



CLASSIFICATION
PROJECT EVALUATION SUMMARY (PES) - PART I

Report Symbol U-447

1. PROJECT TITLE Housing Guaranty Panama - \$9 Million to the Instituto de Fomento de Hipotecas Aseguradas			2. PROJECT NUMBER 525 HG 007	3. MISSION/AID/W OFFICE USAID/Panama
5. KEY PROJECT IMPLEMENTATION DATES			4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) <u>81-1</u> Final <input checked="" type="checkbox"/> REGULAR EVALUATION <input type="checkbox"/> SPECIAL EVALUATION	
A. First PRO-AG or Equivalent FY <u>74</u>	B. Final Obligation Expected FY <u>77</u>	C. Final Input Delivery FY <u>81</u>	6. ESTIMATED PROJECT FUNDING A. Total \$ <u>9 million</u> B. U.S. \$ <u>9 million</u>	
			7. PERIOD COVERED BY EVALUATION From (month/yr.) <u>May 1974</u> To (month/yr.) <u>Nov. 31, 1980</u> Date of Evaluation Review	

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR:

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
Secure agreement from BHN in cooperative projects to be funded so Eligible Mortgages can be presented	M. Pita	1/81
Monitor the submission of Eligible Mortgages	M. Pita	Continue through 1981

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

<input checked="" type="checkbox"/> Project Paper	<input type="checkbox"/> Implementation Plan e.g., CPI Network	<input type="checkbox"/> Other (Specify) _____
<input type="checkbox"/> Financial Plan	<input type="checkbox"/> PIO/T	_____
<input type="checkbox"/> Logical Framework	<input type="checkbox"/> PIO/C	<input type="checkbox"/> Other (Specify) _____
<input checked="" type="checkbox"/> Project Agreement	<input type="checkbox"/> PIO/P	_____

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

A.	<input type="checkbox"/> Continue Project Without Change
B.	<input type="checkbox"/> Change Project Design and/or <input type="checkbox"/> Change Implementation Plan
C.	<input type="checkbox"/> Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

Carlos Tovar, BHN
William Mann, RHO/PSA
William Gelman, RHO/PSA
Mario Pita, RHO/PSA

12. Mission/AID/W Office Director Approval

Signature: *[Signature]*
Typed Name: Aldelmo Ruiz, Director
Date: _____

December 31, 1980

13. Summary

In May 1974 AID provided the guaranty for a loan \$9 million loan to the Institute for the Development of Secured Mortgages (IFHA). This HG loan was made as a follow-up an earlier Development Loan with the aim of strengthening IFHA and consolidating individual private savings and loan institutions into a national system to serve the shelter needs of families in the lower middle and middle income categories. The program also contemplated the financing of cooperative housing projects to further expand the participation of the private sector in housing. As IFHA later was transformed by the GOP into the National Mortgage Bank (BHN), future references herein to the Borrower will be by the acronym BHN. This transformation resulted in BHN becoming a financial instrument of the Ministry of Housing which resulted in serious problems for the implementation of 007. As of June 17, 1977 Investors had disbursed the entire \$9 million to the Borrower.

The key project issue at this time is the presentation by BHN to AID of approximately \$3.0 million in "Eligible Mortgages" defined in the IFHA/AID Implementation Agreement as mortgages registered or submitted for recordation in completed and sold units. This issue exists because the project design provided for a substantial level of funds to be advanced for construction financing without monitoring carefully what was happening to those funds. Unfortunately most of those funds were tied up in land, incomplete projects that came to a half and unsold units in projects. Two actions have been taken to address this issue.

In July, 1979, BHN deposited in an escrow account controlled by RHO/PSA \$1.5 million in funds which had been disbursed to but not spent by the Borrower. These funds were used to finance the second phase of the Nuevo Chorrillo cooperative and the mortgages generated will be used to account for approximately one-third of the outstanding balance of Eligible Mortgages to be presented.

An additional \$3 million in Eligible Mortgages remain to be generated. Drastic action pursuant to the terms of the Implementation Agreement could be exercised which would involve AID requesting that BHN prepay to the U.S. Investor all the funds not represented by Eligible Mortgages. But this action course is not recommended because BHN is now attempting to comply with the Implementation Agreement and their financial condition is so precarious that strong action could further erode the credibility of the institution when it seems to be trying to begin to put its house in order. A reasonable alternative has been discussed and at the request of RHO/PSA, BHN and MIVI, together, are compiling a package of cooperative projects through which additional "Eligible Mortgages" will be generated with BHN's own resources.

Our efforts to secure Eligible Mortgages from cooperative projects in addition to Nuevo Chorrillo will force BHN to allocate its own resources in sound cooperative projects that will offer a reasonable return on the

investment made by BHN and to a certain extent reduce the negative outflow now affecting BHN because the lack of return on the amounts disbursed and not yet represented by completed units.

Depending on the results of the efforts with the cooperative projects, the pre-payment alternative will be considered again late December 1981.

14. Methodology

The information used for this evaluation is drawn from a variety of sources including the following: (a) Project Paper; (b) Implementation Agreement and other agreement documents between AID and GOP; (c) communications internal to AID and between AID and GOP; (d) Quarterly and Monthly Mission Project Status Reports; (e) Consultant reports and evaluations and (f) records and reports of the BHN and Caja de Ahorros.

15. External Factors

The project has been adversely affected by several factors. First, the Panamanian economy suffered a severe recession during the latter part of the 1970's which dampened significantly the demand for new housing. This, in turn, slowed sales of new units thereby affecting the ability of associations and the BHN to convert construction financing into Eligible Mortgages.

A variety of legal problems occurred which are associated with obligations of contractors, land titles, and construction defects. While these types of problems to some extent may be attributed to BHN management some were ultimately owed to bad faith on the part of some contractors who threw the entire effort into chaos and therefore such events constituted external factors that greatly complicated project implementation and further slowed housing delivery. A third factor affecting progress was the administrative turmoil of the BHN. During the early phases of the project no permanent General Manager had been appointed. This resulted in a lack of the leadership at a critical time of this complicated program.

16. Inputs

These were generally provided in a timely, efficient manner. They consisted of a \$9 million in HG resources to produce projects that would lead to a significant expansion in the BHN/S&L Associations mortgage portfolio and technical assistance to establish a secondary mortgage market.

With regard to the technical assistance, a variety of high level advisors were brought to Panama to work with the BHN and related institutions to establish a structure for a secondary mortgage market as well as needed support for the idea. No changes in the amount or type of inputs were required.

Disbursements were made on the following:

<u>Date</u>	<u>Amount</u>	<u>Interest Rate</u>
7/1/74	\$3,000,000	8.375%
4/3/75	1,000,000	8.375%
6/30/75	500,000	8.375%
12/16/75	1,500,000	8.375%
4/21/76	1,000,000	8.375%
3/1/77	1,000,000	9.00%
6/17/77	1,000,000	9.00%

17. Outputs

Several expected outputs can be interpolated from the PP. They included the following:

1. A mortgage portfolio of \$9,000,000
2. About 1200 units selling for between \$7,000 and \$10,000

The mortgage portfolio amounts to about \$5.5 million at the present moment with another \$.5 million to be generated within the next six months. Generating the additional \$3 million may be achieved in the following ways:

1. Completion and sale of the projects started with HG-007.
2. The funding of and transfer of mortgages from a series of projects being developed by several cooperatives.
3. A combination of the first two alternatives.

The total number of units built and sold as of December 15, 1980 was 782.

18. Purpose

The purpose as stated in the PP was as follows: "To strengthen those institutions serving Panama's lower middle and middle income housing needs and to reinforce the GOP's strategy of assigning a larger role in this sector to mutually owned Savings and Loan Associations, the Government Savings and Mortgage Bank (Caja de Ahorros) and the Cooperative Housing Institute (FUNDAVICO).

It can be said however that the loan program and subsequent technical assistance for the establishment of a secondary mortgage market have not produced the results anticipated. The institutions, the BHN and the S & L Associations, are not made measurably stronger than before, through this loan, and in some respects, they may be considered to have been weakened. Annual housing production by the S & L Associations during the last ten years has not increased. Since the initiation of the program, annual figures ranged from a high of 326 units in 1976 to a low of 165 units, achieved in

TABLE 1
 NATIONAL MORTGAGE BANK/NATIONAL SAVINGS AND LOAN SYSTEM
 STATISTICAL DATA FROM 12/30/70 TO 6/30/80

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Cumulative # of Accounts	9173	10597	12246	14979	21839	28871	36376	49120	48391	55507	64187
Balance of Annual Savings (in B/.000)	4141.4	4516.4	7757.7	9027.1	8847.9	11914.7	14323.8	15901.4	19325.3	21230.7	24810
Number of Housing Units Financed	105	272	197	226	134	270	326	216	165	172	84 *
Annual Amounts of Loans Made (in B/.000)	976.0	3121.6	19000.0	2432.6	1567.8	3078.5	3506.3	2248.9	1947.6	2300.3	882.0
Average Unit Financed	9295	11476	9645	10764	11700	11402	10756	10412	11804	13374	10500

* This is a six month figure.

1978, which cannot be considered much of a role when compared with other housing institutions in Panama. Annual figures for the last ten years are shown in Table 1.

The associations have not had trouble attracting savings because savings deposits grew by six fold during the decade. Rather, the problem has been in mobilizing association resources for housing investment despite the \$9 million loan.

The Caja de Ahorros did not participate in the program as originally suggested but its role in the housing sector is much greater. As of June 30, 1980 the Caja had lent \$130 million to 17,000 borrowers. The expanded role of Caja in housing was a result of its own initiative and resources.

While S & L Associations are not providing much housing investment of any type, the cooperative system could be considerably strengthened depending on the outcome of negotiations with BHN and cooperatives in funding several projects for a total of \$4.5 million. If BHN provides these funds to the Cooperatives, as part the "liquidation" of the Eligible Mortgages this would be a boost to the cooperative system but the overall impact cannot be determined at this time. Certainly, the Nuevo Chorrillo Cooperative has benefitted from the \$1.5 million in program resources and through these resources is increasing the supply of housing for low income families.

19. Goal/Sub-goals

Essentially, the implied goal of this project was to improve living conditions of low middle and middle income families with regard to housing. This is occurring in Panama partly as result of this project. The Caja de Ahorros and MIVI have played by for the key roles in meeting the housing needs of these families principally in the rapidly growing capital city, Panama. BHN is playing a major role in the MIVI related housing activities but it is not yet a financially strong institution. Outside of the Caja most of the housing institutions are not strong. The weakest links appear to be the S&Ls who have not managed their resources efficiently, nor have they effectively addressed the production of housing for moderate income families.

20. Beneficiaries

The direct beneficiaries of this project (the homeowners principally) are lower-middle and middle income families in the Metropolitan Region of Panama. These include white collar and blue collar workers from the public and private sectors and proprietors of small businesses. Hundreds of low income families also benefitted from the direct and indirect employment generated by the construction process.

21. Unplanned Effects

The increased reliance on cooperatives to generate mortgages is a favorable, unplanned effect. While the desired result would have been to have the S&Ls address a greater level of low middle and middle income housing need, involvement of cooperatives on a larger scale than previously contemplated is advantageous to the future Panama's shelter sector. Another unplanned effect is the stimulation of growth along the Panama-La Chorrera corridor by the Chapala and Bello Amor projects. The projects are reinforcing another growth pole in the greater Panama metropolitan area.

22. Lessons Learned

A number of lessons have been learned from this project.

A complete evaluation of the shelter sector is needed before designing a program. The successful experience with the savings and loan program system in other countries was the motivating factor first for the DL to IFHA and the subsequent HG loan. These actions overlooked the fact that the Caja de Ahorros plus a number of mortgage banks were already working in housing finance at the high and middle income level in Panama. It seems that our efforts should have been directed to those existing institutions rather than to create another system which lacked the support needed from the GOP to survive and to grow.

Second, the 007 program was heavily project oriented. The main concerns were to have the housing built with less emphasis on the institutional development aspects of BHN and the savings and loan associations although efforts of encouraging and secondary mortgage market were made.

Monitoring of the program was weak. For instance, after the failure by BHN to complete all the Eligible Mortgages within the time limit established in the Loan Agreement with the US Investor, further extension of the loan should have not been permitted unless the construction advance was "liquidated" by the generation of corresponding Eligible Mortgages.

Technical assistance was provided in the area of secondary mortgage market. However, such assistance was provided too soon mainly because BHN was not prepared to undertake a function that demands a well run organization operating on sound financial basis.

The present efforts in the housing sector in Panama are guided by some of the lessons learned in 007. Our approach is based in a better understanding of the sector in which BHN should play a key role in the housing finance of projects for low income families. It also calls for a substantial and interested emphasis on the institutional development aspects by the provision of timely technical assistance. Finally, our strategy is being continuously reexamined to adapt it to the realities of Panama which essentially were ignored when 007 was designed.