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UNCLASSIFIED

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

DOMINICAN REPUBLIC

PROJECT PAPER

TRIPARTITE HOUSING PROGRAM

AID/LAC/P-087

Project Number:517-HG-009

UNCLASSIFIED

PROJECT DATA SHEET

1. TRANSACTION CODE

A A = Add
C = Change
D = Delete

Amendment Number

DOCUMENT CODE

3

2. COUNTRY/ENTITY

Dominican Republic

4. BUREAU/OFFICE

LAC

3. PROJECT NUMBER

517-HG-009

5. PROJECT TITLE (maximum 40 characters)

Tripartite Housing Program

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
09 30 84

7. ESTIMATED DATE OF OBLIGATION
(Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 81 B. Quarter 4 C. Final FY 82

8. COSTS (\$000 OR EQUIVALENT \$1 = DR\$1)

A. FUNDING SOURCE	FIRST FY 81			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant) PRE/H	()	()	()	(220)	()	(220)
(Loan)	()	()	()	()	()	()
Other U.S. 1. HG Loan				900	14,100	15,000
2.						
Host Country GODR (land)					750	750
Other Donor(s) Private sector					5,000	5,000
TOTALS				1,120	19,850	20,970

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)	729	866	866			220	15,000	220	15,000
(2)									
(3)									
(4)									
TOTALS									

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

11. SECONDARY PURPOSE CODE

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

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

- Increase supply of safe and sanitary low cost shelter.
- Provide an example of private sector involvement in low cost shelter solutions for low income workers.
- Support and expand the S&L's work with low cost shelter financing.
- Stimulate local credit institutions.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
02 83 02 84 02 85

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

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

17. APPROVED BY

Signature

Title

USAID/ Dominican Republic Mission Director

Date Signed

MM DD YY
09 08 81

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

MM DD YY

CONTR. SLIP

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

GUARANTY AUTHORIZATION

PROJECT 517-HG-009

Provided From: Housing Guaranty Authority

For : The Government of the Dominican Republic

Pursuant to the authority vested in the Acting Assistant Administrator, 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 Fifteen Million Dollars (\$15,000,000) 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 a low income housing program in the Dominican Republic. The guaranteed loans shall be made to the Banco Nacional de la Vivienda, referred to herein as "borrower" or "BNV", and will assist in financing a tripartite housing program which will provide low cost housing opportunities for workers in households with below median incomes through a collaborative effort involving private enterprise, workers and the Government of the Dominican Republic (GODR).

These guaranties 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 guaranties of the loans shall extend for a period beginning with 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. Government of the Dominican Republic Guaranty: The GODR shall provide for a full faith and credit guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranties to the Investor or from non-payment of the guaranty fee.
4. 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.
5. Investor Selection: Prior to Investor selection, the following conditions will be met in form and substance satisfactory to A.I.D.:

- a. Submission of a Project Delivery Plan by the BNV which details the steps and instruments necessary to implement the project, including financing arrangements, a disbursement schedule and the responsibilities of each of the participants. The Project Delivery Plan will be updated annually or more frequently if appropriate.
 - b. Agreement by the GODR to assume any exchange risk incurred by the BNV.
6. Implementation Agreement: In the Implementation Agreement, the participating institutions will be required to covenant the following:
- a. The BNV agrees to establish an interest-bearing account for the receipt of beneficiary and employer financing payments and for disbursements to the U.S. investor and for other uses as agreed to by the National Council of Businessmen (CNHE) and approved by A.I.D.
 - b. Individual employers represented by the CNHE, agree to guaranty payment of the differential between the loan terms approved by the BNV for Savings and Loan mortgage and home improvement financing and the terms of the HG loan for all selected beneficiaries as long as they remain in the employ of the sponsoring employer.
 - c. The individual employers, represented by the CHNE, will select beneficiaries with family incomes no greater than the 50 percentile of the metropolitan area's or country's income distribution and other criteria agreed to by A.I.D. in writing.
7. Other Terms and Conditions: The guaranties shall be subject to such other terms and conditions as A.I.D. may deem necessary.

Marshall D. Brown

Marshall D. Brown
Acting Assistant Administrator
Bureau for Latin America and the Caribbean

Sept 30, 1981

Date

Clearances:

GC/H : MKitay *MKitay*
GC/LAC : BVeret *BVeret*
FM/LD : EOwens *EOwens*
PRE/H : DMcVoy *DMcVoy*
LAC/DR : ILevy *ILevy*
LAC/CAR: SMerrill *SMerrill*

MWilliams
GC/H:MWilliams:cac:9/28/81:20246

ACRONYMS

AID	Agency for International Development
BN	Bienes Nacionales: National Property
BNV	National Housing Bank: Banco Nacional de la Vivienda
CNHE	National Council of Businessmen: Consejo Nacional de Hombres Empresa
FHA	Fomento de Hipotecas Aseguradas: Development of Insured Mortgages
GODR	Government of the Dominican Republic
HG	Housing Guaranty
INVI	National Housing Institute: Instituto Nacional de la Vivienda
S&Ls	Savings and Loan Association

DOMINICAN REPUBLIC
TRIPARTITE HOUSING PROGRAM: PRIVATE
ENTERPRISE, WORKERS, AND GOVERNMENT

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I. SUMMARY AND RECOMMENDATION

A. Summary

The Dominican Republic's 1979 population of 5.4 million is increasing at a rate of 2.5% per year. Spurred by immigration to the major cities the urban population is growing at an annual rate of between 5-6%. An estimated 29,300 new urban units are needed annually to cope with urban population growth alone while in the country as a whole some 75,000 new units per year are required in order to meet the demands of new household formations and to replace substandard units. The demand for housing was intensified by Hurricane David in 1979 which destroyed or damaged an estimated 40,000 units. Although shelter related disaster relief efforts have been successful, due in part to AID activities, the dimensions of the overall housing problem in the Dominican Republic have become overwhelming. Shelter production is not even keeping pace with new household formation much less satisfying the backlog demand.

Given the severity of the existing housing shortage and the institutional and capital constraints in the public and private housing sectors respectively, the willingness of a new entity to support low-cost housing production activities is welcomed by the GODR.

The project proposed in this paper is sponsored by the National Council of Businessmen (CNHE), a private sector entity, new to the low-cost shelter arena. Although employers often provide workers with generous benefit packages, in the past housing finance benefits have been limited to relatively high income employees. The proposed project would support the entrance of private sector employers into the realm of low-cost shelter production. It would enable low-income workers to finance home construction and improvements through combining employer benefits with housing finance loans from local S&Ls through the National Housing Bank (BNV). Houses will cost an average of DR\$6,000. Under this program the worker target group which includes families with an income minimum of DR\$125/month (minimum wage) and maximum of DR\$350/month (urban median income), will be able to service a loan of DR\$2,838 and DR\$7,947 respectively.

The shelter sector goal is to improve shelter conditions for low-income households in the Dominican Republic. As a step in this direction the proposed \$15 million HG would finance a tripartite approach to the provision of shelter for low-income workers through a collaboration of employers, workers, and the government.

The purposes of the project are to:

1. Increase the supply of safe and sanitary low cost shelter;
2. Provide an example for private sector involvement in the provision and improvement of shelter for low-income workers;
3. Support and expand the S&Ls' inclusion of lower cost shelter financing within their portfolios; and
4. Stimulate local credit institutions.

The target population is workers whose household income is less than the urban median (currently DR\$350) and who are employed by a member of the CNHE. The project will finance two types of shelter solutions for this group:

- a. small housing subprojects;
- b. individual solutions including home improvements, additions, or new construction on worker-owned land.

The CNHE will sponsor the project and promote it with its member federations and their member firms. The BNV will be the borrower and administrator of the loan. Individual S&Ls will make disbursements to builders and will be the financial intermediaries which deal directly with the beneficiary and the sponsoring employers. The builders will be private firms which meet BNV qualification standards. GODR land will be available for housing subprojects.

Financial costs will be recouped through beneficiary and employer monthly payments. The Monetary Board in July 1981 authorized the S&Ls to increase their mortgage rates from 9.5% to 12.0% per year.^{1/} The beneficiary will pay this more realistic interest rate and the employer will finance differential necessary to service the HG loan as long as the employee remains in his employ. If the employee leaves, he assumes responsibility for the total remaining payments. The difference is not considered to be an obstacle to severance to either party.

Total project resources will finance approximately 4,000 solutions over a 3-year period. Sample CNHE survey results indicate that over 70% of employees would qualify for the program and employers typically would be willing to sponsor 2-15 workers per year. Given that there are some 548 member firms in CNHE, with some 68,000 employees, the effective demand would be greater than project resources.

B. Recommendation

The intensive review of the proposed project concludes that the project is economically, financially, administratively, socially, and technically sound. It addresses a severe problem in an economically and socially beneficial manner. The participation of the employers and the use of FHA insurance guarantees the financial soundness of the project. The participating entities all have sufficient technical and managerial capacity to participate effectively in the project.

Based upon a review of the proposal set forth in this paper, it is recommended that a Housing Guaranty be approved as follows:

1. Amount of Guaranty: US\$15.0 million to the Banco Nacional de la Vivienda (National Housing Bank: BNV), the Borrower, for a low-income worker housing program. The GODR will be the guarantor of the loan to AID.
2. Term: The loan will be for a term of up to 30 years with a grace period of up to 10 years for the payment of principal, to be negotiated with the investor.
3. Interest Rate: The interest rate payable to the U.S. investor shall not exceed the allowable rate of interest prescribed by the AID Administrator pursuant to Section 223(1) of the FAA, and shall be consistent with rates of interest generally available for similar loans.

^{1/} The urban CPI increased 11.1% in the 12 months ending March 1981.

C. Project Issues

The major issues raised by the DAEC review of the PID (See Annex 1, "PID Issues Cable") Concerned:

1. Housing Sector Constraints. The Dominican Republic Shelter Sector Assessment (April 1980) identified several shelter delivery constraints--policy, financial, institutional, and technical constraints--which inhibit low-income shelter activities. These can be summarized as including:
 - a. a lack of planning and coordination;
 - b. an interest-rate policy which dictates negative real interest rates for depositors and for borrowers, and a corresponding shortage of long-term shelter finance;
 - c. an inattention to the (more risky) financial requirements of low-income groups;
 - d. inappropriately high design standards for low-income housing and infrastructure; and
 - e. a concentration of public sector shelter activities in the Santo Domingo Metropolitan area.

The constraints identify sector policy and institutional issues which in large part can be turned around only over a considerable period. The GODR, nevertheless, already has begun to deal effectively with several of them. The proposed HG program reinforces some of those initiatives. The emergency shelter programs which were precipitated by Hurricanes David and Frederick in 1979 brought the realization that there is a vast demand for much lower cost solutions than traditional shelter. Among the spin-offs from that experience are:

- a. a restructuring of INVI to concentrate on shelter activity for very low-income groups;
- b. in furtherance of (a), a forthcoming sites-and-service project with the World Bank which emphasizes cost recovery, affordability, and more realistic effective interest rates;
- c. a policy decision in 1979-1980 by the BNV/S&Ls to increase their lending to low-income groups (a decision which resulted in 500 loans to low-income households during 1980);
- d. efforts by INVI and the BNV to modify design standards for low-income housing and infrastructure; and
- e. the inclusion of housing as a major investment sector in the 1981-1983 public sector investment program.

Most recently, the Monetary Board on 28 July 1981 authorized the S&Ls, subject to the approval of the BNV, to increase the interest rate which it pays on savings, to increase the maximum interest rate charged on loans from 9.5% to 12.0%, and further to increase the effective interest rate by charging an additional commission of up to 6% on the unpaid balance every 3 years.^{1/} This is a dramatic move toward a more realistic interest rate structure which can promote the capture of domestic savings and improve the allocation of capital.

The proposed project is not addressed specifically to the larger sector problems. Rather it is a project which gives AID reentry into the shelter sector in the Dominican Republic, a reentry which can provide AID with the opportunity to support these longer-term policy and institutional changes. Most of the constraints enumerated in the SSA will not adversely affect the implementation of this project; and the potential project specific constraints--the supply of building materials, the capacity of private builders, the availa-

^{1/} As of September 1981 BNV has approved a 11½% interest rate and expects to increase the rate to 12% within 90 days. BNV has not approved the use of additional commission charges and is not expecting to do so in the near future.

bility of suitable land, the capacity of infrastructure agencies, and the ability of the financial intermediaries to carry out the project, for example, do not pose obstacles for the proposed project, (see Section III-D, "Technical Feasibility").

In sum, the proposed program is consistent with these initiatives by making shelter finance available to below-median-income workers, by strengthening the coordination between the BNV/S&Ls and the CNHE, by adopting more realistic design standards for low-income shelter and for infrastructure, and by extending program activities outside the Santo Domingo Metropolitan area. Conversely, there is nothing in the program which worsens the shelter delivery constraints.

2. Capacity of Financial Intermediaries and Review of Past HG Experience. AID's involvement in the shelter sector in the 1960's helped to establish the National Housing Bank (BNV) and the Savings and Loan system. This was accomplished through initial technical assistance activities and two seed capital (Development Assistance) loans to the BNV, one for \$2 million in 1963 and the other for \$5 million in 1966. HG loans, authorized in 1969 and 1972 for \$6 million and \$4 million respectively, were used for further mobilization of local resources for housing and as an impetus for further institutional development. These two HG's were contracted and dispersed, for the most part, in a timely fashion and resulted in 2,000 units ranging in price from \$4,198 to \$16,653. Payments to the investor are proceeding on schedule for final payments on 2/1/92 for HG-006 and 1/1/96 for HG-008.

The BNV also presently is responsible for a HG (007) which was authorized in 1972. HG 007 originally was for \$3.5 million and the BNV's initial role was that of providing mortgage insurance for a housing project sponsored by Falconbridge Dominicana D por A, Ferro-Nickel Mining Corporation. The borrower was to be FALCONDO, a corporation formed for this purpose. The developer was INVI and the administrator was the Savings and Loan Association of Bonao. The project was for 500 row houses in Bonao (55 miles from Santo Domingo) for the purpose of providing housing for workers of the new ferro-nickel industrial plant. This narrowly defined worker housing project was not successful due to a combination of factors which included: (a) the 1973 oil price hikes made the fuel-intensive technology of Falconbridge uneconomical; and (b) a lack of project marketability due to design errors. The housing type did not appeal to rural families because of the limited lot and house size, without any possibility of incremental growth; and it did not appeal to urban workers who preferred the free (employer sponsored) commute from urban centers rather than to be confined to a "company town." Ultimately 125 units were constructed, the project authorization was decreased to \$860,000 and the BNV assumed the loan for that amount. Payments to the investor are on schedule for final payment 4/1/92. Occasional delays were caused by the Central Bank's inability promptly to process foreign exchange repayments; but these do not reflect on the BNP/S&L's ability to administer the subproject loan collections efficiently and to submit payments promptly to the Central Bank.

The difficulties with HG 007 were clearly unrelated to the BNV's present role as designated borrower and the proposed role for the S&Ls. The BNV and the S&Ls are a healthy, vigorous, well managed, and profitable financial system. The number of savings accounts increased 17% during 1980 to over 400,000; savings grew by 28% to more than DR\$271 million; and secondary mortgage sales captured 12% more resources in 1980 than in 1979, growing to nearly DR\$177 million. The

S&Ls granted 5,404 loans in 1980, an increase of 18% over the year-end 1979 total. Total loans granted during 1980 came to DR\$560 million. It is evident that the proposed program, amounting to a potential increase of 1.2% over the 1980 level of lending activity, will pose no significant task for the BNV/S&L system.

3. Role of the Private Sector. This issue raised three related points in an attempt to ensure:

a. That there is sufficient effective demand by workers and their employers to draw down the proposed HG in a reasonable period of time. The survey conducted by the CNHE and the results of meetings held by the intensive review team with individual CNHE trade association member firms and workers support the conclusion that there is sufficient demand for timely draw downs. (See Section III-B, "Financial Analysis".) The project resources can finance perhaps 10% of existing target group worker families' effective demand for shelter financing during the expected 3-year implementation period.

b. That the system for selecting beneficiaries is fair and equitable. It became clear during the intensive review that no single set of eligibility criteria could respond adequately to the diverse needs of individual situations. There is too much variety in production and employment arrangements and in turnover rates among firms. It is recommended that the selection process be left to the mutual agreement of each firm and his workers, subject to verification by AID that the selection process is equitable and is publicized to and agreed to by the workers. Employee benefit grading systems quite often are spelled out in union contract negotiations. The criteria for ranking potential beneficiaries typically include length of service, size of family, and the need for housing. The proposed project also will limit beneficiaries to worker families with a household income below the urban median and includes other basic requirements. (See Section II-B-6, "The Project.") Therefore while the variety of individual working relationships precludes a uniform list of criteria, the procedure must be fair and equitable and it is expected that it will generate less envy and resentment than would a lottery system.

c. That the financial arrangements will not permit employers to exercise undue control over worker beneficiaries. The employer's contribution is an irrevocable fringe benefit so long as the worker continues his employment. Benefits already extended cannot be threatened by the employer in any case. If the worker chooses to leave his employment, he has the right to sell his house or to assume the future differentials which would have been contributed by the employer (as an addition of the present value of those differentials to the mortgage balance).

4. Site Selection. Section III-D, "Technical Feasibility," lists the considerations which the BNV and the CNHE will take into account in selecting specific subproject sites. The identification, review, and selection of specific subproject sites will be carried out jointly by the CNHE and the BNV. Once the demand is established and potential sites are identified, each site will be reviewed by the BNV to confirm its suitability and technical feasibility prior to proceeding with final project design. The prime considerations will be location with respect to place of employment, availability of infrastructure services, community services, natural hazards (flood plains, unstable slopes, etc.), land use and urban plans. Additional factors such as topography, hydro-

logy, vegetation, soils, shape, size and special features will also be considered. The location with respect to demand will be the function of the CNHE. The environmental and technical aspects will be handled principally by BNV with the assistance of private consultants where required for detailed technical analysis. The basic urbanization, infrastructure, and community service design requirements will be established when specific sites are selected and approved for development.

Total land requirements will be less than 100 acres. GODR owned land will be used when economically beneficial. This determination will be a function of the location(s) of the participating employers, processing time, as well as existing infrastructure. Applications for specific sites will follow the existing procedures for obtaining GODR land (see Technical Feasibility 111-D-4). When a suitable GODR site is not readily available in any particular instance, appropriate sites will be acquired on the open market. (Raw land costs are a relatively insignificant percentage of sub-project total costs; less than 6%) Neither the BNV nor the CNHE wants the program to be confined to the use of government-owned land if more suitable sites are available.

Since each firm's effective demand for housing is expected to be 2-15 units per year, the CNHE will package the demand of several firms in order to present packages to builders. In no case can a "company town" atmosphere be engendered through this process.

5. The IEE was transmitted for review to the Bureau through the PRE/E and a negative threshold determination was approved 8/26/81.

II. PROJECT DESCRIPTION

A. Background

1. Overview.^{1/} The background of the urban target group's housing problems in the Dominican Republic is similar to that of many developing countries: high population growth rates, heavy rural-urban migration prompted in part by the lack of rural employment opportunities, high overall unemployment and underemployment rates, high inequalities in the pattern of income distribution, and a relative inattention by the formal sector to the shelter needs of the urban poor. In the Dominican Republic, these factors have been exacerbated by hurricanes which, in 1979 for example, destroyed an estimated 40,000 units of the housing stock.

Aggregate urban statistics show that 79% of housing units have electricity, 80% have piped water, and 57% have bathrooms. An analysis of urban target-group households, however, presents a more relevant description of shelter deficiencies. Based on an analysis of 8 indicators of shelter inadequacy (dealing with overcrowding, infrastructure, and the use of impermanent and non-formal building materials), the SSA estimates that 58,000-96,000 urban housing units were deficient in 1974. This translates into more than 100,000 deficient units in the present housing stock for the target group. To this pent-up demand for more adequate shelter must be added the need for additional stock to accommodate the growing urban population.

The SSA estimates that some 29,300 new urban units are needed annually in order to cope the population growth alone. The GODR's three-year investment program estimates that, nationally, 75,000 new units are needed annually to supply new household formations and also to replace substandard housing stock. The public sector will provide less than a third of this.^{1a/} Shelter production has not kept pace with "needs" for some years. The growing shortage of shelter is acute, especially for low-income households.

The public sector's direct participation in the shelter sector now is directed through INVI, whose programs are geared toward low-income families and government employees. INVI accounts for approximately 15% of total housing financing. It presently is working with the World Bank on developing a sites-and-services project which will provide 8,000 new units over 4 years.

Other sources of housing finance include the S&Ls, and the mortgage and commercial banks. The S&L system accounts for approximately 45% of housing finance activities. The mortgage banks which finance higher-cost housing than AID activities will support, account for approximately 20%.

The BNV is a semi-autonomous government institution which supervises the S&L system, which AID helped to establish in the 1960's. The system is efficient and capable; but it has been operating under the severe constraint of an artificially low interest-rate structure imposed by the GODR. This constraint has

^{1/} This section draws heavily on the Dominican Republic Shelter Section Assessment, April 1980. The SSA should be consulted for additional supporting detail and analysis.

^{1a/} See footnote 1 on the following page (pg 8).

resulted in a shortage of capital available for low-cost housing. It is hampered by a capital constraint rather than by its institutional capacity. The proposed project will assist the S&Ls to expand shelter financing programs for low-income households.

2. Mission Strategy. The basic thrust of the Mission strategy is to improve the living conditions of the poor in the Dominican Republic. In recent years, the Mission has followed a rural-oriented basic needs strategy with major emphasis on small production and on improvement of social services to rural areas.

The strategy has been carried out through a series of loans in agriculture, health, and education. The Mission FY 1982 CDSS also now proposes concentrating, among other things, on programs for sites-and-service and self-help construction. It states, "We also see an expanding need to create jobs where the majority of the people are moving-- to the urban centers. They will require not only jobs, but shelter, thus, we see ... the expansion of home construction, through access to HIG funds, as a complementary and urgent need." 2/ Proposed funding includes a \$15 million HG in FY-83 and a \$20 million HG in FY-85. The FY 1983 CDSS also proposed in the two HGs for a total of \$35 million.

Until now, however, it has proved almost impossible to utilize HG resources because, as recently noted, of "...the incompatibility of high interest rates in the U.S. and low interest in the Dominican Republic. The Mission, GODR and the private sector are seeking ways to resolve this problem and facilitate the use of the money".3/ The proposed project is a result of that effort.

The proposed HG represents an important action component of the Mission's comprehensive employment strategy. It also complements the already completed employment policy study, an ongoing micro business study and OPG, and the small business sector assessment. These combined initiatives represent a productive partnership of the public and private sector, placing strong emphasis on direct involvement of the private sector in both planning and implementation of desired objectives. It involves many of the strongest and most prestigious of the Dominican private sector institutions.

3. Target Group. The target group for this project consists of workers who are employed by the private sector firms whose federation belongs to the CNHE. Among those workers, only those are eligible who have a family income less than the median urban family income. It is worth noting that women workers who are heads of households are not discriminated against. They have full property ownership rights in the Dominican Republic and will be treated equally with men.

4. History of the Proposed Project. The proposed project brings together several strands of policy development which have occurred during the past few years. The present GODR reexamined the functions of shelter institutions and attempted to rationalize them. These functions previously were concentrated increasingly in the Office of the Presidency. The result of this examination in part has been to charge INVI with responsibility for attending to the shelter needs of the lowest income groups. Implementation of this decision has taken some time and, in the interim, low-income housing production fell still more.

1/ 9,217 housing units were built in 1977, including 5,234 financed by the private sector and 3,983 by the public sector. Task Force on Private Sector Activities of the Caribbean Group for Cooperation in Economic Development, "The Private Sector in the Economy of the Dominican Republic," Washington, D.C., August 12, 1980.

2/ CDSS, FY-82, January 1980, page 52.

3/ USAID Mission, "Employment Strategy Paper," (draft) February 1981, page 51.

The 1979 hurricanes also precipitated a major change in thinking. The GODR had been convinced that very low-cost solutions could not bear the imprimatur of the government; the GODR could not promote projects which approached the level of non-formal self-help housing. The hurricane destruction forced the GODR, with AID assistance, into emergency shelter programs which featured very low-cost designs; and the GODR was surprised by the widely favorable acceptance of the nuclear, incremental approach even when sponsored by the government. The World Bank sites-and-service projects are a response to this change in thinking.

Finally, the present GODR changed the top management of the BNV. BNV's present management has been instrumental in persuading the S&Ls to focus on financing shelter for much lower income groups than in the past. Lower design standards acceptable for FHA (Fomento de Hipotecas Aseguradas) mortgage insurance have been established and publicized among builders and the S&Ls have endorsed a policy of supporting low-cost solutions.

The proposed project fits well into this emerging shelter sector policy. The worker who has entered the formal sector labor force has been confronted by the problem of how to obtain formal sector housing. His employer logically is the person to turn to; and in recognition of this, unions increasingly have pressed for more generous housing fringe benefits for workers. This project is a commendably positive response by private sector employers to an opportunity to work with the BNV/S&Ls to increase the supply of shelter services for low-income workers.

B. Detailed Project Description

1. Sector Goal. The shelter sector goal is to improve shelter conditions for low-income households in the Dominican Republic. As a step in this direction the Mission proposes a \$15 million Housing Guaranty Program to support a tripartite approach to the provision of shelter for low-income workers through a collaboration of private enterprise, workers, and the government.

2. Project Purpose. The purposes of the project are to:
1. Increase the supply of safe and sanitary low cost shelter;
 2. Provide an example for private sector involvement in the provision and improvement of shelter for low-income workers;
 3. Assist and expand the S&Ls' inclusion of lower cost shelter financing within their portfolios; and
 4. Stimulate local credit institutions.

3. Project Outputs. The outputs will be houses, including houses on worker-owned land, and home improvements. The expected allocation of funds between outputs can be summarized as follows (see the Summary Financial Plan in Section III-B, "Financial Analysis"):

<u>Subprograms</u>	<u>Investments</u>	<u>Percentages</u>	<u>Solutions</u>
Housing	17,450,000	80.00	2,500
Housing and Home Improvements on worker land	4,300,000	20.00	1,500
Total	20,750,000	100.00	4,000

The project can assist about 4,000 households, approximately 9% of the increase in urban target group demand due to population growth alone during the 3-year implementation period. As a percentage of the number of new units required to replace substandard housing stock as well as to accommodate new household formations, the program can satisfy less than 2.6% of the total during the period.

4. Project Inputs.

a. Financial

Total project funding will be US\$20.75 million equivalent.

\$15,000,000	HG
4,000,000	Employer (maximum)
1,000,000	Beneficiary (minimum)
750,000	GODR (land value)
<u>\$20,750,000</u>	Total

b. Technical assistance

The technical assistance in the program is costed as follows:

<u>Function</u>	<u>Person/Months</u>	<u>Cost</u>
Advisor to the Project Manager	24	\$170,000
Other Short-Term T.A.	9	50,000
Total	<u>33</u>	<u>\$220,000</u>

5. Participating Institutions.^{1/}

CNHE. The CNHE was organized in 1963 as a private, non-profit entity representing the interests of commerce, industry, agriculture, and ranching. It is a large and influential confederation with 39 member trade associations representing 548 firms with some 68,000 employees (excluding sugar plantation workers). Annex 6 lists the federation members of the CNHE.

BNV. The BNV was established in 1962 as an autonomous state agency to develop and supervise mortgage lending for housing. It supports, regulates, and supervises the S&L system, insures S&L savings accounts, and is authorized to act as the financial agent of INVI and to insure INVI mortgages. Its authorized capital is DR\$10 million. The GODR and the S&Ls are the shareholders of the BNV. It is authorized to collect mortgage payments directly and through member S&Ls. The BNV's main sources of funds are international long-term credits and BNV mortgage bonds.

S&Ls. The S&Ls are non-profit, private mutuals. As of the end of 1980, there were 15 S&Ls with 55 branches throughout the country. AID was instrumental in the establishment of the S&L system. This project supports the BNV and the S&Ls by relying on them to be key participating entities. By having individual mortgages handled by the S&Ls, the proposed program will support the S&Ls with new business and the opportunity to acquire new client savings accounts.

^{1/} See also Section III-F, "Administrative Feasibility."

Bienes Nacionales. Bienes Nacionales (National Property) is the department in the Secretariat of Finance charged with the administration and management of government properties. The Administrator of BN is appointed by the President and is directly responsible to the Secretary of State for Finance. It regulates all real property transaction of the Government and is the agency which transfers government property to housing institutions such as INVI. In this program it will accept and process applications for specific parcels of GODR land.

Builders. The builders will be private firms. They will be in the BNV list of prequalified builders or become prequalified members on the BNV list.

Advisor to the Project Manager (BNV). There are many entities involved in this project. Each of them plays a necessary role; but for none of them will the project be a full-time concern. A full-time advisor to the project manager is considered to be essential to ensure that this program moves along smoothly.

6. The Project. The Mission proposes that a \$15 million Housing Guaranty Program be authorized for low income worker shelter. The HG will finance two types of shelter solutions:

- a. small housing subprojects;
- b. home improvements, additions, and new construction on land already owned or being purchased by a worker;

It is proposed that 80% of the program financing be for type-a solutions and that 20% be for type-b solutions. The borrower will be the BNV. The GODR will guaranty the loan to AID. The BNV will administer the loan. Individual member S&Ls will make disbursements to builders and handle collections from the beneficiary and his employer. Diagram 1 is a program action flow chart which depicts the relationships between the participating entities of the program. These relationships and the responsibility of each participant can be described as follows (see Section III-D, "Technical Feasibility," for further description of the Project delivery process):

The BNV will:

- a. be the project administrator;
- b. approve subproject loans with employers;
- c. approve subproject plans and specifications;
- d. review the income and credit eligibility of beneficiaries;
- e. supervise the bidding and awarding of contracts;
- f. arrange closing with US Investors; and
- g. administer mortgages through its member S&Ls.

The S&Ls, under the supervision of the BNV, will be the financial intermediary which deals directly with individual beneficiaries and their employers. As such the S&Ls will:

- a. verify the credit and income eligibility of the beneficiary;
- b. arrange closing with the beneficiary;
- c. inspect construction and verify work in place;
- d. receive the monthly mortgage payments from the beneficiary and the monthly differential payments from the employer; and
- e. act for and with the BNV as necessary in carrying out the functions in items b, c, and e in the above list of BNV responsibilities.

The CNHE is the sponsor and shares responsibility for project implementation with the BNV and the S&Ls. It will promote the program with its members and, together with the BNV, draft the rules and regulations which govern the program.

- The individual employers who choose to participate in the program will:
- a. establish the effective demand for their workers for the program;
 - b. act as interim borrower and pay the interest-rate differential to the S&L/BNV;
 - c. select the beneficiaries according to selection criteria approved by AID, the CNHE, and the BNV, and which will be established in labor union contracts or by some other system agreed upon by workers and employers;
 - d. participate with the BNV in selecting design specifications;
 - e. provide as an employer benefit up to 20% of the initial cost of each housing unit (approximately \$1,000-1,500 per employee);
 - f. ensure that employees' monthly mortgage payments are forwarded to the participating S&L.
 - g. on a monthly basis will forward to the S&L interest-rate differential between what the beneficiary pays and what is required in order to service the HG loan.

For home improvement loans, the beneficiary will obtain his employer's agreement to guaranty an S&L loan and his agreement to pay up to 20% of the cost of the improvement as well as paying the interest-rate differential as he does for housing subprojects and for housing built on a worker's own land.

The procedure for obtaining employer support for housing in subprojects or building on a worker's own land also will be to obtain the employer's guaranty of repayment to the S&L, agreement to pay up to 20% of the cost of the house, and agreement to pay the interest-rate differential between what the beneficiary pays and what is necessary to service the HG loan.

Housing subprojects will be initiated by an employer or by a group of employers which, with the assistance of the CNHE if sought, contemplates a joint project. The employer will either go directly to the S&L to ascertain if a suitable project is currently being developed or will sketch out a project with the help of a builder selected from the list of BNV prequalified builders. (There are more than 100 prequalified builders on the BNV list. If a builder is not on the list, the BNV will assist him to prequalify for the list.) The proposed subproject then will be submitted to an S&L which will ascertain that the subproject complies with program criteria. The S&L will then forward the processed application to the BNV, which will verify that the subproject is eligible for government backed mortgage insurance (FHA).

- To be eligible for the program, a prospective beneficiary must:
- a. be a citizen of the Dominican Republic;
 - b. be legally competent to sign contracts and be at least 21 years old;
 - c. have worked with the company for at least a minimum period to be determined by the employer; 1/

1/ This is left to the judgement of each employer because "normal" turnover rates vary from business to business.

- d. have his credit rating approved by the S&L's
- e. have a family income below the urban-median household income; and
- f. not now own a suitable house and be willing to participate in the project and reside in the house with his family.

These eligibility criteria may be added to by incorporating eligibility criteria for employer housing benefits which have been agreed to by the employer and his workers through their union collective bargaining agreement or similar process.

The demand for HG financing will be far greater than the resources available under this program. In order to ensure that the beneficiary selection process is fair and equitable, the CNHE and the BNV have agreed that (1) employer projects will be financed on a first-come, first served basis, after CNHE has informed its members about the program and (2) that if an employer-sponsored project cannot serve all eligible potential beneficiaries who want to participate, the selection of beneficiaries will follow procedures agreed to by the employer and his workers. When not already incorporated in a union labor contract such procedures must be fair, equitable, well publicized and representative of both parties and will be subject to AID verification.

The GODR, through Bienes Nacionales in the Secretariat of Finance, will donate land for housing subprojects from its present holdings. Applications for government land will be made during the site selection process. If suitable GODR land is not readily available for a particular housing subproject, land may be purchased on the market. If the location of the GODR land is inappropriate or if providing off-site infrastructure and access is not cost effective, it will be cheaper to purchase land. The possibility of exchanging suitable BNV or employer owned land for equivalent value of GODR land will be explored. Whether to use government-donated land is an option, not a precondition, to be agreed upon by the employer and the BNV/S&L.

The employer will pay as an employee benefit the interest-rate differential between what the beneficiary pays and the cost of servicing the HG loan in addition to contributing toward the cost of each shelter solution. If a beneficiary leaves his employer, the present value of the remaining differential will be added to the unpaid principle or some other acceptable mechanism of covering the entire cost of servicing the loan will be utilized. The mechanism will be spelled out clearly in the mortgage contract.

The beneficiary will pay at least 5% initially toward the cost of the house, and amortize the loan at 12% ^{1/} over 20 years for housing. Home improvement loans will require no down payment from the beneficiary and will be amortized at 12% over a shorter period appropriate to the particular improvement. The employer will contribute initially no more than 20% of the cost of the improvement and pay monthly the difference between 12% and the interest-rate differential.

Monthly payments by both worker and employer during the HG grace period which exceed the amounts needed to service the HG loan will accrue to an interest-bearing Reserve Fund. The BNV will be the Trustee of the Reserve Fund and will determine the use of its funds with the agreement of the CNHE and AID.

^{1/} 12% is the expected rate and will be used throughout the paper. The program, however, will use the maximum BNV approved rate at the time of the mortgage.

The initial contribution of the employer and the employee will total 25% of the cost of the shelter solution, including closing costs. The employee's contribution will constitute at least 5% and the employer's contribution no more than 20%. Closing costs will be financed by the joint contribution and the balance will be applied as a down payment to reduce the initial mortgage amount.

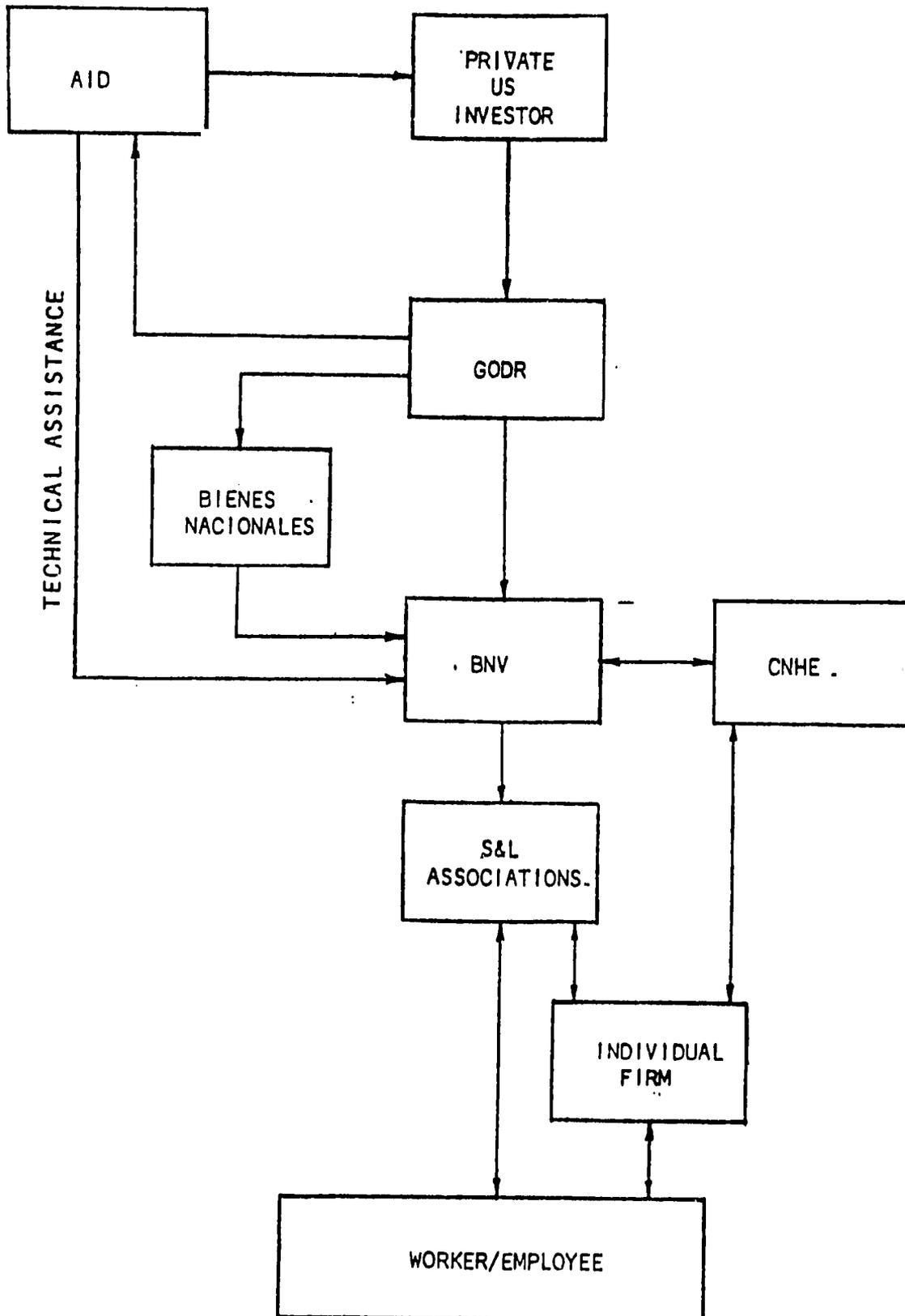
For illustrative purposes, the estimated breakdown of costs/payments for an average subproject house is given below:

	Net of land	Land cost included
House sales price (including infrastructure)	\$6,000.	\$6,160.
Closing Costs	420.	420.
<hr/>		
Total	\$6,420.	\$6,580.
Employee downpayment (5%)	\$ 321.	\$ 329.
Employer downpayment (20%)	\$1,284.	\$1,316.
Employee monthly payment (12%, 20 yrs, including insurance)	\$ 56.84	\$ 58.28
Employer monthly payment (differential for a 18% HG)	\$ 16.00	\$ 16.38
Employee family monthly income required to service the payment	\$ 227.36	\$ 233.12

Houses will be built by private builders. For individual solutions, beneficiaries will contract with builders directly and standard S&L procedures will be used for construction advances and approval. HG financing would be available for construction financing terminating in long term mortgage financing. Three basic alternatives for subproject development include:

- (1) Individual employers pool their demand, contact private firms for project design. Builders, with the backing of participating employer/sponsors, apply for construction financing using standard S&L procedures. Eligible employees would purchase the FHA approved units using HG financing;
- (2) The BNV designs subprojects which are constructed by private developers following normal BNV/S&L bidding and contracting procedures and construction standards. Low cost units within these FHA approved developments could be purchased directly by beneficiaries with any new construction started after May 1, 1981 being eligible for HG financing.
- (3) Private builders design and promote their own projects and obtain construction financing through standard S&L procedures. FHA approved low cost units within such projects, constructed after May 1, 1981, could be purchased by beneficiaries using HG financing.

DIAGRAM 1
PROJECT FLOW
TRIPARTITE HOUSING PROGRAM



III. PROJECT ANALYSIS

A. Economic Analysis

i. The current economic situation. Despite the 1979 hurricane damage, the Dominican Republic continues to register a healthy growth in GDP--4.8% in 1979 and an estimated 5.4% and 5.5% in 1980 and 1981 respectively.^{1/} The GDP is expected to continue to increase in real terms at 5-6% annually during the next few years. There are, nevertheless, two quite serious structural weaknesses in the economy which cloud the optimistic implications of GDP growth: unemployment and foreign exchange reserves.

The open unemployment rate in the Dominican Republic is among the highest in Latin America, 23-24% of the labor force and reaching 31% and 36% for men and women respectively in the 20-24 year age group.^{2/} Another 20% of the labor force is estimated to be seriously underemployed. In total, some 40% of the labor force is underutilized.^{3/} The traditional agricultural economy, specializing in a few primary export products, is a price taker subject to international market conditions. Principal exports are sugar, coffee, cocoa, tobacco, ferro-nickel, and bauxite. The agricultural sector (including cattle, forestry, and fishing) accounts for a little less than a fifth of GDP but for over one-half of total exports. Minerals account for another 40% of exports. World prices for these kinds of products are not affected by the volume of Dominican exports. The manufacturing sector also accounts for a little less than 20% of GDP but, being protected import-substitution production for the domestic market, is insignificant in exports. Neither the primary sector nor the capital-intensive modern sector has been able to expand job opportunities as rapidly as the labor force increases. The resultant chronic and high unemployment continues to motivate a migration to urban centers which seriously overloads infrastructure and shelter capacity.

The combination of increased imports, due in large part to higher oil prices and an inability to increase exports at a commensurate rate, has presented the country with its most serious foreign exchange crisis in the last 30 years. Net foreign reserves are negative; reserves continue to fall by more than \$100 million annually; and the Central Bank is unable to meet commercial foreign exchange payments in a timely fashion. This is in spite of the fact that external public debt and government-guaranteed debt only amounted to \$1.2 billion at the end of 1980. Interest paid on the debt in 1980 was 7.6% of export earnings and debt service was 13% of exports. These are modest figures which normally would be easily manageable. The immediate shortage of foreign exchange occurs at a time of, and to some extent is caused by, a bulge in amortization payments coming due on two large, short-term commercial loans; but no early relief in the reserve position is expected.

^{1/} World Bank, Economic Memorandum on the Dominican Republic, May 15, 1981, p.1.

^{2/} Open employment is highest in the cities receiving the heaviest migration. It is estimated that it exceeded 40% of the 15-25 year age group in Santo Domingo in 1977/78.

^{3/} IDAD, Dominican Republic, "Employment Strategy Paper", (draft) 18 February 1981. The World Bank notes that, "A recent survey suggests that the formerly chronic 24% unemployment rate in Santo Domingo may have fallen to around 20%." World Bank, "op cit", p.1. There is no suggestion, however, that the structural causes of the high employment rate are being dealt with.

The solution to these long-term problems will require adjustments in policies (fiscal and pricing) which are quite difficult to adopt as the May 1982 presidential elections approach. Any HG program at this time must operate in the context of existing economic policies. The anomalous interest rate structure, for example, has not been changed for years and is unlikely to be changed at this time. A usury law limits nominal interest rates on loans to 12% per year. In an economy with 20% inflation, the implications for resource allocation are evident--in particular a drying up of long-term credit--but are not immediately subject to change.

2. Creditworthiness. The effect of the scarcity of foreign reserves in the past few years has been magnified by the administration of reserves. The delays in making commercial payments abroad and in servicing external debt can be mitigated by improved administrative procedures. The Central Bank is addressing this issue and some improvement can be expected. This should promote a perception of the GODR's creditworthiness more in line with the facts of its relatively modest external debt and debt-servicing requirements.

The underlying problem however, will persist in the short run; and substantial short-run relief must come from restricting imports. In the long-run, the GODR must seek to increase and diversify exports. The 1981-1983 investment program is designed with this goal in mind. The subgroup for the Dominican Republic within the Caribbean, Group for Cooperation in Economic Development, the group of international donors/lenders, recently has agreed with the World Bank that the GODR's economic problems are manageable and it has pledged its support to the investment program. The World Bank itself is continuing to lend to the GODR, including a project for two sites-and-services projects in the Santo Domingo metropolitan area. The GODR's present fiscal problems--in particular, the refusal of the Congress to pass tax legislation--have persuaded the World Bank to plan lending at a reduced rate until after the May 1982 elections because of the GODR's inability to provide counterpart funding. The Bank will reassess the GODR's fiscal prospects after the election and, if hoped for fiscal reform then is feasible, will pursue an accelerated lending program in the Dominican Republic.

The GODR is creditworthy for the proposed HG loan. The loan will benefit the reserve position since the direct import content of low-income shelter in the Dominican Republic is about 5-7% of total cost. Since the peso is tied to the U.S. dollar, the capacity to service the loan will depend on the GODR's general economic situation and on its overall foreign reserves. A \$15 million HG would increase external debt liabilities by about 1.25% and, more importantly, it would improve the debt profile. Most alternative sources of external capital would be for shorter periods and carry shorter grace periods.

3. Economic Benefits. It is not very informative to attempt to quantify the economic rate of return on this kind of a program. An assessment of the relationship between the economic and financial rates of return, however, is quite pertinent. Labor accounts for about 25% of the total cost of low-income housing in the Dominican Republic. The high unemployment and underemployment which characterize the economy mean that the economic/social cost of labor is well below the market cost of labor. To that extent, the financial cost of labor overstates the cost to society of implementing the program. The financial costs of the program also seriously overstate the economic/social costs by using the official exchange rate to convert the HG loan into local currency.

Finally, the program will use otherwise idle capacity in the construction industry without burdening the institutional capacity of participating entities. This implies that the economic/social cost of domestically produced materials is less than the market cost of those materials.

In sum, the economic/social cost of labor, materials, and money is less than their financial cost. The internal economic rate of return would be correspondingly higher than the internal financial rate of return on the project.

A second approach to the economic evaluation of the project is to look at the effective demand for the program outputs. The CNHE survey results show that there is an excess quantity of project outputs demanded. This means that all outputs could be "sold" to beneficiaries at higher prices. The difference between project prices and market-clearing prices is a measure of the extent to which economic benefits exceed financial costs to the beneficiary.

Rather than calculating rates of return on the program, it is more relevant to make certain that the project outputs are cost efficient. Section III-E, "Technical Feasibility," establishes that this is the case. In several respects, the program will benefit from cost reductions permitted by waiving or modifying building standards designed for higher-income housing. (See also Section I-C-4, "Site Selection.")

In sum, there is a strong presumption that the economic/social rate of return on the program is higher than the financial rate of return, that there is an excess effective demand for the project outputs, and that the design costs are appropriate and cost effective.

B. Financial Analysis

1. Effective demand for project items. Sections III-D, "Technical Feasibility," shows the BNV financial analysis of 6 low-cost housing projects which currently being built. The required monthly household income is below the urban median in all cases. The average subproject house is expected to have a total cost, including closing costs, of about DR \$6,420. Employer/employee initial payments equal to 25% of this would leave a mortgage loan principal of DR\$4,815. Monthly payments by the beneficiary at 12% interest over 20 years would be about DR\$53.00. Insurance charges would bring the total monthly payment to DR\$56.84. The monthly household income required in order to qualify for the mortgage would be about DR\$237.00. The monthly salary of target group employees ranges from DR\$125.00 (minimum wage) to DR\$350.00 (the urban median household income).

In an effort to establish some specificity regarding the potential effective demand for the project on the part of individual employers as well as establish a salary profile for those below median income workers employed by business enterprises affiliated with the CNHE, a survey form, a copy of which is attached as Annex 10, was mailed out by CNHE to a cross section of its membership. Initial results from 49 firms showed 7,270 workers on payroll, of which 5,791 were below median income. Employer demand typically ranged from 2 to 15 units (an average of 6) per year. Given that there are some 548 member firms in CNHE, with some 68,000 employees, the potential effective demand would be substantially greater than project resources. The lowest worker income at the legal minimum wage would translate into a household income which could service a DR \$2,838 loan, enough for substantial home improvements and shelter upgrading.

These survey findings lend credence to the universally expressed conviction of the BNV, the S&Ls, the CNHE, employers and workers that the loan will be disbursed in a timely fashion.

2. Financial Implications for employers. It is the employer's willingness to pay the monthly difference between the 12% annual interest rate paid by the beneficiary and the amount needed to service the HG loan which makes the proposed program financially feasible. The resulting employer liability may appear to be larger than it need be in fact. The beneficiary, at 12%, amortizes the entire loan. The employer's liability is only for the interest differential. His maximum liability would be about \$16 per beneficiary per month.

Secondly, the BNV will establish an interest-bearing Reserve Fund in which to hold balances between (a) the amounts received monthly from employers and workers and (b) the amounts required (perhaps annually or every 6 months) to service the HG loan. Annex 7 shows that the Reserve Fund would build up quickly to \$789,000 at the end of a 5-year grace period, be positive in excess of the amount needed for any delinquencies in beneficiary payments, reach a maximum of more than \$8.0 million, and remain with a balance of \$967,000 at the end of year 25. The "excess" in the Reserve Fund could be used to reduce employer costs per beneficiary and enable the employer to extend benefits to more workers.

3. Summary Financial Plan (thousands of dollars)

	<u>Houses</u>	<u>Individual Solutions</u> ^{a/}	<u>Total</u>
No. of solutions	2,500	1,500	4,000
HG	\$11,700	\$3,300	\$15,000
Employer/employee			
Initial contribution	\$ 4,000	\$1,000	\$ 5,000
GODR	\$ 750	-	\$ 750
Total Investment	\$16,450	\$4,300	\$20,750

a/ Home improvements and housing/infrastructure services on worker-owned land.

C. Social Analysis

1. Motivation. There is strong motivation to participate in the program on the part of each of the principal groups which will be involved. The direct beneficiaries, of course, are the workers and employees who will receive improved living conditions as a result of the HG loan and the program which it will make possible. Yet the other parties to the program--the BNV, the Savings and Loans, and the CNHE--also perceive themselves as beneficiaries. Thus, their interest in the program and their motivation to engage in it.

The advantages which each of these groups feel the proposed program offers them have been explored in some detail in the Social Soundness Analysis which is annexed to this Project Paper. The following paragraphs summarize those findings.

a. Workers. Affordable housing of reasonable quality is in extremely short supply for families of limited means in the Dominican Republic. The informal market is the primary source of housing which is economically

within the reach of the beneficiaries of the proposed program, but the imperfections and limitations of the informal market restrict both the type and amount of housing which is supplied. The proposed program promises to make available to below-median-income workers and employees in the Dominican Republic a supply of housing which meets much higher standards than the alternative offered by the informal market, but which is still affordable by those workers. In short, the program will place within the reach of the beneficiaries the best possible housing "buy" they could hope to find.

b. Employers. Employers are not unaware of the problems which their workers face in terms of finding suitable, affordable housing. Nor are they insensitive to these problems, on the contrary, they wish to be responsive for sound business reasons as well as for humanitarian motives. Since adequate housing is in such short supply in the Dominican Republic, it is always high on the list of benefits employees seek from their employers - informally in the case of small businesses, and through union bargaining in larger firms. Employers see in the proposed housing program a means to meet their employees' demands, a means which is not currently at their disposal, since the formal sector does not at this time produce housing which is affordable to below median income households. Employers have looked at the short and long-term costs of involvement in the program, and have stated their interest in participating.

The humanitarian motivation which exists on the part of employers is quite genuine and strong. Employer/employee relationships in the Dominican Republic are highly personalized, with employees looking to their companies--and in a very real sense, to their bosses--for help in solving the problems they face. Most companies include in the benefit package they offer their workers a variety of advantages which are not required by law: transportation programs, scholarship plans for children, private medical programs, and others. Access to a housing program is a logical extension of the benefit package, and employers are quite anxious to take advantage of the chance to participate.

c. BNV and the S&Ls. Suitable financing for housing programs is in short supply in the Dominican Republic at this time. Access to the long-term financing which the HG will make available is thus attractive to the BNV and its member savings and loan associations. Furthermore, this housing program is being developed at a point in time when the policies of the BNV are being consciously and carefully re-defined to give greater emphasis to the production of low-cost housing and more flexible social-interest shelter programs. Thus, a fortunate coincidence of circumstances makes the BNV especially interested in undertaking the HG-financed program, through the S&L system--which will facilitate and encourage the implementation of its new housing policies. It is worth noting, also, that the guarantees which the CNHE and the employers will give with respect to the repayments of individual loans makes the program particularly attractive as a relatively risk-free means of entering a new and largely unexplored segment of the housing market.

d. The CNHE. Many of the same considerations which motivate individual employers to participate in the proposed program are also valid ones to the CNHE. The program is good politics as well as good works. It is a way for the CNHE to show that it is concerned not only with maintaining a business climate which will enable its membership to operate most profitably and efficiently, but also with working for the common good of the entire business community--including the low-income workers that are part of that community.

The CNHE is responding to numerous requests it has received from its members to try to formulate a housing program which would let the employers assist their workers obtain better housing. Thus, the CNHE is responding to an expressed concern on the part of its membership.

2. The Target Group

a. Living Conditions. Urban areas in the Dominican Republic have grown at extremely high rates for the past few decades: a population which in 1920 was over 80% rural is today over 50% urban. As might be expected, the cities have been hard-pressed to accommodate this rapid urban growth, and large numbers of low-income urban families are thus poorly served in terms of shelter, physical infrastructure, and community facilities. The target population of the proposed housing program is those below median income families employed by members of the CNHE. Having succeeded in gaining full-time employment with such firms they have now entered the formal sector in economic terms. However, their shelter conditions are still marginal due to the failure of the housing delivery system to produce housing for these income levels in the required volume.

Much of the housing available to the target population is of very low quality. Whether it is located in the old, inner-city tenement areas or in the newer unplanned and informal settlements that have sprung up around places of employment, most of the housing is of temporary materials, poor in quality, inadequately--if at all--served by potable water and sanitary waste disposal systems, and often held by its occupant through an uncertain or unsatisfactory system of tenure.

b. Income. The summary table below gives the income distribution for the Dominican Republic determined by the Central Bank for 1978. Updating the income distribution to September, 1981 gives a current median urban family income of DR\$350.00 per month.

Monthly Household Income Distribution
1978

Income Ranges (DR\$)	Percentage of Households		
	Total	Urban	Rural
0-100	31.5	19.8	39.9
101-300	49.1	50.4	48.3
301-600	13.0	18.0	9.4
601+	6.4	11.8	2.4

An indication of the distribution of income among the target group for the proposed program is revealed by the results of a sampling of 49 member firms of the CNHE which have indicated interest in participating in the housing program. That sampling included 5791 potential beneficiaries of the target group, and the results of the sampling were as follows:

MONTHLY INCOME OF WORKERS	NUMBER OF WORKERS	PERCENT OF SAMPLE
301-350	628	11%
251-300	674	11%
201-250	930	16%
151-200	1610	28%
125-150	1949	34%

The World Bank cites a nationwide average family size of 5.8 members, with a rural average of 6.1 and an urban average of 5.5 members.

c. Location. The members of the target group for the housing program are workers and employees in firms belonging to the CNHE. As is usually the case, most of these firms are located in the urban areas of the Dominican Republic, with a preponderant presence in the capital city of Santo Domingo. Accordingly, the main focus of the program will be urban, with perhaps 60% of the funding going to subprojects in the Santo Domingo area with the remainder likely to be in Santiago and other urbanizing areas.

3. The Program

a. Benefits. The direct benefits of the proposed program will be improved levels of housing and physical infrastructure available to the members of the target group. As the individual subprojects will be developed within the formal design and planning context, community and social infrastructure will be available or provided. Thus, other indirect but significant benefits will result from the program.

b. Communication Strategies. Communication strategies will be very important to the proposed program, and have been given considerable thought in project planning. The CNHE and the BNV will prepare clear, informative promotional and orientational materials which will be used to inform interested employers as well as potential project participants of the program and its mode of operation. It will be crucial for employers as well as employees to understand clearly the eligibility criteria for workers to join the program. Employers must understand their responsibilities if they wish to provide housing to their workers: the guarantees they will have to give, the cash contributions they will need to make at the beginning of the program, and the long-term commitment to absorbing the HG loan differential.

A considerable number of organizations are involved in the program, and it will be important that suitable communications strategies be devised and utilized. Such strategies, and the mechanisms for implementing them, are now under development to ensure that the program is carried out smoothly.

c. Spread Effects and Benefit Incidence. The direct benefits which will be enjoyed by beneficiaries of the program have been discussed above. In addition to these direct benefits, there will be other significant positive outcomes from the program. The increase in absolute terms of the housing stock affordable by families of limited means is one. Due to the labor intensity of the construction industry, significant employment will be generated (see Technical Feasibility-D-3C). The private and public collaboration in this program will result in a heightened capacity to address the shelter needs of the nation's low-income groups. The need for low-cost housing is great, the potential effective demand is considerable, but the market is not currently producing for this group; therefore, the patterns established by this program will serve for further joint efforts in the future.

As the individuals most directly concerned with the conditions of their housing, women are expected to benefit very much from the housing program. Not only will improved shelter itself improve the conditions in which women raise their families, but increased and improved access to basic physical infrastructure will considerably better family health levels. Reduced time spent hauling water is one important benefit which this program will bring to women whose families receive improved housing.

Women constitute a significant segment of the Dominican labor force in a number of industries such as textiles. This program will benefit these women, who are in many cases single heads-of-household; making available long-term credit and the opportunity to purchase a house on terms that are affordable.

4. Possible Constraints and Obstacles. Any housing program faces a number of constraints and potential obstacles. The present program, by virtue of its design and requirements, is more complex than many and thus faces a number of possible problems which might not be encountered in other programs. The principal constraint would seem to be posed by the need for a high level of coordination, on an ongoing basis, of the participating institutions.

The potential constraints have been examined quite carefully by the project preparation team, in consultation with the concerned local institutions in the Dominican Republic. While it is recognized that there will be need for a concerted effort to resolve possible problems, it is apparent also that the degree of interest in and enthusiasm for the program increases its likelihood of successful implementation. The CNHE is taking an active role, as befits the principal sponsor of the program, in orchestrating the joint activities of the institutions which will be involved. AID will furnish technical assistance to BNV and CNHE to carry out this important function.

D. Technical Feasibility

1. Project Delivery Process

a. General Character. The BNV and the CNHE are jointly responsible for project development. Actual subproject design and construction will be done by prequalified builders or construction firms. The role of the CNHE will be that of project promotor. It will identify the demand for housing, consolidate this into subprojects, assist in searching and selecting sites, and jointly with the BNV promote, encourage, identify and select builders developers to plan and build projects to meet this demand. The CNHE will coordinate employers, BNV and the S&L associations, builders and the involvement of Bienes Nacionales. The coordination between CNHE and BNV will be an especially critical function.

The role of the BNV, in addition to its banking and financial responsibilities, will be to set the planning and technical guidelines for the subprojects; to review all plans, designs, cost estimates, schedules and sale prices as required for the FHA approval and for financing; to prequalify builders/contractors participating in project construction; to inspect and monitor construction and costs and to give final approval of the completed units and infrastructure; and to review the environmental soundness of the subprojects.

b. Site Selection. The identification, review, and selection of specific subproject sites will be carried out jointly by the CNHE and the BNV. Once the demand is established and potential sites are identified, each site will be reviewed by the BNV to confirm its suitability and technical feasibility prior to proceeding with final project design. The prime considerations will be location with respect to place of employment, availability of infrastructure services, community services, natural hazards (flood plains, unstable slopes, etc.), land use and urban plans. Additional factors such as topography, hydrology, vegetation, soils, shape, size and special features will also have to be considered. The location with respect to demand will be the function of the CNHE. The environmental and technical aspects will be handled principally by

BNV with the assistance of private consultants where required for detailed technical analysis. The basic urbanization, infrastructure, and community service design requirements will also be established when specific sites are selected and approved for development.

c. Project Design and Development. The responsibility for final project architectural and engineering design will be with the private sector builders/contractors with the guidance and approval of the BNV. This is in essence the procedure now used by the BNV and S&L system for developing projects with the exception that site selection and purchase also is done by the builders. Once sites are selected and approved along with the basic site planning requirements, the final architectural and engineering analysis, plans, specifications and cost proposals will be prepared by prequalified and pre-selected builders. The BNV has well established review capacity for this. The BNV already has put into effect guidelines for reducing standards for both site and house designs in order to encourage innovative low cost solutions. The guidelines are flexible. The BNV will assist the builders/contractors in developing good, low-cost solutions suitable to the payment capacity of the beneficiary. The BNV will not insure any construction done prior to its final approval of all required plans, specifications, sales prices, and construction schedules. (See Annex 8.)

d. Project Construction. Units will be constructed by private builders. It is expected that most units will be built as private developments. Other construction modes may also be used such as contract construction and turnkey projects wherein the total project is delivered at one time. The private development mode offers the most flexibility in this program in that workers from various firms will probably be interested in buying homes in any given project. Sales would not be limited to workers qualified for financing under this program but also would be available to other households. This flexibility would permit a better mix of housing solution types and avoid any possibility of the "company town" stigma.

Construction would be inspected and monitored by the BNV as is their normal practice.

e. Individual Solutions. It is estimated that approximately 20% of the project funds will be used to finance individual solutions as distinguished from subprojects consisting of several units. Individual solutions consist of construction on lots owned by the workers, the completion or expansion of worker-owned houses, home improvements and upgrading, and the purchase of non-subproject homes. The responsibility for individual solutions is that of the individual worker. His application for a loan will have to contain the information necessary to determine the technical soundness of the proposed solution. This would be supplied by a local small builder who would draw-up the plans and cost estimates. These in turn would be reviewed by the S&L association and the BNV. Work in place and completed houses or improvements would be inspected by the S&L or BNV. The S&Ls will assist in preparing loan applications.

2. Design Concepts and Cost Feasibility

a. General. The BNV has initiated a campaign to introduce more flexible design standards into its operations in an effort to reduce the cost of the housing that it finances. It recognizes that this requires collaboration with the private sector builders to help them formulate and design projects affordable by lower income families and to adopt less rigid requirements for approval of low cost projects. The response to this initiative by the

private sector builders has been more favorable than expected. Projects with sales prices below DR\$10,000 ^{1/}with upwards of 5,000 units have been presented for financing. Projects with units as low as DR\$6,200 have been approved by BNV. In general, these units would represent the top end of the affordability scale for this project. However, the BNV is continuing its quest to lower costs and feels that this project will reinforce its efforts in this direction.

b. Site Planning and House Design. The basic low cost project design parameters evolving in the BNV are presented in Annex 8. While in certain aspects these parameters could be reduced, they provide a good place to start. They encourage the designers to look for better solutions at still lower costs. The product to be financed by this project will be minimum standard and size houses on minimal size lots with individual water service, paved access, and water-borne sewage disposal either in collectors or collective septic tanks and drain fields.^{2/} The houses may or may not have interior space divisions depending on cost. The solutions do not necessarily have to be completed units but should allow for expansion. This type of solution is fully acceptable under the BNV's present guidelines.

Construction materials most probably will be unfinished concrete block walls, unfinished concrete floors, zinc, asbestos or concrete slab roof, and local plumbing fixtures and electrical installations. Lot sizes will be a function of both the site requirements and the house design and will vary from 70m² to 112m² depending on these conditions. Provision for minimal community services suitable for the size of the subproject will also be considered in the site and development plan. Here again, BNV's guidelines include these aspects. A minimal space standard of 9m²/person has been established for a completed house. This would yield a 45m² minimum house (when completed) for a family of five persons (average family size is 5.5 people). This minimum standard poses no particular problem for the project since it can be accomplished within the affordability criteria.

c. Construction Costs. Minimum urbanization construction costs vary, depending on the site, from about DR\$5 to DR\$9 per net saleable square meter of developed land and includes water, sewerage, electricity, pavement, and terracing. For projects with lots varying from 70m² to 112m², a range of urbanized lot construction cost of DR\$350-1,008 can be expected. This cost does not include land. Current actual lot sale prices, including land, for low cost projects financed by the BNV range from a high of DR\$15.53 per square meter to a low DR\$8.36 per square meter. Lot sale prices in the Santo Domingo area average about DR\$12 per square meter including land and urbanization.

Current construction costs for complete minimum standard houses range from DR\$112-180/m². These prices are for complete houses with a bathroom, kitchen, 3 bedrooms with closets, and a living/dining area. The finishes are exposed structural blocks, concrete roofs, and concrete floors. The plumbing includes a shower, toilet, wash basin, kitchen sink, and laundry tray. The windows are glass with aluminum frame. An adequate electrical installation is also included. (See Annex 8.)

The typical cost for a standard unit would be about DR\$5,820. Unit costs with the same construction standards but without interior divisions could be reduced to less than DR\$100/m².

^{1/} Due to overstatement of the Dominican peso resulting from the official exchange rate, DR\$ sales prices should be discounted by 20-25%.

^{2/} The statement should not be taken as agreement to the use of septic tanks in urban areas.

CURRENT LOW-COST HOUSE SALES PRICE

Lot sale price: 90m2 at \$12/m	=	DR\$1,080
House sale price: 45m2 at \$112/m	=	5,040
Total	=	<u>6,120</u>
Credit for land:	=	300
Project sale price:	=	<u>DR\$5,820</u>

A lower-cost solution with a 72m2 lot and a 36m2 house would cost about DR\$4,000.:

Lot sale price: 72m2 x \$10/m2	=	DR\$ 720
House sale price: 36m2 x \$110/m2	=	3,600
Total	=	<u>4,320</u>
Credit for land	=	240
Project sale price	=	<u>DR\$4,080</u>

Additional examples and cost data are given in the Technical Annex.

d. Appraisal of Builder Interest. Traditionally private builders have not been interested in low-cost housing except on a contract construction basis. Their main concerns have been marketability, commitment of the long term purchase money financing, and assembling the front-end money needed to purchase land. This project essentially resolves all these concerns. Private builders will be assured of the long term financing; qualified buyers will be predetermined; and the land, which in some cases will be provided and also be pre-qualified in a site selection analysis. In light of the good response to the BNV's first initiatives to promote the development of low-cost units, wherein only the financing incentive was available, the conclusion is that most private builders will be competing to take part in this program. The normal lack of interest on part of the builders will be more than offset by the opportunities the project offers for work.

e. Affordability. The prime question in designing low cost housing projects is whether the target group can afford the proposed units. Since no specific subprojects are proposed at this time, the evaluation of the affordability of current BNV-financed low-cost projects can give an estimate for the proposed project. Data showing the costs and financing criteria of current BNV projects indicate that they are affordable by the target group. The minimum and maximum income of the worker target group would service a loan of \$2,838 and \$7,947 respectively.

CURRENT BNV PROJECTS ANALYSIS

	P R O J E C T					
	A	B	C	D	E	F
Lot size (m ²)	112	114.76	112	130.20	81.57	120.35
Lot sale price (DR\$)	1344.00	1377.12	1344.00	1109.30	681.93	1869.04
Land cost estimate (DR\$)	373.00	374.00	373.00	260.00	164.00	240.00
Adjusted lot price (DR\$) ^{a/}	971.00	1003.00	971.00	849.00	517.00	1629.00
House size (m ²)	46.31	45.10	52.35	47.77	49.35	45.60
House sale price (DR\$)	8744.00	7594.00	8316.00	5737.00	5529.00	6817.00
Total adjusted price ^{b/}	9715.00	8597.00	9287.00	6585.00	6046.00	8446.00
Closing costs (DR\$)	680.00	601.00	650.00	461.00	423.00	591.00
Total cost (DR\$)	10395.00	9198.00	9937.00	7047.00	6469.00	9037.00
Employer/employee contribution (25%)(DR\$)	2598.00	2299.00	2494.00	1761.00	1617.00	2259.00
Loan amount (DR\$)	7797.00	6899.00	7493.00	5286.00	4852.00	6778.00
Monthly payments (12% 20 years)(DR\$)	85.85	75.95	82.05	58.20	53.42	74.62
Monthly Income required (DR\$)	343.40	303.80	328.20	232.80	213.68	298.48

a/ Minus estimated land cost.

b/ Adjusted lot price plus house sale price.

The average subproject house is estimated to have a sales price of around DR\$6,000 net of land. The total cost, including closing costs, would be DR\$6,420. The employer/employee down payment equal to 25% of this price would yield a loan to DR\$4,815. At 12% with 20-year terms, the total interest and amortization payment would be about \$53 per month. Insurance charges of about DR\$3.84 per month bring the total monthly payment to \$56.84. The minimum monthly payment necessary to afford this loan, using BNV's criteria of a maximum 25% of income for the payment, would be DR\$227 per month. The mid-point monthly salary of the target group employees (between a minimum salary of \$125/month and the median urban household income of \$350/month) would be about DR\$237/month. Therefore, the average proposed sales price would be affordable by a worker at the mid-point salary level.

3. Construction Sector Capacity

a. Bidders. The BNV now has a list of more than 120 prequalified construction firms. Not all of these firms are large, but they have been qualified technically and economically to undertake S&L-financed construction. Currently approximately DR\$57.3 million per year of residential construction is insured by the BNV. The mortgage banks now also fund about the same amount. 10-12 large civil works contractors are dominant in the civil construction sector. The smaller firms work mainly in residential construction where dependence on public works contracts is reduced. At least six medium-size builder/developer firms are currently developing relatively large-scale (1500+ units) projects to be financed by the BNV. The construction sector is currently in a slump and will welcome any capital investment in construction work. The capacity of the private sector builders will not pose any constraint for project implementation.

b. Materials. Most building materials which are used in residential construction are produced domestically and have a high labor component. The foreign exchange component for residential building materials varies from 5 to 7.5 percent and is even lower for low-cost projects which do not incorporate finished materials. The principal material for residential construction is cement. Current cement production is operating at about 75% of capacity. Any additional demand for cement due to this program would not cause a supply problem. The supply of cement-based products such as block and floor tile is extremely elastic and production can be increased rapidly if required. Steel reinforcing bars also are produced locally from both scrap and imported ingots. The increase in demand for bars which occurred after hurricane David in 1979 caused no production/supply problem.

c. Labor. The shelter sector assessment estimated total employment in the construction sector to be about 52,300 persons in 1979. This is down by about 9,000 now due to the slow down in construction activity. Wage rates vary from a low of DR\$4.40-6.60 daily for laborers to a high of DR\$10.20-20.00 daily for project foremen. Low-cost residential construction has a higher proportion of the lower wage unskilled workers than high-cost construction. Considering the high unemployment rate in the Dominican Republic, no labor shortage is expected. The total labor component in low-cost construction is estimated about 40%, of which 23% is skilled and semi-skilled and 17% unskilled. The expected employment requirements generated by this project will be about 735 man years of unskilled labor for a total of about 1,342 man years. Over the life of the project this would represent the equivalent of about 537 permanent jobs for a 2.5 year period. Since the building material industry has a high labor component, an additional 1.5 to 2 times the number of direct jobs also can be expected.

4. Land Requirements

The overall land requirements for the subprojects is less than 40 hectares (approximately 100 acres). This would permit development densities of less than 350 persons/hectare which, according to the BNV, is common for low-cost projects in the Santo Domingo area.

For purposes of analysis it was assumed that approximately 60% of the subproject houses would be built in the Santo Domingo area and the rest in other cities. About 30 hectares (80 acres) will be needed in the Santo Domingo metropolitan area.

The PID indicated that land would be donated by the GODR through Bienes Nacionales, the custodian of Government land. No specific sites or areas for subproject development have been selected as of now. Initial demand identification and consolidation will have to precede any action on the selection of potential areas for subproject selection.

The BNV and the CNHE both agree that the identification or selection of a site should not be limited to Bienes Nacionales land. Such a restriction might inhibit the opportunities for optimum site selection. The raw land cost incidence on the total sale price varies from 3% to 6%, and is not critical for project feasibility. Any additional land cost may be compensated by lower infrastructure costs. Bienes Nacionales will donate available land if in any specific case a suitable site is selected that is owned by the Government. The flexibility that this approach allows combined with the relatively small total amount of land required for subprojects will make the task of identifying and selecting suitable subproject sites easier than if only GODR land were considered.

Suitable private land is available in Santo Domingo and in the secondary cities. The larger industrial or agro-industrial firms participating in the program may elect to make land available to their workers. This would be acceptable if a particular site meets the criteria for low-cost residential development and has infrastructure services available.

Bienes Nacionales land also is available in more than sufficient quantity. Upon the presentation of a formal written request for a land donation Bienes Nacionales studies with the requesting entity the availability of sites, their characteristics, and whether or not the land has already been committed to someone else or designated for some other specific use. The formal request date is used to determine the priority of consideration in those cases where more than one entity is interested in a specific parcel. After a determination is made that the land can be awarded, the legal process for approval is started. Each parcel valued at over DR\$20,000 requires congressional approval, which can cause considerable time delay.

5. Environmental Considerations

The IEE identified two principal concerns that must be taken into account during project implementation: (1) protection from natural hazards and (2) infrastructure; and it indicated that the environmental impact for each subproject should be reviewed.

By covenant the BNV will be required to review all subprojects to be financed by this project for environmental impacts as part of its approval process. A checklist of potential environmental concerns and impacts will be developed and used by the BNV. Checklists which have been developed and successfully used in project of a similar nature can be provided to the BNV initially.

E. Technical Assistance

1. Advisor to the Project Manager. There are many entities involved in this project. Each of them plays a necessary role; but for none of them will the project be a full-time concern. A full-time advisor to the project manager is essential in order to ensure that this tripartite program moves along smoothly. Located in the BNV, the Advisor will be responsible for liaison and coordination between all parties to the program. He will help develop the capacity of the BNV to manage this type of program. He will contribute a major element in ensuring the institutional replicability of the program. The advisor would be centrally financed by AID for up to 2-years.

2. Short-term Technical Assistance. In addition to the advisor to the project manager, it is estimated that a total of nine person-months of short-term TA will be needed for help in (1) subproject design, (2) home improvement lending operations, (3) environmental impact considerations, (4) project packaging, and (5) other areas such as low-cost architectural design assistance.

F. Administrative Feasibility

1. Banco Nacional de la Vivienda. The loan calls for the BNV to act as Borrower and, jointly with the CNHE, to undertake project development responsibilities. The BNV also will promote project implementation through subproject identification and the orientation of builders and developers of individual subprojects. As the repository of the FHA function, BNV will have a final review of plans, designs, site appropriateness, and cost estimates, for all subprojects.

The BNV is an efficient institution, smoothly regulating the operations of the individual S&Ls and ensuring their liquidity through purchase of their mortgages in its secondary mortgage operations. Daily operations are highly sophisticated, with computer technology having been absorbed and functioning routinely. Informational systems, linking daily computerized operations of the individual S&Ls with the BNV's data center, permit up-to-date monitoring by BNV staff of the entire S&L system operations. In addition, the BNV has previous experience with HG programs. The BNV is eminently qualified to be the Borrower and the Administrator for this project.

The FHA role of the BNV will permit them to monitor and contribute as needed to the overall development of specific housing subprojects. The combination of the main office in Santo Domingo and the Branch operation in Santiago, the second city in the nation, positions them well to receive projects as they are funnelled through the individual S&Ls. In connection with its secondary mortgage market operations, the BNV has in place an efficient apparatus for producing government-insured mortgages. To date it has insured approximately 28,000 such mortgages, with a cumulative value in excess of DR\$383 million.

Within the sector, the current top management of the BNV has taken the leadership in getting the system to include lower-income families in their marketing operations and has adopted guidelines for reducing both site and house designs to encourage the production of lower cost solutions. FHA regulations have been modified to accommodate this and clearly demonstrate the BNV's seriousness and commitment to this new direction.

2. Savings and Loan Associations. As more fully described elsewhere, the S&L function will essentially be at two levels: (a) the level of interface with the individual employer or group of employers and their builder to arrange for project finalization and interim and long term financing, and (b) with the beneficiary for actual purchase, or in the case of home improvement/expansion operations for the required loan, and subsequent servicing of the debt.

The S&Ls have a nationwide network of 15 associations with 55 branches located in all the areas where this project might logically be expected to generate new construction. With the market guidance of the BNV and their own now very considerable experience in this field--the S&L system currently finances approximately 45% of all housing being financed in the country--the S&L should have no difficulty in handling an additional 1,300-1,400 solutions annually for the projected 3-year disbursement period.

Anticipating that approximately 60% of all solutions will be in the Santo Domingo area, the PP team more closely examined one of the larger S&Ls in the capital. The Asociacion Popular has 18 offices and a total of 225 employees. The Popular network consists of 7 principal offices and 11 branch operations which provide more limited services. In 1980, a slack year for housing production in the Dominican Republic, Popular closed 1,585 loans for new houses, with a corresponding loan total in excess of DR\$28 million. At the end of 1980, Popular had 203,845 savings accounts.

Since 1978, Popular has utilized a UNIVAC 9480 servicing cashier terminals employing BUNKER 2001 equipment. Currently 70% of all savings accounts are processed "on line". The remaining 30% plus the mortgage portfolio, the secondary mortgage operation, and all the special promotional savings plans are processed via "batch". Collection arrears are low--about 11% of the 1980 end-of-year mortgage portfolio was 150 days or more overdue but no significant losses are likely because of FHA insurance and high collateral-to-loan ratios.^{1/}

3. CNHE. Jointly with the BNV, the CNHE is responsible for project development. It will also promote the project among its membership; and during implementation, the CNHE will coordinate employers, BNV and S&Ls, and the builders.

As a confederation of trade associations, the CNHE is the main national lobby for the business community. It has a limited, permanent full-time staff, supporting executive interventions around specific interests largely with volunteer staff. The tasks of orientation and promotion of the program among its membership are essentially familiar ones and should pose no real problems for the CNHE.

However, as in most developing countries, the market, whether the public sector or the formal private sector, is not producing the type of housing which this project calls for in anything approaching the needed volume. As the demand for units surfaces from the individual employers, in many cases in very small quantities, the CNHE is the logical point for these individual requests to be channelled. The CNHE will have to combine them into subprojects and provide some technical guidance. While the CNHE will be able to fall back on the BNV and/or local S&Ls for assistance, some technical guidance also will be required from them. It is envisioned that the Chamber of Builders, the member trade association which most obviously possesses the expertise to undertake such a role at the CNHE level, will undertake to supply the technical services and advice required. However, given the newness of this particular undertaking to the CNHE, this will be one of the areas where the full-time advisor can be most useful in translating demand by individual employers into appropriate subprojects.

^{1/} The corresponding figure for the S&L system as a whole was 10.6%.

IV. PROJECT IMPLEMENTATION

A. Project Monitoring

USAID/DR will be responsible for the policy framework within which the proposed project is implemented. The Office of Housing (PRE/H) is responsible for HG program management within the policy framework. The Office of Housing has delegated authority for project implementation and review and approval of HG disbursements to the Regional Housing and Urban Development Officer for the Caribbean (RHUDO). The RHUDO will coordinate all activities with USAID/DR and obtain USAID/DR approval for changes in project design.

B. Evaluation

Annual evaluations will be jointly conducted by AID and the BNV. These regular evaluations will follow PRE/H guidelines. The proposed project involves a process rather than predetermined site specific approach to shelter production and improvement. Therefore the evaluations, especially the initial evaluation scheduled for February 1983, will concentrate on the effectiveness of the linkages and instruments developed.

Since implementation of the project is dependent on the individual firms within the associations of the CNHE, the first evaluation will pay particular attention to the fairness and effectiveness of the promotion program developed and implemented by the CNHE. The criteria and processes used by individual employers for beneficiary selection will also be reviewed. Additionally an assessment of private builders initial response to low cost housing sub-project development will be made in order to determine if additional marketing techniques should be employed.

All evaluations will be conducted so that all program participants can review how their own inputs are coordinated with those of the other participants and can decide what adjustments need to be made in the project delivery process. An updated Project Delivery Plan will be developed after each of the scheduled regular evaluations.

C. Disbursement Procedures

Project construction is expected to extend over a 3-year period to correspond with the construction and financing schedule established in the Project Delivery Plan, and updated on a yearly basis. Initial disbursement can be an advance and subsequent disbursements will be made on the presentation of documentation of eligible work in place consistent with BNV/S&L's normal practices and procedures. A loan agreement will be executed between the borrower and a U.S. investor within 18 months of project authorization. 1/

Subject to the availability of funds, centrally funded TA disbursements may start prior to the final HG loan negotiations to provide technical assistance so that the Project Advisor and short-term specialists may assist the BNV and the CNHE finalize the plans, financing arrangements, informational materials and agreements required as conditions precedent to the loan.

1/ The Guaranty Authorization will be valid for a period of 18 months from date of signature, although such period may be extended by the LAC Bureau to permit additional time to sign the loan agreement if circumstances so warrant.

D. Project Agreements

Prior to disbursement of the HG loan, the following agreements will have to be signed:

1. Implementation Agreement between AID, the BNV and the CNHE detailing the procedures for the execution of the project, the reporting requirements, and the limitations on the uses of the HG funds.
2. Guaranty Agreement signed by AID, assuring any investor against loss.
3. Host Country Guaranty assuring AID against any loss.
4. Loan Agreement between the BNV and the U.S. party or parties selected as investors.

E. Conditions Precedent

Prior to investor selection, AID will require that the following conditions be met:

1. Submission for approval of a Project Delivery Plan by the BNV which details the steps and instruments necessary to implement the project, financing arrangements, disbursement schedule and responsibilities of each of the participants. The Project Delivery Plan should indicate which individual employers are initially going to participate in the program, how many employees and the type of solutions they are going to sponsor and when they are going to sponsor them. The Project Delivery Plan will be developed by the BNV with the input of CNHE and its members and will be approved by AID. The Project Delivery Plan will be updated annually or more frequently if appropriate.
2. Formal Agreement between BNV and the CNHE defining areas of responsibility for project implementation and agreement on the processes and instruments to be used to insure repayment of the HG loan.
3. Agreement by the GODR to assume any exchange risk loss incurred by the BNV
4. Evidence of agreement between the BNV and the Bienes Nacionales (BN) insuring the availability of government-donated land for project sites or as equivalent value replacement.
5. Such other terms and conditions as AID may deem necessary.

F. Covenants

In the Implementation Agreement, the participating institutions will be required to covenant the following:

1. The BNV agrees to review the environmental impacts of each of the sub-projects.
2. All special conditions dealing with workers equity will be clearly defined in mortgage loan agreements.

3. The BNV agrees to establish an interest-bearing account for the receipt of beneficiary and employer financing payments and for disbursements to the US Investor and for other uses as agreed to by the CNHE and approved by AID.

4. Individual employers represented by the CNHE, agree to guaranty payment of the differential between the loan terms approved by the BNV for S&L mortgage and home improvement financing and the terms of the HG loan for all selected beneficiaries as long as they remain in the employ of the sponsoring employer.

5. The BNV agrees to draw up the instruments required to insure HG loan cost recovery from beneficiaries who leave the employ of the granting employer and/or whose employer goes out of business.

6. The individual employers, represented by the CNHE, will select beneficiaries with family incomes no greater than the 50 percentile of the metropolitan area's or country's income distribution and will indicate the criteria and process used for the selection of beneficiaries which are acceptable to AID such as grading system worked out between the workers (or their representatives) and the employer.

7. The CNHE will be responsible for project promotion and will inform its members of the opportunities, responsibilities and limitations of the program in a manner that will insure equal opportunity and time to respond to requests for active program participation.

G. Implementation Schedule

- Sept. 81 - PP approved and authorized for \$15 million
 - Letter of Advice to GODR and BNV
 - Process for GODR guaranty set in motion
- Oct. 81 - Short term TA to CNHE for program promotion and application procedures
 - Short term TA to BNV-CNHE for Preparation of Project Delivery Plan and CP's
- Nov. 81 - GC/H, RHUDO, BNV and CNHE negotiate and sign Implementation Agreement
 - Project Advisor Identified
- Dec. 81 - Master Project Delivery Plan, with initial participating employers identified, is submitted and approved
 - Advertise for contractors
 - Begin search for investor
- Jan. 82 - Documentation for 1st disbursement submitted
- Feb. 82 - Guaranties and Loan signed
 - 1st Disbursement - Private sector program process set in motion with S&L financing of construction advances
- Feb. 83/84
 - Evaluation
 - Revise Project Delivery Plan
- Feb. 85 - Final Evaluation

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UNCLASSIFIED
Department of State

ANNEX 1

OUTGOING
TELEGRAM

PAGE 01 STATE 191972
ORIGIN 410-35

0616 020997 A109963

STATE 191972

0616 020997 A109963

ORIGIN OFFICE LADR-03
INFO AALA-01 LADP-03 PPCE-01 PDR-01 PPPD-03 GC-01 PPEA-01
GCLA-03 GCFL-01 PPIA-01 HQ-01 ALO-01 LACA-03 IT-00
/027 AB

INFO OCT-88 /035
DRAFTED BY AID/LAC/DR. BUBPHETT: CAC
APPROVED BY AID/PAA/LAC/OLAZAR
AID/LAC/DR. JSMITH/ABURNE (DRAFT)
AID/LAC/DR. ACAUTEPUCCI/ILEVY
AID/LAC/DR. CLEONARD. PERROW
AID/LAC/DR. LTARMSTRONG
AID/LAC/DP: RPATTERSON (DRAFT)
AID/GC/LAC: BVENET (DRAFT)
AID/LAC/CAR: SHERRILL (DRAFT)
AID/DS/M: VPETTERSSON (DRAFT)

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AIDAC

E.O. 12865: N/A

TAGS:

SUBJECT: DAEC REVIEW OF HOUSING GUARANTY (HG) PID

1. DAEC REVIEW OF SUBJECT PID HELD JULY 13, 1981. PID WAS APPROVED AND MISSION AUTHORIZED TO PROCEED WITH DEVELOPMENT OF PP IN ACCORDANCE WITH FOLLOWING GUIDANCE:

2. HOUSING SECTOR CONSTRAINTS: THE AID-FUNDED SHELTER SECTOR ASSESSMENT OF APRIL 1980 CITES SEVERAL POLICY, FINANCIAL INSTITUTIONAL AND TECHNICAL CONSTRAINTS INHIBITING THE PROVISION OF HOUSING IN THE DOMINICAN REPUBLIC, PARTICULARLY FOR LOW INCOME GROUPS. PP SHOULD INDICATE MEASURES EITHER BEING TAKEN OR UNDER CONSIDERATION FOR ADDRESSING THESE CONSTRAINTS.

3. CAPACITY OF FINANCIAL INTERMEDIARIES: GCR HAS BEEN RECIPIENT OF PREVIOUS HG LOANS CHANNELLED THROUGH THE BNV AND LS SYSTEM. PP SHOULD SUMMARIZE RESULTS OF THESE EARLIER PROGRAMS, INCLUDING PERFORMANCE OF PARTICIPATING INSTITUTIONS AND REPAYMENT RECORD FOR BOTH THE HG LOANS AND THEIR RESPECTIVE SUB-LOANS. IN ADDITION, A THOROUGH ASSESSMENT SHOULD BE MADE OF THE BNV AND S AND LS TO DETERMINE THEIR CURRENT AND PROJECTED CAPABILITIES FOR EFFECTIVELY PARTICIPATING UNDER THE PROPOSED PROGRAM.

4. ROLE OF PRIVATE SECTOR.

-- A. WILLINGNESS TO PARTICIPATE: THE PID INDICATED AN APPARENT WILLINGNESS OF FIRMS AFFILIATED WITH THE NATIONAL COUNCIL OF BUSINESSMEN (CNME) AND THEIR WORKERS TO PARTICIPATE IN THIS HOUSING PROGRAM, A PROGRAM EXPECTED TO GENERATE BETWEEN 3,000 AND 4,000 HOUSING UNITS AND FINANCE HOME IMPROVEMENTS. DURING PP PREPARATION, MISSION SHOULD ASCERTAIN THAT SUFFICIENT FIRMS AND TARGETED WORKERS ARE WILLING TO PARTICIPATE IN THE PROGRAM TO ASSURE DRAW DOWN OF HG LOAN WITHIN REASONABLE PERIOD OF TIME.

-- B. SELECTING BENEFICIARIES: THE PID INDICATED THAT

THEIR RESPECTIVE EMPLOYERS. TO GUARD AGAINST UNFAIRNESS IN THE SELECTION PROCESS, MISSION MAY WANT TO CONSIDER THE FEASIBILITY OF SELECTING BENEFICIARIES ALONG THE FOLLOWING LINES: (1) ELIGIBILITY CRITERIA WOULD BE DEVELOPED AND AGREED UPON BY AID AND DOMINICAN INSTITUTIONS INVOLVED IN THE PROGRAM. (2) EACH OF THE PARTICIPATING FIRMS WOULD DRAW UP A COMPLETE LIST OF THEIR ELIGIBLE WORKERS BASED ON ESTABLISHED CRITERIA. (3) FINAL SELECTION OF END BENEFICIARIES WOULD BE MADE BY S AND LS USING A LOTTERY SYSTEM. EMPLOYER FUNDING AVAILABILITIES FOR PROGRAM, ALLOCATION CRITERIA AMONG FIRMS, ACCESSIBILITY TO GOVERNMENT-OWNED LAND AND OTHER FACTORS WILL, OF COURSE, ALSO INFLUENCE THE SELECTION PROCESS. MISSION SHOULD SEEK TO ENSURE THAT SELECTION PROCESS, WHATEVER ITS CONFIGURATION, IS FAIR AND EQUITABLE TO ALL PARTIES CONCERNED.

-- C. FINANCIAL ARRANGEMENTS: IN DETERMINING THE FINANCIAL ARRANGEMENTS OF THE VARIOUS PARTIES INVOLVED IN THIS HOUSING PROGRAM, MISSION SHOULD GUARD AGAINST ARRANGEMENTS WHICH WOULD PERMIT EMPLOYERS TO EXERCISE UNWARRANTED CONTROL OVER WORKERS BENEFITTING FROM PROGRAM.

5. SITE SELECTION:

-- A. DURING PREPARATION OF PP, MISSION SHOULD DETERMINE AVAILABILITY OF GOVERNMENT-OWNED LAND WITH REASONABLE ACCESSIBILITY TO ELECTRICITY, WATER, SCHOOLS AND OTHER BASIC SERVICES.

-- B. IN DESIGNING PROJECT, MEASURES SHOULD BE TAKEN TO AVOID THE DEVELOPMENT OF "COMPANY TOWNS" UNDER THIS PROGRAM, PERHAPS BY DEVELOPMENT SITES WHICH WOULD HOUSE WORKERS FROM SEVERAL PARTICIPATING FIRMS.

6. EXCHANGE RATE FOR CONVERTING LOAN PROCEEDS: AS MISSION AWARE, MORE AND MORE CLASSES OF TRANSACTIONS ARE BEING SHIFTED TO THE PARALLEL MARKET WITH THE RESULT THAT HALF OR MORE OF PRIVATE TRANSACTIONS ARE NOW CARRIED OUT THROUGH THIS MARKET. WITH A VIEW OF MAXIMIZING IMPACT OF DOLLAR LOAN UNDER THIS PROGRAM AS WELL AS FUTURE AID ASSISTANCE IN THE COUNTRY, MISSION REQUESTED TO EXPLORE WITH GCR POSSIBILITY OF CONVERTING SUCH FUNDING ASSISTANCE AT THE PARALLEL MARKET RATE.

7. INITIAL ENVIRONMENTAL EXAMINATION: MISSION SHOULD PREPARE IEE FOR PROGRAM AND TRANSMIT SAME FOR BUREAU REVIEW AT EARLIEST CONVENIENCE.

8. DURATION OF PID APPROVAL: APPROVAL OF THE PID AND AUTHORITY TO DEVELOP THE PROJECT REMAIN VALID FOR ONE YEAR. SHOULD PROJECT NOT BE DEVELOPED WITHIN THAT PERIOD, BUREAU WOULD WANT TO REVALIDATE THE PID APPROVAL THROUGH AN EXCHANGE OF CABLES, A REVISED PID OR INTERIM REPORT. CLARK

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 81 to FY 84
 Total U.S. Funding 15 million HG
 Date Prepared: 8/27/81

Project Title & Number: 517-HG-009

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1)	Measure of Goal Achievement (A-2)	(A-3)	Assumptions for achieving goal targets: (A-4)
<p>GOAL:</p> <p>Improved shelter conditions for low income households in the DR as a result of policies and programs which specifically direct public and private investment toward low cost shelter solutions and upgrading existing marginal housing and communities.</p>	<ul style="list-style-type: none"> - Increased public and private resources allocated for low cost housing solutions. - Increased rate of new housing construction for low income households. - Implementation of programs to provide low income households credit and for home improvement and neighborhood upgrading efforts. - Development and implementation of shelter policies in support of the above. 	<p>GODR Budget BNY Annual Reports CNHE Annual Program Reports</p>	<ul style="list-style-type: none"> - GODR places housing as a priority sector in 1984-6 Investment Plan. - Legalization of positive real interest rate structure - Private sector has genuine commitment to long range involvement in social interest housing activities.
<p>Project Purpose (B-1)</p> <ol style="list-style-type: none"> 1. To increase the supply of safe and sanitary low cost shelter in Santo Domingo and other areas of the DR. 2. Provide an example of private sector involvement in the provision and improvement of shelter for low income workers. 3. To support and expand the S&Ls work with low cost shelter financing. 4. To stimulate local credit institutions. 	<p>Conditions that will indicate purpose has been achieved: End-of-Project status: (B-2)</p> <ol style="list-style-type: none"> 1. Financing of shelter solutions affordable to the target group of which approximately 75% will be new construction. 2. Functioning of an effective private sector sponsored program, integrating GODR, BNY, local S&L's, employers and low income workers, for the production and upgrading of low cost shelter. 3. A no more than average delinquency rate in the portion of BNY's total S&L portfolio which provides financing for lowest cost shelter solutions. 5. Expanded portfolios in participating S&L's. 	<p>(B-3)</p> <p>BNY and participating S&L's records and progress reports. PRE/H Evaluations CNHE Annual Program Reports</p>	<p>Assumptions for achieving purpose (B-4)</p> <ul style="list-style-type: none"> - Employers continue to support employee benefits for low cost shelter solutions.

**PROJECT DESIGN SUMMARY.
LOGICAL FRAMEWORK**

Life of Project
From FY _____ to FY _____
Total U.S. Funding _____
Date Prepared: _____

Project Title & Number: **517-IIG-009**

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Outputs: (C-1)</p> <p>Shelter solutions available to target group:</p> <ul style="list-style-type: none"> a) new construction within projects b) Home improvements, additions, or new construction on worker owned land. 	<p>Magnitude of Outputs (C-2)</p> <p>Approximately 4,000 solutions for workers with household income under the medium income level.</p> <ul style="list-style-type: none"> a) approximately 2,500 units b) approximately 1,500 solutions. 	<p>(C-3)</p> <ul style="list-style-type: none"> • BNY and participating S&L's records • PRE/H evaluations • CRIE Annual Program Reports 	<p>Assumptions for achieving outputs (C-4)</p> <p>Private sector developers will respond to the demand created by the program for building low cost housing</p>
<p>Project Inputs: (D-1)</p> <ul style="list-style-type: none"> 1. US <ul style="list-style-type: none"> a) HG, loan b) AID Grant for TA 2. Local <ul style="list-style-type: none"> a) Beneficiary downpayment b) Employers benefit package c) GODR Land 	<p>Implementation Target (Type and Quantity) (D-2)</p> <ul style="list-style-type: none"> 1. <ul style="list-style-type: none"> a) \$15 million b) \$220,000 2. <ul style="list-style-type: none"> a) \$1 million b) \$4 million c) \$750,000 	<p>(D-3)</p> <p>Project records and evaluations</p>	<p>Assumptions for providing inputs (D-4)</p> <ul style="list-style-type: none"> • US investor can be found. • CRIE and BNY enter into required agreements for project implementation. • GODR provides full faith and credit guaranty.



Consejo Nacional de Hombres de Empresa, Inc.

Av. A. Lincoln No. 1056 7. piso. Santo Domingo, R D. • 567-7164 • 567-7135

7 de septiembre de 1981.

P-67-81.-

Señores
 Agencia para el Desarrollo
 Internacional, A. I. D.
 CIUDAD.-

Distinguidos señores:

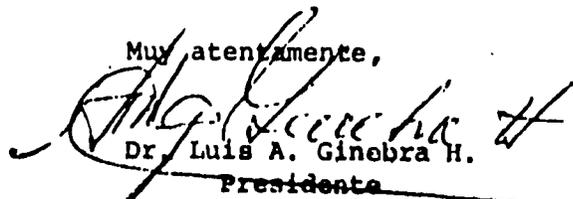
El sector privado dominicano, considerando que la carencia de suficientes viviendas cómodas e higiénicas, es una sensible limitante en la evolución social de la gran masa trabajadora dominicana, se muestra dispuesto a participar en programas de dotación de vivienda propia a los empleados y obreros de la empresa privada.

En tal virtud, el Consejo Nacional de Hombres de Empresa, interpretando ese deseo y en representación del sector privado nacional, está interesado en propiciar el establecimiento de un programa tripartito, en el que participen los empresarios de manera individual, el Gobierno dominicano a través del Secretariado Técnico de la Presidencia y/o de sus dependencias especializadas y obreros de las empresas particulares.

En base a las conversaciones sostenidas hasta la fecha entre el Secretariado Técnico de la Presidencia, y representantes del A.I.D., del Banco Nacional de la Vivienda y del propio CNHE, con - firmamos a esa Agencia nuestra disposición de promover tal programa, que sería iniciado mediante un financiamiento para vivienda, por 15 millones de pesos, como aporte inicial, obtenido por mediación del A. I. D., de fuentes financiadoras del ramo, en los Estados Unidos.

Por último, debo comunicarles que el Consejo será representado en las conversaciones sobre este importante programa, por los señores Ing. Mario Cabrera, Ier. Vicepresidente de esta entidad y Presidente de la Asociación de Industrias; Ing. Alberto Jana Tactuk; el Doctor Nicolás Casasnovas y Lic. Marino Ginebra Hurtado. Los dos primeros serán representantes titulares, fungiendo cualquiera de los dos últimos en su calidad de suplentes.

Muy atentamente,


 Dr. Luis A. Ginebra H.
 Presidente

DRAFT

ASSISTANT
ADMINISTRATOR

GUARANTY AUTHORIZATION

PROJECT 517-HG-009

Provided From: Housing Guaranty Authority

For : The Government of the Dominican Republic

Pursuant to the authority vested in the Acting Assistant Administrator, 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 Fifteen Million Dollars (\$15,000,000) 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 a low income housing program in the Dominican Republic. The guaranteed loan shall be made to the Banco Nacional de la Vivienda, referred to herein as "borrower" or "BNV", and will assist in financing a tripartite housing program which will provide low cost housing opportunities for workers in households with below median incomes through a collaborative effort involving private enterprise, workers and the government.

These guaranties 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 guaranties of the loans shall extend for a period beginning with 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. Government of the Dominican Republic Guaranty: The Government of the Dominican Republic shall provide for a full faith and credit guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranties to the Investor or from non-payment of the guaranty fee.

- 2 -

4. 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.

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

Acting Assistant Administrator
Bureau for Latin America and the Caribbean

Date

THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLIST

DOMINICAN REPUBLIC

PROJECT NO. 517 -HG- 009

ANSWER YES OR NO PUT
PP PAGE REFERENCES
AND/OR EXPLANATIONS
WHERE APPROPRIATE

A. General Criteria Under HG Statutory Authority.

Section 221(a)

Will the proposed project further one or more of the following policy goals?

(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

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

Yes

(3) supports a pilot project for low-cost shelter, or is intended to have a maximum demonstration impact on local institutions and national; and/or;

Yes

(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

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 \$1,555,000,000?

No

Will the guaranty be issued prior to September 30, 1982?

Yes

Section 222(b)

Will the proposed guaranty result in activities which emphasize:

(1) projects providing improved homesites to poor families on which to build shelter and related services; or

No

(2) projects comprised of expandable core shelter units on serviced sites; or

No

(3) slum upgrading projects designed to conserve and improve existing shelter; or

No

(4) shelter projects for low-income people designed for demonstration or institution building; or

Yes

(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor?

No

Section 222(c)

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

Yes

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

Yes

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

Yes

- 3 -

(3) 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

(4) 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

(5) 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 620/620A

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?

No

CNHE Federation Members

Dominican Advertisers Association, Inc.
Association of Development Banks, Inc.
Association of Dominican Republic Banks, Inc.
Dominican Association of Insurance Bankers, Inc.
Dominican Association of Distributors of Vehicles and Home Finishings, Inc.
Dominican Association of Exporters, Inc.
Dominican Association of Textile Industries, Inc.
Dominican Association of Milk Producers
Dominican Association of Rum Producers
Dominican Associations of Tanneries, Inc.
Dominican Association of Sales and Marketing Executives, Inc.
Association of Herrera (a province) Industrialists, Inc.
Association of Manufacturers of Agricultural Preserves, Inc.
Association of Manufacturers of Cold Cuts and Processed Meat, Inc.
Association of Manufacturers and Importers of Agrochemical Products, Inc.
Association of Ranchers and Agriculturalists, Inc.
Association of Dominican Republic Industries, Inc.
Association of Dominican Republic Industries, Inc. (Northern Region)
Interamerican Association of Businessmen, Inc.
National Association of Hotels and Restaurants, Inc.
National Association of Young Businessmen, Inc.
Association of Santo Domingo Ship Builders, Inc.
Association of Manufacturers of Chemical Products, Cosmetics and Polishes, Inc.
Association of Representatives and Agents of Pharmaceutical Products, Inc.
Association of Representatives of Foreign Firms, Inc.
American Chamber of Commerce in the Dominican Republic
Chamber of Insurance Companies in the Dominican Republic, Inc.
Chamber of Dominican-Japanese Commerce, Inc.
Dominican Chamber of Construction, Inc.

BEST AVAILABLE DOCUMENT

ANNEX 6 cont

.. -2-

Official Chamber of Commerce, Agriculture, and Industry in the Distrito Nacional
Official Chamber of Commerce, Agriculture, and Industry in Santiago de los Caballeros
Dominican Republic Federation of Employers
Dominican Federation of Sugar Plantations, Inc.
Dominican League of S&L Associations
National Association of Importers
Association of Construction Mortgage Banks
Associations of Suppliers and Producers of Construction Materials
Association of Supermarkets, Inc.
Association of Soft Drink Bottler in the Dominican Republic

RESERVE FUND BALANCE*

<u>Year</u>	<u>Amount (000's)</u>
1.....	37
2.....	135
3.....	335
4.....	553
5.....	789
6 - 1st year of full principal & interest payment	1,044
10.....	2,485
15.....	4,669
20 - 1st mortgage series fully repaid	7,953
25.....	967

* The following assumptions were used in developing a cash flow chart from which this reserve fund balance was extracted.

- 1) Ultimate "cost of HG money 18%.
- 2) On-lending to beneficiaries at effective 18% (with employer's contribution).
- 3) Term of HG loan 25 years; five grace on repayment of principal.
- 4) Terms of loans to beneficiaries 20 years.
- 5) HG disbursed in three years: 3, 4.5 and 7.5 million respectively.
- 6) HG loan repaid in annual installments.
- 7) Beneficiary loans and employer contribution paid in monthly installments.
- 8) Reserve fund earns interest at 8.5% per year.

TECHNICAL ANNEX

1. BNV Project Presentation Procedures
 2. BNV Guidelines for Low Cost Housing
 3. Plans and Costs for Current Projects
 4. Unit Construction Costs for July 1981
- (Document in project file at PRE/H.)

ANNEX - SOCIAL SOUNDNESS ANALYSIS

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I. INTRODUCTION

An early concern in appraising the social soundness of the proposed AID-supported housing program was to identify in clearer terms the degree and kind of interest in the program on the part of each of the groups which will be involved. Accordingly, meetings and interviews were arranged, to discuss possible participation in the program with the National Council of Businessmen (CNHE), with business associations belonging to the CNHE, with individual employers and their personnel officers, and with a number of below-median income workers employed by some of the companies that may seek to provide housing to their employees through the program.

The opinions and feelings manifested by the groups and individuals interviewed served as important indicators to the project preparation team, and confirmed that there is indeed a high level of interest in executing a housing program which will directly benefit a significant sector of AID's urban target group. These indicators further point to a positive determination of the social and economic feasibility of the program. As such, they underlie and support the conclusions presented in this Annex.

The project is feasible. It works: the numbers fit, the demand clearly exists, capacity to accept and repay long-term credit has been examined and found adequate in light of the contemplated shelter and infrastructure costs, a clear and genuine willingness to participate in the program has been demonstrated by the employers and their associations. These assertions are implicit in the text of the Project Paper to which this analysis is annexed; they are confirmed by the material examined and the findings reached herein.

With a view to sharing, to the extent possible, a sense of the flavor of the project environment, this analysis opens with a brief series of transcripts of a number of the meetings and interviews which were held. This material is offered with the hope that it will help the interested reader evaluate the program design from a more comprehensive perspective, and in the hope also that it will convey a sense of some of those elements contributing to a favorable determination of social soundness which cannot be reduced to tabular, quantifiable data.

A. MOTIVATION

The conversations which are summarized in the following pages help greatly to clarify the concerns which motivate the various groups which will participate in the program. From the point of view of the potential beneficiaries, there is strong motivation to take advantage of what promises to be the best shelter offer that has been placed within their reach. It should be kept in mind that the specific target group for the housing program is not comprised of the absolute poor--of those who are in such complete poverty that they are totally outside the formal structure of the Dominican economy.

The members of the target group are bottom-level entrants into the formal economy: they have steady jobs with established firms, they have (and will need to be able to verify that they have) suitable levels of income, family group stability, legal capacity to contract, and other reasonable eligibility criteria for participation in the program. In economic terms, these program beneficiaries have entered the "formal sector". That same

formal sector, however, has not to date been able to provide them with shelter and services which are affordable to them. Thus, there is a logical, reasonable, and altogether rational interest on their part in seizing an opportunity to improve their status. Housing, after all, represents the single greatest investment most families will ever make, and for low-income families it also represents the best--if not virtually the only--mechanism for capital formation and saving.

The business community in the Dominican Republic perceives a number of important advantages which the housing program will bring to it. Clearly, the chance to offer its lower-income workers a visible, tangible, and very real benefit is quite attractive. The program will not be a free one for the business community. There are costs, and considerable ones, which the business community will have to cover. Yet, the urgency of the housing problems facing the low-income working sectors of the country is too well-known to ignore, and it is a problem which will not just go away if no one does anything about it.

Those formal sector institutions officially responsible for housing policy and programs in the country have not been able to produce a product which meets the great and growing demand for low-cost shelter and services. Through the proposed program, the business community can join forces with the existing housing sector institutions, and can by doing so help--very visibly, very publicly--put in place a new set of mechanisms to begin to deal with a problem that is large, unpleasant, and socially embarrassing. There is a great deal to be gained politically from being associated with such an effort; this reason for interest on the part of the CNHE and its affiliates is difficult to measure but is certainly a real one.

Yet it is abundantly clear that there are also sincerely humanitarian motives on the part of members of the Dominican business community. The highly personalized nature of the employer/employee relationships in the Dominican Republic has been noted by a number of observers; some have looked on this relationship with concern, fearing that the old "patron" problem lies just below the surface of Dominican labor relations. Yet, if the broad context in which the low-income Dominican worker lives, works, and locates himself within his society is carefully considered, that very personalized nature of the employer/employee relationship has a great deal to recommend it. Where else does the low income worker turn if he has a problem? Needs a loan? Has a sick child and needs an advance before payday? Wonders if he can have the wood from the crate some new piece of equipment came in? It is not usually the government or its institutions, not because these will not help, but because often they can not help: they are over-worked, or stretched too thin because of the demands placed on them, or they don't happen to be where the worker is at a given moment in time.

There is an important element of reciprocity in the employer/employee relationship in the Dominican Republic. It is not at all unreasonable that an employee might hope that his boss could help him solve a problem--perhaps even help him buy a house, if there were one he could afford. The employer knows this. He does not think it is unreasonable, either. If he could, he would. He can't solve all the problems that his workers face, and he clearly can't pay his laborers enough so that they can buy all the solutions they need. There are plenty of reasons for the Dominican business community to embrace this housing program with enthusiasm, and it has been with just that enthusiasm that the program has been greeted by the CNHE and its membership.

Workers and employers have good and sufficient reasons for wanting to see this program begin delivering houses as soon as possible. But they alone cannot, and should not be expected to, provide the entire organizational framework within which such a program can function. The need for other entities to handle the administration of the program has been clear since the earliest conversations began. A country guaranty for an HG loan is, of course, one basic requirement. Further involvement of the public sector is also necessary--and desirable. The public sector has largely failed to meet the basic needs of this program's target group: not because it has not wanted to meet those needs, not because it has not tried very hard to meet those needs, but because it has simply not been able to meet them. It is working aggressively to find suitable ways to address the basic needs of low-income Dominicans, and has made great progress in recent years.

Speaking for the GODR, the Technical Secretariat of the President of the Nation, the National Housing Bank, and the National Planning Office have voiced a great deal of interest in seeing this program operate. The program is seen as a means of complementing, of reinforcing, policies and other programs which the GODR is even now undertaking, with a view to serving better the lower-income strata of the country's population.

Motivation, in quite sufficient degree, exists on the part of the various groups which will have a part in the proposed program. Those groups most directly and actively involved in the program are the ones represented by the employers, on the one hand, and their employees, on the other. Their feelings are indicative of their interest, and it is hoped that the following transcripts of conversations with representatives of each of them will help to illustrate the degree and legitimacy of their concern for housing problems and their acute degree of interest in the proposed program.

TRANSCRIPTS OF MEETINGS WITH REPRESENTATIVES OF THE BUSINESS COMMUNITY

Ah - you're with the housing program! Welcome. We have been hoping to talk with you; we've been following this housing program with a great deal of interest since the idea first came up some time ago. Now we don't want to sound selfish, but right from the start we want you to know that we hope most of the program will come our way. Due to the way and the speed with which Santo Domingo has grown, housing has become a very serious problem for most of our industries' workers.

Thus began a conversation with the principal representatives of the Association of Industries in the Herrera Industrial complex, which employs an estimated 6,500 workers whose incomes qualify their families as members of the target group for the current HG program. After a lengthy discussion of the problems which face the employers and their workers, and of the possible types of involvements and financial commitments which those employers wanting to participate in the program will probably have to make, interest remained strong:

The need is tremendous. Our employees and workers are faced with extraordinary problems because of the acute shortage of shelter, especially housing which is located near their jobs. We as employers feel the problem keenly, and not only because of the problems created for our industries when people are late for work because of neighborhood problems, but also because of the important relationship which we have with our workers on human and personal basis. Our relations with our employees are in general very good ones; they value their jobs with our firms, and we in turn value their good will, their commitment, and we want to do everything we can to keep our employees and to help them to improve their general living conditions.

Other meetings with other employers have yielded similar expressions of interest in helping workers to address their needs. The president of a large soap and edible oils plant stated:

Our workers have many needs, and look to us both on an individual basis and collectively to help them meet those needs. To the extent we can help, we do everything possible to provide for our workers. Many firms provide to their workers fringe benefits which are not required by law, but which are reasonable, humanitarian, and of benefit to both the workers and the companies. There are programs to supplement the health care provided by the Social Security System. There are programs to help employees purchase means of transportation: in line with people's capacity to pay, and their needs, the transportation programs may help with the purchase of a small motorcycle, or even a bicycle, but we try to help people who have a hard time accumulating enough capital to make cash purchases, and at the same time whom we hate to see fall into debt with the high-interest usurers who so often take advantage of them. Housing, of course, is a crucial factor, and there is great demand for help with the purchase of homes. Some years ago we agreed to finance thirteen houses per year for our employees, but for the last three years, we have just been setting the funds for that commitment aside in a separate account, for there is no adequate mechanism through which affordable houses can at this time be acquired for our workers. Our commitment to housing is still very much there, and if your program can help provide a way we can channel our financial commitment constructively, we will be delighted.

Yet another employer, the owner of a textile mill; explained his feelings in the following words:

I've been there. I know poverty; when I migrated to this country I was a very poor man myself. I know what workers in our industries earn, and I realize how difficult it is for them to make ends meet. A long time ago I realized what the loan sharks were doing to our employees, and I called a meeting. I told them that I wanted everyone who had a loan with the usurers to get that problem off his back, and I set up a loan program for our people. They can borrow anywhere from 10 to 600 pesos, and they can pay the loans back in eleven installments: ten to pay back the loan itself and the eleventh one to put 10% of the loan amount into the fund so that it will grow and be available for the rest of the workers to use it. I know for a fact that five of my employees have used their loans to obtain housing - this one bought a piece of land, that one needed a new roof, another one installed running water. Yes,

I want to participate in a program, if we can get one going. You come back when you have it figured out, when you can tell me how much it will cost me, and what I have to do to join, and you can be sure I will do what I can.

TRANSCRIPTS OF MEETINGS WITH WORKERS

Interviews have been held with a number of the workers in these companies. Housing is consistently a problem. Quantity, quality, availability, location, tenure, services - all are deficient in some measure in everyone's housing situation.

Pedro E. Durin, a mechanic, is relatively well-paid at DR\$300 a month in a factory. His wife, child, and four young brothers live in a rented house an hour-and-a-half from town. His wife would like to work, but she cannot because there is no work near where they live, and she cannot come into town all day long and leave the child. He pays DR\$40. for the house, which does not have running water or a sanitary sewer connection. Water for washing comes from a river, from which they haul it in a 55-gallon drum on a cart. Drinking water comes from rain collected off the roof, when it rains frequently enough. Otherwise they get water from a municipal tank truck that comes around.

He must "buy" his electric power from a neighbor, and he pays six pesos a month for it, although he has only three light bulbs: no refrigerator, no television. He is not terribly worried about losing the house, "the landlord would have to give me some notice," but he is not at all happy about having to live so far from work. He could, and would happily, pay 60 or 65 pesos a month for something that would be his, that he could reasonably put his own money into and hope to improve over time.

Teodora Sanchez, who has worked for eight years as a laborer in the factory, lives alone in a small house she rents from an uncle. She has left her two daughters with a relative, as she cannot leave them alone where she lives. Also the nearest school is too far for the girls. She pays 35 pesos a month for the house, nearly 20% of the \$182 she makes monthly. She has running water in the house, from a pipe which she stops up with a plug when she does not need water. She pays 5 pesos a month for electricity. Her house is far from work; she has to take two "colectivos" each way to and from work, at 30 centavos each colectivo. She wants a place nearer work, and where she can have her daughters with her. She could pay a bit more than she is paying now; perhaps 40 or 45 pesos. She wants to know as soon as we have any more information on the program.

Raimundo Marin has been working at the factory for a year and a half. His wife and seven children live in a little shack he has made with leftover boards and scrap material which the factory gave him, but every time it rains hard he and his family have to leave the house for fear of being washed away; he has built on a flood plain by a river, on a piece of land he bought "the rights to" from someone who was there before him. He has lost several of his neighbors to floods, and he worries every time he sees the clouds gather. He

doesn't know whether the authorities will let him stay where he is, but he does not know where else to go. He paid DR\$150 for his "rights" to the land, and spent another 500-600 pesos in building his house. He has managed to get a water pipe to his house, but has to buy his electricity from a neighbor. He pays the neighbor 2 pesos a month; the neighbor pays nothing, as his connection is illegal. A major problem for Raimundo is that there are no community services where he lives. He has to pay 10 pesos a month for a private school which five of his children attend, and if there are illnesses, he must go to a private clinic. He wants to move and calculates he could pay around 40 pesos a month for a house of his own. He is very concerned about his family, and wants to be considered for a house if anything becomes available.

Benita Pujon lives near enough to the factory to walk to work. She lives with her father, along with her six children. So does her sister, with her children. There are fifteen people in the house. She helps with household expenses, food, and other costs, and is not sure exactly how much her shelter really costs her. She knows that at the end of each month there is not much left of her salary of DR\$147 a month, which she earns for working in a number of jobs at the factory, where she has been employed for three years. She is not worried about the security of her tenure where she lives now; her father was given his piece of land in a relocation scheme some time ago. But they are much too crowded, and she wants her own place to live with her family. She is secure in her job, enjoys her work and plans to stay at the factory, and knows that she could find enough money to pay 35 or 40 pesos a month if there were some way she could obtain a place for her family.

Celina Gomez sews in the textile factory. With premium pay she makes by exceeding her minimum production quota, she makes a little over \$150 a month. Her husband does not have a steady job; he works occasional jobs, when he can find them, but they cannot count on his income since he does not have any particular skills. They have one daughter, six years old, who will start second grade this fall. When Celina is not home, the girl stays with neighbors. Celina and her husband "own" their house; they bought it three years ago for DR\$1,000. They don't own the land, and hope one day to find the time and money to get clear title to the land. They have water, although the service is poor and there are days without water at times. But they want to stay where they are, and would like to fix up their house. They want to replace the wood walls with block walls, something more solid and durable than what they have now. They don't have a house payment, or rent to pay, and figure that they could pay 30 pesos a month if they could get a loan to clear up their title and improve the house.

Pablo Sanchez lives with his grandmother in Santo Domingo because he needs to be near the textile factory, where he is a loom repairman. He earns a pretty good wage at close to RD\$300 a month, but he has been unable to find a place for his wife and two children (another on the way, but "that's the last one; things are too expensive today for big families." And they are staying with her parents in a town about 55 kilometers outside the city. Pablo would be willing to pay as much as he could afford if he could find a house near work where he could live with his family. He doesn't have any other debts, and figures (perhaps a bit optimistically) that he could pay as much as DR\$125 a month. He likes his job, hopes to be earning more soon, and

thinks that he could handle that payment.

Lino Vallejo, 32 years old, works as a metal-former and welder in a stainless steel fabrication plant. He lives with his wife and the youngest two of his five children in a low-income neighborhood close enough to his job so that he can walk to work. He pays DR\$16 per month for the room he lives in, which is about nine feet by seven feet and constructed of rustic wood boards. The roof is recycled tin sheets and leaks quite badly when it rains; the water dripping from the roof joins the rivulets which form on the floor from the water that blows through the walls and under the door. Lino's older children do not live with him because there is just not enough room for them; they stay with his in-laws and Lino and his wife visit them whenever they can afford to. Lino has been working for the stainless steel company for fourteen months, and would like to see if his oldest boy, who is fifteen, can get some kind of job at the plant too. With a family of seven to support, Lino's salary of DR\$168 a month gets spent pretty quickly, but he is always timely with his rent payments because the landlord has a reputation for turning people out if they pay late. Lino occupies one of eleven rooms in what looks from the street line a single fairly large house - it is only when you add up the numbers of people living in the structure that you realize the density of population in the building. There is one latrine which the eleven families share, and Lino points out that he has to be in line for it pretty early in the morning since he must be at work by seven o'clock.

The rain that finds its way through the roof is an annoyance, but in a way it is welcome, for Lino's water for drinking, cooking, and washing is rainwater which he collects in an old 55-gallon drum by his front door. When it doesn't rain for a long spell, he asks a neighbor for water, and she usually gives it to him free. The landlord permits one light bulb in his room, but charges one peso a month for the privilege. Lino observed, with a certain amusement, that the electric company finally discovered that the landlord had rigged his electric meter (from which he sells the current to his tenants) so that it was registering only a small fraction of the total use.

Sometimes Lino's family runs out of money between paydays. He says, with admiration, that at those times his wife takes out five or ten pesos that she has been saving, and tides the family over. Does she work, have a part-time job? No, but she is always looking for some type of activity that will permit her to contribute to the budget. She makes attractive crochet decorations, and from time to time can sell a few. She would like to work, but she and Lino have discussed the idea, and they agree that the young children need her at home now and that since there is no work in the neighborhood, employment will have to wait. If they had a little more space in the house they could think about a sewing machine, but as things are there is not even space to put one in the room they live in.

Could he afford to pay any more than the DR\$16 he now pays for his housing? After weighing the question, Lino decides that he could; his landlord is even now talking about raising the rent for the tiny place he has now, and if he were buying his own house, the payments would stay the same as his income increased over time.

None of these people save money in any formal system. There is seldom any money left by the time each payday comes around, and if there were, there is a fairly strong incentive to spend it on a radio, a television, or on furniture. Those items have two important attractions: if the family has to move because the landlord wants the house back or because someone comes along and tells them that they must leave because a highway is going to replace their neighborhood, they take their purchases with them. On the other hand, if the family is faced with an unexpected need for cash, a radio or a television or a set of chairs can readily be converted to cash. There is no incentive to improve a house which is either not theirs or which may be washed away tomorrow.

Rents, however, are paid on time. That is important, for the landlord might ask for the house back - and that would be a big problem. There is a universal desire for adequate housing, with community facilities, near enough to work to make it practical to commute without spending a lot of time, money and patience. There is open land in the neighborhood of the factories, and they are aware that some people have just moved onto that land; but that is considered a rash move, as it usually is done without anyone's permission, and "you can't count on it - someone will come along and tell you to go away." Now, if the State, and perhaps the factories, could work together and make some kind of housing program, that would be good.

We could afford to pay a reasonable amount for something that would be ours; we know we cannot afford fancy houses, or big ones, but we also know that we have to live somewhere. Until something comes along that we can afford, that we can feel secure in, we just stay in these kinds of houses, hoping that the prices won't go up too fast and force us to move again. And as long as these places are not ours, we put as little into them as we can; there's no point in investing in something which will only benefit the owner later when he rents the house out to another poor family.

II. SOCIOCULTURAL FEASIBILITY

In the Introduction to this Annex there has been presented material which, it is hoped, puts in vivid and direct terms the kinds of interest and motivation which the Project Paper Team found in the course of its mission, with respect to the purposes of the proposed housing program.

The remaining portions of this Annex are offered in an effort to clarify, to justify, to place in context, those levels of interest and motivation; to supply the necessary background to understand the reasons why this program is socially and culturally an acceptable one in the Dominican Republic today.

The pages which follow open with a brief description of the general social context of the Dominican Republic, within which the proposed housing program will operate. The description has purposely been kept brief; further details are available in earlier studies which have preceded the present one (especially AID's Shelter Sector Assessment of 1980).

This Annex examines some of the important characteristics of the Dominican Republic, and some of the more significant forces and factors which influence the living environment of AID's target group. The specific target group which will benefit directly by participating in the program is composed of the workers and employees of member firms that are expected to participate in the housing and

upgrading program financed by the employers; the GODR, and AID. In consequence of migration patterns in the country, the geographic distribution of areas of concentration of employment opportunities generated by the formal sector, and the administrative constraints which will need to be taken into consideration in designing the financial and institutional structures which will make possible the execution of the program, this target group will consist of urban workers and employees (working for firms participating in the CNHE-sponsored housing program) with family incomes no higher than the urban median income, which has been determined to be DR\$350 per month.

The existence and pervasiveness of seriously inadequate housing conditions in the Dominican Republic have been well-documented in a number of recent studies.¹ The statistics which have been developed indicate that inadequate housing probably accounts for as much as 85% and 70%, respectively, of the rural and urban stock. The magnitude of these proportions are vividly confirmed by the expanses of shanty dwellings which characterize significant areas of the nation's major urban zones and the precarious dwellings found outside the cities. Many factors, interacting in complex manners, have contributed to this phenomenon, which is indeed severe even by the standards of other developing countries which in apparently comparable economic conditions do not exhibit such alarming overall deficits in housing.

A. GEOGRAPHICAL/HISTORICAL

The legacy of more than thirty years of authoritarian rule under Trujillo included a difficult period of readjustment of the power structure of the country, and the formation and consolidation of institutional structures which might have begun earlier to address housing needs were considerably delayed. Today that process is well underway, but it will be some time before institutions--public as well as private--reach a level of sophistication and efficiency adequate to produce housing and its related services at a pace commensurate with the nation's needs.

1. GEOGRAPHIC SETTING

Nature, while benevolently endowing the Dominican Republic with a comfortable, tempered tropical climate and the elements essential to a consistently productive agricultural sector, has at times turned her fury on the island republic. The Dominican Republic lies in the general path of hurricanes which are spawned in the south-west part of the Caribbean Sea, and has suffered considerable damage from these storms. In 1930 a fierce hurricane with wind velocities exceeding 240 kilometers per hour was responsible for the deaths of more than 2,000 persons, caused extensive damage to buildings, and cut deeply into the stock of housing in the country. A similar storm in 1979 also left a great deal of destruction in its wake, claiming 2,600 lives and damaging or destroying an estimated 40,000 houses. Needless to say, it is the housing of those who can least afford to repair or replace their homes which is most seriously affected, for the poor in the Dominican Republic make extensive use of inexpensive and non-durable materials in building their shelter.

B. DEMOGRAPHIC SETTING

Coupled with a high rate of population growth, patterns of internal migration within the country have been major factors in accentuating housing deficits, with particularly serious implications in the urban areas to which large numbers of families are moving. The shortage of housing units per se in urban areas, particularly the capital city of Santo Domingo, is but one manifestation of a dramatic inadequacy of all essential services available to urban dwellers, as the means for providing physical and social infrastructure have been vastly out-stripped by the demand which has resulted from the rapid growth of cities.

Data of the National Statistics Office indicate that the impact of urbanization is felt mainly in the National District, with its growth rate for the 1960's of 6.7% and of almost 7% for the 1970's compared with a national growth rate of 3%.

The drastic surge in urban population, from 922,099 in 1960, to 1,695,900 in 1970, and closer to 2.8 million now, stems from the lack of economic opportunities and prevailing poor conditions in the rural areas. This in-migration of able bodied workers from the countryside clearly has exacerbated the already excessive pressure in urban areas. The tendency is for women to predominate in rural-urban migration resulting in women comprising a significant portion of the urban poor.

The 1970 census indicated that more than 65% of the Dominicans in Santo Domingo and 46% in Santiago had been born elsewhere.²

The absolute rate of growth of population in the Dominican Republic has historically been high and remains so today at an estimated 2.9% per year.³ This factor, considered in light of an extremely young population (nearly 60% of the population is under 20 years of age) and the accelerating tendencies of rural-urban migration, implies a challenge of extraordinary dimension if adequate housing and urban services are to be provided in the country's cities. It is enlightening to examine the following figures, which are graphic representations of the population statistics which have been presented in earlier studies of the Dominican Republic.⁴

Figure A represents the absolute increase in the population, and identifies the respective urban and rural components of that population as revealed by studies carried out from 1920 to the present time. The total population is increasing and is doing so at an exponential rate. While the rural population has increased consistently in absolute numbers, its rate of increase has been relatively constant, even showing a decline since the early 1970's. By contrast, the urban population, which in 1920 accounted for a relatively small proportion of the total population, has since the early 1960's been increasing at an accelerating rate.⁵

It can be seen that by the late 1970's the urban areas of the Dominican Republic contained fully half the island's population. The dynamics of this shift in the nature of the population from a predominantly rural to a largely

POPULATION GROWTH - 1920-1980 DOMINICAN REPUBLIC: TOTAL, URBAN AND RURAL

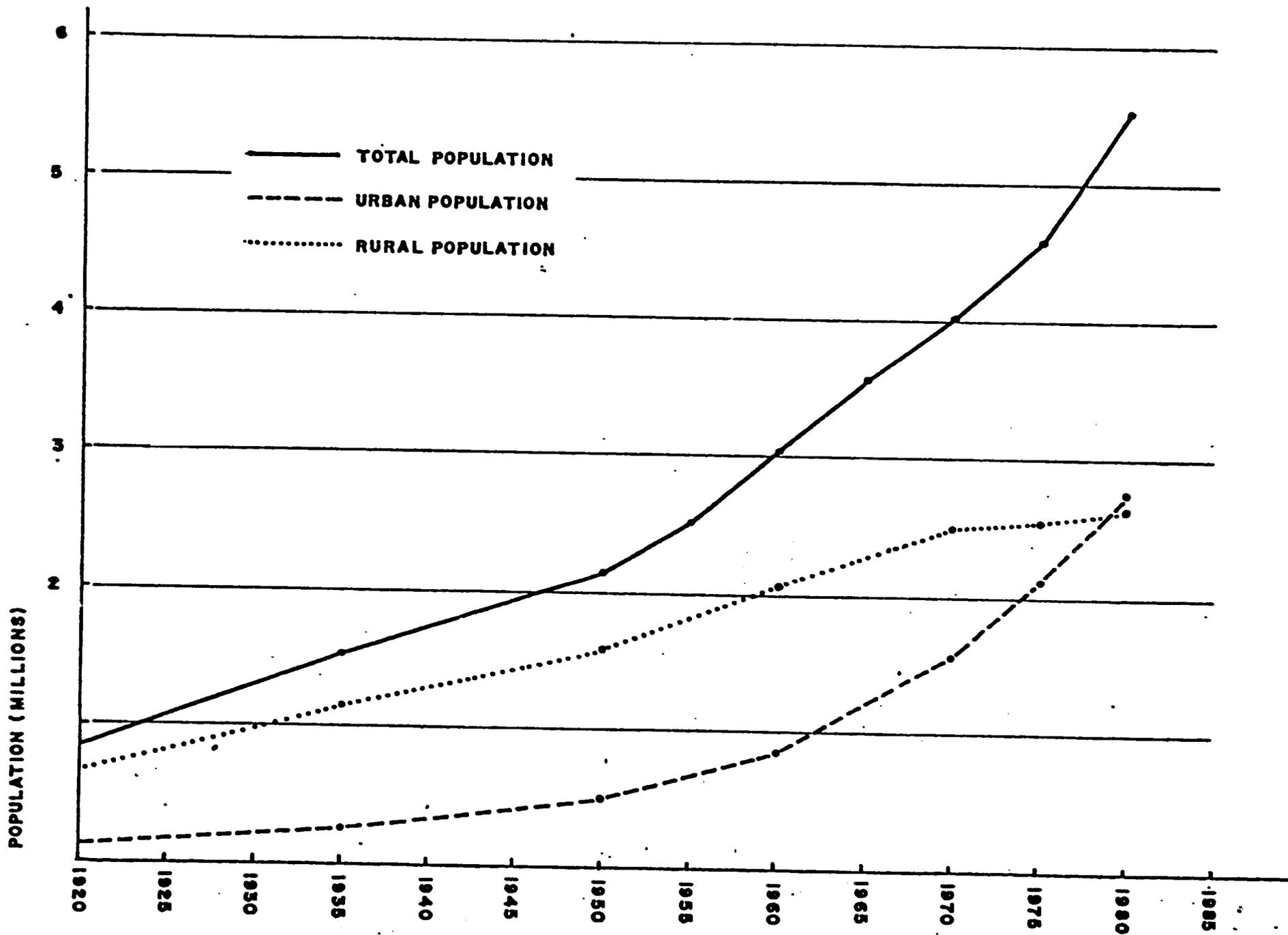


Figure A

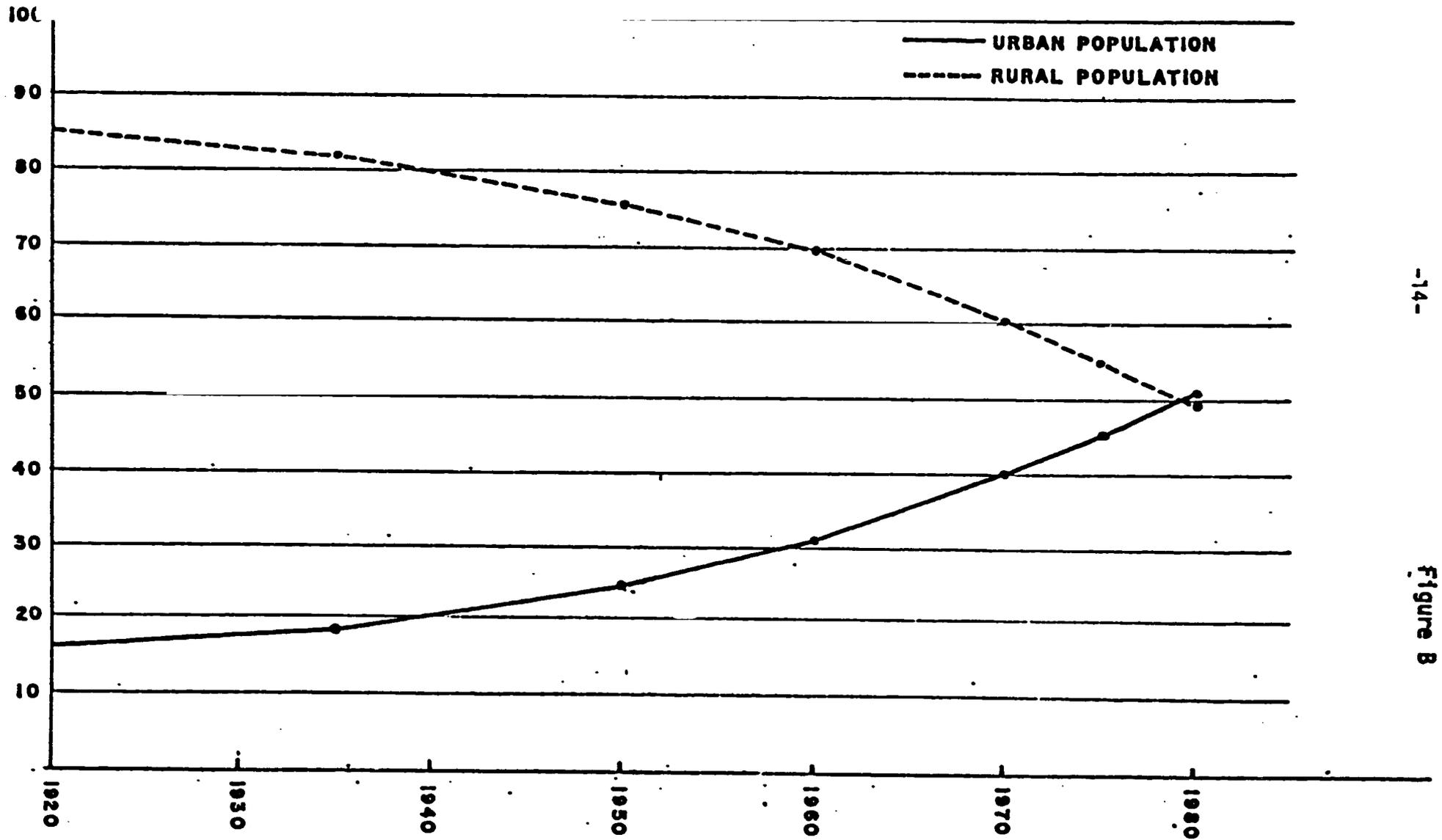
urban one can be seen even more clearly in Figure B, which presents the same data in terms of the relative sizes of the populations over time. In both illustrations, the exponential nature of the increase in size of the urban population is apparent, and the implications of such a trend for demands on urban services are clear; a rapidly growing urban population, which is largely composed of young persons who will tend to form new families and increase further the demand for housing and services, will place extraordinary demands on the limited resources and capacities of the cities of the Dominican Republic. These implications are especially serious for the capital city of Santo Domingo, where roughly half the current population is composed of fairly recent migrants, and which is well over four times as large as the second city (Santiago de los Caballeros) and fully fifteen times as large as the third one (San Francisco de Macoris).

A predictable consequence of these demographic patterns has been the formation of the spontaneous settlements which characterize a large proportion of the housing available to low-income families in the Dominican Republic. Santo Domingo, where most of the industrial growth in the country has taken place, has attracted many persons seeking work as well as the other perceived benefits of urban life; greater access to medical facilities, schools, a generally more varied and interesting life than that offered in rural areas. While this problem is considerably more acute in Santo Domingo than in other areas, it is safe to state that the promise of employment generated by industrial installations in most of the Dominican Republic's urban areas has encouraged the development of spontaneous, usually poorly-planned, and largely ill-served settlements which provide much of the housing which serves the island's low-income worker families.

In the marginal areas of the larger cities, the frequent lack of land tenure is an increasing problem in that it limits access to formal credit and corresponding upgrading efforts. A very high percentage of the low-income marginal households of Santo Domingo do not have any legal right to the land which they occupy. However, many of the lands occupied by low-income squatter settlements in the peripheral areas of Santo Domingo and other cities throughout the Dominican Republic form part of the government holdings. The direction of Bienes Nacionales, the agency charged with the administration of government-owned properties, has indicated its interest in transferring title to such properties to the actual low-income residents if such activities were part of a comprehensive effort to upgrade the urban squatter settlements in an integrated manner and were coordinated with other programs to provide sites with minimal services and reception areas for the burgeoning marginal urban population, which includes the majority of the families in the target group for the current AID-supported housing program.

The distribution of these worker-families in the urban areas of the Dominican Republic is not uniform. While there are few settlement areas that can accurately be characterized as "company towns", major industrial complexes (such as the large Zona Industrial de Herrera in the south-west part of Santo Domingo metropolitan area) have tended to exert a strong centripetal influence

URBAN AND RURAL POPULATIONS AS PERCENTAGE OF TOTAL POPULATION, DOMINICAN REPUBLIC 1920-1980



on their employees, who have sought to settle their families within reasonable distances of the places of employment. There is not a pattern of close association between the worker settlements and the specific employer, but rather between the chosen place of residence and the employment itself.

C. ECONOMIC

1. LEVELS AND COMPOSITION OF INCOME

Labor force data show only those individuals who are actually employed. A large proportion of the economically active population is chronically unemployed or underemployed. The few employment surveys that have been conducted since 1970 have estimated open unemployment at approximately 24% not including underemployment. It is estimated that if underemployment were measured in units of unemployment, the nation-wide rate would approach 40%.

Data do not permit a breakdown of unemployment and underemployment by occupational category. However, there is little doubt among employment authorities that the highest rates of both unemployment and underemployment occur in the manual and semiskilled categories - the lowest paying positions. On the other hand, shortages also exist in many of the professional, skilled and semi-skilled occupations. The least skilled members of the labor force face great difficulty in improving their job skills. They are usually offered low pay and insecure job tenure.

A 1976-1977 household survey by the Central Bank disclosed that the lowest 10% of income recipients earn 1.2% of total urban income and 1.6% of total rural income. In contrast, the top 10% of income recipients earned 36.7% of total urban income and 35.6% of total rural income. The effects of such low income levels upon the material well-being of such a proportionately large number of Dominicans are great. Among the more important influences that have been statistically measured are those related to infant and general mortality, nutritional status, fertility rates, level of education, employment opportunities and migration. The most recent comprehensive survey of household incomes and expenditures for the Dominican Republic was carried out by the Central Bank during the period May 1976-April 1977; its results, which are presented in Table II, are summarized below:

TABLE I

Monthly Household Income Distribution

1978

Income Ranges (RD\$)	Percentage of Households		
	Total	Urban	Rural
0-100	31.5	19.8	39.9
101-300	49.0	50.4	48.3
301-600	13.0	18.0	9.4
601+	6.4	11.8	2.4

SOURCE: Banco Central, El Presupuesto de la Familia Dominicana, Ingreso y Consumo Familiar. (Cited in the 1980, USAID Shelter Sector Assessment, Vol. 1, page 1.)

An updating of these income figures indicates that the current median family income in urban areas is approximately DR\$350*.

2. EMPLOYMENT PATTERNS

The tertiary sector of the economy (see Economic Analysis) absorbs a very significant proportion of the employed in the Dominican Republic. Table II provides a more detailed description of the relative degrees of importance of various sectors within the general employment structure of the formal sector. It should be noted, however, that un- and underemployment are serious problems in the Dominican Republic, with estimates indicating that open unemployment stands at about 24% nationally and is particularly high in areas of high in-migration such as Santo Domingo, where it exceeds 40% for the 15-25 year old group.

Employment opportunities for low-income families in the Dominican Republic follow much the same patterns that have been observed in other developing countries with rapidly growing urban areas and significant volumes of rural-urban migration. While opportunities are limited in absolute terms due to the far greater demand for than supply of jobs, they are relatively much more limited to the recent arrivals who come from rural areas where schooling is considerably more limited and of lower quality than in urban areas. Literacy tends to be lowest among recent migrants, a factor which, when combined with their relative unfamiliarity with the urban fabric, places them at a disadvantage and generally relegates them to the lower rungs of the urban economic ladder.

3. PROFILE OF THE URBAN WORKER

The following Draft Profile of the Urban Worker prepared by the USAID Mission in Santo Domingo in 1981 provides some interesting observations on an important segment of AID's target population.

Approximately 10% of the economically active population in the Dominican Republic (+160,000) is involved with the manufacturing industries. Approximately 50% of the urban workers have less than 6th grade basic education. Salary ranges are largely dependent on whether a person is employed in government-owned enterprises (low salaries), foreign-owned enterprises, free-zone enterprises, or industries run by the traditional Dominican private sector entrepreneurs.

The Employment Survey carried out by ONAPLAN in 1979 in Santo Domingo and Santiago demonstrated that 20% of the workers employed in manufacturing industries were receiving monthly salaries of over DR\$350 and that 68% of the salaries were above the minimum salary level of DR\$125 established by the Government in 1978. Most of the urban workers are concentrated in the capital city, where 44% of the total urban population is living. Santiago, the second largest urban area, is absorbing an increasing number of workers in the agro-industrial sector.

* A factor of 1.54 has been utilized to update the 1976/1977 incomes to September, 1981. See Economic Analysis for further detail.

TABLE II

MONTHLY HOUSEHOLD INCOME
TOTAL AND BY ZONES

INCOME RANGES (RD\$)	PERCENTAGES OF HOUSEHOLDS					
	TOTAL		URBAN		RURAL	
	%	Cumulative	%	Cumulative	%	Cumulative
0. - 50.00	10.5	10.5	7.3	7.3	12.8	12.8
50.01 - 100.00	21.0	31.5	12.5	19.8	27.1	39.9
100.01 - 200.00	34.4	65.9	30.5	50.3	37.3	77.2
200.01 - 300.00	14.7	80.6	19.9	70.2	11.0	88.2
300.01 - 400.00	6.8	87.4	9.0	79.2	5.2	93.4
400.01 - 600.00	6.2	93.6	9.0	88.2	4.2	97.6
600.01 - 800.00	2.7	96.3	4.5	92.7	1.3	98.9
800.01 - 1,000.00	1.3	97.6	2.6	95.3	0.4	99.3
1,000.01 - 1,500.00	1.5	99.1	3.0	98.3	0.4	99.7
1,500.01 - 2,000.00	0.5	99.6	1.0	99.3	0.1	99.8
2,000.01 - 3,000.00	0.3	99.9	0.5	99.8	0.1	99.9
3,000.01 y más.	0.1	100.0	0.2	100.0	0.1	100.0

Source: Central Bank, The Dominican Family Budget- income and expenditure (November, 1978)

TABLE III

Economically Active Population by Sectors and
Urban and Rural Areas
1970

	<u>Total</u>		<u>Urban Areas</u>		<u>Rural Areas</u>	
	<u>Thou-</u> <u>sands</u>	<u>%</u>	<u>Thou-</u> <u>sands</u>	<u>%</u>	<u>Thou-</u> <u>sands</u>	<u>%</u>
Agriculture, forestry, hunting, and fishing	549.3	44.3	46.7	9.7	502.6	66.5
Mining and quarrying	0.8	0.1	0.4	0.1	0.4	0.1
Manufacturing industry	101.0	8.2	50.6	10.5	50.4	6.7
Electricity, gas, and water	1.7	0.1	1.4	0.3	0.3	0
Construction	28.5	2.3	23.5	4.8	5.0	0.7
Commerce	77.1	6.2	56.3	11.6	20.8	2.8
Transport, storage, and communications	43.3	3.5	30.9	6.4	12.4	1.6
Banking, insurance, real estate, and services rendered to business enterprises	20.1	1.6	16.2	3.3	3.9	0.5
Government and other services	153.9	12.4	125.0	25.9	28.9	3.8
Activities not adequately defined <u>a/</u>	263.4	21.3	132.3	27.4	131.1	17.3
Total	<u>1,239.1</u>	<u>100.0</u>	<u>483.3</u>	<u>100.0</u>	<u>755.8</u>	<u>100.0</u>

a/ Adjusted figures.

Source: National Statistical Office - 1970 Census.
(Cited in USAID Shelter Sector Analysis, 1980)

A sampling carried out among a number of the companies which have indicated their interest in participating in the proposed housing program yielded the following information with respect to the incomes of their eligible workers and employees.*

TABLE IV

MONTHLY INCOME OF WORKERS	NUMBER OF WORKERS	PERCENT OF SAMPLE
301-350	209	16%
251-300	266	21%
201-250	290	22%
151-200	391	30%
125-150	140	11%

These data are as of August, 1981, and are expressed in Dominican Pesos. It is interesting to note, also, that these ten firms alone count 1,296 potentially eligible workers among their collective labor force, and that an average of 79% of the employees and workers employed by these firms are eligible to participate in the program, insofar as their levels of income are concerned.

4. HOUSEHOLD EXPENDITURES

Data available on household expenditures are limited and should be interpreted with caution. The specific information available is derived from the 1976-1977 Central Bank study, and indicates that household expenditures for food range from an average of about 39% in Santo Domingo to about 65% in rural areas. Food is the largest category of expenditure. Housing is the second largest category, ranging from 28% in Santo Domingo to 17% in rural areas. Table V provides greater detail on household expenditures.

* The sample gathered data from ten firms, which employed as few as 22 workers and as many as 390.

TABLE V
Average Household Expenditures
(percentages)

Category	Food	Housing*	Clothing	Health	Education	Other
<u>Urban</u>						
Santo Domingo	38.9	28.0	6.0	4.3	3.5	19.4
Rest	50.1	27.5	6.0	4.4	1.7	10.3
Total	42.7	27.8	6.0	4.3	2.9	16.3
<u>Rural</u>						
Santo Domingo	58.4	27.6	4.0	0.0	0.0	10.0
Rest	64.9	17.0	5.0	3.5	0.0	8.7
Total	64.3	18.0	5.7	3.2	0.0	8.8
<u>National</u>	51.2	23.9	5.9	3.9	1.8	13.3

* Includes rent, imputed rent, fuels, electricity, furnishings and other household goods.

Source: First National Survey of Household Income and Expenditures, Central Bank of the Dominican Republic, Department of Economic Studies, May 1976-April 1977, Santo Domingo, February 1980.
(Cited in USAID Shelter Sector Assessment, 1980.)

D. HEALTH, FERTILITY, EDUCATION, AND MOBILITY

The state of health of the Dominican population is not particularly good; it has been called "precarious" by observers who have noted that conventional health-status indicators in the Dominican Republic compare quite unfavorably with those of other developing countries.

Age specific mortality rates are quite high. Reliable data regarding the causes of death are not available, but the evidence which does exist suggests that environmental factors such as inappropriate diet, lack of sanitary facilities, insufficient access to potable water, and excess fertility, have a profound influence on mortality--which in turn suggests that many deaths occur considerably sooner than they should.

Gastroenteritis is one of the most commonly-reported illnesses in the Dominican Republic. The frequency of gastrointestinal disorders in the Dominican Republic reflects deficiencies in environmental sanitation to a considerable degree. While about 54% of the urban population had access to potable water, only about 20% of the rural population had such services. As of 1975, piped sewage disposal services were provided to about 37% of the inhabitants of large and intermediate size urban centers, or to about 16% of the total population. Septic tanks are used to a considerable but unknown extent. The majority of rural inhabitants lack the most rudimentary sanitary facilities.

The basic causes of the high incidence of malnutrition in the Dominican Republic are complex and incompletely understood. Certainly, poverty plays an important part. Family incomes for tens of thousands of Dominicans are very low. Widespread underemployment compounds the problem. Dominican food preferences are also factors that both favor improved nutrition and act as an obstacle to better nutrition. A widespread preference for rice and beans, low-cost sources of suitable protein, is a positive element, but taboos against consuming certain foods by pregnant and nursing mothers, as well as by young children, were judged to be a appreciable constraint. The nutritional status of children is adversely affected by the high incidence of gastrointestinal disorders and febrile illnesses.

In summary, the state of health of the Dominican population is considerably less than optimal; it is worth noting, however, that one of the factors contributing significantly to the types of illness which are widely reported, is an inadequate level of environmental sanitation reflected in inferior or nonexistent degrees of access to potable water and suitable waste disposal systems on the part of many Dominican families. As would be expected, these inadequate service levels are widely prevalent--and their consequences for levels of health extremely serious--in those crowded, ill-planned low income settlements in urban areas where population densities are extremely high and levels of contamination quite acute.

Until recently, fertility was quite high. The 1970 census data disclosed a crude birth rate of 45. There is some evidence that fertility has now declined. The National Fertility Survey (NFS) of 1975 estimated the crude birth rate at 38.

Fertility remains significantly higher in rural than in urban areas. Data also from the NFS reveal that by the time Dominican women have reached the end of their reproductive life, urban women have had an average of six live births while rural women have had an average of eight.

The education system in the Dominican Republic is in a state of transition. The previous government was responsible for the planning of an education reform program. The current government has indicated its intent to proceed with that reform.

A total of 24% of all students starting the first grade in 1970 in rural areas completed the fourth grade in 1974 and 12% finished the sixth grade in 1976. Nationwide, the average was 35% for the fourth grade and 26% for the sixth grade, respectively.

Dropout and repetition rates are also much higher in rural areas. As a consequence, it requires an average of approximately nine years of schooling to produce one fourth grade graduate in the rural areas as opposed to five years of schooling in urban areas.

A total of 43% of the residents of rural areas over the age of ten were illiterate in 1970. The comparable figure for urban areas is 19%.

Employment opportunities are commensurate with levels of education and job skills. The low levels of education and job skills possessed by the poor confine the majority of them to unskilled or semi-skilled manual labor. The majority of the unemployed or underemployed possess little or no education, have no marketable skills and are predominately inhabitants of the rural areas or recent migrants from there. (See Section II-C of this Annex.)

Another factor of great importance in the Dominican Republic is the present mobility of the population. During the past several decades, the Dominican Republic has experienced substantial migration from rural to urban areas. The population of Santo Domingo and of the second largest city, Santiago, increased by 82% between 1960 and 1970. During the same period the population of the country as a whole increased by 29.5%. Clearly, the growth of the cities during the intercensal period was largely due to migration. The migration, in turn, can be interpreted as a rational response on the part of rural dwellers to the superior economic opportunities and social services presently offered in urban areas; its implications for the proposed program are profound and will be examined in some detail in this Annex.

IV. CURRENT HOUSING CONDITIONS: THE SUPPLY OF AND DEMAND FOR SHELTER

Available published data on housing conditions for low-income families in the Dominican Republic are of limited value as accurate measures of the current conditions which characterize the shelter and services available to AID's target group in general and to the intended beneficiaries of the proposed program in particular.

The April 1980 AID Shelter Sector Assessment draws heavily from a 1974 survey conducted by the Ministry of Health and points out that "no attempt has been made to update the 1974 data to 1980." The data are indicative in nature and are quite useful in the context of policy formulation and national housing sector planning activities. In the present analysis, they serve to provide a rough description of the magnitude and severity of the housing problems facing the country.

A. ESTIMATES OF HOUSING DEFICIT

The specific -- and urgent -- housing needs faced by the target population which will benefit from the present AID-supported program are highlighted by summarizing the interviews held with members of the target group in the course of preparing this document (see Introduction).

The 962,800 houses which the 1974 Ministry of Health survey counted in the Dominican Republic were classified as 45% urban and 55% rural, corresponding to the population distribution determined for 1975 by the National Statistics Office (urban population 45.3% of total; rural 54.7). These numbers further indicate an average occupancy rate of 4.88 persons per unit.*

A set of specific indicators was developed in earlier studies and employed in the 1980 AID Shelter Sector Assessment to quantify the relative magnitude of the potential demand for housing among the target population. Those indicators are based on limited access to services and housing conditions which are presumed to indicate marginality, and are the following:

- Dwelling units of less than three rooms.
- Lack of "formal" toilet facilities as part of the dwelling unit.
- Obtaining water from a tank, well, river or other non-piped source.
- Lack of electricity.
- Houses built of non-formal materials.
- Roofs of non-formal materials.
- Earth floors.

*Actual family sizes in the Dominican Republic are higher than 4.88 members on the average. The World Bank cites an average family size nationwide of 5.8, with an urban average of 5.5 and a rural average of 6.1. These higher indications of family size correspond to those found in a study of low-income families housed in a low-cost condominium project during the mid to late seventies.8/

On the basis of these criteria, the Shelter Sector Assessment developed a conservative estimate of the housing deficit as of 1974, calculating that 13 to 23% of the urban housing stock did not meet minimum standards of habitability. For the rural stock, the estimate of inadequacy was 5 to 63%.* These estimates are summarized below:

TABLE VI

	<u>Total Households</u>	<u>Deficient Households</u>	<u>%</u>
Urban	428,900	57,800 - 96,800	13-23
Rural	533,900	290,000 - 342,600	54,64
Total	962,800	347,800 - 439,400	36-46

B. SIGNIFICANCE OF POPULATION DYNAMICS

By any measure, these data reveal the critically serious state of the shelter sector in the Dominican Republic. While at first blush the numbers in the summary table above suggest that the degree of rural housing deficiency is considerably more acute than its urban counterpart, it is important to examine their significance in more representative context of population dynamics in the Dominican Republic. The following summary table recapitulates the 1975 and 1980 data on urban and rural population for the nation, and forms the basis for examining the implications of housing deficit patterns over time.

TABLE VII

	<u>Total Population</u>	<u>Urban Pop.</u>	<u>Rural Pop.</u>
1980	5,430,879	2,751,923	2,678,956
1975	<u>4,696,793</u>	<u>2,128,561</u>	<u>2,568,232</u>
Increase	734,086	623,362	110,727

The dramatic rate at which urban areas are increasing in population has been explored in some detail earlier in this Annex. If, for purposes of making rough estimates of housing need, we divide the absolute amounts of urban and rural population increase from 1975 to 1980 by the person/house ratio of 4.88 used in arriving at the deficits, we see that urban areas needed 127,738 new houses just to accommodate their population growth during this period. This number is nearly six times as great as the 22,689 new units needed for rural areas.

These numbers, impressive in themselves, are even more significant seen in light of the far greater pressures which result in urban areas from the much higher degree of crowding, increased concentration of contamination and environmental degradation, and far lesser availability of low-cost or free indigenous building materials which are extensively used in rural houses. Needless to say,

*It should be noted that these percentages are much lower than other estimates of the magnitude of sub-standard proportion of the housing stock. As indicated earlier these range as high as 85% for rural areas and 70% for urban zones. The Shelter Sector Assessment purposely used a limiting approach to its calculation with a view to identifying, in the most specific terms possible, those shelter and service shortfalls in greatest need of immediate attention.

this condition is most acute in Santo Domingo, which with a population of 1,044,979 in 1977 accounted for 44% of the total urban population of the island.*

AID's 1980 Shelter Sector Assessment describes in considerable detail the shortcomings of the various types of housing available to low income families in the Dominican Republic. There is clear agreement that housing in the Dominican Republic is vastly inadequate and that there is a great need for more and better housing. AID's analysis of the conditions of the existing housing stock and potential target groups or sub-markets is based on a broad concept of shelter that includes not only housing, but also the availability of basic services such as water, sanitation, electricity, and suitable community infrastructure.

The need to build housing to satisfy the demand brought about by new family formation is clearly one of the most urgent. Most existing families already have a place to live, inadequate though it may be. However, should new families not be provided with housing, they will only aggravate the overcrowding and increase the marginal squatter settlements which have become characteristic of both urban and rural areas. Table VIII shows the estimated population growth -- urban and rural -- projected through 1990. It is based on an overall population growth of 2.9%; urban at 5.3 annually and rural at .8% annually. The Shelter Sector Assessment calculated that in order to satisfy this need, an annual average of some 32,900 units of new housing or shelter solutions must be constructed -- 29,300 urban units and 3,600 rural units.

The approximate breakdown of this demand for new units in terms of low, middle, and upper income groups for the periods 1980-85 and 1990 is shown on Table IX.

*In late 1980 the National Housing Bank (one of the principal parties to the present program) carried out an interesting study of an inner-city tenement block in Santo Domingo. Some of the findings of that study are presented in the Appendix which is attached to this Annex.

TABLE VIII
Population Growth and Housing Need
 1980-90

YEAR	POPULATION *			NEW POPULATION		NEW HOUSEHOLDS**	
	Total	Urban	Rural	Urban	Rural	Urban	Rural
1980	5,430,879	2,751,923	2,670,956				
1981	5,598,163	2,897,775	2,700,388	145,852	21,432	26,341	3,540
1982	5,773,348	3,051,357	2,721,991	153,582	21,603	27,737	3,567
1983	5,956,846	3,213,079	2,743,767	161,722	21,776	29,208	3,596
1984	6,149,089	3,383,372	2,765,717	170,293	21,950	30,755	3,625
1985	6,350,534	3,562,691	2,787,843	179,318	22,126	32,385	3,654
1990	7,513,481	4,612,326	2,901,155	1,049,635	113,312	189,567	18,714

* Compound Annual Rate of Increase: National, 2.9; Urban, 5.3; Rural, .8; World Bank.

** Average Family Size: National, 5.8; Urban, 5.5; Rural, 6.1; World Bank.

(Cited in USAID Shelter Sector Assessment, 1980)

TABLE IX .

Estimated Housing Demand by Income Group*

Income Group Monthly 1977	% Households 1977	Estimated Demand 1980-85	Estimated Demand 1985-90	Est.Demand 1980-90
0-100	31.5	51,845	65,580	117,425
101-300	49.1	80,815	102,230	183,045
301-600	13.0	21,395	27,070	48,465
600+	6.4	10,535	13,320	23,855
TOTAL*		164,590	208,200	372,790

*Source: AID 1980 Shelter Sector Assessment, Vol. 1, p.52.

C. PERFORMANCE OF THE FORMAL SECTOR

Very little more need be said to establish the rough dimension of the demand for improving existing housing stock and generating a new supply of shelter and services at a rate commensurate with the growing demand for the same. Existing mechanisms and institutions in the formal sector have found themselves woefully unable to generate housing and services at a level of production which approximates the demand.

This problem is not a new one in the Dominican Republic nor has it only been recognized in recent years. As long ago as 1969

a Dominican housing expert estimated that in 1967 there had been a deficit of 376,495 units. The expert calculated that the deficit could be eliminated by building 18,825 new units annually during a twenty-year period but that it would be necessary to build another 21,609 annually in order to accommodate the growth in population at the then current rate of growth. He noted that this volume of construction - an annual building rate of about 40,000 units - would exceed all Dominican capabilities. Other estimates indicated that in 1961 about 70 percent of the housing deficit was in rural localities and that 65 percent of all units in the country were substandard.^{9/}

TABLE XI

Financing Terms of and Income Groups Served by the Principal Housing
Institutions and Groups in the Formal Sector
(1970-1980)

Entity	Prices of Housing Financed Minimum (Average) Maximum	Downpayments (D) Periods (P) Interest Rates (IR)	Monthly Payments	Income Groups Served (Monthly household income)
INVI	RD\$7,000 (RD\$9,000) RD\$11,000	D: 1,000-2,500* P: 15, 20, 25, 30 yrs IR: 5% - 7.5%	Minimum RD\$50.00	RD\$250 or more (if without subsidy)
Avica (IAV)	RD\$17,500 (---) RD\$22,300	D: 2,500 - 10,000 P: 20, 25, 30 yrs IR: 5% - 6.5%*		RD\$300 or more (4.2% of public em- ployees)
Residencia (P)	Information not available	D: 0 - 1,500 P: 20-25 yrs	RD\$5 - 60	
INV/SAAP	RD\$10,000* (RD\$15,000) RD\$30,000	D: P: 20-30 yrs IR: 9.5%		RD\$500 and up
Bancos Hipotecario (BII)	RD\$12,000 (25,000) RD\$75,000	D: P: 25% of monthly income IR: 12% (6% closing costs)		RD\$650 and up

Under INV/SAAP housing policy reorientation (1979), the minimum price of housing financed should drop to at least RD\$4,500.

(Source: USAID Shelter Sector Assessment, 1980, Page 67)

TABLE X

Housing Units Financed by the Principal Housing
Institutions and Groups
(1972-1975)

ENTITY	APPROXIMATE NUMBER OF UNITS FINANCED (1972-1977)***		
	National	Santo Domingo	Santo Domingo as a Percentage of the Total
Instituto Nacional de la Vivienda (INVI)	2,080	1,650	79.4%
Instituto de Auxilios y Viviendas (IAV)	2,246	2,246	100.0%
La Presidencia (P)	10,790	6,474	† 60.1%*
Loteria Nacional (LN)	1,250	993	79.0%
Banco de la Vivienda/ Asociaciones de Ahorros y Prestamo (BNV/SAAP)	17,654	11,465	65.0%**
TOTAL	34,020	22,828	67.0%

Percentage over the period estimated based on data for 1977 only.
Approximately 19.5% of the total units financed by the SAAP were located in Santiago, for a total of 84.5% in the two principal cities of the nation during the period 1972-1977. Although no breakdown is available by numbers of units financed, the Mortgage Banks (BII) made 1,062 loans totaling approximately RD\$44 million during the period. 63% of these loans were for single family housing and about 10% for condominiums. Between 1972-1977, the commercial banks loaned approximately RD\$270 million for housing construction financed with the maximum period being 7 years.

(Source: USAID Shelter Sector Assessment, 1980, Page 72)

During the period 1966-1970, public sector entities in the Dominican Republic provided 8,508 units. Added to the 5461 home loans made during the period by the member association of the Savings and Loan Industry, this represents a level of production by the formal sector of about 13,900 units for the five-year interval, or some 2,782 units annually.

Recent performance has improved considerably, to an estimated 39,082 units produced by the formal sector during the period 1972-1977. This output, which is presented in Table X by Institution, has risen to roughly 7,016 units annually, still far short of the 33,000 units represented by the demand identified above. Furthermore, an examination at Table XI reveals that the cost of most of the units produced from 1970 to 1980 by formal sector entities is out of the reach of members of AID's target group (although recent reorientations of policy have brought about a significant improvement in the production of relatively low-cost solutions).

Clearly, since virtually all Dominican families have some sort of shelter, albeit a very inadequate one, there is an active informal sector which produces the bulk of the low-cost houses which enter the national stock each year. The modus operandi of the informal housing production sector is incompletely understood in most developing countries, and has been the subject of comparatively little careful study in the Dominican Republic. It is known to exist, it operates in response to a demand for shelter which exceeds the level of production by the formal sector, and it addresses a need for shelter solutions which are less costly than the least expensive others provided by the formal sector. To the extent that there will be a strong demand for very low-cost shelter for the foreseeable future, the informal sector will continue to operate.

D. REINFORCING THE FORMAL SECTOR

The dramatic imbalance between the demand for low-cost housing and services, and the ability of the formal sector to respond to that demand in a timely fashion, calls for programs which will make it possible for additional mechanisms of production to enter the housing arena. Additional actors must be put on stage, and must be brought onstage as soon as possible to try to make more coherent and directed the response to the urgent need for housing.

The target group of beneficiaries for the proposed AID-financed housing program differs in some significant ways from the general below-median-income urban population. While virtually all the families who earn their living in the socioeconomic informal sector of the Dominican Republic belong to AID's below-median income target group, there is a significant sub-group which, while clearly within the economic target group AID wishes to address, has entered the formal sector. For the most part, the members of this group are located on the lower rungs of the formal sector ladders; many will remain at the lower economic end of the formal sector because of their limited degrees of preparation and the relatively few opportunities to advance to higher paying (and far scarcer) jobs.

Employers, for their part, are interested in helping their workers and employees resolve their housing problems. While the concern on the part of the

employers is certainly not completely an altruistic one -- there are such tangible benefits to the companies as reduced absenteeism, less unrest and agitation for social reform, greater employee loyalty and higher productivity -- a very genuine and sincere interest has been expressed by the owners, managers, and personnel officers of the firms that have been interviewed, in doing whatever they could to assist their workers in improving the quality of their living environment. (See Introduction)

The employers represented by the National Council of Businessmen (CNHE) in the Dominican Republic not only voiced a concern for the housing problems faced by their workers and an interest in participating in a program to benefit those workers, but indicated that on an individual level they had engaged in a number of efforts to help their employees purchase or improve their houses. Larger firms, where union pressures come into play as part of the overall housing issue, have set up formal schemes to finance dwellings but have found that few houses within the economic reach of their workers are available to finance. Smaller companies have established small-loan programs, and loans have been granted for the purchase or improvement of housing available on the informal market. Yet other companies have established policies of donating to their workers such materials as shipping crates, pallets, surplus corrugated iron sheeting, lumber, and other materials which form an important element in low-cost shelter construction.

E. POSSIBLE CONSTRAINTS AND OBSTACLES

The proposed housing program appears to be a sound one, abundantly justified on the basis of the benefits which it will produce for the direct target group which it will serve as well as for the corollary advantages it offers. These direct and indirect benefits have been examined in some detail in this and the other Annexes to the Project Paper.

The implementation of the program will not be without certain problems, and it is worth considering what some of these possible constraints and obstacles may be and how their resolution may best be approached.

F. INSTITUTIONAL CONSIDERATIONS

By its very nature as a housing program which will involve the public and private sectors of the Dominican Republic more closely in project execution than has usually been the case in other activities, this housing program will require a much higher degree of inter-institutional collaboration than would programs of a simpler design. Furthermore, the nature of the entities involved will require some innovative approaches to that collaboration.

Earlier efforts to develop a joint public-private housing program encountered difficulties in identifying those institutions most appropriate for efficient project execution. Extensive negotiations prior to and during the preparation of this Project Paper have given every indication that the best mix of institutions has been identified; all key institutions on which the viability of the program will depend have participated in detailed discussions on the design and operation of the program, and there is clear agreement on the division of responsibilities among those institutions. Firm commitments have been given

by the appropriate senior officials of those organizations to the execution, in principle, of the program, and working agreements are now in the drafting stage to ensure a suitably agile and responsive program design.

Legal and administrative reviews of draft working documents are now underway and should be completed in a timely manner for the project execution to begin on schedule. Individual businesses and firms associated with the CNHE will participate in the program to the extent and degree that they deem appropriate in relation to the amount of assistance they can provide to their workers. They will furnish the necessary employer contributions of downpayments and interest differential; they will furnish also the necessary guarantees of loans to their employees.

The Banco Nacional de la Vivienda (BNV) will act as the Borrower under the HG program, with the full guaranty of the GODR for the loan. They will oversee the actual implementation of the program through their member Savings and Loan Associations, which in turn will assume responsibility for loan origination to eligible borrowers as well as for oversight of the construction of sub-projects.

G. SUPPLY/DEMAND DISEQUILIBRIUM AND ITS POSSIBLE IMPLICATIONS

It is clear from the results of the analysis of the magnitude of the urban housing deficit, and the rate of the growth of demand for new low-cost housing in urban areas in the Dominican Republic, that the proposed housing program can only begin to address a small portion of the total demand. Even when only the effective housing demand on the part of below-median-income workers in companies affiliated with the CNHE is measured against the maximum probable output of new and improved housing which this program will generate, the disparity of proportion is clearly evident: one single industrial zone (the Zona Industrial de Herrera in Santo Domingo) is estimated to count among the employees of its businesses and factories approximately 6,500 below-median-income workers who would in principle be eligible for the program.

What are the implications of this considerable mismatch between the projected volume of housing produced by this program, and the vastness of the demand? It is recognized that one of the important functions which the program is intended to serve is that of increasing the level of contentment among the workers in the participating industries. Will the effect perhaps be just the opposite, aggravating tensions rather than reducing them? Clearly, the benefits of the program cannot be divided evenly among all the members of the target group. Not everyone will be able to be reached, certainly not with this initial program effort.

The questions posed are legitimate ones, deserving of serious consideration not only in principle, but also in terms of undertaking program design in such a manner that the equity of the program is as great as possible, and in such a way that the perception of the program on the part of the target group is one of an equitable arrangement. It will be extremely important to achieve this; it need not be unduly difficult. Benefits are simply not distributed evenly in life -- and no one is more aware of this than those who are on the short end of the distribution list: the poor.

The poor know very well where they stand with respect to the general flow of the economies of their countries. True, they cannot quantify what they know in terms of income percentiles, GDP, or other terms significant to scientists in the field of economics. But the vicissitudes of their countries' economies, the internal as well as the external pressures acting on those economies, translate directly and very rapidly into changes in and pressures on the family budgets of low income families. They are poor, and they will probably not be rich anytime soon. There just isn't that much richness to go around.

But the national socioeconomic structure within which they live is concerned with helping the relatively-poor solve their problems. The target group knows this. The target group is aware that there are national systems for health care, for worker training, for education. They also know that these systems are imperfect, that they seldom meet their needs fully. The target group is in this respect remarkably--commendably, even enviably--self sufficient and elastic to an impressive degree. (What the formal sector can provide, fine. What it doesn't provide, I'll find on my own or do without.)

The proposed housing program will contribute a small but important increment to the supply of low-cost housing available to this group of families. Employers will play a significant role in the program, and will have a great deal to say about the way in which the program reaches their workers. It is very much in their interest, as they are keenly aware, that this program be presented in a way which is seen as reasonable and acceptable by the potential beneficiaries - both the ones that receive new or improved houses and the ones who "qualified" for the program but did not receive improved housing.

What practical program obstacles or constraints does this issue suggest? Certainly, the need for thoughtful design of selection criteria for potential beneficiaries. Suitable beneficiary selection systems have seldom been easy to engineer; they have always been difficult to implement. The substantial involvement--not only as the sponsoring entity but as financial contributor--of the business community adds to the beneficiary selection issue in the present program a degree of complexity not normally present in traditional public-sector social-interest undertakings. It is not at all difficult to imagine the following exchange between a businessman wanting to take advantage of the AID-supported program for his employees, and a representative of the National Council of Businessmen (CNHE):

Employer: Fine, I have seventy-eight workers who earn less than the program income limit. But I can only afford to help five of them each year, given what the program means for my company in terms of immediate and long-term commitment.

CNHE: That's perfectly OK. The program is envisioned as one which will let each of you member companies bite off only as much as you can chew. We are delighted that the Government has agreed to back this program so that we can get the long-term money we need for housing programs, but none of us are playing with mirrors: we all know what it cost. Did you receive the latest flyer with the breakdown of what the contribution from you would be?

Employer: Yes, I got it last week. That is how I calculated I could pay for five houses a year. And I know who I would like to offer them to.

CNHE: That's fine. You know which of your employees you want to help, and no one but you can make that judgement. But we do have to ask you to adopt certain general guidelines for the final selection of beneficiaries - nothing rigid, but just to ensure that the benefits of this program go to families that really need help, and so that you as an employer don't get your tie in a wringer with the unions or anyone else who could question the way these loans are being adjudicated.

Employer: You know I'll not have any objections to that. Send me the guidelines, and I'll have my personnel office get to work on the question right away.

CNHE: Better than that. Look: this program is going to be used by a lot of firms. Your company is in shoes, that one is in textiles, the other one's in plastics, over there there's someone in some other field that wants to use the program. That's great. On the one hand, as the representatives of the private sector we want to make sure all businesses and enterprises have access to the loans--we would be failing our own constituency if we didn't--but on the other hand, we want to make sure that everyone is playing by the same rules. So, we're working with the National Housing Bank to develop some printed materials which each interested employer can distribute to his workers. It kind of takes you off the hook for the details of program design, while giving you a chance to tell all your employees about the program.

Employer: Good. I'm glad to hear that. Having the imprimatur of the CNHE on the program will go a long way toward making it more formal, more general. It becomes something we are participating in, rather than something we are running ourselves...

CNHE: Right, That's the idea. Once you have received the flyers we'll be sending you, talk them over with your personnel office, work over your own weighting system that can operate within the general selection criteria, and we can go forward. We have put a man on the housing program full-time, and he will be arranging to visit each of you.

The example offered above is purely illustrative but entirely plausible. There is no doubt at all that there will be problems, and important ones, which will need to be solved prior to and during program execution. It is important to note, however, that the desire to solve the problems is present among the institutions which will be involved, and that there is a good base of experience on which to build.

The BNV is a sound institution, and has a good history of financial management of housing programs. The business of the CNHE and its membership is just that: business. There is abundant management experience in the organization, and there is every reason to believe that it will perform efficiently and competently in carrying out its responsibilities in connection with the proposed program. An important element will be added by AID in the execution of the program: specific technical assistance. A resident advisor assisted as needed by short-term specialists, will stay with the program on a full-time basis, and will work closely with the implementing organizations to ensure program success.

IV. BENEFITS OF PROPOSED PROGRAM

The proposed AID-supported program will capitalize on the confluent needs and interests of workers and their employers, and will help to integrate those needs and interests in a mechanism which recognizes also the expressed interest on the part of the formal sector housing institutions (especially the National Housing Bank - BNV) in participating in such a program.

A. HEALTH AND CHILD CARE:

Although they are incompletely understood, the linkages between improved health and improved housing and infrastructure services are universally recognized. Many of the members of the current program's intended target group live today in extremely precarious conditions, in dwellings which are unsafe, unsanitary, poorly located, and served minimally or not at all by piped water, adequate sanitation, and good access to transportation and community facilities.

The provision of adequate child care in such living conditions is extraordinarily difficult, at times impossible, when suitable sources of water for drinking, washing, and cleaning of clothes and dishes are not available. As the proposed program will improve access on the part of the target group to such essential services, it will have a very positive impact on the degree and quality of health maintenance of the families in general, and of the provision of child care in particular. This will be of special importance to the families of workers benefitting under this program; although the workers themselves may have access during working hours to potable water and serviced sanitary facilities at or near their job sites, the members of the family who remain at home may not have any adequate access to such services.

The Dominican Republic has an expanding program of public health centers, which provide an important service to low-income families who can ill-afford the costs of private medical attention. Ironically, the coverage of the public health system is least adequate in the places where large numbers of the low-income population live: the largely unplanned settlements produced by the informal sector. The proposed program which AID will support will do a great deal to address this problem, by ensuring a closer linkage between planning for the various needs of communities through the involvement of the formal sector and the delivery of those services needed.

B. EDUCATION:

Many of the same problems which appear in the context of the Health Issue discussed earlier characterize also the education features of low-income areas in the Dominican Republic. Families who settle in informal housing zones often do so years before the official planning apparatus can respond and install the needed school facilities. Worse yet, as many informal settlements have sprung up on land that is either slated for some future non-residential use (highways, municipal buildings, or privately-held lands) or has been deemed unfit for habitation (flood-prone, subject to excess erosion, overly contaminated by industry or garbage dumping) and will probably never be provided with school facilities. Thus, families in these settlements must either make a considerable financial sacrifice to send their children to private schools (which a great many do) or find that they cannot enroll their children in school at all.

Once again, the collaboration of the public-sector planning organizations in the proposed housing program will greatly alleviate the current shortage of educational facilities and opportunities facing the intended beneficiaries, and will enable those families to improve the level of schooling of their children. It is to be expected that additional benefits from adult education and literacy programs will contribute to a general upgrading of the families' educational standing.

C. ROLES OF WOMEN:

Women will benefit in a number of significant ways from the proposed program. In cases where it is women themselves who are the workers/income earners toward which the program is directed*, their opportunities to participate in the formal sector will be increased. They will have improved access to credit, to a mechanism for obtaining a better level of shelter and improved services for their housing expenditures.

In the cases where women are the direct beneficiaries of improved housing through the program, opportunities for other economic activities in their households will be improved, as will the physical, community and social infrastructures of their homes and their neighborhoods.

Women will clearly enjoy significant benefits also in those cases where they are not the main wage-earners on whose income and connection with the formal employment sector participation in the program will be predicted. The improved housing and service levels which have earlier been discussed will have direct and tangible benefits to their daily lives. Reduced carrying of water, improved access to services, electricity, schools, clinics, transportation will all produce direct and positive improvements in the quality of life. The feasibility of undertaking economically-rewarding activities in the home or immediate community will be greatly enhanced.

*It is expected that women will form an important segment of the program's target population. While full details of the target group's profile are not available at this moment, significant indications have been obtained. The textile industry employs an estimated 80% female workforce, and a great many of the women that comprise this labor group are female heads of households.

V. SPREAD EFFECTS, SOCIAL CONSEQUENCES, AND BENEFIT INCIDENCE

The proposed housing program is especially significant as a model for large-scale future activities of a similar sort, as it contains a combination of elements which have not heretofore characterized any shelter and services upgrading efforts targeted at socioeconomic groups at the level of the one which will benefit from this AID-supported program. The private Dominican business community will provide a significant institutional and financial contribution to the program, through the provision of initial payments on behalf of its employees and a contribution toward the interest payments due on the long-term loans with which the shelter will be financed. As additional indirect contributions, it will in different cases help with the provision or purchase of land for parts of the program, when Government-owned land is not readily available for or suitable to a social-interest housing program. Finally, it will promote the housing program actively among its eligible employees, with a view to involving as many of them in the program as possible.

The National Housing Bank will administer the financial aspects of the program, as well as overseeing the supervision of individual loan origination activities by member Savings and Loans Associations and the necessary construction supervision. Through its involvement, the BNV and its member S&L's will manage to reach more deeply into low-cost housing than they have done to date. This effort will be considerably simplified for them, in terms of the possible risk posed by offering financing to a new sector of the housing market, by the participation and guarantees given by the National Council of Businessmen and its member firms.

Through its active encouragement of the housing program, and its guaranty to AID of the repayment of the HG loan, the Central Government directly lends its support and encouragement to a substantial program which will reach the lowest-income families within the formal economic sector of the Dominican Republic, and will thus help to extend to those families an opportunity to improve their standing in the country through improved living conditions, access to credit, and better communities.

The collaboration of the public and private sectors in this program is a particularly noteworthy accomplishment. It represents the most significant of a number of novel examples of increased participation among sectors and institutions which have not heretofore collaborated closely, and certainly not in a program as clearly in the interest of a currently disadvantaged group as the present one.

In the past, the private sector in the Dominican Republic has been engaged, to a limited degree, in helping to address the problems of lower-income groups. Housing, by its nature, facilitates addressing a number of basic needs--water, sanitation, transport, proximity to schools and other elements of social infrastructure--and thus the private sector through this program adopts a much more active role in recognizing and improving the living conditions of the families in the formal economic sector who are least able to solve all their own problems without programs which allow them to make the most of their limited means.

It is not envisioned that massive blocks of low-cost housing will be built under the program. Thus, as small housing communities arise within the overall

social fabric of urban areas in the Dominican Republic, these will provide a stimulus for surrounding areas to consider possible ways of upgrading, as well as providing a base of social infrastructure which can be shared with surrounding communities and neighborhoods.

Thus, also, individual households which participate in the Home Improvement component of the proposed program will tend to stimulate a general economic upswing in their communities, by creating employment for small contractors, plumbers, carpenters, masons, and others participating in the activities.

A general improvement in the current depressed state of the construction industry is expected. This will be particularly important to the labor-intensive part of the construction industry, which has not been well-absorbed by the capital-intensive public works (dams, highways) which have been important sector projects recently. The type of construction employment generated by the proposed housing program will provide jobs to many currently un- or underemployed persons with relatively few skills, who can easily be given sufficient training to work well and productively in the building of the houses contemplated for the program.

Clear improvements in health, education, and community infrastructure levels are expected to result from the proposed program, and have been discussed at some length earlier in this Annex. In addition, it is expected that the beneficiaries of the shelter generated by the proposed program will find that they get a much better housing "buy" for the money they spend, than they do now. Rents for very small and poorly-serviced houses are quite high, if quantified by such standards as rents per square meter of dwelling. A person may only spend a few pesos a month on water, but that price is very high per unit if the only water is bought, by the bucket, from a neighbor. Entry into the formal sector for the obtention of housing and its supporting infrastructure services will greatly improve the efficiency with which the participating families make their purchases of shelter and services.

Improved levels of organization are expected to result on the part of the beneficiaries as well, as they are involved in training and orientation programs necessary to participate in the program. Workers, their co-workers, employers, the BNV - these as well as other participating groups will be collaborating in jointly addressing problems, and this effort should provide a learning and broadening experience for all the actors involved.

To the extent that this program will provide a model for heightened collaboration by different groups working to resolve common problems, it will have a great deal of value in stimulating a continuation of such approaches to joint problem-solving in the Dominican Republic in the future.

In summary, this program will present an extraordinary opportunity for diverse elements to work together in addressing a number of issues which the AID Mission has identified as crucial to the development and improvement of urban areas in the Dominican Republic.

For the urban poor, since their key problem is unemployment and underemployment, putting them to work is the first step in moving them up from poverty. Consequently, any urban development activity, i.e., health, education, small business, housing and training should have an employment generation impact. In this respect AID will support... programs that emphasize small business, vocational training, and upgrading of manpower skills directly related to employment. 117

The proposed program not only addresses directly the problems of housing and its related services, but responds quite well, also, the AID's overall concern with urban development activities. The degree to which the proposed housing program matches the joint goals and policies of the GODR and AID is high:

In the following excerpts from the most recent CDSS:

The Dominican Republic is characterized by a heavy involvement of the private sector in social and economic development, and public policy has attempted to strengthen this participation. The resultant pluralism and a resultant broader base of participation in development activities broadens the base of funds and human resources available for projects. (Page 19.)

The Mission's strategy has been to work closely with the GODR and other entities, including the private sector, to identify problems and/or sets of sub-problems, establish the major constraints to their resolution, identify the range of solutions available, select those most appropriate, list the resources available from all sources to deal with them, and establish priorities of both timing and resources for their treatment. (Page 28.)

Footnotes to Social Soundness Analysis

1. Among the recent studies are the following:

PADCO, Inc. & Borrell Associates: Estudio Sobre el Desarrollo Urbano de Santo Domingo - Interamerican Development Bank, 1978.

Estudio de Poblacion y Salud, Encuesta "DIAGNOS" June, 1974 (carried out by the Ministry of Health).

USAID Office of Housing: Dominican Republic Shelter Sector Assessment, April 1980.
2. USAID: Dominican Republic Employment Strategy Paper (Draft) Feb.1981, page 5.
3. Shelter Sector Assessment op.cit. Vol II, page 40.
4. Ibid Vol II, page A-47
5. Weil, Thomas et al.: Area Handbook for the Dominican Republic, USGPO, 1973, page 79.
6. Shelter Sector Assessment op.cit. Vol II page A-73.
7. The World Bank: Dominican Republic Sites and Services Project Brief, June 1981, page 1.
8. Houston, A; Kennedy, J., and Russin, A.: Estudio de Evaluacion de las Palmas, Informa 1975-1978 Banco Nacional de la Vivienda, 1978, page 140.
9. Weil, Thomas op.cit. pages 80-83.
10. Ibid. page 85
11. USAID Employment Sector Paper op.cit. page 39.

APPENDIX

In September 1980 the National Housing Bank studied an inner-city tenement block which was judged to be reasonably representative of the housing conditions in which many low-income families live. Some of the findings of that study are presented here, to provide the interested reader with some additional information on costs, areas, and housing quality. It should be remembered that this kind of housing is but one of the types generally available to low-income families, and since the supply of low-cost inner-city housing is by its nature limited, it represents a diminishing segment of the low-cost housing stock in urban areas of the Dominican Republic today.

Some insight into the informal housing market is provided by a recently-completed study, (September 1980) of a city block located in a representative section of the older part of Santo Domingo. The study, carried out by the National Housing Bank, examined Block #917 in the First Cadastral District of Santo Domingo. The block contained 105 structures, and the following table summarizes the per unit areas and per capita areas, by type of structure.

	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>
1. Peripheral Units (housing)	37	2,840.75	77	201	14.13
2. Interior Units (housing)	57	920.70	16.15	181	5.08
3. Total Units (housing)	94	3,761.45	40.01	382	9.84
4. Commercial Units	11	581.08	58.02	n.a.	n.a.
5. Total Units	105	4,342.53	41.35		

A. Number of Units

B. Area (in m²)

C. Average Area/Unit (in m²)

D. Number of Inhabitants

E. Area per capita in m² (average)

The city block which was studied is typical of many of the central urban areas where large numbers of low-income families live. It is a square block, 100 meters per side, and the lots have a frontage of 10 meters and varying depths. The housing units, as indicated in the table above, are of two types: those which are around the outside of the block and have direct access to the streets, and those much smaller interior units which are built on the lots behind the peripheral houses.

The following data were obtained for the housing units studied in the survey:

	Rooms (average)	Bedrooms (average)	
Peripheral units	6.86	2.97	
Interior Units	2.19	1.03	
	Peripheral Units	Interior Units	Average
Monthly Rent (RD\$/m ²)	1.80	0.55	1.17
Area/Inhabitant (m ²)	14.13	5.08	9.84
Month Rent (RD\$/Inhabitant)	24.43	2.78	11.55
Monthly Rent (RD\$/family)	135.30	14.73	61.21
Area/family (m ²)	74.88	26.92	52.15

It was determined that the 48% of the population in the block that lived in the peripheral units occupied 75.5% of the constructed area; the 52% that lived in the interior units occupied 24.5 of the constructed area. The "peripheral" families consumed 67% of the electric usage in the block, the "interior" families 33%.

Seventy-three percent of the "peripheral" families are the legal owners of their land and houses. 86% have made enlargements or modifications to their houses. The 27% who rent their houses pay an average monthly rent of DR\$135.30.

By contrast, none of the "interior" families legally own the land on which they live. Their systems of tenancy vary from just "being there", to renting the land, buying the structure or a portion of it, sub-letting, etc. 40% of the interior houses have block walls, 30% wood walls, and the remaining 30%, walls of waste wood, cardboard, scavenged corrugated iron sheets and other salvaged materials. Roofs are almost all of zinc sheeting. The average unit area is 26.9m². These families pay an average of DR\$14.73 in monthly rent plus an average of DR\$8.95 for electric power, which most buy from one of the "peripheral" families who have a formally-installed meter.

The type of inner-city tenement situation (known in the Dominican Republic as cuarteria or a traspatio) is one important source of low-cost housing for families of limited means, but it is a form which by virtue of its location within the confined core of the cities cannot significantly expand to meet the rapidly growing demand for shelter. This, of course, is one important factor in the growing informal settlement patterns which earlier studies have observed and analyzed. Here, again, the informal housing sector is busily striving to meet the strong demand for modestly-priced houses, and is to a significant degree succeeding. It is doing so, however, at the expense of producing many poorly-planned and badly-serviced neighborhoods, which promise to be expensive and difficult to upgrade on a large scale in the future.

Nombre de la Empresa: TALLERES CIMA, C. POR A.
 Dirección de la Empresa: NICOLAS DE OVANDO #433
 Tipo de Empresa: FABRICA PUERTAS Y VENTANAS
 Número Total de Empleados: 134

Nómina Total de \$RD 37,834.72 Mensual ()
 Quincenal (x)
 Semanal (x)

Del total de empleados indicados arriba, un número de 114 perciben un ingreso mensual no superior a \$RD350.00 mensual. Estos están distribuidos en la forma siguiente:

INGRESO MENSUAL	NUMERO DE EMPLEADOS
de \$RD 301 hasta 350	<u>19</u>
de 251 hasta 300	<u>35</u>
de 201 hasta 250	<u>37</u>
de 151 hasta 200	<u>22</u>
de 125 hasta 150	<u>1</u>

Por favor indique si su empresa tiene los siguientes beneficios marginales para los empleados que ganan no más de \$RD350.00 mensual:

Seguro Médico Privado SI (x) NO ()
 Plan de Jubilaciones y Pensiones Privado SI (x) NO ()
 Plan de Transporte SI (x) NO ()
 Plan de Préstamos SI () NO (x)

Otros Beneficios Marginales (favor de especificar) _____

Estimamos que nuestra empresa podría estar interesada en 8 viviendas el primer año y 8 viviendas adicionales por año.

Preparado por: [Signature] Fecha: 19 de Agosto/81
 Cargo: Contador

NOTA: Devuélvala de inmediato (preferiblemente a mano) a:

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