Vivienda de Sula, S.A.	[illegible]/74	15-11-74	25-2-75	10-5/8	20	150 000		150 000		24		24	150 000 00		
3-045	Banco Hipotecario, S.A.	53/75	23-4-75	[illegible]-7-75	10-5/8	20	350 000	102 351	247 649		36		36	247 649 00		
3-046	F E N A C O V I	79/75	3-6-75	14-6-75	11	2	650 000		650 000		--		--	----		F. Pte.
3-047	F E N A C O V I	63/75	3-6-75	14-8-75	10-5/8	20	2 281 854		2 281 854		321		321	2 281 854 00		
3-048	Banco de los Trabajadores	[illegible]/75	6-8-75	5-11-75	10-5/8	20	[illegible]		[illegible]		51	19	70	567 [illegible]	37 [illegible]	
3-049	La Vivienda, S.A.	[illegible]/75	3-12-75		10-5/8	20	1 [illegible]	778	1 [illegible] 722		164		164	1 [illegible]		
3-054	F E N A C O V I				11	2	747 [illegible]		747 [illegible]		--		--			F. Pte.
	(3) Sub-Total Honduras						1[illegible]	1 782 [illegible]	[illegible]		2 119	19	[illegible]	[illegible]	[illegible]	
4-00[illegible]	Banco de la Vivienda (BAVINIC)	[illegible]/65	19-11-65	3-11-6[illegible]	6	20	2 000 000		2 000 000		311		311	2 000 000		
4-014	Banco de la Vivienda (BAVINIC)	[illegible]/69	12-12-69	30-4-72	6	20	450 000		450 000		76		76	450 000		
4-017	Banco de la Vivienda (BAVINIC)	12[illegible]/70	14-10-70	30-8-71	8	20	200 000		200 000		25		25	200 000		
4-018	Banco de la Vivienda (BAVINIC)	12[illegible]/70	14-10-70	20-11-70	9 1/4	20	5 000 000	1 142 036 60	3 857 963 40		726		726	3 857 963 40		
4-025	Banco de la Vivienda (BAVINIC)	130/71	11-11-71	[illegible]-8-72	9-1/4	20	470 000	343 500	126 500		17		17	[illegible]		
4-026	Banco de la Vivienda (BAVINIC)	5/72	14-1-72	19-2-72	9-1/4	20	107 [illegible] 14		107 [illegible] 14		20		20	107 [illegible] 14		
	(4) Sub-Total Nicaragua						8 [illegible] 14	1 485 536 60	6 [illegible]		1 171		1 171	6 [illegible]		
5-003	I N V U	56/65	28-4-65	7-7-65	6	20	1 000 000		1 000 000		243		243	1 000 000 00		
5-007	Banco Nacional de Costa Rica	[illegible]/65	23-9-65	12-11-65	6	20	1 000 000		1 000 000		243		243	1 000 000 00		
5-019	Banco Créd. Agríc. de Cartago	134/70	27-10-70	4-2-71	9-1/4	20	3 021 146		3 021 146		719		719	3 021 146 00		
5-020	Banco Créd. Agríc. de Cartago	[illegible]	2[illegible]-1-6[illegible]	15-10-69	[illegible]	20	[illegible]	3 383	156 617		55		55	156 617 00		
5-027	Banco Créd. Agríc. de Cartago	54/72	2-6-72	15-3-73	9 1/4	20	4 531 722	17 961	4 513 761		1 000		1 000	4 513 761 00		
5-028	Banco Créd. Agríc. de Cartago	55/72	2-6-72	10-6-72	9 1/4	20	1 [illegible]		1 004 572		236		236	1 [illegible]		
5-030	Banco Créd. Agríc. de Cartago	101/72	28-8-72	12-9-72	9-1/4	20	1 000 000		1 000 000		218		218	1 000 000 00		
5-034	Banco Créd. Agríc. de Cartago	14[illegible]/72	28-11-72	---			500 000	500 000			---		---	----		
5-042	Banco Créd. Agríc. de Cartago	76/74	21-5-74	21-11-74	9-1/8	20	300 000		300 000		30		30	300 000 00		
5-043	Banco Créd. Agríc. de Cartago	77/74	21-5-74	25-2-74	10-5/8	20	9 500 000		9 500 000		1 650		1 650	9 500 000 00		
5-044	Com. Nueva La Aurora	14/74	5-7-74	3-6-74	11		1 000 000		1 000 000		---		---	----		F. Pte.
5-046	Com. Nueva La Aurora	76/73	17-5-73	31-1-74	8 3/4	25	6 000 000	7 401	5 992 599		690		690	5 992 599 00		
5-050	Banco Créd. Agríc. de Cartago	22/76	13-2-76	12-8-76	10-5/8	20	15 000 000		15 000 000		1 297	1 353	2 650	10 [illegible] 70	4 [illegible]	
	(5) Sub-Total Costa Rica						44 052 402	526 725	43 526 677		6 412	1 353	7 765	[illegible]	[illegible]	
	T O T A L I.......						75 526 [illegible] 14	4 626 905 50	75 259 435 64		10 503	3 266	13 766	[illegible] 64	8 [illegible]	
	II. Financiamientos en Ejecución															
3-055	F E N A C O V I	133/77	13-12-77	26-5-78	7 1/2	20	810 000			810 000		605	605		8[illegible] 000	
3-056	I N V A	46/78	25-4-78	25-4-78	7-1/2	20	400 000			400 000		257	257		4[illegible] 000	
3-064	F E N A C O V I	96/79	15-6-79		10 5/8	20	1 500 000			1 500 000	138		138	1 [illegible] 00		
3-075	La Vivienda de Sula, S.A.	46/79	26-[illegible]-79		10 5/8	20	5 610 610			5 610 610	500		500	5 [illegible]		
3-061	La Vivienda, S.A.	[illegible]/79	22-5-79		10-5/8	20	1 [illegible]			1 [illegible]	165		165	1 [illegible]		
	(3) Sub-Total Honduras						1[illegible]			1[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
5-051	I N V U	10/76	2-7-76	12-12-76	10 5/8	20	15 000 000		7 688 701	7 311 299	512	2 488	3 000	7 311 299 00	7 [illegible]	
5-057	Banco Créd. Agríc. de Cartago	125/78	17-10-78		9-1/4	20	5 000 000		2 946 992	2 053 008		1 000	1 000		5 [illegible]	
5-060	La Vivienda Mutual de Aho. y Pré.	81/79	22-5-79		10-5/8	20	5 200 000			5 200 000	1 000		1 000	5 [illegible] 00		
	(5) Sub-Total Costa Rica						[illegible]		10 635 693	14 564 307	1 [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
2-037	Viviendas Cooperativas, S.A.	100/73	8-6-73	5-9-75	8-3/4	25	5 000 000			5 000 000	853		853	5 [illegible]		
2-04[illegible]	Financiera Nacional de la Vivienda	94/79	19-6-79		10-5/8	20	[illegible]			6 450 [illegible]	1 [illegible]		1 [illegible]	[illegible]		
	(2) Sub-Total El Salvador						11 [illegible]			11 [illegible]	[illegible]		[illegible]	[illegible]		
4-022	Banco de la Vivienda (BAVINIC)	62/76	1-7-76		7-1/2-10-5/8	20	[illegible]			[illegible]	[illegible]	[illegible]	1 [illegible]	[illegible]	[illegible]	
	(4) Sub-Total Nicaragua						[illegible]			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
	(?) Sub-Total															
	T O T A L II.....						54 730 [illegible]		10 635 693	44 094 937	[illegible]	5 0[illegible]	[illegible]	[illegible] 929 00	[illegible]	
	TOTAL PROGRAMA DE VIVIENDA						134 657 [illegible] 14	[illegible]	85 935 178 64	44 094 937	[illegible]	[illegible]	[illegible]			
1-F05	Banco Nacional de la Vivienda (BANVI)	19/78	21-2-78				30 000 000			30 000 000		[illegible]	[illegible]		30 [illegible]	[illegible]
	[illegible] GRAN TOTAL						164 657 [illegible] 14	[illegible]	85 935 178 [illegible]	74 094 937	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	

COMPARATIVE STATEMENT OF CONDITION (Housing Fund)

HOUSING FUND - BALANCE SHEET

COMPARATIVE STATEMENT OF CONDITION

June 30, 1973 and 1974 - 1977 - 1978

	1978	1977	1976	1975	1974
A S S E T S					
Cash	161	445	244	84.7	177.5
Temporary Invest. (include in 1978 $CA 2,050 thousands, receivables from other funds)	19,928	34,772	23,878	4,622.6	2,227.5
	20,089	35,217	24,122	4,707.3	2,405.0
Accounts and Notes Receivables					
Loans	59,251	47,785	33,845	26,904.3	22,712.6
Interest, Comm. other acct. rec.	1,098	981	467	278.2	529.4
Compensatory loans	35,068	29,512	23,958	16,008.0	13,025.0
	95,417	78,278	58,270	43,190.5	36,267.0
OTHER ASSETS					2.8
Fixed Assets and other assets	7	41	329	68.9	62.8
	115,513	113,536	82,721	47,969.5	38,787.8
LIABILITIES AND NET WORTH					
Short term bank loans					183,5
Loans Payable	51,616	57,329	35,910	24,437.1	21,901.1
Bonds Payable	2,300	2,300	2,300	2,300.0	
Investment Certificates	19,874	18,454	15,272	1,000.0	
Compensatory Loans	35,068	29,512	23,958	16,007.9	13,025.0
Other accr. exp. and acct. payable	1,035	1,008	887	309.5	123.1
	109,893	108,603	78,327	44,054.5	35,232.7
Reserve for exch. rates Fluctuations	42	185	140	779.0	127.6
	109,935	108,788	78,467	44,132.4	35,360.3
NET WORTH					
Reserves	4,693	4,208	3,790	3,367.7	3,364.1
Net Income	885	540	464	469.4	44.3
Total Net Worth	5,578	4,748	4,254	3,837.1	3,427.5
	115,513	113,536	87,721	47,969.5	38,787.8

COMPARATIVE STATEMENT OF CONDITION
(C A D E I)

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA

Comparative Statement of Condition
As of 6/30/74 - 6/30/78

	6/30/78	6/30/77	6/30/76	6/30/75	6/30/74
ASSETS					
Cash	562	1,452	692	454,030	655,170
Temporary Investments (2g & 3)	48,116	53,385	26,982	33,331,405	28,441,[illegible]
	48,678	54,837	27,674	33,785,435	29,096,[illegible]
Accounts and notes receivables					
Loans (notes 2 b, 2d, 4 & 6)	523,349	432,795	348,368	278,355,277	223,448,523
Int. Comm. & Other accts. rec. (note 5)	17,543	17,270	15,976	10,394,773	7,871,323
Compensatory Loans (n. 2f & 7)	35,068	29,512	23,958	16,007,883	13,024,888
	575,960	479,577	388,302	1,668,952	1,007,[illegible]
Fixed assets & other assets (notes 2e, 2h, 2i, & 8)	6,619	7,215	4,348	1,149,149	1,086,[illegible]
Other Assets				1,418,532	1,[illegible]
Total Assets	631,257	5,416,629	4,203,324	342,780	276,905,453
LIABILITIES AND NET WORTH					
Loans Payable (note 9)	379,057	335,086	257,033	227,304,262	188,417,375
Short Term Bank Advances				338,603	7,460,930
Bonds Payable (note 10)	45,345	35,970	26,454	15,207,600	
Investment Certificates (n. 11)	19,874	18,454	15,272	1,000,000	
Deposit Certificates (note 12)	4,400				
Compensatory loans (n. 2f & 7)	35,068	29,512	23,958	16,007,883	13,024,888
Other accrued expenses and accounts payable	7,216	6,636	3,488	2,094,605	1,881,3[illegible]
	490,960	425,658	325,202	255,[illegible]	
Reserve for exchange rate fluctuations (note 2b)	661	631	1,418	2,153,667	1,932,0[illegible]
Total Liabilities	491,621	426,289	327,620	264,362,275	212,497,337
Net Worth:					
Capital (note 13)					
Authorized 60,000					
Subscribed and not paid (5,000)					
Paid in Capital	55,000	55,000	52,500	47,500,000	41,000,000
Special Contributions (note 14)					
Approved 30,000					
Receivable (10,000)					
Received	20,000	10,000			
Surplus from donations:					
Approved 4,754					
Receivable (2,016)					
Received (n.15)	2,738			2,202,645	2,165,163
Reserves	47,910	38,654	30,595	21,143,057	15,911,949
Net Income	13,988	11,686	9,609	7,522,024	5,331,109
Total Net Worth	139,636	115,340	92,704	78,417,726	64,408,220
TOTAL LIABILITIES AND NET WORTH	631,257	541,629	420,324	342,780,001	276,905,453

ANNEX D
EXHIBIT 7

CABEI - HOUSING FUND
CASH FLOW PROJECTIONS (CA$ 000)

FY ENDING JUNE 30

	Yr. 1 FY 80 6/30/80	Yr. 2 FY 81 6/30/81	Yr. 3 FY 82 6/30/82	Yr. 4 FY 83 6/30/83	Yr. 5 FY 84 6/30/84	Yr. 6 FY 85 6/30/85	Yr.10 FY 89 6/30/89	Yr.14 FY 93 6/30/93	Yr.15 FY 94 6/30/94	Yr.16 FY 95 6/30/95	Yr.20 FY 99 6/30/99	Yr.25 FY 04 6/30/04	Yr.30 FY 09 6/30/09
CASH DERIVED FROM:													
Beginning Cash Balance	103	66	59	50	50	2,345	50	50	50	50	50	50	50
Principal Collections	3,116	3,282	3,550	4,144	4,804	5,518	6,076	5,927	5,882	5,836	5,608	5,264	4,807
Interest Coll. Portfolio	6,095	7,363	9,490	11,792	13,775	15,280	17,468	17,040	16,911	16,777	16,131	15,133	13,820
Interest Coll. Invest.	1,078	605	605	605	623	621	468	468	468	468	468	468	468
External Borrow.: AID HG	-.	-.-	15,000	-.-	10,000	-.-	-.-	-.-	-.-	-.-	-.-	-.-	-.-
External Borrow.: Other	-.-	17,068	8,729	20,000	7,000	7,000	-.-	-.-	-.-	-.-	-.-	-.-	-.-
Total Cash Sources	10,392	28,384	37,433	36,591	36,252	30,764	24,062	23,485	23,311	23,131	22,257	20,915	19,145
CASH USED FOR:													
Operating Costs	781	940	1,141	1,350	1,534	1,652	1,671	1,630	1,618	1,605	1,542	1,448	1,322
Interest Costs: Other	5,480	6,232	8,126	8,609	10,336	10,353	12,689	12,317	12,256	12,185	11,850	11,461	11,102
Interest Costs: AID HG	-.-	-.-	-.-	1,575	1,575	2,625	2,625	2,619	2,593	2,560	2,330	1,873	1,112
Princ. Repayments: Other	1,010	1,375	1,551	1,639	1,735	1,838	1,776	1,727	1,716	1,706	1,659	1,605	1,554
Princ. Repayments: AID HG	-.-	-.-	-.-	-.-	-.-	-.-	-.-	240	265	454	683	1,141	1,902
Purchase of Mortgages	10,000	23,137	26,051	23,320	20,330	14,119	5,156	4,807	4,722	4,481	4,055	3,255	2,028
Transfer 10% Profit to Social Fund	105	91	80	87	95	127	95	95	91	90	88	82	75
AID Front Aid Fee			250										
Total Cash Uses	17,376	31,775	37,199	36,580	35,605	30,714	24,012	23,435	23,261	23,081	22,207	20,865	19,095
CASH SURPLUS (DEFICIT)	(6,984)	(3,391)	234	11	647	50	50	50	50	50	50	50	50
Add Sale Short-Term Invest.	7,050	3,450	-.-	39	1,698	-.-	-.-	-.-	-.-	-.-	-.-	-.-	-.-
Less Purchase Short-Term Investments	-.-	-.-	184	-.-	-.-	-.-	-.-	-.-	-.-	-.-	-.-	-.-	-.-
CASH BALANCE END OF YEAR	66	59	50	50	2,345	50	50	50	50	50	50	50	50
Beginning Short-Term Investments	15,500	8,450	6,725	6,725	6,909	6,898	5,200	5,200	5,200	5,200	5,200	5,200	5,200
Plus Acquisitions	-.-	-.-	-.-	184	-.-	-.-	-.-	-.-	-.-	-.-	-.-	-.-	-.-
Less Redemptions	7,050	3,450	-.-	-.-	11	1,698	-.-	-.-	-.-	-.-	-.-	-.-	-.-
Ending Balance	8,450	5,000	6,725	6,909	6,898	5,200	5,200	5,200	5,200	5,200	5,200	5,200	5,200
Average Balance	11,975	6,725	6,725	6,817	6,904	6,049	5,200	5,200	5,200	5,200	5,200	5,200	5,200
Beginning Portfolio	62,264	69,148	89,003	111,504	130,680	146,206	151,892	148,170	147,050	145,890	140,191	131,593	120,174
Plus Mortgage Purchases	10,000	23,137	26,051	23,320	20,330	14,119	5,156	4,807	4,722	4,481	4,055	3,255	2,028
Less Princip. Coll.	3,116	3,282	3,550	4,144	4,804	5,518	6,076	5,927	5,882	5,836	5,608	5,264	4,807
Ending Portfolio	69,148	89,003	111,504	130,680	146,206	154,807	150,972	147,050	145,890	144,535	138,638	129,584	117,395
Average Portfolio	65,706	79,076	100,254	121,092	138,443	150,507	151,432	147,610	146,470	145,213	139,415	130,589	118,785

CABEI - Housing Fund

30 Year Cash Flow Projections

ASSUMPTIONS

1) 1st. five years based on cash flow prepared by CABEI.

2) Years 6-30 elaborated with the following assumptions:

   a) Cash on hand requirements $50,000.

   b) Principal recuperations on mortgages 4% of previous year's ending portfolio balance.

   c) Interest collections on mortgages 11-1/2% of previous year's ending portfolio balance.

   d) Interest collections on investments 9% of previous year's ending investment balance.

   e) Operating expenses 1.1% of previous year's ending portfolio balance.

   f) Amount invested in mortgages. All cash available over $50,000 at end of year invested on the first day of the following year.

   g) Interest expense other is 10% of share of ending portfolio balance not generated by HG monies.

   h) Principal repayments is 1.4% of share of ending portfolio balance not generated by HG monies.

   i) No bad debt expense calculated.

A N N E X E.

AID ASSISTANCE TO CENTRAL AMERICA

ANNEX E

A. AID's Shelter assistance to Central America

AID has been providing assitance in housing to Central America for about fifteen years. During that period it has authorized $206.6 million for such assitance (See Table 1). Funds disbursed and invested in housing to date amount to $132.7 million. The balance, $73.9 million corresponds to ongoing programs and is expected to be disbursed over the next five years.

Some 60,000 families, or about 300,000 persons, will have obtained either new or improved shelter in Central America once the full amount is invested. Additional families will continue to benefit from the housing finance mechanisms and institutions and from the lower-cost housing programs developed with support and encouragement from AID.

1. Bilateral efforts

The earlier bilateral efforts by AID provided $48 million in long-term financing for some 8,000 conventional low-cost units for low and middle-income families. The emphasis of these initial efforts, however, was placed on the development of a basic housing finance capability in the various Central American countries. An additional $15 million in concessional loans were provided as seed capital for the savings and loans systems in Costa Rica, El Salvador, Honduras and Nicaragua. The success of this effort is demonstrated by the following table* which shows the status of the four S & L systems as of December 31, 1978:

Number Assoc.	Number Savers	Net Savings (Millions)	Number Loans	Value of Loans (millions)
24	465,327	$360.9	40,397	$339.8

Over the last three or four years the emphasis in AID's housing assistance in Central America has been shifting toward the promotion and support of shelter programs affordable by the poor majority in the region, and in support of informal shelter sector efforts as well. The largest bilateral effort of this sort to date is the $16 million earthquake reconstruction grant/loan for Nicaragua, already fully disbursed. Aggregate numbers for all similar, authorized assistance, including the $16 million f. Nicaragua, are:

* (See Table 6 for greater details.)

Type Shelter Solution	Target Group (lowest percentile) (reached by solution)	Amount AID Assistance ($000's)	No. Units/ Solutions
core housing	35	$18,270	12,325
sites and services	25	6,220	3,875
home improvement loans	15	8,270	6,425 (*)
upgrading	5	5,500	18,000 (*)
T O T A L	N/A	$38,260	19,276 (*)

(*) The total is less than the sum of the solutions for individual programs because home improvement loans and the upgrading in some cases will reach the same families participating in the other programs.

With the exception of the previous $16 million earthquake reconstruction effort in Nicaragua, most of the programs reflected in the table are recent. They are being implemented at this time. They are important because they represent AID's commitment to work with and through national housing institutions, such as INVU in Costa Rica and INVA in Honduras, in the production of minimum cost shelter. The programs, in Honduras and Costa Rica, also represent a commitment to support the informal shelter sector.

AID bilateral assistance, as projected in the CDSS and ABS for the five Central American countries, is expected to retain this emphasis on assitance to public sector institutions in support of minimum cost shelter and of informal shelter activity. The assistance as shown in Table 3, will also emphasize a shift to secondary cities and larger rural settlements.

TABLE 1

AID HOUSING ASSISTANCE PROGRAM IN CENTRAL AMERICA

Historical/current loan summary

		Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	CABEI	TOTAL C.A. Region
1. Housing Finance:								
1.1 SEL Seed capital loans (historical)	($000's)	1,000	6,100	N/A	4,000	3,700	N/A	14,800
	(Units)	* 200	* 650		* 610	1,143		*2,603
1.2 Regional secondary mortgage market (CABEI) (historical)	($000's)	N/A	N/A	N/A	N/A	N/A	41,000(1)	41,000
	(Units)	(8,572)	(444)	(307)	(1,126)	(1,017)	10,329(2)	10,329
1.3 Regional secondary mortgage market (CABEI) (current)	($000's)	N/A	N/A	N/A	N/A	N/A	23,000	23,000
	(Units)						*2,300	*2,300
TOTAL	($000's)	1,000	6,100	N/A	4,000	3,700	64,000	83,400
	(Units)	* 200	* 650		* 610	1,143	*12,629	*15,232
2. Major-city programs:								
2.1 model communities (historical)	($000's)	(6,000)	(1,180)	N/A	N/A	N/A	7,180	7,180
	(Units)	(690)	(150)				840(3)	840
2.2 low-cost housing (historical)	($000's)	6,600	10,971	7,817	9,365	15,926(4)	N/A	40,679
	(Units)	1,149	1,371	1,314	1,956	2,307		8,097
2.3 low-cost housing (current)	($000's)	N/A	N/A	(10,000)	2,940	10,000	10,000	29,400
	(Units)			(1,330)	1,050	1,400	1,330	5,780
2.4 core housing (historical)	($000's)	N/A	N/A	N/A	N/A	12,800	N/A	12,800
	(Units)					10,000		10,000
2.5 core housing (current)	($000's)	2,320	N/A	N/A	3,150	N/A	N/A	5,470
	(Units)	750			1,575			2,325
2.6 sites and services (current)	($000's)	3,070	N/A	N/A	2,550	N/A	N/A	5,620
	(Units)	1,250			2,125			3,375
2.7 Home Improvement loans(Historical)	($000's)	N/A	N/A	N/A	N/A	700	N/A	700
	(Units)					N/A(5)		N/A
2.8 Home improvement loans (current)	($000's)	3,010	N/A	(1,800)	1,110	N/A	1,800	5,920
	(Units)	1,750(5)		(230)(5)	480		230	2,460
2.9 Upgrading (historical)	($000's)	N/A	N/A	N/A	N/A	2,500	N/A	2,500
	(Units)	N/A				N/A		N/A
2.10 Upgrading (current)	($000's)	3,000	N/A	N/A	N/A	N/A	N/A	3,000
	(Units)	8,000						8,000
TOTAL	($000's)	18,000	10,971	7,817	17,115	41,926	18,980	114,809
	(Units)	12,699	1,371	1,314	7,186	13,707	2,400	38,677
3. Secondary cities/rural settlements programs:								
3.1 low-cost housing (historical)	($000's)	N/A	N/A	N/A	1,061	N/A	N/A	1,061
	(Units)				1,155			1,155
3.2 low-cost housing (current)	($000's)	N/A	N/A	(5,700)	N/A	N/A	5,700	5,700
	(Units)			(931)			931	931
3.3 core housing (current)	($000's)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	(Units)							
3.4 sites and services (current)	($000's)	N/A	N/A	N/A	600	N/A	N/A	600
	(Units)				500			500
3.5 home improvement loans (current)	($000's)	N/A	N/A	(1,500)	150	N/A	1,500	1,650
	(Units)			(200)	415		200	615
3.6 Upgrading	($000's)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL	($000's)	N/A	N/A	(7,200)	1,810	N/A	7,200	9,010
	(Units)			(1,131)	2,070		1,131	3,201
Total Country Assistance (Historical)	($000's)	7,600	17,071	7,817	14,426	35,626	50,180	132,720
	(Units)	*1,349	*2,021	*1,314	*3,751	*15,400	12,163	*35,024
Total Country Assistance (current)	($000's)	11,400	N/A	(19,000)	10,500	10,000	42,000	73,900
	(Units)	11,750		(2,691)	6,145	1,400	*4,991	24,286
Overall Total for the Country	($000's)	19,000	17,071	7,817	24,926	45,626	92,180	206,620
	(Units)	*13,099	*2,021	*1,314	*9,866	*14,850	*16,160	*57,310
Sources of Funds:								
Development Assistance Loan (DL)		1,000	6,100	N/A	7,061	16,700	10,000	40,861
Grants		N/A(6)	N/A	N/A(6)	N/A	3,000(6)	N/A	3,000(6)
Housing Guaranties		18,000	10,971	7,817	17,865	25,926	82,180	162,759

Notes:

(1) Does not include CABEI 003/III for $23,000,000, which is shown under "1.3 Regional secondary mortgage market (current)"

(2) Breakdown of regional secondary mortgage market activity:

Loan:	Units:			Amount:
L-003	Loan-funded	1816		10,000
	rollover-funded	585	(	5,076)
		1816		
HG-001	Loan-funded	2304		10,000
	rollover-funded	126	(	529)
		2430		
HG-003/I & II	Loan-funded	6083		23,000
Missing:	Mixed funds	(7½%)	(	7,700)
	HG-003/III			23,000

(3) Note on model communities programs:
El Salvador should have utilized $5,000,000; however because of difficulties encountered the amount is $1,180,000, as shown, with 150 units.

(4) Does not include Nic. 003/II for $10,000,000, which is shown under "2.3 low-cost housing (current)"

(5) Number of loans expected to be combined with core housing and sites and services not shown as projected output to avoid double count.

(6) There are indications of very early grants for housing in Central America, as follows:

		Amount	Units
Costa Rica	$	2,000,000	2,023
Guatemala		3,800,000	-
Nicaragua		450,000	-
T O T A L	$	6,250,000	

This would raise total grants to $9,250,000 and total funding to $212,870,000. These numbers were not included, as the related projects could not be identified.

* Estimated

TABLE 2
A I D HOUSING PROJECTS IN CENTRAL AMERICA

	DESCRIPTION	No. of Units	Amount	Completed or estimated date or completion
COSTA RICA				
515-HG-003	17 de Agosto	479	$ 2,000,000	Mar/72
515-HG-004	Jardines de Tibás	400	$ 2,500,000	Jan/76
515-HG-005	Residencial Lagunilla	270	$ 2,100,000	Jan/76
515-HG-006	Urban Improvement	2,000	$ 11,400,000	Jun/82
515- L -021	Seed Capital S&L System	E 200	$ 1,000,000	Jan/74
EL SALVADOR				
519-HG-001	Miramonte	459	$ 4,493,000	Mar/67
519-HG-002/3	Jardines de Guadalupe	498	$ 4,478,443	Nov/71
519-HG-005	Jardines de Cuscatlán	414	$ 2,000,000	Aug/75
515- L -008	Seed Capital S&L System	E 352	$ 3,100,000	Jun/68
515- L -012	Seed Capital S&L System	E 300	$ 3,000,000	Dec/70
GUATEMALA				
520-HG-001	Ciudad de Plata I	262	$ 1,817,000	Sep/67
	Ciudad de Plata II	452	$ 3,000,000	Jan/70
520-HG-002	Lomas de Portugal	300	$ 1,500,000	Feb/72
520-HG-003	Molino de las Flores y Centro Urbano de San Fco.	300	$ 1,500,000	Feb/72
HONDURAS				
522-HG-001	Miraflores	762	$ 2,868,365	Oct/68
522-HG-002A	Loarque	327	$ 1,502,600	Jun/68
522-HG-002B	Colonia Rio Grande	117	$ 827,813	Jul/73
522-HG-004	Hato de Enmedio	400	$ 2,166,057	Aug/74
522-HG-005	Shelter for the Urban Poor	5,250	$ 10,500,000	May/83
522- K -007	SITRATERCO	186	$ 398,000	Jun/65
522- L -011	El Sauce & Colvisula Cooperativa	350±	$ 2,000,000	Jul/69
522- W -023	Seed Capital S&L System	E 610	$ 4,000,000	Feb/79
522- W -028	Rural Shelter Reconst.	969	$ 663,000	May/76
NICARAGUA				
524- F -030	Earthquake Reconstruction		$ 13,000,000	
	Grant		$ 3,000,000	
524-HG-001	El Porvenir	757	$ 6,926,000	Jan/70
524-HG-002	Bco. Vivienda de Nic.	834	$ 4,000,000	Jun/74
524-HG-003/I	BVN	716	$ 5,000,000	Jul/79
524-HG-003/II		1,400	$ 10,000,000	
524- L -017	Seed Capital S&L System	1,143	$ 3,700,000	Dec/69
CABEI				
596-HG-001	Home Loan Department	2,304	$ 10,000,000	Jan/74
596-HG-002A	Comunidad Modelo La Aurora (Costa Rica)	690	$ 6,000,000	Sep/78
596-HG-002B	Com. Modelo Jardines de La Hacienda (San Salvador)	150	$ 1,800,000	
596-HG-003	Home Loan Department	6,083	$ 46,000,000	Jan/78
596-HG-004	Guatemala Urban Shelter Improvement		$ 19,000,000	Jun/82
596- L -003	Home Loan Department	2,401	$ 10,000,000	Jun/67

TABLE 3

PROJECTED HOUSING ASSISTANCE FOR CENTRAL AMERICA

Activity:	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Development of Housing Finance Institutions	H	H	C	H	H
Major cities					
middle-income housing	H	H	H	H	H
low-cost housing	-	-	C	C	-
core housing	C	*	*	C	H
sites and services	C	*	*	C	-
urban upgrading	C	-	-	P	H
home improvement loans	C	-	C	C	H
Secondary cities/ rural settlements					
low-cost housing	-	-	C	H	-
core housing	P	*	P	C/P	-
sites and services	P	*/P	P	C/P	-
urban upgrading	P	P	P	P	-
home improvements	P	P	C/P	C/P	-

H= Past programs AID

P= Proposed programs AID

C= Current programs AID

*= Current programs World Bank

No proposed programs appear for Nicaragua at this time as past projections are not necessarily applicable.

TABLE 4

COMPARATIVE ANALYSIS OF AID BILATERAL vs REGIONAL Housing ASSISTANCE IN CENTRAL AMERICA

"Program figures without including the new CABEI HG"

HISTORICAL	Bilateral	Regional (1)	Total
$	82.5	50.2	132.7
%	62	38	100
CURRENT			
$	50.9	23	73.9
%	69	31	
OVERALL			
$	133.4	73.2	206.6
%	65	35	100

"Program figures including the new CABEI HG"

CURRENT			
$	50.9	48	98.9
%	51	49	100
OVERALL			
$	133.4	98.2	231.6
%	58	42	100

(1) Includes only loan s to support CABEI's secondary mortgage market operations, therefore project 596-HG-004 (Guatemala) for $19 million is shown as if it were bilateral.

TABLE 5

APPROVED AID-CABEI LOANS

LOAN NUMBER	L - 003	HG - 001	HG - 002	HG - 003	HG - 003/2	HG - 003/3	HG - 004
Date of Loan	11-29-63	3-25-70	4-30-73	1-23-75	5-25-76		
Authorized $	10,000,000	10,000,000	11,000,000	12,000,000	11,000,000	23,000,000	19,000,000
Disbursed $ to CABEI	9,996,947	10,000,000	11,000,000	12,000,000	11,000,000		
Term Years	40	25	25	25	25		
Interest Rate AID Fee	3/4%	8-1/8% ½%	7-½% ½%	9-1/8% ½%	8-7/8% ½%		
Investor	AID	Federal Home Loan of Boston and of New York	Federal Home Loan of Boston	Morgan Cty. Trust Co.	Morgan Cty. Trust Co.		
Outstanding Loan Balance	8,685,872	8,823,144	10,750,088	12,000,000	11,000,000		
% Originally Charged To Eligible Institutions	6%	9-½%	8-3/4%	10-5/8%	10-5/8%		

TABLE 6

STATISTICS OF THE SAVINGS AND LOAN SYSTEM IN CENTRAL AMERICA AS OF DECEMBER 31, 1978

	COSTA RICA	EL SALVADOR	HONDURAS	NICARAGUA	TOTAL
Number of Associations	7	7	6	4	24
Number of Savers	26,598	267,481	20,848	150,400	465,327
Net Savings Accrued	3,902,000	221,392,000	18,170,000	117,503,000	360,967,000
Number of Mortgage Loans	15,050	13,002	2,461	9,884	40,397
Total Mortgage Loans Outstanding	82,492,000	114,565,000	26,824,000	115,937,000	339,818,000

A N N E X F.

DETAILED SOCIAL ANALYSIS

ANNEX F

DETAILED SOCIAL ANALYSIS

A. Population Growth and Urbanization in Central America

Between 1950 and 1970 the population of Central America doubled. 1/*In 1980 the estimated total population for the five countries will be 20,303,000 people. 2/ A population breakdown and projections for each of the countries reveals the following (in millions of inhabitants): 3/

Country	1960	1970	1980	1990	2000
Costa Rica	1,336	1,872	2,286	2,954	3,695
El Salvador	2,511	3,549	4,813	6,595	8,803
Guatemala	4,445	5,679	6,940	9,108	11,582
Honduras	1,885	2,897	3,595	4,997	6,881
Nicaragua	1,536	1,878	2,669	3,672	4,812
TOTALS	11,713	15,875	20,303	27,326	35,773

Central American population trends are characterized by a rapidly falling death rate, high birth rates and large populations under age 20. For 1970-1975 the annual number of births per 1,000 people was an average 42.3. The United Nations estimated average for all less developed countries was 37.5 for the same time period. The United States' average was 15/1,000. 4/ Even if all Central American families had only two children, and zero population growth were achieved by the end of the century, it would be 2060 before population would stabilize - at 52.1 million. Until 2060 there would still be growth. 5/ The two child family is not likely to become the norm in Central America at this time. On the contrary, the increase in population is more than likely to continue at high rates as the following table demonstrates.

Average annual rate of population increase, enumarated and projected 6/

Country	1950-60	1960-70	1970-80	1980-90	1990-2000
Costa Rica	3.98	3.33	2.80	2.57	2.24
El Salvador	2.78	3.41	3.38	3.15	2.89
Guatemala	2.79	2.74	2.76	2.72	2.40
Honduras	2.95	3.34	3.40	3.29	3.20
Nicaragua	2.93	2.53	3.82	3.19	2.70

If between 1950 and 1980 the population of Central America will grow two and one half times, that of urban areas (over 10,000 in population) will grow five times. 7/ The urban sector will continue to expand at a pace roughly two times that of rural areas

* Footnotes are included at the end of the text.

until at least the year 2000. 8/ The number of small urban centers (over 10,000 but under 50,000 in population) will grow to 95 by 1980. There were only 26 in 1950. Theonly secondary city in Central America that is outstripping capital city growth is San Pedro Sula in Honduras. Other secondary cities in Central America are not contenders for dominance.

Except for Honduras, all of the capital cities in the other countries dominate the urban sector. They have 60-75% of their countries' urban populations. 9/ In some instances the urban areas surrounding the capital cities have become so congested that one city flows into the next. The San Salvador Metropolitan Area contains 10 contiguous municipalities. The Central Valley of Costa Rica has San José as its core city but also includes the cities of Alajuela, Heredia and Cartago. The following table shows the population of the capital cities in 1950 and their estimated population in 1980.

City/Country	1950	1980
San José, Costa Rica	146,000	508,000
San Salvador, El Salvador	213,000	858,000
Guatemala City, Guatemala	337,000	1,430,000
Tegucigalpa, Honduras	72,000	406,000
Managua, Nicaragua	109,000	662,000

In terms of shelter and related services urban areas are much better off than their rural counterparts. The migration to urban areas is expected to continue. The reason for most migration is to seek jobs. 10/ The World Bank estimates a tremendous growth in urban households in general and urban poverty households in particular until the end of the century for Latin America and the Caribbean. 11/

Urban Poor Households ('000's)

1975	+/-	1980	+/-	1990	+/-	2000
12,945	+1078	14,023	+2,775	16,798	+2,530	19,328

Rural Poor Households

6040	-1108	4,932	-1,904	3,028	-1,407	1,621

Furthermore, of those who migrate to urban areas, women far exceed the number of men. The rural workforce is saturated or

nearing saturation in Costa Rica, Honduras and Nicaragua. Rural areas do not offer women the opportunity to be economically productive and they migrate to the urban areas in search of economic opportunity 12/

B. Housing Conditions in Central America

The effects of the accelerated population and urban growth rates in Central America are many. Of interest to this paper are those on housing conditions in Central American countries. They can be characterized generally by:

A large (in both absolute and relative terms), accumulated housing deficit which is growing.

A need for new housing which creates demands in excess of the current levels of financing and production generated by formal housing institutions.

1. The Housing Deficit

The table below summarizes the findings of two studies on the housing deficit in Central America:

Country	Estimate by: United Nations 13/ Absolute	RHUDO/ROCAP 14/ Absolute	RHUDO/ROCAP 14/ Relative
Costa Rica	154,000	130,000	39
El Salvador	353,000	450,000	68
Guatemala (Pre-1976 Earthquake)	532,000	480,000	48
Honduras	256,000	300,000	57
Nicaragua (Pre-War)	180,000	200,000	61
TOTAL	1,375,000	1,500,000	54

These figures must be used cautiously. The definition of an inadequate house, and hence one that contributes to the deficit, is subjective and variable. Even assuming that an acceptable, objective definition were developed, the accurate quantification of the deficit, including the hundreds of thousands of rural units, would be nearly impossible.

For example, by redefining "inadequate" to reflect "more realistic" standards, the 1977 Costa Rica Urban Assessment 15/ produced

an estimate of the deficit in that country of 77,000 units, half that of the U.N. study. Inversely, BANVI's current (1978) estimate 16/ of the deficit in Guatemala is 986,000, double that of the RHUDO/ROCAP study.

2. Description of the Target Group Housing Conditions 17/

Travelling throughout Central America one finds similarities among the conditions of the target group in the major urban agglomerations. In all of the countries the poor are more often renters than homeowners. They are concentrated in downtown slums and on the city's periphery. In many instances they are recent migrants to large urban areas, coming to the city for the first time. Women tend to migrate to cities more frequently and in greater numbers than men because rural areas do not provide them with the employment opportunity they seek.

The downtown rental room is one example of the shelter available to the target household. The neighborhood once housed individual families but now each room in each house has been converted into a dwelling unit. The structures themselves are generally severely deteriorated.

The typical household living in the downtown rental unit consists of two adults and four children. This family has probably never owned its own home.

The exterior conditions of the rental structures are dilapidated. Rickety staricases, exposed wiring and rotting beams are apparent. The interior conditions, seldom seen from the street, evidence an unhealthy, unsafe environment.

The typical family of six share a 10' by 12' room. There are no individual beds for each family member. A chair or two and a table might be the only furniture in the room. There is no closet space and the scant belongings of each hosehold member fill the room. There is one window which provides insufficient sunlight and ventilation.

An enclosed courtyard generally contains a toilet, a water tap or sink and laundry facilities. The toilet facilities may be shared with as many as twenty other families. The water and laundry facilities are also shared. Clothes washing is a major courtyard activity since many women increase the family's income by taking in laundry from the homes of wealthier families.

The rental units generally have electricity. It is used for ironing and for televisions, radios and record players. The proximity of other neighbors is such that the noise level is always high. Privacy is non-existent and cooking odors abound.

Toilets are, more often than not, in disrepair. The incidence of diarrheaand intestinal parasites is higher than that for the population as a whole. In most instances rental payments include water and many landlords ration its use. It is not unusual for water to be available -to flush toilets, bathe and do laundry- only two hours per day. Drainage is insufficient and the communal courtyards often contain stagnant pools of desease -breeding waters.

Another typical target group solution to the shelter problem is the improvised unit on the city's periphery. These spontaneous settlements ring the major urban areas in Central America. They are the products of what has come to be known as the informal sector.

The areas where spontaneous settlements are located generally do not have water, sewerage, drainage, or paved streets. There is no garbage colletion.
They generally have electricity since it is faily easy to illegally tap existing power lines.

The structures built in these areas are almost exclusively made of second hand materials. Wood is most common for walls and corrugated tin for roofing.

The interior space is generally one room which might be partitioned by hanging curtains. There is the same scarcity of furniture as in the rental rooms.

The families living in spontaneous settlements must haul their own drinking and bathing water, generally for long distances over hilly terrain. Water is sold on trucks from certain disbribution points outside the settlements themselves. The water is often sold in unsanitary rusted barrels and is hauled to the dwelling in rusted cans.

In some instances families dig latrines for their homes. In others, several families use the same latrine. In still others, there is no disposal system for human wastes and they accumulate in the area surrounding the dwelling unit.

Clothes washing is generally done outside the spontaneous settlement in the local river or lake. The women in these families, too, often take in laundry from other areas.

The spontaneous settlements are often far from employment, schools, health facilities and other public services. Their residents spend more time and money on transportation than those who live in the city's recognized neighborhoods.

The downtown rental room and the peripheral spontaneous settlement are two prototypical housing solutions in which many of Central America's poor are located. There are, however, some significant differences among the various countries.

San José, Costa Rica has the lowest concentration of poverty in urban slums. There are pockets of poverty which are dispersed throughout the city. Peripheral spontaneous settlements are the exception, not the rule. In addition, although San José is experiencing growth from migration, not all of the migrants to the city are poor.

San Salvador, El Salvador and Tegucigalpa, Honduras present examples of both the downtown rental rooms and peripheral settlements. The situation in Guatemala was distorted by the earthquake in 1976 which led to a massive movement of displaced families to Guatemala City with a concomitant growth in the number and size of squatter settlements.

As the following table shows, however, there is a great similarity in the condition of housing among the countries. The only notable exception is that less families lack water in Costa Rica.

Units	Costa Rica 18/	El Salvador 19/	Guatemala 20/	Honduras 21/
Lack water				
% National	22.3	-	78	73.4
Urban	2.4	34	43	44
Impermanent Materials				
% National	83.1	-	84	88.3
Urban	67	76	75	67.5
Overcrowded				
% National	22	-	-	40.6
Urban	15.6	56	-	25.2
Not owner Occupied				
% National	39.7	-	42	28.2
Urban	47.5	64	50	50.6

3. Housing production and need

This leads to the discussion of how much and what type of housing is being produced in the five countries. The table below compares aggregate production and need for the period 1976-77:

	Costa Rica 22/	El Salvador 23/	Guatemala 24/	Honduras 25/
Need				
Urban	6,780	13,400	15,230	10,580
National	10,400	30,200	35,300	25,580
Total Production				
National	8,180	5,020	14,800	5,740
Production as a % of Need				
Urban	1.20	.33	.65	.54
National	0.78	.16	.41	.22

This data, as was that on the deficit, is imperfect. A more detailed analysis of need and production for San José and Tegucigalpa/San Pedro Sula, included in the Social Analysis, shows that production is meeting 50% and 16% of need, respectively, in these major cities.

C. Description of the Target Group by Country

There are significant differences among the Central American countries to warrant separate treatment of each country's target group. Indeed, within the countries themselves there are glaring differences between urban and rural areas, settlements on the periphery of metropolitan centers, and downtown overcrowding in rental units, just to mention a few factors of importance. Each country will be discussed briefly in terms of overall population characteristics, location of the target groups, prevailing socio-economic patterns, and the impact the project will have on the intended beneficiaries.

1. Costa Rica

a. Overview

In mid-1977 the population of Costa Rica was estimated at 2.1 million people with 41% in urban areas and 59% in rural areas. Major population indicators show that Costa Rica is better off than most of the neighboring countries in Central America and South America. The birth rate has averaged 29 per 1,000 inhabitants versus 36 per 1,000 for Latin America as a whole. The death rate averages 2.4% annually versus 2.7% for Latin America. The infant mortality rate is 38 per 1,000 live births as opposed to 78 per 1,000 for Latin American. Life expectancy at birth is 68 years versus 62 for Latin America. In addition, fertility in Costa Rica is declining rapidly. It is the only Central American country to have experienced such a decline. However, even though fertility is declining, other factors are operating in such a way as to indicate that Costa Rica will have more than 3.5 million by the year 2000. 26/

In mid-1977 the San José metropolitan area had 950,516 inhabitants. A population of over 1 million is projected for 1979. That population grows at an average rate of 3.8% per year. 27/

Until the 1950s, the internal migrations within Costa Rica were to usettled rural areas. This trend has reversed itself since then and a process of suburbanization is taking place. This means

that the areas with the highest growth rates are found somewhere between 5 to 10 kilometers outside the central city. 28/

Roughly 20% of the population of San José migrated to the metropolitan area during the past five years. In Costa Rica those who migrate to the cities are younger than those already there. They tend to have twice the education of non-migrants. They are generally newcomers to the labor market and, therefore, they earn entry-level wages. 29/ Migration to the San José Metropolitan area has increased in absolute numbers but the rate of migration has not accelerated. The migrants are not necessarily those who live in the urban slums or improvised peripheral settlements. The migrant and non-migrant populations are faily comparable in terms of unemployment rates. 30/

b. The Target Group

The basic characteristic of urban poverty in Costa Rica is that it is scattered throughout the San José metropolitan area. To be sure, there are areas where poverty is concentrated. The National Housing Institute (INVU) identified 118 slum areas in San José in 1977. These slums contain 15% of the metropolitan area's population (approximately 15,000 people) and one-fourth of its total poverty population. 31/ Roughly half of those living in slum areas have incomes above the urban median which was $258 per family per month in mid-1977. 32/ The average family in the metropolitan area has 5.3 members. 33/

Even in the slum neighborhoods of San José's metropolitan area, essential services exist to a large extent --95% have indoor plumbing, 58% have sewer connections or septic tanks and 94% have piped water. Toilets and water taps are generally communal. The majority of the houses are constructed from wood. Over half of the dwelling units have less than 60 square meters of space. 34/

c. Prevailing socio-economic patterns

Families with monthly incomes at the median ($297 in 1979 terms) spend an average of 25% of income for shelter. The percentage decreases to 20% for families with incomes between $177 and $265 and decreases even further to 15% for those whose incomes fall below $177. 35/

Just over 50% of metropolitan area families rent their homes, paying an average rental of $35 (in 1977) per month. More than 80% of those renting homes would like to be homeowners and those low income renters surveyed in 1977 said they could afford homes costing approximately $6,000. Home owners were 38% of the population

and more than half of them reported that they would like to repair their homes. Just under half of those who would like to make repairs are willing to borrow to do so. The average home improvement loan needed would be $1,000. 36/

One of the major problems for the urban poverty population is unemployment or underemployment. The overall unemployment rate for the San José metropolitan area declined from 1973-1977 where new employment was created in the industrial, government services and construction sectors. For the poor unemployment rates rose 25% for men and 11% for women during that same time period. 37/

Since the 1960s the people with incomes between the 20th and 60th percentiles have reaped the benefits of Costa Rica economic growth. Those who are in worse condition than previously have incomes below the 20th percentile. 38/

2. El Salvador

a. Overview

Of all of the countries in Central America El Salvador has the smallest geographic area and the most rapid rate of population growth. In 1976, El Salvador had approximately 4.5 million people. By the year 2000 the population will be almost 9 million if current trends continue. The overall growth rate has varied between 3.2 and 3.4%

El Salvador's urban population was approximately 1.8 million in 1976 or 40.5% of the total. Half of El Salvador's urban population was located in the San Salvador metropolitan area. In 1977 that area had a population of 761,000. The growth rate for the metropolitan area has been 4.7%. 39/

Although still basically rural, El Salvador is experiencing rapid rural to urban migration. Rural areas are densly populated and almost all arable land is under cultivation. The urban areas have grown economically since the 1960s and urban income, even in the informal sector, far exceeds that of rural areas. 40/ Unlike Costa Rica, the overwhelming majority of people who migrate to cities in El Salvador are poor.

b. The Target Group.

As in Costa Rica, the target group that will be reached by this project live in urban areas, most notably the San Salvador metropolitan area (SSMA). In 1976 there were 75,000 families with

incomes below the SSMA median of approximately $130 per month. 41/ In addition, estimates for the 1978-1982 period show that 55% of all new households in the SSMA will be low income households.

Urban poverty in the SSMA, unlike that of San José, is concentrated in several different kinds of settlements. These are: "tugurios, campamentos, mesones, casas viejas and colonias ilegales." Tugurios are located in the central city on either public or private land. They are settlements of the very poorest people in San Salvador. The campamentos are barracks - like structures built as provisional shelter for victims of the 1965 earthquake. They are wooden rental units with shared water, toilets, laundry facilities, etc. Mesones are multifamily rental units in the central city. Entire families live in one room and various families share water, laundry and toilet facilities. Rents were frozen at 1973 levels by law. Casas viejas are similar to mesones. They were once elegant homes in the central city but have long since been broken up into rental units. Colonias ilegales are located on the periphery of the urban area. They are illegal subdivisions in which lots are purchased and infrastructure is gradually brought to the area. In 1976, 17% of low income families lived in tugurios and campamentos, 52% in mesones and casa viejas and 31% in colonias ilegales. The lowest incomes and worst environmental conditions exist in the tugurios and campamentos; the highest densities are in the mesones. 42/

In terms of urban services the tugurios generally have electricity. Some have potable water. Theré is no storm water drainage, piped sewerage system or garbage collection.

The campamentos, mesones and casas viejas are generally served by all of the traditional urban infrastructure services. In the mesones, however, landlords often ration water so that tenants have it only a few hours per day.

The colonias ilegales are in various stages of development. Since they are illegal subdivisions they do not have urban infrastructure. Once they develop political skills they are able to pressure the appropriate public authorities to ensure that they provide the needed services.

c. Prevailing socio-economic patterns.

In 1979 the median family income for the SSMA was approximately $2[illegible] per month. 43/ In 1977 there were an estimated 13,000 households living in tugurios and campamentos. Their incomes ranged from $60 to $100 per month. The mesones and casas

viejas had approximately 40,500 households with incomes varying from $60 to $140 per month. The colonias ilegales had an estimated 25,500 households with incomes ranging from $80 to $160 per month. By 1982 the tugurios and campamentos are expected to have an additional 4,000 households. The number of households in mesones and casas viejas is also expected to grow by the same amount. The number of households in colonias ilegales is expected to skyrocket, reaching 39,500 - an increase of 14,000 households in just four years. 44/

The low income families in the SSMA have limited resources but even so they have the capacity to pay for new or improved shelter. Housing demand for the area between 1978 and 1982 is estimated at 44,000 new units. Half of that demand, or 25,500 units comes from the population with monthly household incomes between $60 and $140. 45/

Studies show that expeditures for housing increase both absolutely and as a percentage of total household expenditures increases as family incomes increase. A 1977 survey done in the SSMA shows that in tugurios and campamentos 5% of income is spent on housing, 1% on electricity, 2% on water and 60% for food. In mesones 15% is spent on housing (including water), 1% on electricity and 45% for food. In colonias ilegales 25% is spent on housing, 2% on electricity, 2% on water and 40% on food. 46/

Given the growth of the low income population in the SSMA and current expenditures for shelter and related services, the target group can afford 12% financing for twenty years for home improvements, infrastructure and new housing units. 47/

3. Guatemala

a. Overview

There is a paucity of socio-economic data in Guatemala. The last census was taken in 1973 and the last income distribution study was done in 1969. All data projections since then have been based upon the assumption of constant relationships between the variables since 1969 and 1973 respectively.

In 1973, Guatemala had 5,738,092 people with 26% living in communities of 10,000 or more inhabitants. This is expected to grow to 55% by the year 2000. Half of the population lives in areas of 1,000 inhabitants or less based upon 1973 data. 49/

The average number of births per 1,000 is 40.5 and the fertility rate is approximately 6%. The mortality rate for the country is 9.5 deaths per 1,000 inhabitants and the most frequent causes of death are respiratory and diarrheic diseases. 50/ Nevertheless, the population's growth rate is high, 2.7%, and will probably continue at that level in the 1980s. 51/

The 1973 census shows that Guatemala City had approximately 1,067,000 inhabitants. By the year 2000 the population is estimated at 3,021,000. 52/ There was no city except Guatemala City with a population over 100,000. This is not expected to change by the year 2000. 53/

Statistics show that a constant migration to Guatemala's Central Region (consisting of Guatemala City, Antigua, El progreso and Chimaltenango) is taking place. By the biginning of the 1980s this region will have 30% of the country's total population and 60% of its urban population. Most migrants come from the densly populated Western highland towns of Quezaltenango, Huehuetenango, El Quiche, Sololá, Totonicapán and parts of San Marcos. 54/ The overwhelming majority (80%) of all migrants are ladinos as opposed to indigenous Guatemalans. 55/ The major reason given for migrating to the Guatemala City Metropolitan area is to seek employment. 56/ As in both Costa Rica and El Salvador, there are more women migrants to Guatemala than men. 57/

b. The Target Group.

This project is expected to serve the Guatemala City metropolitan area as well as secondary cities and market towns. The National Housing Bank (BANVI) has most of its experience and activity in the metropolitan area. The National Federation of Housing Cooperatives (FENACOVI) has experience in secondary cities and market towns.

A housing survey up-date in 1977 for the Guatemala City metropolitan area showed that 37.3% of the population live in slums, sub-standard houses or improvised dwellings. These areas had grown in population by 13% since 1964. 58/ The average family size in these areas is 7 people per family as compared with 5.6 in the rest of Guatemala City and 6.2 for rural areas. There is every indication that the slum areas will continue to grow at an accelerated pace since the population in the age of reproduction (15-34) is larger than in other areas. 59/

Estimates on employment show that 48.9% of all Guatemalans are in the economically active age group and 97.4% of them are in

fact employed. Underemployment, estimated at 14% is a more severe problem. Agriculture is still the major employer, having 58.2% of the labor force in 1973. 60/

Infrastructure services are far more extensive in the Guatemala City metropolitan area than in other parts of the country. All urban areas are served by aqueducts but connections to dwelling units are not universal. In 1973, 84.4% of all homes had water connections. The percentage was 97.5 for the Department of Guatemala. For that same year the statistics show that 75.4% of all homes had electricity but the percentage was 99.6 for the Department of Guatemala. Storm sewer connections were made to 43.9% of all houses but 65.1% of all houses in the Department of Guatemala.

c. Prevailing socio-economic patterns.

The National Economic Planning Council conducted a survey on urban income distribution in 1977. 61/ The results are as follows:

MONTHLY FAMILY INCOME

Percentile	All Urban	Guatemala City	Other Urban
50	$ 270	$ 297	$ 213
40	233	256	186
30	197	215	162
20	161	174	133.50
10	124.50	136	102

This data was updated to 1979, showing a median income for Guatemala City of $386.

There appear to be no data on consumption and expenditure patterns. The first phase of an urban poverty study in Guatemala completed as recently as June 25, 1979, failed to uncover either new studies or more recently up-dated versions of previous studies.

The Guatemalan Mortgage Insurance Institute quotes a study that estimated the housing deficit for 1976 at 915,500 units. Of this amount, 888,400 was classified as latent deficit, 2,000 units were needed to replace stock being retired from the market, and 25,100 units were needed based on new household formation. The 1976 earthquake destroyed 258,400 housing units. 62/

The National Housing Bank (BANVI) calculated that in 1976 there was a demand for 50,000 housing units costing up to $4,000 and 32,000 units costing between $4,000 and $8,000. These homes would be affordable by the 20th to 50th percentiles. The World Bank sites and services project is reaching the 20th percentile and below. 63/

4. Honduras

a. Overview

According to the 1974 Census there were 2,656,948 Hondurans. Of these, 69% lived in rural areas and 31% in urban areas. The population growth rate averaged 2.68% from 1961 to 1974. 64/

In 1974 Tegucigalpa had 273,874 people, just over 10% of the total population. In that same year San Pedro Sula had a population of 150,991. The third largest city, La Ceiba, followed with a population of 37,788. 65/

Statistics show that the urban population is growing at an average rate of 6% annually whereas rural areas are growing at a rate of 2.7%. 66/ San Pedro Sula is growing more rapidly than any other area. Its growth rate from 1961-1974 averaged 7.6% per year as compared with a 5.6% rate for Tegucigalpa during the time period. 67/

Migration to Tegucigalpa and San Pedro Sula occurs, as in most other Central American countries, because these cities promise improved employment opportunities. Some people migrate to these centers directly from rural areas; others migrate in stages.

b. The Target Group

This project will be directed toward the shelter needs of the urban poor in the Tegucigalpa Central District and San Pedro Sula. There is more statistical information for the Tegucigalpa Central District than for San Pedro Sula.

The information concerning poverty in the Tegucigalpa Central District varies widely. The National Housing Institute estimates that 25% of the population is "poor" but METROPLAN, the city planning agency, estimates that percentage to be 50%. 68/ The criteria used to define "poverty" vary widely depending upon the purpose for which the information is gathered and the institution in charge of its gathering.

The most recent housing guaranty project paper done by USAID for Honduras, up-dated a 1967-68 family income and expenditure survey to yield the following monthly median family income estimates as of September, 1978: Tegucigalpa, $181; San Pedro Sula, $163 and other urban areas, $133. 69/

Based upon the $181 median income figure an estimated 18,000 families or 96,000 people fall within the low income population of the Tegucigalpa Central District. This amounts to 32% of the total population. 70/

The low income or deteriorating areas of the Tegucigalpa Central District are by no means homogeneous. They have middle income people mixed with the poor. The poor themselves have various shelter arrangements. Some own their own homes or are in the process of buying them. Others rent their homes. More frequently, however, the poor rent rooms in deteriorated multifamily units where water, toilet, laundry facilities and sometimes kitchens are shared. There are also those who construct their own shelter on the city's fringes. In most instances second hand wood is used to construct a one room dwelling which often houses the family (average family size is 5.7), domestic animals and a small store or business. 71/

c. Prevailing socio-economic patterns

For the Tegucigalpa Central Distric, 1,900 houses per year were built between 1961 and 1974. Production increased dramatically and in 1974 some 2,600 homes were built. In 1976 the total was 2,900. The informal sector produced between 1,700 and 1,900 units per year from 1974 to 1976. It is estimated that the informal sector has produced two-thirds of all housing in Tegucigalpa. 72/

In San Pedro Sula an average of 1,300 units were produced annually between 1971 and 1976. Since 1974 the average number of units produced increased to 2,000-2,300. In San Pedro Sula the informal sector produced between 1,000 and 1,300 units between 1974 and 1976. Approximately 55% of all housing was produced by the informal sector since 1974. 73/

The informal sector is responsible for financing 79% of home purchases in Tegucigalpa. Most people borrow money from relatives or friends or have their own savings. Approximately 14% borrow money from credit cooperatives and 7% borrow from the workers bank to finance acquisition of land. 74/

Currently, people living in urban slum rental units spend an average of 20% of their income on rent, which usually includes utilities and services. Where the family is living in improvised shelter, anywhere from 4 to 7% of income is paid for water and electricity. There are generally no sewerage or drainage services whatsoever. 75/

Despite the dynamism of the informal sector there were 316,000 housing units in Honduras in need of repair or replacement according to the 1974 housing census. The units needed because of population growth alone were estimated at 25,600 per year. To overcome the housing deficit, 40,000 units per year would have to be constructed. The formal sector averaged 6,000 units per year from 1974 to 1977. 76/

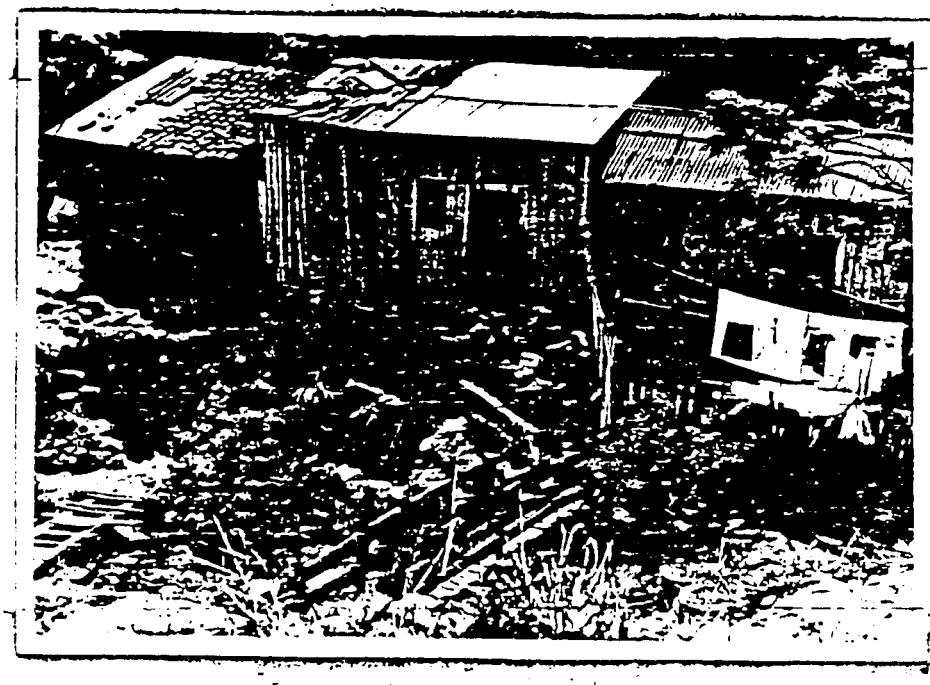
Although current formal sector shelter production has not been adequate to satisfy the demand, there is strong evidence that effective demand exists for those whose incomes fall below the median. The projects sponsored by the National Housing Institute and the Honduran Federation of Housing Cooperatives, have long waiting lists for the units they have built. Both institutions have developed shelter affordable by the target population.

c. Impact on the Target Group

An example: The FEHCOVIL core housing project. The pictures and data on the following page provide an example of the type of impact which this project will have. The core housing project refered to is CABEI's pilot experience with such solutions.

The core house will provide a larger lot and all the services, which the existing house does not have. As anticipated above, the new structure, while more solid and built of more permanent materials, will be smaller than the existing structure. This should change rapidly, as additions are made to the core house.

The situation with regard to tenure does not appear to be much different. The fact is that there will be an improvement. A woman who is head of the household living in the structure seen partially in the right of the picture had finished paying for her plot. A local flood washed away all her receipts of ten years of payments. She was given no credit for these payments and is currently re-purchasing the plot for $650. One-sided contractual relationships such as these are not untypical. They are one of the conditions which the project will attempt to improve.



Existing conditions*

1. lot:

a) size 56 M^2
b) tenure owned

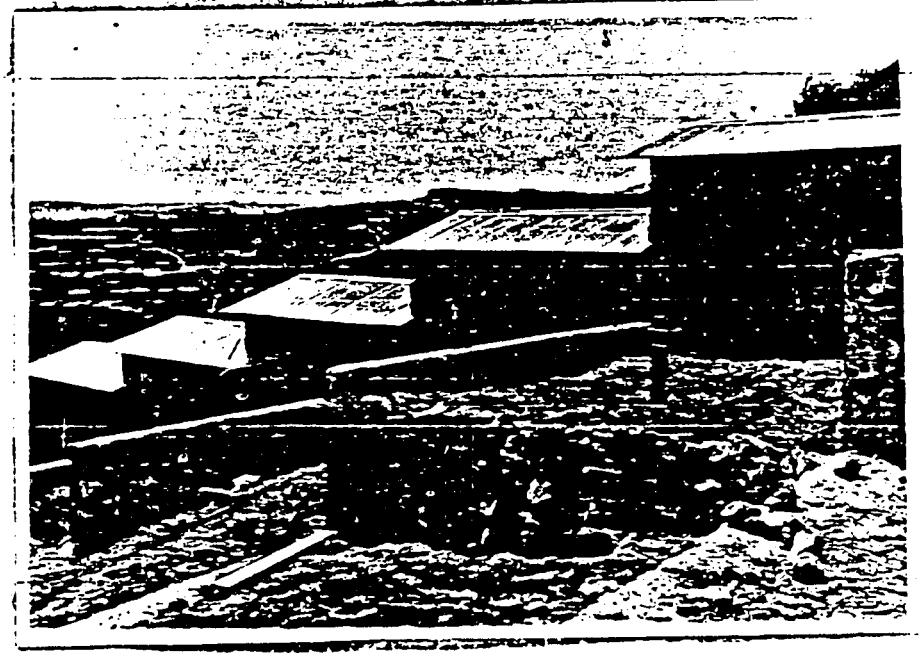
2. house:

a) size 35 M^2
b) materials wood, tiles, co rugated tin roofing, dirt floors
c) tenure owned

3. service connections (at lot

	Yes	No
a) water		X
b) sewer		X
c) electricity		X

* Numbers are for the center house in the picture above. These houses are within sight of the ones below.



FEHCOVIL core house:*

1. lot:

a) size 65 M^2
b) tenure cooperative

2. house:

a) size 25 M^2
b) materials cement block, wood asbestos-cement roofing, cement
c) tenure cooperative (floors

3. service connections (at lot

	Yes	No
a) water	X	
b) sewer	X	
c) electricity	X	

* La Divanna project in Tegucigalpa, Honduras.

(Credit: Pictures by L. Elmendorf, FCH

FOOTNOTES TO ANNEX F DETAILED SOCIAL ANALYSIS

1) Interamerican Development Bank (IDB). Population and Urban Trends in Central America and Panama, Washington, D.C., 1977. page 35. (Authors: Robert W. Fox and Jerrold W. Huget.)

2) Ibid., p. 4

3) Ibid., p. 6

4) Ibid., p. 36-37

5) Ibid., p. 49

6) Ibid., p. 6

7) Ibid., p. 20

8) Ibid., p. 9

9) Ibid., p. 21

10) World Bank, Basic Needs in Shelter, Washington, D.C., April, 1977. Page 22. (Authors: Anthony H. Churchill and Margaret A. Lyncette.)

11) Ibid., p. 3

12) IDB, op. cit. p. 11-13

13) United Nations. World Housing Survey, New York, 1976, p.55-57.

14) RHUDO/ROCAP. Compilation of statistics from Shelter Sector Assessments and from various Central American country documents.

15) USAID/CR. Costa Rica Urban Assessment. San José, 1977. p. 173

16) Banco de la Vivienda (BANVI). La necesidad de Vivienda en Guatemala, la demanda habitacional. Guatemala, 1978. p. 22

17) The description in this section is a composite of the findings of several studies, including:
a) EDURES. (Estudio de Desarrollo Urbano y Regional) Programa para el Mejoramiento Integrado de las Areas Críticas Metropolitanas. Vol. II, "Anexos". San Salvador, May, 1978.
b) PADCO. Acciones Específicas Relacionadas con la Elaboración del Plan Nacional de Vivienda para Honduras. Anexo,

"Estudio del Sector Vivienda Informal". Washington D.C., January, 1978.
c) Oficina de Información, Casa Presidencial Informe General de la Encuesta en Zonas Marginales del Area Metropolitana de San José, 1977. Primera Parte, "Aspectos metodológicos y análisis de algunos resultados". San José, November 1977.

18) Costa Rica Urban Assessment, p. 171, Table 1.

19) IVU. Diagnóstico de la Situación Habitacional de la República de El Salvador, en 1970 San Salvador, Junio, 1971. pp 10-14

20) BANVI. op.cit. pp 14-15

21) CONSUPLANE. Plan Nacional de Vivienda 1979-83. Capítulo 1, "Diagnóstico". Tegucigalpa, April, 1978.

22) Data on production is for 1977-78. Source: Costa Rica Shelter Sector Assessment - Update 1977. page 3

23) Data is for 1976. Source: EDURES. Institutional Improvements in the Housing Sector, San Salvador, August, 1978. Apendix 1.

24) An estimate prepared for BANVI in 1978 by INFONAVIT of Mexico shows average production from 1964 to 1973 at 11,043 for the country as a whole and at 6,202 for urban areas. Current production levels have increased to about 10,000 for urban areas, hence the adjusted estimate of 14,800 used here. Source: BANVI. op.cit., pages 27-30

25) Data on production is the average for 1974-77. Sources: Honduras Shelter Sector Analysis - Update, February, 1978 page and CONSUPLANE. National Housing Policy. 1976. page 6

26) USAID, Urban Assessment of San José, Costa Rica: Focus on Poverty, Sept. 21, 1977, p. 8.

27) USAID, Costa Rica Shelter Sector Assessment, 1977 Update, p. 5.

28) USAID, Urban Assessment, pp. 11-14

29) Ibid., pp 41-43

30) Ibid., p. 4

31) Ibid., pp. 65-66

32) USAID, SSA Update, p. 5. Also see Table 2 of this Annex

33) USAID, Urban Assessment, p. 85

34) Ibid. p. 174

35) See Table 2,

36) Idem.

37) Ibid., pp. 8-16

38) Ibid., p. 61

39) World Bank, A Program for the Integrated Improvement of Critical Metropolitan Areas in El Salvador, May, 1978, p., 1

40) Idem

41) Ibid., p. 2

42) Ibid., p. 3

43) See Table 3.of this Annex

44) Ibid., p. 28

45) Ibid., p. 27

46) Ibid., p. IA-11

47) Ibid., p. 27

48) Ibid., p. 29

49) Estudios y Proyectos de Guatemala (EPG). Estudio de la Pobreza Urbana en Guatemala: Informe Inicial Sobre Antecedentes, Junio 25, 1979. Sections 4.3 to 4.10

50) Ibid., Sections 5.34 to 5.36

51) Ibid., Sections 4.7.

52) Instituto de Fomento de Hipotecas Aseguradas, Guatemala, Resumen de Algunas Estimaciones de Población y de Vivienda

en la República de Guatemala, p. 2.

53) EPG. Estudio, Sections 4.11 to 4.14.

54) Ibid., Section 2.29.

55) Ibid., Section 4.56

56) Ibid., Section 4.66

57) Ibid., Section 4.39

58) Ibid., Sections 5.56 to 5.57

59) Ibid., Sections 5.28 to 5.30

60) Ibid., Sections 5.39 to 5.45

61) USAID, Project Paper, CABEI 004 Housing Guaranty Loan p. 26 Also see Table 4 of this Annex

62) Instituto de Fomento de Hipotecas Aseguradas, Guatemala p.4.

63) USAID, Project Paper p. 32.

64) PADCO, Estudio del Sector Vivienda Informal, Enero, 1978, p.1

65) Idem

66) USAID, Shelter Sector Assessment, Updated, February, 1978, p. 7.

67) PADCO, p. 3.

68) PADCO, p. 19.

69) USAID, Project Paper, Honduras 005 Housing Guaranty Loan, p. 26. Also see Table 5 of this Annex.

70) Ibid., p. 24

71) PADCO, pp. 21,48

72) Ibid., p. 83

73) Idem.

74) Ibid., p. 72

75) Ibid., pp 64-72

76) USAID, Shelter Sector Assessment, pp. 5-6

TABLE 1

Monthly Family Income

TEGUCIGALPA		GUATEMALA		SAN JOSE METROPOLITAN AREA		SAN SALVADOR METROPOLITAN AREA	
Percentile	1978	Percentile	1979	Percentile	1979	Percentile	1979
10	60	10	177	10	104	10	112.29
20	89	20	226	20	151	20	159.70
30	119	30	280	30	193	30	184.04
40	150	40	333	40	245	40	210.31
50	181	50	386	50	297	50	253.13

TABLE 2

SAN JOSE METROPOLITAN AREA

Monthly Family Income

PERCENTILE	1977 (1)	1979 (2)
10	92	104
20	133	151
30	170	193
40	216	245
50	262	297
60	323	355
70	395	435
80	509	543
90	718	766
100	1,171	1,250

(1) Source: Dirección Nacional de Estadísticas y Censos. Survey of Incomes and Expenditures - 1974. San José, 1974. Updated to 1977 by OFIPLAN.

(2) Adjustment based on rates used in Urban Assessment of San José to update the 1974 income figures, p.178. Actual rates used were: 10-50%/1.133; 60-70%/1.10; 80-100%/1.067.

TABLE 3

SAN SALVADOR METROPOLITAN AREA

Annual Family Income		Monthly Family Income	
January, 1977 (1)	PERCENTILE	January, 1977	January, 1979 (2)
$ 1,222	10	101.84	112.29
1,738	20	144.84	159.70
2,003	30	166.92	184.04
2,289	40	190.75	210.31
2,755	50	229.59	253.13
3,416	60	284.67	313.86
3,916	70	326.34	359.80
4,923	80	410.25	453.31
6,557	90	546.42	602.44
49,488	100	4,124.00	4,546.71

(1) Source:

Provided by USAID ES. Program Office.

(2) Update to January, 1979 was done using a 5% annual increase, compunded or a total 111%.

TABLE 4

G U A T E M A L A

Monthly Family Income Distribution

PERCENTILE	1970 (1)	1977 (2)	1979 (3)
10	73	(1.87) 136	177
20	101	(1.73) 174	226
30	124	(1.74) 215	280
40	153	(1.68) 256	333
50	188	(1.58) 297	386
60	235	-	(484)*
70	290	-	(597)*
80	377	-	(777)*
90	557	-	(1,147)*
95	777	-	(1,600)*

* Projection used only to complete graph. Does not affect project.

(1) Source: Orellana G., René Arturo, "La Vivienda Urbana y los Presupuestos Familiares", Estudio Monográfico No.1. Instituto de Investigaciones Económicas y Sociales - Universidad de San Carlos, Guatemala, 1974. Table 11, p.46. Quoted in: Estudios y Proyectos de Guatemala. Estudio de la Pobreza Urbana en Guatemala. Informe Inicial sobre Antecedentes. Guatemala, June, 1979. Table 5-14, p. 5-20.

(2) Source: Secretaría General del Consejo Nacional de Planificación Económica - Unidad de Proyectos. Quoted in the Project Paper for the ROCAP Urban Shelter Improvement project (596-HG-004), p. 26.

(3) Update to 1979 based on multiplier of 1.3 recommended by Don Masters CDO/USAID/G in a memo to Fred Hansen, June, 1979.

TABLE 5

T E G U C I G A L P A

Monthly Family Income

PERCENTILE	1967 (1)	1978 (2)
10	36	60
20	53	89
30	70	119
40	89	150
50	107	181
60	136	231
70	173	292
80	233	394
90	399	674
93	500	845

(1) Source: Dirección General de Estadísticas y Censo. Encuesta de Ingresos y Gastos Familiares, 1967-68. Tegucigalpa, April, 1970. Quoted in AID, Office of Housing. Honduras Housing Sector Analysis. August, 1974. Table 14, page 37.

(2) Figures were updated to September, 1978 using a Consumer Price Index increase of 169% as a proxy as recommended in the Honduras Shelter Sector Analysis, Updated - February 1978, pp. 7-8.