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

PANAMA

PROJECT PAPER

SHELTER AND URBAN PLANNING

AID/LAC/P-025/1

Loan Number: 525-HG-012
Project Number: 525-0251

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number _____	DOCUMENT CODE 3
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2. COUNTRY/ENTITY PANAMA	3. PROJECT NUMBER <input type="checkbox"/> 525-HG-012 <input type="checkbox"/> 525-0251
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4. BUREAU/OFFICE IAC <input type="checkbox"/> <input type="checkbox"/>	5. PROJECT TITLE (maximum 40 characters) <input type="checkbox"/> Shelter and Urban Planning <input type="checkbox"/>
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 1 2 3 1 8 8	7. ESTIMATED DATE OF OBLIGATION (Under 'B' below, enter 1, 2, 3, or 4) A. Initial FY <input type="checkbox"/> 8 0 B. Quarter <input type="checkbox"/> C. Final FY <input type="checkbox"/> 8 6
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8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY 79			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	350		350	550		550
(Grant)	(200)	()	(200)	(450)	()	(450)
(Loan)	(150)	()	(150)	(150)	()	(150)
Other U.S. 1. HG 011	25,000		25,000	75,000		75,000
2.						
Host Country						
Other Donor(s)						
TOTALS	25,350		25,350	75,550		75,550

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECHL 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)	720		860	-	25,000		25,000	-	75,000
(2)	720		860	-	25		0	-	150
(3)	720	860		125	-	250	-	450	-
(4)				-	-		-	-	-
TOTALS				125	25,025	250	25,000	450	75,150

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)	11. SECONDARY PURPOSE CODE
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12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)									
A. Code									
B. Amount									

13. PROJECT PURPOSE (maximum 480 characters)

To strengthen the institutional, policy and financial framework of the shelter delivery system in Panama.

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 0 3 8 4 0 3 8 5 1 2 8 8	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input type="checkbox"/> 000 <input type="checkbox"/> 941 <input type="checkbox"/> Local <input type="checkbox"/> Other (Specify) _____
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6. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 4(1) page PP Amendment)

Increase HC authorization. Add new DC resources.

17. APPROVED BY	Signature <i>Robin Gomez</i> Title Robin Gomez Director, USAID/Panama	Date Signed MM DD YY 0 7 0 8 8 3	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY
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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ASSISTANT
ADMINISTRATOR

GUARANTY AUTHORIZATION
525-HG-012

PROVIDED FROM: Housing Guaranty Authority
FOR: PANAMA: Shelter and Urban Planning

Pursuant to the authority vested in the Assistant Administrator, Bureau for Latin America and the Caribbean, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed Twenty Five Million United States Dollars (\$25,000,000) in face amount, assuring against losses of not to exceed one hundred percent (100%) of loan investment and interest with respect to loans by eligible U.S. investors (Investor) acceptable to A.I.D. The guaranties shall assure against losses (of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans, including any refinancings thereof, made to finance housing projects in Panama.

These guaranties shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans may extend for a period of up to thirty years (30) from the date of disbursement and may include such terms and conditions as shall be acceptable to A.I.D. 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 or rates 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. The Government of Panama Guaranty: The Government of Panama 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.

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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 guarantied amount of the loans plus a fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.

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


Dwight B. Johnson
Acting Assistant Administrator
Bureau for Latin America and the Caribbean

August 19, 1983
(DATE)

Clearances:

PRE/H:JHowley	<u>SPW for</u>	Date	_____
PRE/H:SWalsh	<u>SPW</u>	Date	_____
PRE/H:PVitale	<u>SPW</u>	Date	<u>8/12/83</u>
LA/DR:POrr	<u>SPW</u>	Date	_____
LA/DR:DJohnson	<u>SPW</u>	Date	<u>8/12/83</u>
GC/LAC:GWinter	<u>SPW</u>	Date	<u>8/15/83</u>
FM/LMD:HShropshire	<u>SPW</u>	Date	<u>8/12</u>

MW
GC/H:MWWilliams:gjg 8/12/83 x23054 #1065P

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I. Introduction

A. Background

A.1 Overview

The \$25 million authorization requested in this PP is the second tranche (Phase II) of the \$75 million HG program approved in 1979 as part of the Economic Package of the Panama Canal Treaty.

The institutional framework for the first phase of the program currently being implemented includes the National Mortgage Bank (BHN), the Ministry of Housing (MIVI) and the Ministry of Planning and Economic Policy (MIPPE). BHN is responsible for the financing of shelter projects which are designed and implemented by MIVI. MIPPE provides the needed budget coordination between BHN and MIVI as well as the overall guidance and assistance in the integration of services and facilities as part of the shelter projects financed and developed by BHN and MIVI. Phase II will be implemented through the same institutional framework.

Institutional objectives in the first tranche focused on the strengthening of the key GOP institutions in the shelter sector so as to improve their capacity to plan, execute and manage housing programs for below median income families.

As of 6/1/83, \$19 million of the first \$25 million had been disbursed to Panama in support of the construction by MIVI of over 4,000 shelter solutions including 2,221 basic houses (core units, "piso y techo") in the San Miguelito District, which is the largest squatter area of Panama, 1,386 low rise apartment units in the center of Panama City to shelter families previously living in the tenements built during the construction of the Panama Canal and 700 home improvement loans throughout the country with a large number directed to facilitate water and sewerage connections. The remaining \$6 million are to be disbursed upon completion of projects on which construction has already begun or for which designs are completed. Final disbursement is expected in the first quarter of CY 1984.

The efforts under Phase I have concentrated on the production of shelter for the Panama City Metropolitan area, while HG-010, authorized as part of Mission's URBE Loan Program (Rural Growth and Service Centers), has focused on the interior regions of the country through assistance to the GOP in the production of approximately 800 shelter solutions, including a 600 unit sites and services program in the city of David. As of 6/1/83 \$3 million of the \$5.4 authorized in HG-010 had been disbursed to the GOP. Final disbursement of the \$2.4 million balance is planned for the last quarter of CY 83.

The IDB has focused its housing sector efforts in Colon where the Ministry of Housing is building shelter units as part of a Reconstruction Plan for Colon involving infrastructure, construction loans for industries and the Free Zone, and other activities directed to expand the economic base of the city. The IDB does not have an active shelter program in Panama and is working mainly with the water and sewage authority (IDAAN) in secondary cities and rural areas.

The Phase II program will continue with and expand upon the institutional development efforts initiated with the first \$25 million program to strengthen the financial and managerial capacity of BFN and to improve the project delivery system in MIVI. AID will also continue to encourage close working relations among MIVI and MIPPE so that shelter activities are consistent with the investment priorities and budgetary parameters set by the GOP.

Our policy efforts will be oriented toward having the implementing agencies in the HG program develop new rational approaches to (a) the generation of additional resources for the shelter sector, including the expansion of the private finance system into low and lower middle income housing, and (b) the overall planning for the Panama Metropolitan Area with special emphasis on the integration of the areas reverting to Panama under the Canal Treaties. With regard to the first point, the BFN will evaluate new operational alternatives for the savings and loan system and the expansion of the secondary mortgage market with itself playing a key role in such operations. In terms of urban planning, MIVI will work with a newly established commission for the reverted areas under the aegis of the Vice-President of Panama to provide the analytical and policy base required to support the planning framework needed to make land development decisions in these territories. MIVI will also provide linkages between the planning effort for the reverted areas and planning for the greater metropolitan Panama City area. The Mission is requesting a \$250,000 DG as an integral part of the program in support of the institutional/policy objectives outlined here.

Sub-programs under Phase II will be directed toward assisting the GOP to eradicate old tenement buildings in Panama City through the expansion of the Urban Renewal Program, to expand the home improvement program successfully launched in 1982, to finance projects in some of the areas reverted to Panama as part of the Panama Canal Treaty and to develop pilot projects in selected areas in Metropolitan Panama City to serve as reception areas to accommodate continuing migration from the interior of the country.

A.2 Status of Phase I:

Annex A addresses each aspect that Mission was required to discuss as part of a request for additional tranches under the \$75 million program. The following briefly presents the analysis of key achievements and shortcomings related to Phase I which have served as the basis for Phase II proposed here.

A.2.1 Institutional Development

Phase I was designed to overcome in an incremental fashion serious financial and management problems that impede the provision of shelter in Panama as it relates to families below the median income.

Specifically, at the outset of Phase I program, BHN was operating with an accumulated deficit of more than \$20 million, interest rates for its shelter investments channeled through MIVI were determined on the basis of unilateral decisions made by the Minister of Housing, the General Manager of BHN effectively lacked authority to manage his own institution, disbursements to MIVI were made on the basis of requests by the Minister without proper accounting and cost controls, BHN's books were virtually inauditable, mortgage loan adjudication procedures were exceedingly lax, and BHN lacked proper registry of and accounting for land assets transferred to it from the former Instituto de Vivienda y Urbanismo.

MIVI was building approximately 5,000 units per year. However, most of the houses were built without an adequate policy framework or a financial plan. Actual investments were not being fully recuperated (i.e. unit costs exceeded the mortgage amounts extended to beneficiaries), and the interest rates assigned to the beneficiaries were inadequate to recoup the costs to BHN of obtaining the resources. Related to these problems was MIVI's tendency to identify projects without adequate knowledge of the potential beneficiaries, to design projects without considering the target group's ability to pay, and its inability to properly monitor and control construction costs. This modus operandi was called "sobre la marcha". The integration into project design of other community services and facilities as well as of environmental considerations were also deficient.

Since 1979 significant strides have been made by both the BHN and MIVI largely as a result of the implementation of the IG-011 program (and the IG-010 as well). With regard to the BHN, the following improvements have been achieved: (a) interest rates on low income projects have been increased beyond the levels at which BHN was issuing mortgages in the past and they are now established on the basis of a formula agreed among BHN, MIVI, MIPPE and AID which takes into account the mortgage lending rates of other public institutions as well as the private sector. The application of the formula has resulted in interest rates between 10% to 12% with the bulk of the loans at the 12% level; (b) MIVI, BHN and MIPPE have formalized disbursement procedures which will better control the flow of resources among the institutions to finance MIVI projects; (c) BHN administrative costs have been reduced by 10% though they still remain relatively high; (d) BHN has restructured its Internal Auditing Department under the guidance of a local, private Certified Public Accounting firm which will enable the Bank to better control its own internal operations as well as those of the savings and loan

system. Manuals and guidelines for such auditing have been completed; and (e) a review of all BIN assets is being concluded by the Controller General of Panama, and registration of these assets including MIVI's mortgages is in process, which will have the effect of formally establishing the portfolio structure of the Bank.

MIVI also has made a series of institutional adjustments which have permitted it to operate more effectively in delivering affordable solutions to low income families. Among the improvements that have been made are the following: (a) MIVI has developed a capacity to survey beneficiary groups systematically to determine paying capacities and other socio-economic characteristics of the target population; (b) MIVI has begun to switch from direct construction of projects to contracting project development with the private sector, thus improving cost controls and savings; (c) MIVI has completed a major reorganization of its administrative structure which has succeeded in greatly improving the internal coordination of the project development process and set the basis for more active participation by the Ministry in the formulation of shelter policy and urban planning; (d) environmental considerations are increasingly being taken into consideration in project development (e.g. grass is being seeded on steeper slopes and various construction measures have been taken in MIVI projects to reduce erosion); and, (e) MIVI and MIPPE are working together more closely to ensure the coordinated planning and development of community facilities.

A.2.2 Physical Outputs

With regard to physical outputs, the Phase I project has succeeded in the testing, development and refinement of prototype housing solutions which had not been used previously by MIVI in reaching low income Panamanian citizens. Around 1980 MIVI began to deviate from its standard core units to experiment with semi-completed structures called roof/floor ("piso y techo") schemes. Using that as a springboard, during the last two to three years, MIVI has continued to develop a series of alternative prototypes tailored to specific living conditions and differing payment capacities of Panamanian residents. They include the following: (a) Urban Renewal Projects; (b) sites and services; and (c) home improvement loans.

Urban renewal projects have been most ambitious of MIVI's recent efforts. Housing in inner city areas of Panama until recently consisted either of wood structures built during the construction of the Canal 80 years ago, or high rise concrete structures built in the late 1960s or early 1970s modeled along the lines of similar projects in the U.S. which met with resounding failure. In a radical departure from the unsatisfactory efforts of the past, MIVI is currently implementing projects in downtown Panama City which consist of low rise, row house apartment units that are being sold as condominiums. The key features of these projects are that they offer directly to already existing residents of the project area an opportunity for home ownership at costs which are affordable and they are constantly being refined to

reach lower income groups. The first projects were built at a cost of \$7,000 and \$9,000. Through a technical assistance effort whereby eight key MIVI officials were sent to MIT to study the units as originally designed, the second group of units was redesigned so that unit costs would be reduced to \$4,000 to \$6,000. Design specifications were modified to eliminate expensive exterior and interior painting, reduce levels of architectural finish, and eliminate some amenities such as the loft inside the units. MIVI has also begun experimental design work to examine a new inner city prototype, a modernized version of the "barraca" (communal housing with more access to sanitary facilities and use of building materials which are fire resistant).

The sites and services concept was tried in Panama City without much success around 1980. However, MIVI has experimented successfully with a project of this type in David. The project consists essentially of 600 serviced lots and a methodology which helps low income families to occupy sites, organize self help construction of buildings and obtain home improvement loans in line with its capacity to pay. The key to the success of the David project was the effort of the MIVI team managing project development to seek minimal cost solutions in dimensioning lots and designing infrastructure as well as the emphasis placed on community participation.

Home improvement loans are currently being made throughout the Republic. Prior to 1981, no program of this type existed. These loans are being made in areas such as San Miguelito on the periphery of Panama City, and in the interior in secondary cities and some rural settlements. Such loans permit units to be expanded, building materials to be improved and water and sewer facilities to be provided.

A.3 Shortcomings.

Although significant progress has been made by the key GOP institutions during the Phase I program, a number of serious shortcomings continue to exist which are directly affecting the government's efforts to address the problems of the sector.

A.3.1 Institutional.

1. BIN

BIN still needs to further improve its financial position particularly with respect to its Debt-Service Ratio which is affected by (a) prior investments (since 1973) related to projects developed by MIVI for which a heavy subsidy was included in terms of land cost, infrastructure and other services (schools, day care centers) which is not being recuperated from the sales of the houses, (b) short term loans which were used for long term mortgage lending.

BIN needs to consolidate its operational relations with MIVI by assuming full control of the Real Estate Department currently located in MIVI which is responsible for the credit review of potential beneficiaries as well as for the collection of mortgages/loans in properties produced by MIVI.

BIN needs to further pursue the preliminary steps taken in the area of secondary mortgage finance by the selling of a limited amount of mortgage bonds to the Social Security System and the Caja de Ahorros. This is needed more now in view of the potential reduction of BIN's sources of financing if the 1/3 of the thirteenth month salary which is provided to the Social Security System for investment by the BIN is paid directly to the workers as requested by some union organizations.

2. MIVI

MIVI definitely needs to improve its cost control system. In this area MIVI needs to further refine its recent procedures to contract with the private sector for the design and construction of shelter (turnkey procedures).

MIVI needs to review its beneficiary selection process to explore alternatives to reduce the time between selection and the moving of the families to completed projects.

MIVI needs to significantly expand and improve its management information systems so that decision makers can more effectively plan and manage its housing programs. MIVI already has the computer facilities suitable for its current needs. What is needed is the expansion of the data base and the integration of a management information system into the decision making and project management process.

Finally, though progress has been realized during the past few years, MIVI needs to continue to improve its environmental control capacity. The absolute necessity to preserve the canal watershed will require all agencies which will play a role in the reuse of the reverted areas to improve their abilities to create environmentally sensitive designs.

A.3.2 Policy

AID efforts with the first \$25 million have been geared toward addressing the institutional problems of the two key organizations, BIN and MIVI, in the low income shelter delivery system. Policy issues have also been addressed at the institutional level. A few examples have been the need for a realistic interest rate policy, a reduction of capital subsidies, and the production of shelter projects in the context of a comprehensive analysis of social, economic and urban development considerations. However, there is a

need for BHN/MIVI/MIPPE to play a more aggressive role in terms of policies and strategies for the sector. The key areas in which such efforts are needed follows:

1. Private sector participation: (1) MIVI should continue exploring the effects of the rental law in the production of housing for lower and middle income families; and (2) BHN and MIVI should evaluate the role of the private savings and loan system and other mortgage banks in the financing of shelter to determine what legislative or regulatory changes are needed to redirect some of their resources to lower income families which are not served by the housing finance system in Panama.

2. Overall Planning: (1) MIVI has learned a great deal in terms of improving its sector planning efforts with the experience gained in the first phase of the urban renewal program. MIVI, however, needs to better understand the present and estimated shelter needs of the population so it can establish a production plan in accordance with the identified shelter need priorities; (2) MIVI's plans for cities are generally good, although traditional and predominantly physically oriented. More attention is needed to place its plans within an economic context; (3) There is no current, complete plan for Panama City which takes into account the former Canal Zone; (4) MIVI needs to better understand the overall urbanization process which it is estimated, will result in 60% of the projected 3 million population by year 2000 being located in the Metropolitan Area (Panama and Colon). This knowledge is required as part of any efforts by MIVI and MIPPE to develop concept plans for the Metropolitan Area and to establish production targets for the private and public sector on yearly basis.

B. Brief Description of Phase II:

Based on the above evaluation of the progress made and the identified shortcomings for the first HG tranche, the second HG \$25 million HG program can briefly be described as follows:

B.1 Goal and Purpose:

The goal will continue to be assistance to the GOP in improving the living conditions for low income families. However, because the pressures for increased shelter solutions are expected to be most acute in the Panama City Metropolitan Area, our efforts will focus on this area and will be more limited in the rural areas. Efforts in the secondary cities will continue but they will be primarily directed to home improvements rather than new shelter.

The purpose: To strengthen the institutional, policy, and financial framework of the shelter delivery system in Panama. The purpose of the second \$25 million HG program remains in essence the one included in the original design of the \$75 million Treaty Package. AID will continue to

strengthen the institutional basis of the delivery system represented by BHN, MIVI and MIPPE. However, we will pursue with these institutions the undertaking of a series of studies and analysis needed to formulate policies, strategies and programs affecting not only programs/project funded under Phase II, but the sector as a whole.

B.2 Program Components Contributing to the Achievement of Purpose.

1. Continued strengthening of BHN and MIVI. This should provide both institutions with a financial and operational base that will allow them to fulfill their roles as the institutions responsible for the financing and production of low income shelter in Panama.

2. Shelter for the Poor: The unit typology for Phase II will meet the needs of families below the median income with the majority of the units to serve families between the 5th and the 25th income percentile.

3. Substantial technical assistance from URBE (\$125,000) and DG (\$325,000) will be provided with respect to the financial and management shortcomings identified in BHN and MIVI. More important, the technical assistance will help BHN, MIVI and MIPPE to establish the data base necessary to better understand the overall financial sector and the urbanization process. This policy technical assistance will focus, among others, on the following:

a. An update of the shelter needs assessment produced three years ago using the data from the last census plus information developed by MIVI as part of the urban renewal program. The shelter assessment needs will be related to the evaluation of the resources available for shelter so gap can be identified and mechanisms for the mobilization of additional resources can be developed.

b. An urban development assessment: such assessment will help MIVI and MIPPE in the efforts to develop conceptual development plans, including shelter, in the different urban areas. It should help to answer which areas in the settlement system should be given priority; which sectoral policies and programs should be emphasized; which institutions and decision makers should be directly involved in policy and program initiatives to increase effective implementation of the strategy.

c. Assistance will be provided to the committee created for the planning of the reverted areas. This effort will focus on how such areas could be integrated with the Metropolitan Area. The ultimate goal of the effort is the formal establishment of a Panama Metropolitan Area Planning Unit.

d. A comprehensive review of the source and application of funds by the different shelter finance institutions in the country. This should help to clearly establish the role of the different institutions, the potential for new resources and more important will provide the basis for the possible establishment of a secondary mortgage market in the country in which the BHN and the Social Security System will play a key role.

e. A comprehensive review of the role and constraints of the private savings and loan system. This should result in the formulation of new legislation/regulations to assist the system in expanding its financing of moderate priced shelter.

B.3 Inputs (Financial Summary):

<u>Shelter Production</u> (US\$ million)			
AID	GOP	Beneficiaries	Total
25	6.25	2.25	33.5

<u>Technical Assistance</u>		
AID	GOP	TOTAL
450,000 ¹	100,000 ²	550,000

B.4 Outputs:

B.4.1 Shelter Outputs: (a) Urban Renewal Area - 3,000 solutions (total investment \$15 million); (b) Home Improvement Program - 5,500 loans (\$11 million); (c) Shelter projects in reverted areas - 450 units (\$4.1 million); and (d) Pilot projects in reception areas - 600 shelter solutions (\$3.4 million).

B.4.2 Technical Assistance Outputs: 1. Institutional Development: (a) BHN: Financial Control Manuals; credit review procedures, mortgage/loans collections system; financial management (cash flow, investment policies); secondary mortgage operations; (b) MIVI: Cost control system. Beneficiary selection and adjudication process. Environmental procedures. 2. Policy Area.- (a) Role of savings and loan system and plans for improvement; overall financial policy for the sector setting levels of possible investment by

¹ \$200,000 is already available to the Mission from UNDP (\$125,000) plus the current IIRUP grant program (\$75,000). A total of \$250,000 in new DG are requested as part of Phase II.

² Staff time, logistical support.

public and private sector and means to tap potential resources by ways of secondary mortgage market and other means; (b) Shelter assessment needs completed; (c) Urban Development assessment completed; and (d) Development plans for areas reverted to Panama and the basis for the creation of a Panama Metropolitan Planning Unit completed.

II. Program Background and Description

A. Background

A.1 Prior studies

The most relevant reports and studies which describe the shelter problem in Panama are: the FY 1985 Country Development Strategy Statement (CDSS) with its backup analysis, and 1983 reports on the National Mortgage Bank, on institutional organization, and on housing finance in Panama prepared in connection with this PP. In addition, an evaluation of the URBE loan, completed in June 1983, provides valuable background data which served as the basis for the reprogramming of the existing Technical Assistance program. The GOP has participated in the preparation of these various reports and studies and has also prepared a number of its own reports and proposals including the "Términos de Referencia - Programa Prototipo para el Desarrollo del Area Canalera", and "Anteproyectos" for the Urban Renewal program and the Home Improvement Loan program.

A.2. Sector Problems:

A.2.1 Rising Demand

The problems facing the shelter sector are perhaps even more acute than in 1979 when the first tranche of the HG program was authorized. From now to the year 2000 urban areas are expected to grow three to four times as fast as rural areas. By 2000, 60% of Panama projected 3 million inhabitants are expected to be located in the Metropolitan area (Panama City and Colón). Moreover, the Economically Active Population, which was 53% in 1970, is expected to increase to 63-67% by 2000. This shift to an older population will place greater pressure on the demand for housing through the acceleration in household formation. Projected shelter needs figures for all income levels for the period 1980 - 2000 are as follows:

	<u>Rural Areas</u>	<u>Secondary Cities</u>	<u>Metropolitan Panama</u>	<u>Total</u>
New Shelter	25,000	47,000	110,000	182,000
Upgraded Shelter	<u>151,000</u>	<u>50,000</u>	<u>90,000</u>	<u>291,000</u>
	176,000	97,000	200,000	473,000

Source: Shelter Need Assessment prepared by Azeles and Schartz (1980)

The total investment required to meet this projected demand will be \$1.7 billion for the 20 year period, with \$113 million in the rural areas, \$321 in secondary cities and \$1.3 billion in the Metropolitan Area.

The above investment needs relate to the population as a whole. The investment needed to serve families below the median is estimated for the period 1980-2000 to be 42% of the \$1.7 billion, around \$700 million or \$35 million per year.

A.2.2 Shelter Finance Policy

A second problem is the insufficiency of resources for the housing sector mainly for lower income families. There is a need for the GOP to better understand the realities of the financial market which is highly competitive in Panama and to develop the mechanisms to tap additional resources for institutions such as the BHN, the Savings and Loans and mortgage banks. Legal impediments such as the rent law should be revised (some changes have already been made) to create incentives for the investment of resources for moderate income shelter. Direct intervention of the GOP in the housing market through the Social Security System at highly subsidized interest rates has created serious distortions which should be avoided in the future. The role of BHN as an active participant in the housing market should be strengthened. An initial step (already being taken) is to have the Social Security System invest in mortgage/bonds issued by the BHN. This action should gradually reduce, and eventually eliminate, the dependency of BHN on tax contributions such as the 1/3 of the XIII Month Payment now contributed by salaried workers.

One potential vehicle to support the finance and production of shelter for middle and lower-middle income families could be the Saving and Loan system. Although it has been in existence for over 20 years, the system needs to be substantially strengthened. The BHN should play the lead role in helping the S and L System realize its potential. Legislative and regulatory action is also required so as to eliminate the comparative disadvantage in which these institutions currently find themselves in the financial market place. By raising the rates earned on deposits, raising the rates at which S and Ls can lend and seeking resolution to problems of the one particularly financially troubled association in Panama City, the GOP could strengthen the system to complement the efforts of BHN in low income shelter.

A.2.3 Unplanned Growth:

The lack of adequate levels of low income shelter, the reversion of former Canal Zone Territories, and the lack of an on-going framework for planning urban development in Panama's burgeoning metropolitan area have complicated and exacerbated the country's growth problems. Land

invasions are occurring with increasing frequency. Reverted Canal Zone territories pose an opportunity for similar popular invasions to occur randomly there which could negatively impact on the Canal watershed. Due to the recent decision by the GOP to curtail public expenditures as a means to control the growing deficit, GOP infrastructure agencies need to better coordinate and guide their investment budgets within some type of economically based development framework. More than the lack of a physical plan per se what is most critically needed is the crystallization of a process through which decisions are made and the development of more rationale bases for making such decisions. A variety of institutions such as MIPPE, MIVI and the Vice Presidential commission on the reverted territories, as well as the autonomous infrastructure agencies need to work in consort with regard to the planning for Panama and the protection of the canal watershed.

A.2.4 Unbalanced Delivery of Shelter:

Unbalanced growth between the urban and rural areas in and of itself cannot be addressed through the HG program. What can be promoted is MIVI's ability to deliver shelter solutions, and to upgrade the quality of the housing stock outside of Panama City, particularly the home improvement loan program. Nevertheless, since rapid growth is a much more serious problem in the Metropolitan area than in the interior areas, it is there that new housing solutions need to be promoted most vigorously. In the provinces home improvement loans should receive greater emphasis through refining a delivery system that enables families to connect to local infrastructure, upgrade the materials used in existing structures and expand existing structures.

A.2.5 Employment:

With regard to unemployment and under employment, construction has traditionally been a labor intensive economic endeavor. To the extent that the housing finance and delivery system can benefit from improved financial policies and more prudent roles for the institutions engaged in the shelter sector and thereby augment its productive capacity, the radical highs and lows typical in the construction sector may be able to be smoothed out.

B. Program Description

B.1 Goal/Purpose

The goal of Phase II remains substantially as it was defined in the \$75 million Project Paper, i.e. to help the GOP improve living conditions for urban and rural low income families. The emphasis in the current program will be weighted heavily toward the urban poor since this is clearly where the needs are greatest. The rural poor will be serviced primarily through the home improvement loan sub-program.

The purpose of the program is to strengthen the institutional, policy, and financial framework of the shelter delivery system in Panama.

To achieve its purpose, the program will continue the efforts of the first \$25 million to strengthen the financial and management capabilities of BHN and MIVI. This will be achieved by (1) the use of the HG resources as leverage to secure basic structural changes and by the provision of technical assistance; (2) the financing of innovative shelter solutions affordable by low income families; (3) a requirement to have the participating institutions conduct a series of studies on the basis of which new policies/strategies will be enacted. These policies/strategies will focus on specific areas, such as increased participation of the private sector, improved urban planning and overall finance policy.

B.2 The Program and the Country Development Strategy Statement:

The FY 1985 CDSS identifies three major problem areas creating obstacles to Panama's future development which will receive the Mission's focus; employment, agriculture, and urban development. The high visibility accorded to urban development is due to "the impact of the urban/rural transformation underway, the volatility of migration adjacent to the Canal, and the importance of home ownership as an integrating and stabilizing influence." (p.20) The Mission's urban development strategy "concentrates resources on the production of shelter solutions, including new and upgraded units, based upon sound technical and financial practices, continued institutional development and coordination of proper urban planning. The strategy supports participation of private sector institutions to broaden their involvement in below-median income housing in the Panama Metropolitan area and in secondary cities" (p.36).

The overall CDSS approach views as a key AID program goal that of assisting the GOP to "rethink and reorient its development strategy to accelerate growth and job creation" primarily through encouragement and assistance to the private sector. The Mission perceives that its goals will be best achieved through the development of on-going policy dialogues with key individuals and groups whose views are compatible with AID's. In the shelter sector, such a policy dialogue has indeed existed for the past several years and has resulted in key decisions guiding the urban renewal and secondary cities programs, particularly those which have stressed increased responsiveness of the GOP housing programs to the realities of the income levels and social characteristics of those who most require shelter assistance.

The Mission views the 1984-85 period as one of expanding the dialogue already underway in shelter policy and urbanization in two new important areas: (a) (the development of) "a national housing policy that addresses all income groups; and (b) a workable planning process that integrates the reverted areas from the former Canal Zone while making the most

effective use of public investment" (p.50). With respect to the first area, though the actual housing solutions to be financed through the second tranche will be for families with incomes below the median, the institutional goals of the program (e.g. secondary mortgage market, increased participation of savings and loans, analysis of the financial structure of the sector, and the constraints that need to be removed to encourage greater flow of resources for shelter sector involvement) indeed will have ramifications for lower middle and middle class families as well, who are now experiencing increasing difficulties in acquiring suitable shelter.

With respect to the second area, the Mission has also highlighted the need to further the policy dialogue in urban planning. In large part the continued urban sprawl in Panama City has gone unchecked because of the lack of effective urban planning at the metropolitan scale. "What appears to be lacking is not a physical plan as such but the establishment of a process of coordination among public institutions which invest in and manage urban infrastructure and services. The focus of the dialogue will be on attempting to develop that process " (pp.50-51). Again, the second \$25 million tranche will be the mechanism used to strengthen this particularly critical area. The absolute necessity for dovetailing the reuse of the reverted lands with overall metropolitan development plans makes the need for improved urban planning even more critical in the next several years.

The proposed DG to be provided in conjunction with the second Phase will make available technical assistance in urban planning to MIVI and MIPPE. Furthermore, the development of the two new sub-programs, housing in the reverted lands and the establishment of reception areas, will require the strengthening of the GOP's urban planning process so as to create a context for the new shelter programs which will mitigate against the type of sprawl Panama City has experienced during the last decade.

Finally, the Mission's emphasis on increased private sector participation will be supported by the second Phase Program at two different levels, (1) an increased role by private developers and contractors in the construction process on MIVI sponsored housing; and (2) an expanded role by private financial institutions in channelling resources toward housing, particularly low income housing. With respect to the first level, the use of the turnkey concept, begun on a limited basis in the urban renewal sub-program, will be expanded by MIVI where appropriate in the second Phase. At the second level, the participation of private financial institutions in a secondary mortgage market is expected to create much greater interest on the part of the private sector in financing low income housing. In addition, the anticipated increase in the support which the WIN will make available to the S&L system is expected to mobilize additional resources to the shelter sector.

B.3 Sub-Programs:

This second Phase contemplates the development of four sub-programs, three of which are identifiable by their geographic area of development and the remaining one by its nationwide scope. Each of the sub-programs will be comprised of individual sub-projects and will be directed exclusively to low income families. Phase II will continue the GOP's efforts in urban renewal and in home improvement loans which were begun in Phase I. It will also address new development areas such as the former Canal Zone territories and the development of reception areas to avoid or mitigate the formation of unplanned squatter areas.

B.3.1 Sub-Program I - Urban Renewal - (\$15 million) Estimated Number of Shelter Solutions: 3,000:

This sub-program is directed toward the continuation of the urban renewal program funded with \$15 million of Phase I. Deteriorating wooden tenement structures built in Panama City during the construction of the Panama Canal will be razed and replaced with new structures designed to retain the positive aspects of the old neighborhoods and to provide affordable shelter for those families wishing to remain in the area. In certain cases, rehabilitation of existing structures will be undertaken.

B.3.2 Sub-Program II - Home Improvement Loans (\$11 million) Estimated Number of Shelter Solutions: 5,500:

This sub-program represents a continuation of the program begun in Phase I under which basic building materials are loaned to eligible applicants for home improvements including the installation of hookups to basic infrastructure. During the implementation of the first Phase response to the program far surpassed MIVI's original expectations. Phase II will focus on improving MIVI's capacity to administer this burgeoning program more effectively. The program will be made an integral part of the efforts to improve the living conditions (services, land tenure) of families living in the "barriadas brujas" (squatter areas). However, this sub-program, unlike the others, will continue to be nationwide in scope.

B.3.3 Sub-Program III - Reuse of Former Canal Territories (Reverted Areas (\$4.1 million) Estimated Number of Shelter Solutions: 450:

The vast areas (almost 1,500 km²) of land on both sides of the Panama Canal which reverted to Panama in the Canal Treaty of 1979 represent an absolutely enormous resource for the country. Each project will be planned, designed and executed within the guidelines of the planning effort being undertaken for the reverted areas. The subprogram will, therefore, not only provide shelter solutions for low-income families, but it will help to shape the planning process for the former Canal Zone territories.

B.3.4 Sub-Program IV - Reception Areas (\$3.4 million) Estimated Number of Shelter Solutions: 680:

The concept of this sub-program is to channel urban migration emanating from interior regions of the country into designated development areas. The problem of inadequate means to deal with continued rural-urban migration is most acute in the Panama-Colon metropolitan area but it exists to a certain extent in other secondary cities as well. These new settlement areas would focus growth into previously identified appropriate locations prepared to handle the new population through the provision of serviced sites and a range of shelter solutions. From a planning standpoint, such areas would forestall the development of new squatter settlements, direct growth in burgeoning urban areas into suitable locations, and lower the cost of providing basic services in the long run because of a judicious choice of sites both in terms of geographic proximity to existing infrastructure lines and topographic reasonableness.

B.4 Policy Dialogue:

1. Institutional Development: The Mission is convinced that efforts to strengthen the financial and management operations of BIN and MIVI are needed so that both institutions can better perform in the policy area. Consequently, Phase II will build on the experience gained with the first \$25 million and pursue a series of institutional objectives with BIN and MIVI as follows:

BIN:

a. The second \$25 million HG Program, as the first one, will be channelled by the GOP to BIN as capital contribution. This will help to strengthen the financial base of BIN so it can achieve improved financial ratios, mainly the debt-service ratio. As are most of the housing finance institutions in the Latin American region, BIN is being affected by the financial imbalance in the yield between the short-term nature of its liabilities and the long term nature of its assets.

b. Strengthen BIN's independence from MIVI by transferring to BIN the control of the lending and collection functions now with MIVI. This action, which will give BIN full control over its portfolio, should facilitate the secondary mortgage operations already started, albeit on small scale, by BIN.

c. Strengthen BIN's internal institutional structure so as to permit the institution to exert continually improved financial controls on funds channelled through it by developing internal procedures to properly account for assets, liabilities and resource flows and to develop improved financial planning capacity.

d. Strengthen BHN's capacity to assist the savings and loan system by providing policy guidance and direct technical assistance where necessary so it can complement the lending operations of BHN in the low income area.

e. Augment BHN's access to capital, particularly through the creation of a secondary mortgage market and through the development of an inter-institutional relationship with the Social Security System.

MIVI:

a. Strengthen MIVI's capacity to establish adequate cost control in the production of its projects. The cost control system should allow MIVI to reduce subsidies and to maximize the use of the resources made available by BIN.

b. Expand MIVI's capacity to deal with environmental considerations in the design and execution of its projects as well as in the formulation of guidelines for environmental protection.

c. Strengthen MIVI's capacity to expedite identification and selection of beneficiaries.

d. Maximize the use of the computer system so information produced can be of greater assistance to top management in the decision making process.

2. Private Sector Role - As a first step, the program will undertake an evaluation by BIN of the role now being performed by the savings and loan system. Along with such action, the program will pursue a comprehensive review of the present and potential resources available in the market for shelter finance and what mechanisms can be implemented to mobilize such resources to serve the needs of low and moderate income families. The feasibility of the expansion of the secondary mortgage market, having BIN as a key instrument of such market, will be an essential part of the evaluation. The role of the Social Security System as a strong partner in the secondary mortgage operations will be explored.

3. Policy and Planning - The efforts in the financial area to identify means to increase the flow of resources to the sector will be combined with the pursuit of actions on the part of MIVI and MIPPE to formulate policies and conceptual plans that reflect the social and economic conditions of the different cities and regions of the country. In this direction, the program proposes that MIVI and MIPPE complete a Shelter Sector Needs Assessment and an Urban Development Assessment. Both assessments

should, along with the financial studies, facilitate the development of a base for a comprehensive policy statement by MIVI identifying shelter needs at different income levels, priority areas in terms of type of shelter solutions required and the geographical areas which should receive first attention because of settlement patterns and economic considerations. The production of the overall policy framework will assist BHN/MIVI/MIPPE in the preparation of the annual investment plan.

4. Urban Planning - The program will promote a close collaboration between MIVI and MIPPE to establish a process for the planning of the former Canal Zone lands. Projects funded with HG resources in the reverted lands will need to conform to with the overall development plans for the reverted areas. The ultimate goal is the evolution of the reverted areas planning group into a full-fledged Metropolitan Area Planning Unit for Panama City.

B.5 Technical Assistance.

The technical assistance proposed for the second \$25 million HG program is an essential part of the institutional development and policy efforts of the Mission. Funding for the assistance will be provided from the existing URBE Program (HG-010) (\$125,000) a current IIPUP program (\$75,000) plus an additional \$250,000 in DG being requested herewith.

In order to continue effectively the technical assistance efforts recently begun, \$250,000 in new funds will be required for the 1984-85 period. The source of these funds will be grants from the Mission. Technical assistance will be provided in the following areas:

1. Urban Development (Estimated Total \$170,000)

The continued uncontrolled growth of the Panama City metropolitan area combined with the unprecedented opportunities for development represented by the lands reverted to Panama through the 1979 treaties have propelled to the forefront the absolute necessity for improvement in the GOP's urban planning capacity. Technical assistance will play an important role in assisting the GOP to realize progress in this field. Contemplated in this area is a series of short and mid-range consultancies and training activities specifically geared to improving the urban planning capacities of the key GOP implementing institutions, primarily MIVI and MIPPE.

Specifically, the following types of activities are being considered:

a. a Shelter Needs Assessment will establish, in a more concrete manner, the nature and extent of the housing problem at different income levels (2 person months). Cost: \$20,000.

b. an Urban Development Assessment which will help the GOP determine those urban areas in the settlement system which should receive priority attention, policies and programs which should be given emphasis, and those institutions and decision makers within the country which should be involved in policy and program initiatives (4 person months). Cost: \$40,000.

c. assistance in adding an economic dimension to urban planning efforts (4 person months). Cost: \$40,000.

d. the role of land policy in urban development (3 person months). Cost: \$30,000.

e. assistance in the formulation of development plans for the Panama Canal reverted areas. Assistance will be provided to MIVI and MIPPE as the key institutions participating in the Working Group formed under the aegis of the Vice-President. (4 person months) Cost \$40,000.

2. Housing Finance Policy

The assistance will consist in the analysis of the housing finance sector including the institutional structure, the availability of resources, the incentives and constraints such as the rent control law. A key element of the analysis will be the role BIN could play in a secondary mortgage market and how the Social Security System can contribute to its implementation (4 persons months). Cost: \$40,000.

3. National Housing Policy

The assistance will be directed to the formulation by MIVI of a comprehensive policy based on the results of the shelter and urban development assessments as well as the evaluation of the financial policies (2 person months). Cost: \$20,000.

4. Assistance to the Savings and Loan System

The Panamanian savings and loan system has fallen considerably short of realizing its potential in generating resources for investment in housing, particularly for low and middle income groups. Both general regulatory constraints and the inability of the BIN to provide the S and L's with required assistance and guidance are primarily responsible for the relatively slow growth of the S and L system. Technical assistance will be made available to the BIN and to the five associations so as to improve their performance. Three person months are estimated for this effort. Cost: \$30,000.

5. Cost Control

MIVI's experience in the development of the first phase of the urban renewal program has highlighted a need for improved cost controls, particularly for projects which involve complex, multi-storied structures. Short-term assistance (3 person months) will be made available to MIVI to improve this aspect of MIVI's housing development process. Cost: \$30,000.

6. Information Systems

Recently completed studies and evaluations of the implementation of programs financed through Housing Guaranty program have highlighted the critical need for the development of an information system within MIVI to better help key decision makers manage projects and to augment the data processing capacity of the Ministry. Discussions are underway with the Ministry to define the most appropriate means for introducing an information system into its on-going operations. Mid-range (4 person months) assistance will be required for the development of the system with periodic follow-up over a one year period after the completion of the initial effort. Cost: \$40,000.

7. Internal Control Procedures

Although the BIN has improved considerably its internal control procedures during the past several years, there still remains a great need for continued progress in this area. To assist BIN in this endeavor, technical assistance will be provided to improve such functions as information flow, internal auditing, control of disbursements and cost control, budgeting control on project financing, financial control on the portfolio generated during and after construction, billings to MIVI, and monitoring contingent liabilities and establishing adequate reserves. Four person months are estimated for this effort. Cost: \$40,000.

8. Environmental Control

The GOP has begun to realize that the lack of effective environmental controls have seriously damaged a great deal of the country's natural resources and has included environmental considerations as a part of the recently adopted Panamanian Constitution. All of the GOP agencies whose activities include physical construction must improve their abilities in environmental planning. MIVI should be a leader in developing its environmental capacity, particularly since it will be playing a major role in the planning for the reuse of the ecologically sensitive former Canal areas. To assist MIVI in this endeavor, four person months of specialized technical assistance are planned to help in the development of a comprehensive set of environmental guidelines. Cost: \$40,000.

9. Professional Development

The newly-formed Department of Training in MIVI has proposed a comprehensive program for the professional development of its staff and that of BHN. The program includes seminars, special courses, working visits abroad, special investigations, long-term study in urban planning, administration, social aspects of housing project design, accounting and budgeting, evaluation, and community development. AID and MIVI have agreed on the outlines of the program and MIVI has begun to draft scopes of work for some of the proposed activities. Cost: \$40,000.

B.6 Program Beneficiaries

Some 9,500 families whose incomes are below the median income level are the expected direct program beneficiaries. Given an average family size of 4.7 persons, over 44,600 low income Panamanians will be the recipients of new or improved shelter solutions as a result of this program. Income levels in Panama as in most Latin American countries vary significantly between the urban areas and the rural areas. This phenomenon is, however, even more pronounced in Panama because the modern financial sector of the capital operates on a wage scale which is significantly influenced by the international market which it services while in the secondary cities and the rural areas the orientation of economic activity is completely different, much more geared to the local production and consumption of goods and services, and wage scales are correspondingly lower. For this reason, AID and MIVI have agreed to use different income distribution scales for the Panama City metropolitan area, for other urban areas, and for the rural areas.

TABLE 1

Income Distribution in Panama

<u>Income Distribution by Percentile</u>	(1983) Monthly Family Income (US\$)		
	<u>Panama City</u>	<u>Other Urban Areas</u>	<u>Rural Areas.</u>
5	77	43	20
15	218	124	56
25	289	164	77
35	360	204	93
45	419	237	113
Median	457	259	123

This income distribution is the same as that used in the Project Paper for the first tranche. The rationale for using the same income distribution table derives from the recognized fact that even if adjustments for inflation are made incomes in real terms have not increased substantially since 1980.

With respect to the ability of families to pay for housing, AID and MIVI have agreed in Phase I to use a sliding scale which goes from a low of 10% of income to a 25% of income. The higher the income, the more able a family is to spend a greater proportion of its income on housing. At the lower deciles, the theoretical rule of thumb of 25% of family income for housing is too high, as it would literally force such a low income family to forego other basic necessities such as food and clothing. In designing Phase II, the majority of the families will be expected to pay between 20 and 25% of income. The following table presents the capacity of the eligible families to pay for housing solutions and the maximum mortgage amount of solutions affordable to the target group.

This table indicates that in Panama City all of the proposed housing solutions in Panama City will be affordable to families earning below the 25th percentile level of income while the least costly solutions, i.e., the small urban renewal units, will be affordable to families as low as the 5th percentile.

TABLE 2

Affordability Table

<u>Area</u>	<u>Income Percentile</u>	<u>Monthly Income</u>	<u>Monthly House Payment</u>	<u>Maximum Mortgage¹</u>	<u>Affordable Solution Price²</u>	<u>Type of Solution</u>
<u>Fairham</u>	5th	\$ 77	\$ 12	\$ 836	\$ 836	Home Improvement Loan for Materials
	15th	218	43	3852	4279	Complete Serviced Lot plus Home Improvement Loan, Small Urban Renewal Unit
	25th	289	64	5733	6370	Complete Serviced Lot: All Urban Renewal Solutions; Roof-Floor House
	35th	360	83	7434	8261	Complete Serviced Lot: All Urban Renewal Solutions; Roof-Floor House; Basic Unit
	45th	419	96	8599	9554	All Proposed Solutions
	50th	457	114	9840	10933	All Proposed Solutions
<u>Other Urban</u>	5th	43	4	278	278	None
	15th	124	19	1702	1891	Home Improvement Loan, Serviced Lot with Water
	25th	164	31	2777	3085	Home Improvement Loan; Complete Serviced Lot; Roof-Floor House
	35th	204	43	3851	4280	Home Improv. Loan; Complete Serviced Lot; Roof-Floor House; Basic Unit
	45th	237	52	4657	5175	Home Improvement Loan, Complete Serviced Lot; Roof-Floor House; Basic Unit
	50th	259	65	5822	6469	Home Improvement Loan, All New Solutions
<u>Rural Areas</u>	5th	20	2	139	139	None
	15th	56	7	488	488	Small Home Improvement Loan
	25th	77	11	942	1047	Small Home Improvement Loan, Serviced Lot with Water
	35th	93	15	1285	1427	Small Home Improvement Loan, Serviced Lot with Water
	45th	113	19	1628	1809	Home Improvement Loan, Serviced Lot with Water
	50th	123	22	1885	2095	Home Improvement Loan, serviced Lot with Water

1. Estimated terms of Beneficiaries - 12% annual interest rate for 25 years in urban areas, 20 years in rural areas, 10 years for Home Improvement Loans.

2. See Technical Section for Estimated Cost of Units

III. Technical Considerations:

A. Rationale for sub-programs:

The decision to proceed with the four different sub-programs planned for Phase II is based on the following rationale:

1. Urban Renewal: The tenements built 80 years ago, now house more than 30,000 people in Panama City alone. These tenements represent a serious hazard from the point of view of safety and health. Past efforts to relocate the families in the areas of San Miguelito have resulted in serious social and economic problems. More importantly, without such a program, the GOP would be forced to build new housing in other areas requiring substantial physical and social infrastructure when by building shelter for the families in the inner city areas the GOP can use the available infrastructure and services without major additional cost.

2. Home Improvement: The home improvement loan program is designed to complement the efforts in providing water/sewage infrastructure in areas such as San Miguelito and other squatter areas. This program will also serve families in secondary cities and rural areas where the need for improvement of the shelter stock has been determined to be a priority need over the construction of new shelter.

3. Reverted Areas: The transfer of designated Canal Zone lands, with the exception of the defense areas, has been completed. The construction of some shelter projects in the reverted areas, combined with technical assistance for the overall planning of the reverted areas, will assist in shaping the functional role housing will play in the former Canal Zone.

4. Reception Areas: The effects of unplanned growth are being felt by the GOP with the steady movement of squatter families into the areas of Arraijan-Chorrera (across the Bridge of the Americas, off the Interamerican highway) and the Tocumen Airport area. The GOP recognizes that such inflow of families will continue, and wants to study the alternative of creating planned communities where families can be located and gradually improve their habitat.

B. Urban Planning and Development Process:

There are several gaps in the urban planning and development process. First is the lack of basic plans - a national urban development plan, a national housing plan and a cohesive set of plans and policies for Panama City. The absence of such basic elements makes it difficult to plan sensibly over a short-medium range. However, MIVI has shown the capacity to take the leadership in filling this gap, as demonstrated in the planning effort in the urban renewal areas. This capacity is reflected in the "Documento de Factibilidad y Ejecución Sub-Programa: Renovación Urbana de la Ciudad de Panamá", an extremely credible review and rationale for the Urban-Renewal program.

This document first traces prior efforts in urban renewal and establishes the settlement patterns in the area. Secondly, the physical characteristics of the neighborhoods and the social and economic characteristics of the residents are presented. An analysis is then made of the ability to pay. Finally sub-projects and an investment and financial plans are developed. This effort embodies the steps for which technical assistance will be provided for a nationwide effort leading to the formulation a national housing and urban development plan.

The second gap, identified as part of the technical evaluation of the program, is the absence of a formal structure which will establish responsibilities, authority and coordination between the institutions engaged in planning. A positive action to fill such gap has been the creation of the working group under the aegis of the Vice President office to deal with the planning of the reverted areas. This work in which MIVI is playing an important role will be supported by technical assistance under Phase II.

The third gap is a failure of those engaged in planning to recognize the importance of economic imperatives in the work. More attention to economic possibilities and limitations would result in more finely tuned and reasonable plans. This economic imperative is becoming more evident to the GOP, and the steps taken to control budget expenditures and target investments in accordance with regional country needs indicates that a basis exist for the program's efforts to encourage planning in an economic context to be successful.

C. Appropriate Technology and Design:

The program essentially builds in the experience gained with the first HG \$25 million. The concept of progressive construction successfully used in the Torrijos-Carter and Roberto Duran projects in San Miguelito will be implemented as part of the new shelter projects. This gradual approach starting with site and services and evolving through the "roof and floor unit" to the basic house recognizes the demonstrated capability of the beneficiary groups to complete, improve and expand their shelter solutions. In the case of the urban renewal sub-program, the design and specifications for the first 1,386 + units recently completed have been improved both to reduce cost and to allow the families more flexibility in using their own abilities to further improve their basic unit. The home improvement sub-program identifies as its first priority loans for water/sewage connection and the installation of sanitary facilities.

In terms of the reception area sub-program, careful evaluation will be made of several factors before proceeding with implementation. These factors will include geographical location (the shelter need and urban development assessment will contribute to determine location), employment potential (economic growth of the area), and environmental implications.

D. Cost of Solutions:

The average cost of the solutions under the different sub-programs have been estimated as follows:

(1) Urban Renewal	\$5,500
(2) Home Improvement	2,000
(3) Reverted Areas	9,000
(4) Reception Areas	5,000

The above average cost reflects alternatives within the basic typology of progressive solutions. For instance, in the urban renewal program two sizes of apartments are being considered (14.85m² and 22.27m²). Sites and services could include all the services or only water. The new shelter solution could include the basic core unit or the floor and roof solution. The cost includes interim financing, overhead and other indirect costs. MIVI had not included such indirect costs in the past, but has been doing so since 1980. The square meter cost for each type of solution has been established on the higher side to account for an anticipated 15% increase due to inflation in the next two years.

E. Material and Labor:

Materials required to supply the construction activities are available in sufficient amounts to realize the scale of construction contemplated. The national cement industry produces approximately 50,000 bags per month which is deemed sufficient to meet the demand for cement that may exist including requirements for this program.

The presence of high unskilled employment in Panama does not need extensive comment. New entrants to the labor force and younger workers, in particular, have the highest unemployment rate. Programs to reduce unemployment cannot succeed until they have created substantial number of jobs for the new entrant group, and since by definition this group does not have job experience, it must be absorbed into unskilled and semi-skilled work such as construction which does not require a great deal of experience.

As was indicated in the PP for the \$75 million HG Program, it is not possible to predict the full impact of the program in employment generation. However, based on the estimated total cost of the program, an estimate of 2,000 direct jobs and 3,500 indirect employment over a five year period has been derived. The creation of employment with the implementation of the program is a positive factor. More important, however, are the efforts to establish medium and long range housing plans based on the identified needs of the sector. These plans will serve to establish consistent investment plans each year to help channel a steady flow of resources toward the construction sector of the country which will assist in reducing the peaks and valleys which have been characterized industry during the past several decades.

F. Environmental Considerations:

MIVI has incorporated into the project design an analysis of key elements identified as in need for attention as in the original PP to protect the environment. MIVI is now implementing specific measures to control soil erosion and avoid water pollution. The type of measures range from planting of grass to construction of collectors to reduce water run-off and to the continued maintenance (arranged with the water sewage authority) of septic tanks in large projects such as Torrijos-Carter and Roberto Duran. MIVI has made efforts to keep grading to a minimum. MIVI, in setting the rationale for the urban renewal program, has recognized the negative impact on families being displaced from their communities. Unlike slum clearance programs where the residents are displaced to new ghettos or to suburban areas, MIVI has developed a resettlement program which is succeeding in keeping the families in the environment where they have lived for a number of years. Despite obvious progress in incorporating environmental considerations into project design, MIVI, however, still needs to expand its technical staff capabilities to deal more effectively with environmental concerns and to produce overall guidelines for environmental protection. In the reverted areas, the protection of the watershed is a key concern, and MIVI will, in developing its projects, be obliged to adhere to environmental restrictions established to protect the watershed.

G. Conclusions:

The technical review has determined the need for a series of conditions that will be part of the Implementation Agreement for Phase II.

Conditions:

Prior to the GOP seeking proposals from US investors, MIVI, MIPPE will:

1. Prepare the terms of reference and contract the necessary technical assistance for a shelter sector assessment needs and an urban development assessment.
2. Terms of reference for technical assistance in support of the Working Group for the Planning of the Reverted Areas must have been developed and the consultant(s) must have been contracted.
3. Hire as part of the MIVI staff at least one ecologist who will be part of the Urban Development Division of MIVI and who will work on the refinement of environmental guidelines for the use of MIVI and the issuance of general guidelines for environmental protection measures in shelter projects.

IV. Social Soundness Analysis:

A. Identification of the Target Population and its Needs:

A.1 The Pattern of Urbanization in Panama:

Panama is characterized by primacy of its capital city, Panama City. Almost half (49%) of the country's estimated 1980 population of 1.8 million lives in the Panama-Colon metropolitan corridor. Other urban areas, principally David in the west and Santiago, and Las Tablas in the center account for another 8%. The rural areas contain 43% of the population. While the country as a whole experienced a growth rate of 2.5% per annum during the 1970-80 decade, the rate in Panama City was 3.7%. Though the growth rate of the capital is expected to taper off slightly during the next two decades, by 2000 the metropolitan area is projected to contain over 60% of the country's population. Rural to urban migration is expected to continue unabated as perceived opportunities in the rural area keep diminishing.

Often times, however, the dream of a better life in the capital does not materialize. Many migrants arrive in the metropolitan area with few of the skills needed to be competitive in the modern economy of the capital and with few financial resources to tide them over the first period of relocation. The result is typical of many developing countries - large squatter areas grow with scant attention given to desirable residential densities or an appropriate mix of housing, physical, and social infrastructure. The San Miguelito area just to the east of the capital is by far the largest of these peripheral areas. In the 1970's it was growing at a rate of 9.5% per year with almost two thirds of the growth coming from immigration. With a population approaching 200,000 it is Panama's second largest city, though in fact it is an extension of the capital city itself. Other squatter areas on Panama City's periphery have more recently begun to experience rapid growth, particularly Arraijan, immediately adjacent to the former Canal Zone to the west of the capital and Tocumen, near the international airport, to the city's east.

Squatter areas likewise exist within the confines of the city proper, some of them dating back many years. Because they are tightly circumscribed by highly utilized land, their physical expansion has been kept more in check than is possible in the more outlying areas and they do not generally serve as a first stopping off location for rural migrants. Their social structure is fairly well established.

The tenement slums of Panama City remain a major urban problem. It is estimated that despite the 2821 units now completed or under construction under MIVI's urban renewal program, over 3,500 families will still live in the tenement housing areas after the completion of the first phase. Constructed beginning about 80 years ago for the canal construction workers

almost all of the tenement buildings are condemned structures where balconies commonly fall and floors break through. During the past year several major fires have also destroyed a number of these buildings. Exacerbating the poor physical condition of the tenements is the extremely high level of occupation of these structures. In one of the major tenement areas, Santa Cruz, almost 80% of the families live in one room while almost one fourth of the families have at least six members. The reason why families put up with these conditions are primarily the very low rents they pay and the proximity of work opportunities, social and commercial services, and educational opportunities.

Problems in Panama's secondary cities are not nearly as severe as are those in the capital area. Despite the GOP's attempts to entice people to remain in the interior sections of the country, the growth rate of the secondary cities is substantially smaller than that of Panama City and the need for new housing proportionally less. Approximately 60% of the need for new urban housing through 2000 is estimated to be in the capital area.

Panama has made significant inroads during the past twenty years in bringing basic services to its population although substantial numbers of units, particularly in the rural areas, remain without essentials. In 1960, for example, 43.7% of the housing stock was without access to potable water. In 1970 this figure declined to 35.7% and in 1980 to 19.2%. Of the approximately 70,000 units still without potable water, 66,000 are in the rural areas. Similar improvements have taken place in the provision of sanitary services: 11.9% of units lacked such service in 1980 compared to 28.3% in 1970 and 38.4% in 1960. High deficiencies are still found, nonetheless, in the provision of electricity. Over one third of the country's dwelling units, the great majority in the rural areas, must use gas, kerosene or candles to light their homes.

A.2 Employment Characteristics of Target Population:

Though the popular conception of the employment characteristics of the low income economically active population would have it working primarily in the informal sector, because the urban economy in Panama is relatively sophisticated compared to many other developing countries, the opposite phenomenon holds more true in Panama, i.e. the majority of low income urban wage earners work for the most part at low paying formal sector jobs. A 1980 MIVI study of the typical low income squatter community of Nuevo Veranillo in the San Miguelito area showed that 55% of the heads of households held permanent salaried positions while 45% held irregular employment or were unemployed. This profile is not substantially different from that of the country as a whole where the unemployed and underemployed represent almost half of the workforce. In the urban renewal areas of Panama, the percentage of permanent salaried workers is estimated to be even higher due to the greater employment opportunities in the central city areas. MIVI's 1982 survey of the urban renewal areas showed that a full 30% of the heads of household worked directly in small commercial and artesanal activities in the immediate area.

Though the proportion of heads of household with steady permanent work in the low income communities of Panama is similar to that in the country as a whole, these groups are less likely to be immune from fluctuations in the overall level of economic activity. During the past two years, unemployment in Panama has risen from about 13% to over 20% and is slightly higher in the Panama-Colon metropolitan area. Since the rise in unemployment traditionally falls disproportionately on the poor, it is expected therefore families living in the tenement and squatter areas in Panama and the secondary cities have seen their economic situation deteriorate relative to the country as a whole during this period.

B. Effective Demand:

Overall demand figures are corroborated by the response to recently completed projects by MIVI, where demand has in most instances significantly surpassed the available supply of solutions. In all five of MIVI's major on-going programs, urban renewal, core housing in San Miguelito, basic units in secondary cities, the serviced sites component of HG-010, and the home improvement loan program, actual elicited demand figures lead inevitably to a conclusion that generating more than enough demand for the units to be developed under Phase II should not present any present problems.

In the urban renewal program, a 1980 census undertaken by MIVI revealed a need for over 6,000 units just to service low income families already living in overcrowded or dilapidated tenement housing in the central Panama City area. Were MIVI to open up the eligibility requirements for the new units to families living the city in other than tenement buildings, the demand would of course be substantially higher. The first \$25 million is expected to finance a total of 2,821 units, less than half of the number required for the current residents alone.

A measure of demand for basic units can be gleaned from the HG-009 project just completed in the San Miguelito area. For a total of 1,400 units, over 2,000 applications were received. Core housing units proved to be more sought after than the piso-techo units or the serviced lots, but a recent evaluation attributed this to the kinds of promotion used and the proximity of the area to other core house projects which strongly influenced people's perceptions. With respect to serviced lots, a recently completed project in David as part of the HG-010 project provides some insight into the popularity of this concept. For this project, which consists of 603 lots, over 2,100 applications were received.

Finally, with respect to the home improvement loan program, MIVI has witnessed substantial growth during the past year such that demand of loans far outstrips the agency's capacity to process and fund them. As MIVI's Regional Offices become better able to process and evaluate loans, and with

increased computerized control over the far flung program to be achieved in part with AID financed technical assistance, difficulties in programming the \$11 million allocated in the second \$25 million tranche are not anticipated.

C. The Participation of Women:

The proportion of female headed household in Panama is 21% nationwide. However, there is evidence that among low income groups, the proportion of female headed households is substantially higher. For example, a study of the Nuevo Tivoli tenement area by MIVI in 1981 revealed that 39.4% of the families were female headed. Similarly, a 1981 study of the Nuevo Veranillo low income area of San Miguelito indicated that 38% of the families were female headed.

Within community organizations there is a high degree of female participation and oftentimes it is the women more than the men who hold the community fabric together. MIVI's Social Affairs Department has increasingly begun to recognize the importance of women as beneficiaries and has taken measures to assure that women's preferences are taken into account during the design process.

D. Improvement of the quality of Life:

The program will improve the living standards for the beneficiary population. The degree to which living standards are improved depends upon the type of solution received and the previous living conditions. For example, families currently living in tenement houses destined to receive units in the urban renewal sub-program will experience a dramatic improvement in their physical surroundings. In a typical situation, entire families share one or two rooms, and with other families share sanitary facilities and access to water and washing areas. More serious, inadequate wiring and deteriorated walls, floors, etc. are constantly exposing the families to the physical dangers of fire or collapse. Since cooking is also done in the living areas, the potential for accidental fire is very high. The new urban renewal solutions are expected to create a much more healthful environment for these families and significantly reduce the levels of accidents, parasites, digestive disabilities, and respiratory problems. A separate kitchen will be a distinct advantage since families can keep their homes cleaner and run less risk of fires.

For families migrating from the interior, the reception areas sub-program will provide them an opportunity to develop a home of their own on a partially or fully serviced lot. Here likewise the improved sanitation facilities will have a positive effect on the health and well-being of the beneficiaries. Sites for this program will be chosen so as to provide access for public transportation to employment centers, shopping areas and community facilities.

E. Conclusions:

Because incomes have not experienced increases in real terms since 1980, sub-programs will be designed on the basis of income distribution table prepared for the \$75 million HG PP (See Program Description).

In terms of investment of resources for Phase II, 50% of the program resources will finance shelter solutions for families with incomes between the 5th and the 25th percentile; 30% to finance solutions for families between the 25th and 35th percentile and 20% to finance solutions from the 35th percentile to below the 50th percentile.

V. Financial Analysis:

A. Mobilization of Resources:

Panama benefits from the presence of a large number of finance institutions which operate in the international market. The dramatic fluctuations in the international market of recent years have affected the flow of domestic resources for local investment including shelter. Consequently, in order to mobilize resources for shelter institutions, such as the BIN, the savings and loans and mortgage banks need to take into account the conditions of outside markets and, in general, are required to operate in a highly competitive environment.

The GOB has intervened to direct some of the local resources to shelter by enacting a decree in 1975 which forces the banks to invest 22% of their local deposits in social housing. The problem is that the definition of social housing was left out of the Decree and the Banking Commission, which is responsible for issuing the regulations implementing the Decree, has been reluctant to define social housing. The Commission is concerned that this could affect the relatively free environment under which the banks operate, damaging the reputation of Panama as an international finance center. The commercial banks, however, have complied with the letter of the 1975 Decree by investing heavily in high cost condominium apartments and by buying papers from the Caja de Ahorros which enjoys a good reputation within the investment community.

The savings and loan system started with AID support in 1963, has assets as of 4/1/83 of \$56.3 million and savings for \$37.8 million. These figures imply a very slow growth rate, given twenty years of operations and a financial environment in which other institutions have grown considerably. An explanation for the slow growth of the savings and loan system is that the system suffers from an acute regularity disadvantage which limits its ability to compete with the commercial and mortgage banks. The average cost of shelter solutions financed by the system has been around \$20,000.

The Caja de Ahorros (an autonomous agency of the GOP) has as of 6/30/82, savings in the amount of \$194.9 million and assets of \$216.7 million of which \$139.2 million represented mortgage loans. Like the commercial and mortgage banks, Caja has invested its resources in high cost units with an average selling price over \$60,000.

B. Resources for Lower Cost Shelter:

The GOP has intervened to fill the gap at the lower cost shelter income levels by directing the so-called 1/3 of the 13th month payment which is paid by employees to the Social Security System to support BIN in the financing of projects developed by MIVI. The Social Security System has also intervened in the primary lending market for a number of years. However, the houses financed by the Social Security have an average sales price of \$40,000, well above the paying capacity at the lower income levels.

The problem of mobilizing additional resources to shelter lower income families is a complex one. However, in essence this mobilization cannot be achieved by forcing a redirection of present investment from private sector institutions, but rather by creating a mechanism that will make it attractive for a local investor to channel resources toward supporting of lending activities on behalf of lower income families. As an antecedent to creating such a mechanism, the GOP will need to undertake the following steps:

1. Continue and complete its efforts to consolidate the financial position of BIN so it can operate in the highly competitive financial market prevailing in Panama. Phase II will continue to assist the GOP in achieving this objective.

2. Define the role of the Social Security System in the housing finance market. This definition seems to be taking place with the recent decision made by the Social Security System to stop its activities as a primary housing lender. Its future role also seems to be moulded by the decision of the Social Security System to buy mortgage bonds from BIN in the amount of \$15 million at an 11% interest rate. The System used to lend at 9% interest rate for 25 years.

3. The role of the savings and loan system, which has lent resources for houses at the \$20,000 level, should be examined and actions should be taken to eliminate the constraints now present on their lending and savings mobilization operations.

4. Interest rates for mortgage/loans in the operations of BIN should continue to reflect the cost of resources to the institution and the conditions of the market.

5. There is a need for BHN and MIVI to better understand the manner in which resources flow for shelter, the conditions under which such resources are generated, and mechanisms to increase the availability of such resources.

The above actions are directed to shape the manner in which the public sector could participate in securing resources from sources other than forced savings and taxes. They will also contribute toward mobilizing an increased amount of financing for lower income families. Finally, they will help to shape the mechanism for an active secondary mortgage market in which the Social Security could play an important role.

C. Interest Rates:

A key element in mobilizing additional resources for the sector, other than forced savings like the payment of the 1/3 of the 13th month to the Social Security System for investment with BHN, is the type of yield savers and purchasers of bonds or mortgage participation notes expect to receive.

The behavior of the capital market in Panama, which reflected the prevailing circumstances in the international market in recent years in which high interest rates were the main feature for the attraction of resources and for lending operations created an extremely difficult situation for BHN. There were and are limits on how high BHN can increase its interest rates for projects developed by MIVI. However, BHN was able under the first \$25 million HG program to increase its interest payment to a level (10% to 12%) which reflected a weighted average of resources for housing being provided by the Caja de Ahorros, Social Security and the private banks. BHN also is putting into effect in the urban renewal program, a variable payment formula which will result in a yield of 10% to 12%.

The interest rate policy of BHN under the present financial conditions offers the basis for BHN to attract additional resources, unlike the period 1979 through 1982 in which Certificate of Deposits rates were averaging well over the double digit level. Presently GOP bonds are yielding approximately 6-7 percent and CD rates are 8 - 8.50 percent. Taking into account the average yield on the present BHN's portfolio of 9.48 percent and the expected increase of such yield due to the increase in interest rates from as low as 7 percent to 10% to 12%, BHN will have a comfortable margin of net positive cash flow on the marketing of securities at today's rate.

AID's efforts under the first \$25 million HG program to have BHN maintain an interest rate policy that reflects the internal cost of resources to facilitate the mobilization of additional ones will continue with the Phase II.

D. Payment of the 13th month:

There is a movement promoted by union groups and political parties to have the employers to pay the full amount of the 13th month (12 months of work and 13 months of salary) to the workers instead of paying 1/3 of it to the Social Security System. The Social Security System lent the amounts paid by the employers to BIN at a 5% interest rate with a 10 year grace period for the repayment of principal. At the end of the 10 years, BIN must repay the Social Security the principal received. For instance, the contributions received in 1972 were paid in 1982 and the 1973 contributions will be paid in 1983. The GOP is considering different alternatives to respond to the demand from the workers. No matter the alternative chosen, the GOP has indicated its continued support for BIN and the production of housing by MIVI.

The elimination of new contributions from the workers to BIN could have a desirable effect on BIN in terms of reducing its dependency on GOP's resources. The strengthening of BIN's financial position and the implementation of a mechanism that will allow BIN to tap additional resources available in the market which are key objectives of Phase II are now more important than before in view of the potential reduction of forced savings contribution represented by the 13th month payment.

E. BIN:

1. Financial Overview:

Since 1978, BIN has been able to improve its debt to equity ratio from 25.36 to 8.94. This is the result of GOP's efforts to capitalize the operations of BIN including the capitalization of the resources provided under the HG-010 and 011 (\$22 million). Times interest earned ratio (relation between the interest earned and the interest paid) increased from .32 to 1.25 as the result of the increase to 12% of a portion of the mortgage portfolio. The operating expense ratio shows a reduction of expenses in relation to average assets from .02 to .01 as a result of a 10% reduction in actual expenses. The return on assets have grown from a negative 4% to a positive 7%. Liabilities have increased only by 8% and do not reflect new external borrowing, but rather additional contributions from the Social Security System.

The exhibits and cash flow projections included in this PP indicate (a) BIN could maintain a positive cash flow position for the next seven years; (b) BIN debt service ratio (inflow from recuperation of portfolio compared with outflow for liabilities repayment) gradually will improve from .39 in 1983 to .70 in 1987 and 1.01 in 1990. It is estimated that the equilibrium point could be reached around 1989.

2. BHN and Subsidies:

The analysis of the debt service ratio shows that for at least the next five/six years BHN will need, in addition to the reflows from its portfolio, to use part of the new resources from the 13th month and other sources (government's contribution, reflow of resources from the old portfolio) to cover its obligations. This is the result of past actions in which BHN was providing resources to MIVI for investment in projects in which the full cost of such projects were not charged to the beneficiaries. Among such costs were expenses MIVI incurred in building schools, day care centers, septic tanks and other facilities. The reason was the lack of an integrated approach to the production of shelter projects in which additional services and facilities were planned and their cost budgeted by other agencies of the GOP. BHN, until 1980, was also providing operational budget support to MIVI and MIVI did not charge for administrative overhead as part of its project cost. The non-income generating portfolio resulted from the above actions accumulated since 1973 is in the vicinity of \$42 million. As of 1/1/83, the non-income generating portfolio of BHN represents 23% of its total assets or 33% of the total portfolio.

The GOP is fully aware of the problems being confronted by BHN and has provided fresh resources to BHN to increase its portfolio (the HG program is helping in the process). In brief, the BHN needs to maintain a high level of investment to improve its financial position in terms of reflows and outflows. In terms of the elimination or reduction of the 13th month (contributions from the 13th month represent 20% of the total resources available to BHN) contribution, the Social Security System and BHN have set the basis for which could be the alternative source of resources for BHN. This modus operandi envisions the purchasing of bonds (\$15 million) with a 15 year maturity by the Social Security System from BHN at 11% rate. Because BHN enjoys a considerable spread between its liability cost (5.48%) and its portfolio (9.50%) the 11% has only the effect of slightly increase BHN's financial cost. However, it provides long-term resources needed by BHN to increase its income generating portfolio which will assist BHN in the gradual improvement of its debt service ratio.

3. BHN and the Loan Portfolio:

As part of the first HG program, BHN and MIVI have reached an agreement for the disbursement of resources from BHN to MIVI. These disbursements are now based on an investment plan agreed upon in advance and relate to approved budgets for each specific project. However, BHN still needs greater control on the collection aspect which are now handled by the Departamento de Bienes Raices of MIVI. In fact, BHN is providing MIVI with the operational budget for the Bienes Raices Department of MIVI. A logical step will be for the collection functions to be controlled by BHN with the personnel now working in MIVI transferred to BHN. This will allow BHN to audit collections and to take whatever steps are needed to improve payments without depending on MIVI.

F. Conclusions:

The financial evaluation of Phase II has provided the basis for a number of actions that BIN and MIVI will need take as part of the program. These actions will be reflected as Condition Precedent for seeking a US Investor, for specific disbursements and covenants.

Prior to seeking a US investor, BIN, MIVI, MIPPE must have:

1. Contracted medium-term technical assistance for the evaluation of the housing finance sector and the determination of a mechanism to mobilize additional resources for low-income shelter including the role BIN and the Social Security System will play in such mechanism.

2. Contracted the technical assistance needed to evaluate the role of the savings and loan system and how the system could expand its financial base to better serve lower income families.

3. Developed an investment plan in support of BIN for the period 1984 - 1988. This investment plan should take into account the potential reduction or cancellation of the contribution now being received by BIN from the 13th month payment.

4. Completed the transfer of the functions of the Departamento de Bienes Raices of MIVI to BIN.

As a condition for a disbursement over \$10 million of the second HG Program, BIN, MIVI, MIPPE should have:

1. Initiated the operations of a mechanism to mobilize additional resources to BIN. The evidence of such initiation will be the purchasing by the Social Security or other private/public institution of BIN's papers (mortgages, bonds) in an amount of not less than \$15 million.

2. GDP should have enacted the necessary legislation/regulations eliminating the identified constraints limiting the ability of the savings and loan system to expand its resources base and its overall lending activities.

As a covenant for the program, BIN, MIVI, MIPPE will agree to continue the present arrangement in which investment programs are jointly developed by BIN and MIVI under the coordination and supervision of MIPPE.

VI. Economic Analysis:

A. The Overall Economy:

The pattern of Panama's economic development has traditionally been dictated by its strategic geographical location and the presence of the canal. Most of the country's growth during the past twenty years has been in the modern commercial, transportation, and finance sectors centered around Panama City, the canal, and the Colón Free Trade Zone, while the rest of the country, with some exceptions, is still to a significant degree characterized by tradition bound low productivity agricultural production. In effect, the relatively rapid growth of the modern sector has spawned a dual economy, one based on services linked to international trade and finance where wages are disproportionately high and the other on traditional agriculture, local commerce and manufacturing where wages are disproportionately low.

The vicissitudes of international trade and finance have accounted for an erratic growth pattern during the past decade. In the 1960's, the economy grew at an average annual rate of 7%. The country entered a recession in 1974 that lasted through 1977, with economic growth averaging 1.8% annually. Subsequently, growth recovered to about 7% in 1979 and since then has fallen steadily to about 2% in 1982. Continued stagnation in 1983 will likely result in a near zero growth rate for the current year. The worldwide recession has been severely felt in neighboring Latin American countries, decreasing demand for Panamanian export items as well as for its international trade services. Prices for Panama's agricultural products have also stabilized at relatively low levels.

The construction sector has, however, remained a bright spot in an otherwise lacklustre scene. Following a contraction of some 75% in the period 1973-77, the five year period 1978-82 has witnessed a five-fold increase in the value of building construction permits. There is evidence, however, of a slowdown in the luxury apartment and office space market which sustained a good portion of the recent boom. The completion of some other major projects such as the oil pipeline in western Panama is expected to further reduce employment in this sector in the immediate future.

The foreign trade current account deficit (goods, services, and transfers) widened slightly in 1982 from minus \$418.2 million in 1981 to minus \$453.8 million in 1982 according to preliminary estimates. Imports increased only slightly, but goods exports declined by 3.2%. Increased exports of shrimp, clothing, meat and leather products were more than offset by declines in the export of sugar, bananas, coffee, and fishmeal. Panama derives more income from exports of services than from goods. The net services balance was also slightly lower in 1982, contributing in large measure to the current account deficit increase. Currency devaluations in a number of Panama's regional trading partners have made Panama's dollar priced goods relatively

more expensive. Because of its currency, Panama itself cannot help to rectify the balance through monetary policy. Finally, tourism also declined by 5% during 1982 largely due to the recession.

The economic slowdown has predictably exacerbated Panama's chronic unemployment situation. It is estimated that nationwide approximately 20% of the country's population is currently unemployed with an even higher degree of unemployment in the Panama City - Colon metropolitan corridor. A recent World Bank study speculated that unless the economy can rebound to the 6-7% growth rates of the 60's, heretofore mentioned as highly unlikely, unemployment could affect a full one fourth of the work force by 1985. Underemployment serves to compound the problem. A 1981 study estimated that 30-50% of the national workforce and 20-30% of the metropolitan workforce were underemployed.

Government expenditures rose rapidly during 1982. Public sector debt at the end of 1982 was 95% of GDP and external debt was 70% of GDP. Reduced trade and tax revenues resulting from the economic slowdown resulted in a GOP budget deficit equal to 8% of GDP (\$450 million), almost double the figure agreed to in an IMF standby agreement negotiated in 1981. Particularly distressing have been depressed revenues in the government controlled sugar export sector, greater than anticipated subsidies of rice exports and the electric company, and losses from the failure of the Social Security System's foray into housing construction programs. To redress the debt problem created by the large 1982 public deficit, the GOP has embarked upon a budgetary austerity program for 1983, setting its 1983 investment budget at \$115 million less than actual 1982 expenditures and raising its 1982 operating budget by only \$87 million over last year's level to cover unavoidable items such as debt service and increased salaries. The new 1983 budget represents a 6% decrease in real terms from 1982. Along with an IMF program for 1983-84 which prescribes limits on the public sector deficit and Banco Nacional de Panama lending to the public sector and assumes no net increase in borrowing from private external sources, the GOP is also expected to sign a structural adjustment loan agreement with the World Bank which will be in effect for three years.

The anticipated slow recovery of world trade when combined with the current violence and economic crises in Central America and with little if any growth expected in the export of raw materials and foodstuffs are expected to make it difficult for Panama to achieve even a modicum of growth in the immediate future. During a period when increased domestic consumption and private sector investment are not anticipated, a cut in real terms of government expenditures could possibly be recessionary.

In the longer run, Panama's ability to achieve economic growth rates which will keep pace with inflation and the growing labor force depends more than anything else on global economic recovery. If the Western World can break the shackles of economic stagnation, Panama stands to benefit handsomely

from the expected increase in world trade. The divestiture of several unprofitable government owned enterprises, the promotion of export oriented enterprises, the reigning in of government expenditures, and improved agricultural productivity will, obviously, help the country's current economic plight, but long-term prospects hinge to a great extent on economic forces beyond Panama's direct control.

B. The Panama Public Debt Situation:

The 1980-82 period witnessed the continued rise in Panama's total public sector debt to \$3.9 billion at year's end, with the external portion of this debt \$2.8 billion. The total debt is approximately 93% of GDP and external debt is 62% of total exports of goods and services. The increase in the total debt in 1982 was 17.2% and the increase in external debt was 20.9%.

Debt service payments of about \$700 million in 1982 have exerted considerable strain on the GOP budget; they are currently estimated at approximately 30% of total public sector expenditures and 40% of the central government budget. To date, Panama has not had any problems making payments on its debt, but its ability to make principal payments depends on the willingness of banks and international organizations to continue lending. The government has put into effect a budgetary austerity program for 1983 in an attempt to contain spending and raise revenues in an effort to reduce the budget deficit and to diminish its dependence on external borrowing. It will also be striving toward a less burdensome debt profile by strictly limiting further commercial bank borrowings and by relying on disbursements from international organizations to finance the 1983 public sector deficit. The prognosis for very limited gains in economic growth for the next few years implies that the GOP's austerity program will have to continue if Panama is to maintain its good standing in the international financial community.

The terms of the HG loan are expected to be relatively favorable to the GOP (10 years with a 15 year grace period and an estimated 10% to 10% interest rate) when compared to other lending sources, particularly commercial banks. The HG loan, therefore, is directly supportive of the GOP policy to reduce its dependence on high cost commercial loans and to seek more favorable loans on terms generally associated with international financial institutions.

C. Debt Rescheduling:

Panama is not planning to reschedule its external loans. IMF and IBRD structural loans are helping the GOP to avoid such action. At the present time, Panama is negotiating with leading commercial banks to refinance some of the loans maturing this year as well as the debt service. Despite certain difficulties, Panama is expected to successfully complete the refinancing negotiation.

VII. Implementation Arrangements.

A. Responsibilities of Participating Agencies:

A.1 National Mortgage Bank (BHN):

The BHN will be the financial administrator of the HG funds which it receives from the GOP. It will be responsible for assuring that all information required by AID for disbursements is submitted, for furnishing MIVI with the proceeds of authorized disbursements, and for overall fiscal control during project implementation.

A.2 Ministry of Housing (MIVI):

The MIVI will be the prime implementing agency for the physical development of the shelter solutions to be constructed under the program. Its responsibilities include overall project conception, planning, design, and coordination of sub-projects which entail programming, budgeting, design, construction, supervision, adjudication of units. Post occupancy management and administration. With MIPPE, MIVI will coordinate other program inputs required from cooperating agencies such as IDAAN, IRHE, Ministry of Public Works (MOP) and other ministries. Finally, MIVI will be responsible for the preparation of background studies on housing demand by socio-economic group, on required financial resources and on land requirements and target areas for low income housing related to the development of a National Housing Plan.

A.3 Ministry of Planning and Economic Policy (MIPPE):

MIPPE will be primarily responsible for coordinating the development of the project with overall national planning objectives and with various budgetary exigencies and for assuring that all of the participating agencies, including the support agencies such as other ministries, IDAAN, etc. receive adequate budgetary allowances. MIPPE will play a key role in the urban planning efforts in both the reverted lands of the former Canal Zone and the metropolitan Panama area, particularly with respect to incorporating an economic dimension to these plans.

B. Implementation Procedure:

The three major institutions responsible for the implementation of the project and their respective roles are: (1) the BHN as financial administrator, (2) the MIVI as project developer, and (3) the MIPPE as program coordinator.

Each of these three key institutions, nonetheless, will have specific responsibility over a variety of project components which best conforms to the designated role it plays in the national housing development matrix.

B.1 Role of BHN:

- Assist MIVI with the financial components of a National Housing Policy.
- Based on the implementation schedule, prepare an investment plan to guide MIVI's sub-project planning.
- Develop a financial development plan for BHN with MIVI/MIPPE support.
- Develop techniques for mobilizing additional resources to the sector, including a secondary mortgage market.
- Assist the savings and loan associations in increasing their lending operations.
- Establish controls on the flow of resources between MIVI/BHN for HG and other activities.
- Assume the responsibility for servicing its loan portfolio.

B.2 Role of MIVI:

- Prepare analytical documentation necessary for the preparation of a National Housing Policy.
- Provide critical stimulus to COP efforts to develop planning capability at the metropolitan Panama City level.
- Develop sub-projects eligible for HG financing in the format of project implementation documents.
- Prepare construction documents, solicit contractors or developers, award contracts, supervise construction and all other activities required to carry out the physical aspects of the program.
- Refine cost control mechanisms during project construction.
- Develop improved information system and accounting procedures and provide adequate and timely reports to BHN for disbursement purposes. Prepare quarterly reports for AID.
- Develop procedures to coordinate delivery of public services, occupancy, issue sales documents, especially with respect to the urban renewal sub-program.

- Prepare basis for transferring mortgage servicing functions to BHN.

B.3 Role of MIPPE:

- Secure resources for the BHN financial plan.
- Insure that resources are budgeted for the support services necessary for the sub-programs (IDAAN, MOP, etc.).
- Review project implementation documents for conformity to national budget and investment plans.
- Coordinate efforts to improve urban planning capacity at the metropolitan Panama City level.

B.4 Responsibilities of Project Beneficiaries:

Project beneficiaries are expected to provide downpayments of \$2.5 million for the various sub-programs. In addition, although the program costs anticipate only that the beneficiaries will purchase the housing solutions developed by MIVI, they are expected to complete the construction activities themselves over time.

B.5 Role of AID:

In addition to the responsibilities of the three key GOP institutions, AID will be responsible for the following:

- Approval of programs and sub-projects.
- Arrange for the contracting of investors.
- Approval of disbursements.
- Coordination of technical assistance.

C. Institutional Coordination:

Though overall program coordination amongst the various ministries and GOP agencies will be the responsibility of MIPPE, each of the participants must recognize that the achievement of the program goals can only be realized as a collaborative effort. This recognition must not only emanate from the uppermost levels of the institutions involved but also must filter down to the operational levels of these organizations depending on the nature of decisions and actions to be taken. Coordination will be essential at four distinct

levels. (a) GOP policy level; (b) Inter-institutional planning level; (c) Project definition level; and (d) Project execution level.

C.1 GOP Policy Level:

Coordination at the GOP policy level will involve the Presidency and the Vice Presidency, MIPPE, MIVI, BIN, and to a certain extent the Ministry of Finance. Policy will be formulated and coordinated at the ministerial or institutional head level. Policy inputs will be required as well from the Social Security system and from elements from the private sector with respect to housing finance.

C.2 Institutional Planning Level:

MIPPE has increasingly become during the past several years the key GOP institution in coordinating investment plans of the individual ministries through its process of formulating the National Budget and will therefore play a lead role in the development and implementation of Phase II at the macro level. The capital program to be carried out through the IG investment will be elaborated primarily by MIVI but will rely on significant inputs at the technical level from institutions such as MOP, IDAAN, IRIE, the Ministry of Health and Education, and municipal bodies for infrastructure and service components. When the various program elements have been clearly defined, approval will be sought at the policy making level. However, MIPPE will be looked to resolve inter-institutional conflicts or discrepancies.

C.3 Project Definition Level:

At the project definition level, the specific requirements for each sub-project will be developed. The responsibility for leadership at this level lies primarily with MIVI, in conjunction with MIPPE and the BIN. MIVI's professionals will work directly with counterparts in other ministries and GOP agencies (IRIE, etc.). Once the discrete sub-projects have been sufficiently well defined, they will be reviewed and approved at the institutional planning level.

C.4 Project Execution Level:

Overall responsibility for execution of the individual project activities rests with MIVI, assisted continuously by the operating divisions of the BIN and MIPPE. MIVI will require constant coordination with other functional units providing infrastructure (IDAAN, etc.) at the technical level. In addition, internal coordination will be required among the four major divisions of MIVI at both the headquarters office in Panama and in the field. The key directorates at MIVI will, however, be the Planning Division, which now includes under its wing the Social Affairs Department and the Urban Development Department, and the Finance Division. If the situation warrants, difficulties at this level will be resolved at the next higher level.

D. Authorization and Disbursement Procedures:

D.1 Authorization:

Approval of the \$75 million overall treaty program was secured on 8/16/79. However, only \$25 million was authorized at that time. Of the \$25 million, \$19 million has been disbursed and the remaining \$6 million will be disbursed by 3/84. This \$6 million relates to the construction of 1,435 units in the urban renewal area (\$4 million) plus home improvements and small projects in secondary cities. The planning for Phase II is well underway with respect to the urban renewal program with more than 2,000 solutions for which sites have been identified and technical plans almost completed. With respect to the home improvement sub-program, MIVI has been forced to stop its promotion in view of the fact that applications now exceed the availability of funds. Phase II authorization should permit the basis for the planning and contracting of new projects and it will provide the leverage needed by the Mission to continue the institutional development and policy dialogue efforts with the GOP. A three year implementation period is estimated for Phase II.

D.2 Disbursement Procedures and Conditions Precedent to Disbursements:

Disbursements will be made on the basis of evidence submitted by BIN, MIVI and MIPPE that mortgages/loans have been executed for the different sub-programs. Based on the analyses of the program, and to influence the actions of the GOP, a series of conditions and covenants will be made part of Phase II.

Conditions prior seeking a US Investor:

Prior to the GOP seeking proposals from US investors, BIN, MIVI, MIPPE will:

1. Prepare the terms of reference and contract the necessary technical assistance for a shelter sector assessment needs and an urban development assessment. (MIVI, MIPPE).
2. Prepare the terms of reference and contract the technical assistance in support of the Working Group for the Planning of the Reverted Areas (MIVI, MIPPE).
3. Contract medium-term technical assistance for the evaluation of the housing finance sector and the determination of a mechanism to mobilize additional resources for low-income sector including the role BIN and the Social Security will play in such mechanism. (BIN, MIVI, MIPPE)

4. Complete and contract the technical assistance needed to evaluate the role of the savings and loan system and how the system could expand its financial base to better serve low and lower income families. (BHN).

5. Develop an investment plan in support of BHN for the period 1984 - 1988. This investment plan should take into account the potential reduction or cancellation of the contribution now being received by BHN from the 1/3 of the 13th month payment. (BHN, MIVI, MIPPE).

6. Complete the transfer of functions of the Departamento de Bienes Raices of MIVI to BHN (BHN, MIVI).

7. Hire as part of the MIVI staff at least one ecologist who will be part of the Urban Development Division of MIVI and who will work on the refinement environmental guidelines for the use of MIVI and the issuance of material guidelines for environmental protection measures in shelter projects. (MIVI).

As a condition for a disbursement over \$10 million of Phase II, BHN, MIVI, MIPPE should have:

1. Initiated the operations of a mechanism to mobilize additional resources for the BHN, including private sector resources. The evidence of such initiation will be the purchasing by private sector financial institutions and by the Social Security or other public institution of at least \$5.0 million and \$15.0 million, respectively, of BHN's papers (mortgages, bonds).

2. Enacted the necessary legislation/regulations eliminating the identified constraints limiting the ability of the savings and loan system to expand its resources base and its overall lending activities.

As covenants for the program, BHN, MIVI, MIPPE will (a) agree to continue the present arrangement in which investment programs are jointly developed by BHN and MIVI under the coordination and supervision of MIPPE; and (b) use 50% of Phase II to finance shelter solutions affordable by families in the 5th to the 25th percentile; 35% for families in the 25th-35th percentiles and 20% from the 35th to below the 50th percentile.

Indicators of Achievement

The 1979 Project Paper indicated that in order to assess the progress achieved during the first phase and before proceeding with Phase II, eight "indicators of success" should be examined. A status report of these indicators follows herewith.

1. Indicator: Funds authorized for Phase I have been allocated based on plans submitted to and approved by AID, and the approved projects are in the design stage, under construction or completed and occupied.

Status: All of the \$31.25 million total program cost of Phase I (\$25 million HG plus \$6.25 million in GOP counterpart contribution) has been allocated to the four different approved types of project activities, as follows: Urban Renewal - \$15,846 million; Home Improvement Loans - \$3,054 million; Peripheral Areas - \$11,582 million; and Secondary Cities - \$0.768 million. Plans have been submitted and approved by AID for all of the housing solutions to be constructed under the program with the exception of two small secondary cities projects (45 solutions) which are currently being prepared by MIVI. Of the \$25 million in HG funds, just over \$19 million has been disbursed for completed housing solutions, and projects either in construction or final design will consume the remaining \$6 million. Estimated time for final disbursement is the first quarter of CY 1984.

Table 1 summarizes the utilization of the funds to date:

TABLE I

<u>SUB-PROGRAM</u>	<u>S O L U T I O N S</u>		<u>INVESTMENT</u> (million)	
	Programmed	Completed to date (6/83)	Programmed	Completed to date.
1. Urban Renewal	2821	1386	\$15.846	\$11
2. Home Improvement Loans	1695	687	3.054	2.5
3. Peripheral Areas	2221	2221	11.582	11.5
4. Secondary Cities	280	0	0.768	0
:	<u>7017</u>	<u>4294</u>	<u>31.250</u>	<u>25.0</u>

2. Indicator: WIN and MIVI have developed a financial/project construction implementation system so that project funding and construction activities are carried out in an orderly manner.

Status: The BHN and MIVI have executed an Agreement which specifically details the responsibilities of the two parties with respect to the development of eligible HG projects, the flow of program funds from the BHN to MIVI, the sale of the units to beneficiaries, and the management of the project portfolio. Through the agreements reached in this document, the coordination between the two agencies has improved considerably and the financial management of the HG resources has become substantially stronger. MIVI has been and will continue to be primarily responsible for construction management activities. However, with the more timely and substantive reporting called for it in the Agreement, the BHN and MIVI have been able to better control expenditures and project financial resource requirements for planned construction activities. With the transfer of the Departamento de Bienes Raices (responsible for portfolio collections) from MIVI to BHN which will take place as part of the second HG program, the operational procedures between BHN and MIVI will be further improved.

3. Indicator: MIVI has prepared and adopted an environmental preservation plan to be applied to all MIVI projects.

Status: The initial environmental examination for the HG program identified a number of problems which MIVI was encountering in its projects, e.g. soil loss and erosion, water pollution due to septic tank deficiencies and deficient sewerage treatment facilities, increase in urban runoff and uncontrolled discharge offsite, etc. It suggested that MIVI's planning and design standards had not given sufficient attention to the difficulties associated with some of the relatively marginal sites for some of its projects. During the past several years, MIVI has strengthened considerably its environmental planning primarily through the introduction of a multidisciplinary approach to project design which assures the integration of environmental issues at critical stages of the design process. Recognizing the adverse consequences of increased erosion and sedimentation, MIVI now bases its actions on careful site planning and construction design procedures rather than costly structural measures, excessive grading, reforestation and dredging after the fact. This approach embodies the identification of each site's natural resources, physical conditions, land use limitations and development intensity potential with reasonable environmental cost considerations.

To achieve these environmental objectives, MIVI has prepared and adopted a set of erosion and sedimentation control principles, guidelines and specific planning and design measures. The findings and recommendations of this technical working document (prepared with AID's assistance) have been integrated into appropriate stages of MIVI's site evaluation, project design and implementation process. Despite the evident progress MIVI has achieved in augmenting its environmental capacity, there nonetheless exists room for more sophistication in its environmental analysis.

Finally, it is noteworthy that Panama's new Constitution of 1983 contains a full chapter on ecological and environmental protection. Though in a document such as the Constitution articles must by their nature be very general, this is a clear indication of the GOP's concern that environmental protection must be improved if the country's natural resources are to be preserved.

4. Indicator: In the financial sphere: a) the BHN secondary mortgage market program is operational; b) BHN has developed and put into operation an internal audit system; c) an analysis of BHN loan administration costs has been prepared and applied to new mortgage loan operations; d) GOP is implementing plans called for to correct the financial problem being confronted by the BHN.

Status (a) To date an open secondary mortgage market managed by the BHN has yet to be established. Nonetheless the GOP has recently begun to take measures which lead directly toward the formation of such a market. An agreement reached in October 1982 between the BHN, the Social Security System (CSS) and the Savings Bank (Caja de Ahorros) provides for the direct purchase by these institutions of mortgage loans or bonds secured by the BHN in an amount of at least \$15 million over a three year period. Since the CSS is phasing out of the direct development of housing projects, it is particularly appropriate for it to continue its support of the shelter sector by acting as a purchaser for the BHN mortgage securities.

Several explanations have been offered as responsible for the inability to date of the BHN to create a secondary mortgage market. Among these are: (1) the lack of control the BHN has over its loan portfolio; and (2) the volatility and high levels of interest rates during the past several years when compared to the yield on income earning assets of the BHN. The issue of control over the mortgage portfolio should improve with the aforementioned BHN/MIVI Agreement, and the proposed transfer of the Bienes Raices Department from MIVI to BHN. Now that interest rates have fallen substantially, the creation of a secondary mortgage market should be achievable.

(b) Under the tutelage of a local Certified Public Accounting firm, the BHN has formed, staffed, and put into operation in early 1983 an internal audit system. A work plan for the first year of operation has been agreed to and operational and procedural manuals have been prepared.

(c) As a result of an analysis of its loan administration costs, the BHN has taken actions to reduce its administrative overhead during the past few years, decreasing them by 10% between 1979 and 1981. Further progress is nonetheless warranted in this area in order to bring operating costs much more closely into line with those of similar private sector institutions.

(d) The GOP has indeed during the past four years continued to support the BHN in its efforts to overcome the financial difficulties to which it had fallen prey during the latter part of the 1970's. The major form of support has been the direct infusion of GOP capital to help the Bank reduce the large deficit accumulated between 1973-78. During the 1979-82 period the GOP contributed \$28.7 million directly to the BHN. Due in large measure to the GOP's direct assistance, the accumulated deficit was reduced by 93% over the same period. The actions reflected in the October 1982 agreement among BHN, MIVI, Social Security System and Caja de Ahorros have set the basis for further support to BHN through the acquisition of mortgages or bonds by private and autonomous institutions.

5. Indicator: MIVI and MIPPE efforts to effect a cohesive planning coordination are being achieved.

Status: The past several years have witnessed increasing institutional coordination between MIVI and MIPPE. This has been further strengthened during the past year by the deteriorating overall economic situation in Panama which has necessitated tighter budgetary controls. Though MIVI has continuously had the responsibility for designing and implementing individual housing projects, each overall sub-program is now being reviewed by MIPPE before execution to assure that the proposed investment conforms to overall guidelines for the sector and to budgetary limitations. Specifically with respect to urban planning, MIPPE is responsible for the preparation of national plans for economic and social growth and for regional development plans. MIPPE's Bureau of Regional Planning and Coordination formulates the regional plans, generally focusing on land use, in collaboration with regionally established Provincial Coordinating Councils. Political and technical representatives from the various ministries, including MIVI, and the semi autonomous infrastructure agencies (IDWAN, IDDE) form these Coordinating Councils. Once a regional plan has been adopted, specific detailed land use plans are prepared for program implementation by the appropriate institution in conjunction with MIPPE.

MIVI's Planning Department has also played an active role in several other urban planning efforts directed by MIPPE, the most significant being a 1980 effort entitled "Metropolitan Region: General Land Use Plan" and a 1977 study called "A Physical Guide for the Outlines of Urban Development in Panama City, Preliminary Document". Finally, with respect to planning for the reverted areas, a planning structure has been established under the aegis of the Vice President within MIPPE which builds in a direct institutional relationship with various Ministries expected to carry out development projects, including MIVI. Despite the recent efforts to improve the urban planning capacity of the GOP, a good deal of progress remains to be achieved, particularly in the area of putting various physical development plans formulated by MIPPE and MIVI into an economic context. For this reason, additional technical assistance in urban planning is being proposed for the second phase program.

6. Indicator: Plans and surveys with respect to the physical, social and economic aspects of the Project have been completed for the sub-projects (urban renewal, Canal Zone projects, rural shelter projects) contemplated for Phase II.

Status: With respect to the urban renewal sub-program, the social and economic surveys necessary for target group identification have been completed for all of the targeted areas. Most of the actual sites to be used for the construction of new buildings have been decided upon based on a physical inventory of all the property in the designated areas. With respect to the housing to be constructed in the reverted areas of the former Canal Zone, several sites have been set aside in the recently completed Ancon Corregimiento plan for utilization by MIVI. However, to date the social and economic surveys necessary to characterize the target group and to determine economic feasibility have not as yet been undertaken by MIVI. This sub-program is closely related to the technical assistance efforts planned for the working group responsible for the planning of the reverted areas. Likewise, in the reception areas sub-program, social and economic surveys of the expected target population have yet to be completed. Contemplated by MIVI is a survey of families who have recently squattered on land in the Tocumen and Arraijan/Chorrera areas from which should emerge a profile of housing needs for the intended target group of this sub-program. After completion of the surveys, specific sites will be chosen in conformity with urban growth policies for the metropolitan Panama area expected to be enacted after the completion of the urban development assessment for which technical assistance has been included in the second HG program. Finally, the home improvement loan sub-program represents an expansion of the effort already begun under the first tranche. Although some fine tuning of the program will continue, particularly with respect to MIVI's capacity to manage the increasingly complex administrative requirements, the program elements will remain substantially as they are.

7. Indicator: A plan to incorporate some of the employment generation activities under the USAID employment strategy to this program has been completed.

Status: The focus of the RUDDO/IA's effort in this area has been to support activities which directly contribute to USAID's employment strategy in Panama. "The goal of the AID employment program in Panama is to increase employment opportunities by assisting both the Government and the private sector to develop and implement a continuous program marshalling public and private resources."* The HG program has contributed directly to the specific objectives of the AID strategy to strengthen those institutions and programs "which promote labor intensive activities consistent with acceptable levels of efficiency", and "to increase the productivity of labor and capital through institutions skills and related training and technical services for workers

and management.* The infusion of IG resources has had the effect of mitigating to a certain extent the peaks and valleys which the construction employment sector has experienced over the past several years. Construction techniques employed by MIVI are highly labor intensive, even in the urban renewal program where more complex buildings are being constructed.

8. Indicator: The capacity of MIVI to deal with cooperative housing groups and prepare cooperative housing projects has been developed and the first loan for cooperative housing has been made.

Status: In the area of cooperative housing, achievement has fallen far short of the originally designed objectives. Though MIVI has worked with cooperatives in the development of some of its housing projects, particularly in secondary cities under the IG-010 (URBE) program, a close collaboration on a regular basis between MIVI and cooperatives has not developed. This state of affairs is due to shortcomings on both sides of the table. The cooperative movement in Panama has not flourished to the extent it has elsewhere in Latin America. Most cooperatives are struggling financially and organizationally. A technical assistance organization, FUNDAVICO, created in the mid 60's to help cooperatives, has not matured into the institution originally envisioned. Those cooperatives that are most successful tend to consist of homogeneous families closely linked to a specific employer. For its part, MIVI has not seriously tried to promote cooperative housing programs except where a previously existing cooperative has been particularly active. A cooperative housing department was never really established within MIVI and the OPG with the Cooperative Housing Foundation (CHF) was terminated early with the consent of both parties. MIVI and AID have agreed that the fostering of cooperative housing, though important, should be a secondary priority to be addressed more seriously after the pressing responsibilities of the on-going intensive housing program have abated somewhat.

* FY 1985 CDSS

AID 1070-22 (11-73)
SUPPLEMENT 1PROJECT 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 84 to FY 86
Total U.S. Funding: \$25.250 million
Date Prepared: 7/1/83Project Title & Number: 525-HG-012, Shelter and Urban Planning

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes: (A-1)</p> <p>Improve living conditions of urban and rural low income Panamanian families.</p>	<p>Measures of Goal Achievement: (A-2)</p> <p>By the end of 1986 the annual production of low income shelter solutions have reached 8,000.</p>	<p>(A-3)</p> <p>Records—Ministry of Housing and Ministry of Planning. Evaluation reports. Panamanian Department of Statistics and Census.</p>	<p>Assumptions for achieving goal targets: (A-4)</p> <p>GOP and agencies policies and actions contribute necessary resources and priorities to low income shelter and services activities.</p>

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: 84 to F.Y. 87
From FY 84 to F.Y. 87
Total U.S. Funding: \$25,250 million
Date Prepared: 7/1/83

Project Title & Number: 525-HG-012, Shelter and Urban Planning

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Purpose:</p> <p>Strengthen the institutional policy and financial framework of the shelter delivery system in Panama by:</p> <ol style="list-style-type: none"> Continuing to support the development of BHN as the key GOP housing finance institution. Improving planning capability of MIVI/MIPPE and enhancing coordination of GOP implementing institutions. Directing resources to provide innovative shelter solutions for low income families in accordance with a rational planning framework. 	<p>Conditions that will indicate purpose has been achieved: End-of-Project status. (B-2)</p> <ol style="list-style-type: none"> (a) BHN debt-services reaches .66 by the end 1986. (b) BHN achieves greater policy and operating independence. Functions of Bienes Raíces are transferred from MIVI to BHN. (c) BHN develops new sources of domestic financing for low income housing. Mortgage participation or mortgage bonds sold for \$15 million. National Housing Policy completed. Planning mechanism for Panama metropolitan area strengthened. Operational budgets of implementing agencies coordinated. Economic planning in MIPPE/MIVI strengthened. BHN/MIVI effectively producing solutions for low income families at a rate equal to at least 25% of the total annual increase in number of those families. 	<p>(B-3)</p> <ol style="list-style-type: none"> (a) BHN Financial Statements. (b) Periodic evaluation reports. (c) BHN Financial Reports. Periodic evaluation of planning institutions. Publication of plan documents. Examination of agencies' budgets 1983-85. Examination of MIPPE reports. Examination of MIVI production, reports and evaluations. 	<p>Assumptions for achieving purpose: (B-4)</p> <ol style="list-style-type: none"> (a) GOP continues financial support of BHN. (b) GOP realizes the benefits to be gained from a healthier and more autonomous BHN. (c) BHN financial instruments represent attractive investments in local market. Restrictive legislation and regulation are modified. (d) Alternative source of funds are channelled to BHN if further loans from Social Security System are withdrawn. GOP support policy efforts and gives clear directions. GOP supports a strengthened metropolitan area planning framework. Budgeting process requires institutions to coordinate annual development activities. GOP supports better economic planning efforts. GOP policy commitment to continue to direct resources to families below the median income level.

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: From FY 84 to FY 86
Total U.S. Funding \$25.250 million
Date Prepared: 7/1/83

Project Title & Number: 525-HG-012, Shelter and Urban Planning

PAGE 3-A

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Outputs: (C-1)</p> <ol style="list-style-type: none"> 1. New low income shelter solutions: <ol style="list-style-type: none"> a) in tenement areas b) in reception areas c) in reverted lands areas 2. Improved existing shelters: <ol style="list-style-type: none"> a) in center city squatter areas. b) in secondary cities and rural areas. 3. Improved financial management system, improvements in internal auditing system, and creation of new sources of revenue at BHN including secondary mortgage market. 4. Urban assessment completed, program prepared for reverted lands, long range plans prepared for metro region, urban development programs, environmental policies refined by MIVI, housing policy studies prepared and housing policy prepared. 	<p>Magnitude of Outputs: (C-2)</p> <ol style="list-style-type: none"> 1. Units completed and occupied. <ol style="list-style-type: none"> a) 3,000 b) 600 c) 450 2. Loans made and home improvements completed by: <ol style="list-style-type: none"> a) 3,000 b) 2,500 3. Financial plan adopted, staff training completed, \$15 million resources created by 1986. 4. Specific development policies and recommendations out in effect by GOP action. Housing policy published. 5. Specific project plans developed and approved incorporating indicated practices. 	<p>(C-3)</p> <ol style="list-style-type: none"> 1. MIVI/BHN records and progress reports. 2. MIVI/BHN records and progress reports. 3. AID reports, BHN records. 4. MIVI/MIPPE/GOP published documents/AID consultant and T.A. reports. 5. AID/MIVI and other GOP agency records and manuals. 6. BHN, S and L records. 	<p>Assumptions for achieving outputs: (C-4)</p> <ol style="list-style-type: none"> 1. a) Suitable sites available for development at reasonable cost. b) Inflation is not excessive. c) Effective demand materializes. 2. a) self help groups and informal sector contractors are effective. b) adequate materials supply, control and distribution system is established. c) sufficient home improvement loan demand can be promoted. 3. GOP financing available. 4. GOP commitment to support BHN continues. 5. Agreement and coordination among various GOP planning authorities can be achieved. 6. Restrictive legislation and regulations are eliminated for the savings and loan as MIVI generates more accurate and timely information on project costs.

PROJECT DESIGN SUMMARY
 LOGICAL FRAMEWORK

Life of Project
 From FY 84 to FY 86
 Total U.S. Funding \$25.250 million
 Date Prepared: 7/1/83

Project Title & Number: 525-HG-012 Shelter and Urban Planning

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Outputs: (C-1)</p> <p>5. Project development process refined including environmental, site planning, social planning, community development and participation studies practices and procedures. Improved coordination between MIVI/MIPPE/BEN and others.</p> <p>6. Increased participation of savings and loan associations in low middle income housing.</p>	<p>Magnitude of Outputs: (C-2)</p> <p>6. Savings and loan association increase lending for low-middle income housing by 300% by 1986.</p>	<p>(C-3)</p>	<p>Assumptions for achieving outputs: (C-4)</p>

PROJECT DESIGN SUMMARY
 LOGICAL FRAMEWORK

Life of Project: From FY 84 to FY 86
 Total U.S. Funding: \$25.250 million
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Project Title & Number: 525-HG-012 Shelter and Urban Planning

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project inputs: (D-1)	Implementation Target (Type and Quantity) D-2	(D-3)	Assumptions for providing inputs: (D-4)
1. HG loan 2. Local Investment a) GOP Counterpart b) Beneficiary Downpayments. 3. Technical Assistance - Short term.	1. \$25 million HG loan plus \$250,000 (DG) to GOP to be made available to BHN, MIVI, MIPPE. 2. GOP, BHN, and other funds totalling: a) \$6.25 million for shelter solutions and required infrastructure. b) \$2.25 million downpayments for shelter solutions.	1-3. AID, GOP, Investor, MIVI, MIPPE, BHN reports and records.	1. U.S. investors can be located. 2. BHN financial condition and GOP commitment of resources is timely and adequate. 3. Technical expertise can be contracted, GOP retains interest in receiving technical assistance. Funds for technical assistance can be authorized from AID sources.

Banco Hipotecario Nacional
Comparative Income Statement
Years ended on December 31, 1981, 1980, 1979 & 1978

ANNEX C - Page 1

	'000				%			%
	1981	1980	1979	1978	1981/1980	1980/1979	1979/1978	1981/1978
INCOME								
Interest Earned								
Loan Portfolio	B/ 12121	B/ 11147	B/ 9065	B/ 7249	9%	23%	25%	67%
Other	1088	1160	1166	1292	(6%)	(1%)	(10%)	(16%)
	<u>13209</u>	<u>12307</u>	<u>10231</u>	<u>8541</u>	<u>7%</u>	<u>20%</u>	<u>20%</u>	<u>55%</u>
Less: Interest Paid								
Banks & International Agencies	4929	5954	6709	6381	(17%)	(11%)	5%	(23%)
Government Agencies & Other	8569	8397	6562	7709	2%	26%	(14%)	11%
Total	<u>13498</u>	<u>14351</u>	<u>13271</u>	<u>14090</u>	<u>(6%)</u>	<u>7%</u>	<u>(5%)</u>	<u>(4%)</u>
Net Interest earned on financing (NEGATIVE)	(289)	(2044)	(3140)	(5549)	86%	35%	43%	95%
OPERATING EXPENSES								
Administrative Expenses	1956	1962	1960	968	(1%)		102%	102%
Management Expenses - MIVI	990	2498	-	3438	(60%)	100%	(100%)	(71%)
	<u>2946</u>	<u>4460</u>	<u>1960</u>	<u>4406</u>	<u>(34%)</u>	<u>127%</u>	<u>(55%)</u>	<u>(33%)</u>
Operating Loss	(3235)	(6504)	(5100)	(9955)	50%	(27%)	49%	67%
Other Income and Expenses								
Income								
Rentals	1245	1151	1044	1021				
Insurance Premiums	559	416	727	568				
Other	1636	1590	239	397				
	<u>3440</u>	<u>3157</u>	<u>2010</u>	<u>2386</u>	<u>9%</u>	<u>57%</u>	<u>(16%)</u>	<u>44%</u>
Expenses								
Exchange Fluctuation	340	441	287	760				
Depreciation	208	230	229	235				
Provision for Contingencias		500	1000	1000				
	<u>548</u>	<u>1171</u>	<u>1516</u>	<u>1995</u>	<u>(53%)</u>	<u>(23%)</u>	<u>(24%)</u>	<u>(73%)</u>
Net Profit (Loss) before Govt's contribution	(343)	(4518)	(4606)	(9564)	92%	2%	52%	96%
Government's contribution	6105	4804	17700	-	27%	(73%)	(100%)	100%
Net Profit or (Loss)	<u>B/ 5762</u>	<u>B/ 286</u>	<u>B/ 13094</u>	<u>B/ (9564)</u>	<u>1915%</u>	<u>(98%)</u>	<u>237%</u>	<u>160%</u>

Análisis Comparativo de Ingresos.

Banco Hipotecario Nacional
Financial Ratios
As of December 31, 1981, 1980, 1979 & 1978

	12/31/1981	12/31/1980	12/31/1979	12/31/1978	REF	Interrelationship
LEVERAGE						
DEBT RATIO						
<u>Total Liabilities</u> Total Assets	0.90	0.91	0.91	0.96	L-1	L-2
DEBT - TO - EQUITY RATIO						
<u>Total Liabilities</u> Net Worth	8.75 to 1	10.39 to 1	9.93 to 1	25.36 to 1	L-2	L-1
PORTFOLIO TO LOANS PAYABLE						
<u>Income Generating Portfolio</u> Long-Term Liabilities	0.73	0.76	0.77	0.69	L-3	L-6
<u>Total Portfolio</u> Long-Term Liabilities	1.0	0.99	1.05	0.94	L-4	L-6
TIMES INTEREST EARNED						
<u>Net Profit + Interest Paid</u> Interest Paid	.97 times	.69 times	.66 times	.32 times	L-5	L-6 P-1
INTEREST PAID TO INTEREST EARNED						
<u>Interest Paid</u> Interest Earned	1.02	1.17	1.31	1.65	L-6	L-5 L-4 L-3
PROFITABILITY						
RETURN ON ASSETS						
<u>Net Profit + Interest Paid</u> Total Assets	7%	6%	11%	(4%)	P-1	L-5
PORTFOLIO OPERATING COST						
<u>Operating Expenses</u> Average Portfolio	1.31%	2.07%	0.94%	1%	P-2	L-4

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<u>ACTIVITY</u>	12/31/1981	12/31/1980	12/31/1979	12/31/1978	REF	Interrelationship
<u>Total Income</u> <u>Average Assets</u>	6X	6X	5X	5X	A-1	L-3
<u>Operating Expenses</u> <u>Average Assets</u>	1X	2X	1X	2X	A-2	L-2

Banco Hipotecario Nacional
 Pro-forma Financial Statements
 As of December 31, 1983, 1984 and 1985

<u>STATEMENT OF FINANCIAL CONDITION</u>	'000			
	12/31/82	12/31/83	12/31/84	12/31/85
<u>ASSETS</u>				
Cash	B/ 26661	40410	32760	27371
Loans & Accounts Receivable	25856	28385	31047	33834
Housing Loans Portfolio	138011	141292	163315	193676
Ministry of Housing - Advances to Contractors, Land and Other Costs	76366	76366	76366	76366
Investments	24667	22923	21177	19430
Buildings - Rental	5119	4948	4777	4606
Fixed Assets - Net	194	126	58	1
Total Assets	<u>B/ 296874</u>	<u>B/ 314450</u>	<u>B/ 329500</u>	<u>B/ 355284</u>

LIABILITIES & NET WORTHLIABILITIES.

Loans Payable	254832	248645	251861	256732
Bonds Payable	-	14564	14080	13543
Accounts & Other Payables	1747	-	-	-
Interest Payable	10419	-	-	-
<u>Total Liabilities</u>	<u>266998</u>	<u>263209</u>	<u>265941</u>	<u>270275</u>
 <u>Net Worth</u>				
Capital	5000	5000	5000	5000
Government Contributions	41160	64624	80950	103590
	<u>46160</u>	<u>69624</u>	<u>85950</u>	<u>108590</u>
Accumulated Deficit	16284	18383	22391	23581
	<u>16284</u>	<u>18383</u>	<u>22391</u>	<u>23581</u>
<u>Total Net Worth</u>	<u>29876</u>	<u>51241</u>	<u>63559</u>	<u>85009</u>
<u>Total Liabilities & Net Worth</u>	<u>B/296874</u>	<u>B/ 314450</u>	<u>B/329500</u>	<u>B/ 355284</u>

Banco Hipotecario Nacional
Estado de Flujo de Caja Proyectado

ANNEX C - Page 6

Años 1983 a 1990

En '000 Millones

Ref	1983	1984	1985	1986	1987	1988	1989	1990	Total
Disponibilidad de fondos	26661	40410	32760	27371	25469	27895	27345	32432	
Ingresos Corrientes	16463	18647	20452	25540	29648	31720	34138	37777	213385
Intereses sobre cartera hipotecaria	1	11778	11308	10355	10421	10004	9604	9220	82041
Int. sobre nueva carta hipotecaria	2	-	-	478	3104	4280	6021	7764	10686
Intereses Inversiones corto plazo	3	1309	1304	1303	1301	1300	1298	1294	10399
Renta de Propiedades	4	1310	1349	1389	1431	1474	1518	1564	11646
Primas de seguros	5	1737	1911	2102	2312	2543	2797	3077	19864
Otros primas de seguros y servicios técnicos	6	111	136	146	158	172	189	209	1351
Pagos hipotecas amortización progresiva	7	-	2405	3922	6430	8564	9951	10633	53215
Otros ingresos corrientes	8	218	234	257	383	311	342	377	2536
Gastos corrientes		31103	23632	23367	23341	23424	23733	24243	25308
Intereses y comisiones	20	15560	17928	17286	16848	16483	16303	16277	16714
Gastos administrativos y operacion MIVI	21	4510	4736	4972	5221	5462	5756	6044	6388
Primas de seguros - Pagos	22	820	943	1084	1247	1434	1649	1897	2181
Intereses a pagar 12/31/1982	23	8449	-	-	-	-	-	-	8449
Otros gastos	24	17	25	25	25	25	25	25	192
Cuentas a pagar- 12/31/1982	25	1747	-	-	-	-	-	-	1747
Superavit o deficit corriente		(14640)	(4985)	(2915)	2199	5224	7987	9895	12469
Ingresos de capital		86117	61680	60262	59435	52425	46552	46575	47694
Recuperacion cartera hipotecaria	30	4612	4796	4988	5187	5394	5611	5835	6069
Recuperacion nueva cartera hipotecaria	31	-	-	25	168	254	379	524	750
Amortizacion Bonos IFHA	32	44	46	47	49	51	52	54	56
Aportes Estajo-Bonos San Cayetano	33	2500	-	-	-	-	-	-	2500
Fondos Programa Inversiones Garantizadas	34	19664	12000	20000	15000	7000	-	-	73664
Pago Inicial-Prestatarios	35	1180	1870	1949	1888	1384	1445	1455	1715
Aportes XIII mes-Seguro Social	36	22815	24638	26609	26738	31037	33519	36201	39097
Otros Ingresos de Capital	37	-	4	4	5	5	6	6	7
Bonos Hipotecarios 2/ 15 millones	38	15000	-	-	-	-	-	-	15000
Venta de Terrenos	39	4000	4000	4000	4000	4000	4000	2500	26500
Aportes Estado-Contrapartida-Fondos HC	40	1300	4326	2640	4400	3300	1540	-	17506
Venta de Cartera Hipotecaria	41	15000	10000	-	-	-	-	-	25000
Gastos de Capital		29440	21910	22279	23569	25789	24781	20058	21151
Amortizaciones de Pasivo Largo Plazo	50	29004	21426	21742	22973	25127	24046	19242	20246
Amortizacion Bonos por 2/ 15 millones	51	436	484	537	596	662	735	816	905

Flujos de Caja Proyectados.

	Ref	1983	1984	1985	1986	1987	1988	1989	1990	Total
Inversiones		26602	40560	38924	37763	27689	28900	29100	34300	263898
Mi/- Costo Proyectos 100%	60	4000	22000	10000	15000	15000	25000	25000	30000	146000
Inversiones del Banco	61	3000	3150	3500	3500	3700	3900	4100	4300	28950
Mi/- Costo proyectos amortiz. progresiva	62	19602	15410	25664	19263	8989	-	-	-	88948
Contingencias (Provisiones)	70	1686	1875	1473	2204	1745	1408	2225	3229	15845
Disponibilidad Neta		13749	(7650)	(5389)	(1902)	2426	(550)	5087	1483	7254
Acumulado		40410	32760	27371	25459	27895	27345	32432	33915	33915

FINANCIAL RATIOS

ACTUAL 1979 to 1982 - PROJECTION 1983 to 1987

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987...</u>	<u>1990</u>
<u>Debt Service - Actual</u>	.31	.31	.31	.37	.39	.50	.55	.66	.70	1.01
<u>Debt Service</u>										
Assumption 1 (1)					.48	.59	.65	.77	.83	1.21
Assumption 2 (2)					.48	.70	.78	.91	.98	1.30
Assumption 3 (3)					--	.68	.79	.90	.99	1.25
Assumption 4 (4)					.59	.72	1.2	1.4	1.6	2.3
Assumption 5 (5)					.42	.62	1.1	1.3	1.4	2.1
<u>Operating Expenses/Income Generating Portfolio - Actual</u>	1.0 %	3.0 %	2.0 %	2.2 %	2.6 %	2.4 %	2.2 %	2.0 %	1.9 %	1.7 %
Assumption 1 (1)					2.4 %	2.0 %	1.9 %	1.8 %	1.7 %	1.6 %
Assumption 2 (2)					2.0 %	1.8 %	1.7 %	1.5 %	1.4 %	1.3 %
Assumption 3 (3)					2.4 %	2.0 %	1.9 %	1.7 %	1.6 %	1.4 %
Assumption 4 (4)					2.4 %	2.0 %	1.9 %	1.7 %	1.5 %	1.3 %
Assumption 5 (5)					2.6 %	2.6 %	2.2 %	1.9 %	1.7 %	1.4 %
<u>Interest Paid/Interest Earned</u>	1.31	1.17	1.02	1.1	1.2	1.1	.98	.73	.63	.57
Assumption 1 (1)					1.2	1.0	.75	.65	.53	.49
<u>Total Liabilities/Total Assets</u>	.91	.91	.90	.90	.84	.81	.76	.73	.70	.60
<u>Debt-to-Equity</u>	9.93	10.39	8.75	10.78	5.14	4.18	3.18	2.42	1.84	.30
<u>Times Interest Earned</u>	.66	.69	.97	.76	.84	.77	.93	1.02	1.13	1.65
<u>Operating Expenses/Total Assets</u>	1.0 %	2.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %

Indices financieros

1972 - 1982

1983 - 1987 (Proyectados)

5

ASSUMPTIONS ON "DEBT SERVICE RATIO"Debt Service

- Actual:** Assumes no adjustment of the "Non-Income Generating Portfolio".
- Assumption 1:** Assumes the adjustment of the "Non-Income Generating Portfolio", leaving B/.30.0 million as "Income Generating Portfolio".
- Assumption 2:** Assumes situation indicated in Assumption 1 plus additional capital funding for B/.35.0 million, invested at 12% - 25 years.
- Assumption 3:** Assumes situation indicated in Assumption 1 plus additional capital funding in the form of a Bond Issue for B/.35.0 million at 8% redeemable in 15 years. Inflow of B/.4.0 million annually.
- Assumption 4:** Assumes the situation indicated in Assumption 1 and that the Yen loan for B/.38.5 million will be capitalized, and therefore, no debt service obligation. Outflow available for investment at B/.3.0 million during the grace period (through 1985) and B/.7 million during the amortization period.
- Assumption 5:** Assumes the actual status and that the Yen loan for B/.38.5 million will be capitalized, and therefore results in no debt service obligation. Outflow available for investment at B/.3.0 million during the grace period (through 1985) and B/.10.7 million during the amortization period.

SUPUESTOS

- Ref.
- 1 Intereses a la tasa promedio de recuperacion de la cartera hipotecaria
 - 2 Intereses computados al 12% sobre nueva cartera generada excepto la cartera con amortizacion progresiva
 - 7 Cartera generada a recuperar (12%) por el metodo de amortizacion progresiva. Esto refleja solamente el flujo de caja, ya que internamente se produce el asiento contable para registrar la amortizacion negativa y consiguientemente la capitalizacion de intereses no pagados por el deudor al 12% sobre saldos insolutos
 - 20 Intereses sobre el pasivo a corto y largo plazo del BHN. Igualmente se incluyen los intereses sobre los depositos del XIII mes al 5% anual
 - 21 Gastos administrativos incrementados a la tasa del 5% anual
 - 23 Intereses vencidos a 12/31/1982 sobre el prestamo en Yens equivalente a \$38.5 millones
 - 25 Cuentas y gastos por pagar en Diciembre 31, 1982
 - 30 Recuperacion de la porcion de principal de la cartera del BHN
 - 31 Recuperacion de la porcion de principal de la cartera nueva
 - 33 Bonos de Renovacion Urbana (1983) a ser adquiridos por el Seguro Social. B/ 2.5 millones adquiridos en 1982
 - 36 Proyeccion de 1/3 del XIII mes siguiendo una tendencia de incremento del 8% anual
 - 38 Emision de Bonos con garantia hipotecaria por B/ 15 millones al 11% con pagos trimestrales de interese y amortizaciones anuales. La amortizacion de estos Bonos podria sufrir un cambio al llevarla al 8% o la tasa de descuento de los valores del Tesoro de Estados Unidos mas 8 puntos basicos, la mas alta de las dos. En el caso de la proyeccion se utilizo el 11%
 - 39 Venta de Terrenos del BHN por B/ 26.5 millones incluyendo ganancias de capital

- 40 Contrapartida de los prestamos para vivienda garantizados a
razon del 22%
- 41 Venta de Cartera Hipotecaria generada al 11% por B/ 25
millones. Caja de Ahorros adquiere B/ 5 millones y el Seguro
Social B/ 20 millones
- 50 Amortizacion de principal de los pasivos del BHN
- 51 Amortizacion de los bonos por B/15 millones
- 60 Costo de los proyectos del MIVI
- 61 Provision para inversiones del BHN en Asociaciones de Ahorro y,
Prestamo, Cooperativas y otros
- 62 Proyectos financiados con fondos de garantia al 100% de su costo
- 70 Provision para coprosudosos al 8% y considerando 1/3 de
recuperacion cada año, a partir del tercerano

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON DC 20541

LAC/DR-IEE-83-43

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Panama

Project Title and Number : Shelter and Urban Planning
525-0251

Funding : \$450,000 (G) \$150,000 (L)
\$75,000,000 (HG 011)

Life of Project : Five years

IEE Prepared by : USAID/Panama

Recommended Threshold Decision : Negative Determination

Bureau Threshold Decision : Concur with Recommendation

Copy to : Robin Gomez
Director, USAID/Panama

Copy to : Douglas Chiriboga, LAC/DR

Copy to : IEE File

James S. Hester Date 29 July 1983

James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

Initial Environmental Examination

I. Explanatory Note

This proposed project represents the second of three proposed tranches of a \$75 million multi-year Housing Guaranty Program for Panama negotiated as part of the Panama Canal Treaty Package in 1978-79. An IEE was prepared in the original Project Paper in 1979 for the entire \$75 million program and a negative determination was granted at that time. Since the activities proposed in this second \$25 million tranche are a logical extension of those of the first tranche, the IEE will essentially update the original IEE.

II. Background

A. Overview of the Shelter Program

The Shelter and Urban Planning Program, is designed to assist the GOP in improving the shelter conditions of families earning below the median income. The primary geographic focus of the program is to address the urban problems associated with rapid population growth in the greater Panama City metropolitan area. Specifically, the urban component of the shelter program will direct its development improvements to three areas: 1) Panama City proper where under a large scale urban renewal program already underway some 3000 additional units will be constructed; 2) The reverted areas of the former Canal Zone which runs from Panama City to Colon; and 3) Designated reception areas on the periphery of the city (possibly some closer in as well) to provide an alternative to the environmentally destructive land invasions which are taking place. To a lesser extent the shelter needs of selected secondary cities and rural areas are recognized and financial resources of the program are likewise devoted these areas, primarily through a home improvement loan program.

III. Identification and Analysis of Potential Environmental Impacts.

A. Critical Areas of Potential Environmental Concern.

The IEE for the overall \$75 million multi phased HG program completed in 1979 evaluated the potential impacts of the proposed shelter actions on the existing baseline conditions that would be caused by each sub-component of the program. The same method of analysis will be utilized herewith.

Based on an evaluation of the interrelationship between the proposed shelter activities and existing environmental conditions the following areas of critical environmental concern have been identified:

1. Existing deficiencies in the Site Selection Criteria design process and general development practices of the Ministry of Housing.

2. Existing deficiencies in the enforcement of environmentally sound planning in the reverted areas of the former Canal Zone..

3. Operation, maintenance and cleaning of wastewater collection, treatment and disposal systems.

4. Selection and preparation of beneficiaries.

B. Examination of Critical Environmental Concerns and Potential Impacts on the Project.

1. Site Selection Process, Design Standards, and Land Development Practices of MIVI.

MIVI has not issued a set of comprehensive environmental regulations. MIVI, however, has made a number of significant improvements in terms of environmental protection during the implementation of the Phase I program which has alleviated the type of serious environmental impacts experienced during its building boom of the 1970's. The most significant improvement has been the introduction of a multi-disciplinary approach to design which for the first time assures the integration of environmental issues at critical stages of the design process. As a result of improvements in its programming, MIVI now bases its project design on more careful site planning at the inception of the process and has considerably reduced the need for costly structural measures, excessive grading, reforestation and dredging after the fact. Each site's natural resources, physical topography, land use limitations and development intensity potential are now identified and considered as an integral part of the design process. Each "Anteproyecto" (Project Design Document) now contains a separate section outlining the anticipated environmental impact of the proposed construction activities.

MIVI has developed with AID technical assistance a set of erosion and sedimentation control principles, guidelines, and specific planning and design measures. Though specific sites for the reception areas sub-program have as yet not been selected, those eventually chosen are likely to need careful environmental analysis as much of the terrain on the periphery of the metropolitan area is hilly.

Despite the evident progress which MIVI has realized in its project development process during the implementation of the Phase I program, a considerable amount of additional sophistication should be brought to its environmental analysis. Technical assistance will therefore be made available to MIVI to assist it in upgrading its capabilities to undertake environmental analyses. In addition, the agency's professionally trained environmental

staff is minimal. For this reason, a condition precedent to the first disbursement of funds is a requirement that MIVI hire at least one ecologist who will work on developing and refining environmental guidelines for the agency and assist in the project design process.

2. Existing Deficiencies in the Enforcement of Environmentally Sound Planning in the Reverted Areas of the Former Canal Zone.

With the implementation of the Canal Treaty beginning in 1979 an estimated 1474 hectares of land which comprised the old Canal Zone will gradually pass from United States to Panamanian sovereignty. The reintroduction of these lands into the Panamanian economy and patrimony represent a unique opportunity for Panama to (a) expand the land mass available for growth and development immediately adjacent to the two principal cities of Colon and Panama, (b) expand the economic activities of the country and add to the long term wealth of the country through judicious use and sale of these lands, and (c) physically integrate the country as a whole.

Of the total land area, almost 90,000 hectares of land have already reverted to Panama. The bulk of the remaining 58,000 hectares are reserved for the functioning of the canal and for military coordination. A general master plan for land use within the reverted areas was written by the old Panama Canal Authority, "General Land Use Plan in the Panama Canal Area and the Hydrographic Watershed", adopted by the GOP in 1979. Two of the primary objectives of the plan are: 1) the control and preservation of the watershed will establish the limits of urban growth in the Atlantic and Pacific sectors and 2) the plan should strive for a balance of land uses, including appreciation of the natural resources of the area and the capacity to generate income and pay attention to the necessity both to diversify and centralize to strengthen the national economy.

As of early 1983 planning for the reverted areas was vested in a special commission, formerly located in the Ministry of Planning, but now under the aegis of the Vice President. The commission must review and approve any plans for reuse of the land in the reverted areas. However, other than the general objective of protection of the watershed and balancing uses, there are no set criteria for protection of the environment. Moreover, although the commission is composed of experts in a variety of disciplines, and can call upon technicians within the GOP for specialized assistance, environmental planning has not been accorded the status it must acquire in order that this invaluable natural resource be conserved as much as possible.

More effective environmental control measures must be taken to preserve as much as possible the natural attributes of the reverted lands. MIVI is expected to become one of the principal agencies involved in the planning for the reverted lands. To the extent that improved environmental

planning occurs in MIVI the efforts of the special commission that has been established should be benefited. Nonetheless, the commission must take new positive steps to establish more concrete environmental guidelines and to upgrade the enforcement of sound environmental management. Some of the technical assistance being planned in this current HG program will be utilized for this purpose.

To date there has been no housing construction in the reverted areas. However, four different sites have been identified in the most recently developed plan as suitable for housing. The plan calls for MIVI to develop the land. So far no plans for private housing have been considered. Thus, it will be up to MIVI to assure that a thorough environmental analysis of each particular site chosen for development is completed. Technical assistance will be made available and have as one of its major objectives the development of environmental guidelines. This assistance will make special reference to the particular needs in the reverted areas. Moreover, the addition of an ecologist to MIVI's technical staff should help to assure that the environmental sensitivity of the reverted areas is respected. While the projects proposed in this area are not expected to be large in size (a total of about 450 solutions) nor cause any significant adverse impacts because of their distribution, the TA plus an ecological specialist should result in sound environmental planning and less soil erosion through improved site planning (e.g. less grading and more respect for land forms) and improved land development practices (e.g. timing of construction). This should also affect water quality (e.g. less run off and sedimentation).

3. Operation, Maintenance, and Cleaning of Wastewater Collection, Treatment, and Disposal Systems.

Following completion of MIVI built housing, responsibility for the operation and maintenance of basic community infrastructure is carried out by the Ministry of Public Works (streets and storm drainage) and the Instituto de Acueductos y Alcantarillados Nacionales (IDVAN) (water supply and sewage collection/disposal). Despite budgetary and equipment constraints confronting all GOP institutions, these services are reasonably carried out with the exception of sanitary waste collection, treatment and disposal.

In order to deal with the problem of wastewater collection and disposal, IDVAN has established within its administrative organization a designated technical group to conduct inspection, monitoring and operation maintenance services on all community sanitary facilities, and also to monitor and record their general performance.

IDVAN's first step in implementing its operational maintenance responsibilities involves conducting an initial inspection of all existing sewage facilities, including MIVI built housing projects throughout Panama's urban centers. First priority will be given to the inspection of facilities

located within the metropolitan region of Panama City-Colon. The region's population concentration and large number of community sanitary facilities warrant priority action to be taken here to ensure public health and safety interests.

The second step will involve the analysis of existing conditions and problems derived from initial inspection reports, defining the required actions for their correction and implementing these actions on an orderly basis.

The third step will involve the periodic inspection of all sanitary facilities every 6 months to monitor and record their performance over an extended period of time. Specifically, the rate and depth of sludge and scum accumulation will be measured to determine the frequency that cleaning operations will be required. In addition, the relative quality of treatment of alternative sewerage systems will be evaluated.

4. Selection and Preparation of Beneficiaries.

MIVI's selection procedures have become much more systematic and thorough than had been the case before the Phase I HG program and whereas prior to 1980 the selection was primarily at random, now an attempt is made to match an individual family with a suitable housing solution. This is particularly true in the urban renewal program which represents the bulk of the HG funding both in the first phase as well as in the proposed second phase. In the urban renewal program, first priority for the new units is granted to families who are living in sub-standard tenement housing in the same neighborhood. In addition, the size distribution of units (i.e. those with altillo and those without) as well as the cost distribution of units (i.e. the number of 14.85m² units versus the number of 22.27m² units) have been worked out more or less to conform to the estimated needs of the target population as identified through detailed surveys of the families residing in the tenement structures. This matching of unit sizes and types becomes less important in the piso-techo, basic house, and serviced lot solutions as the family is expected to complete the solution to meet its own space requirements.

A problem noted in the IEE for the Phase I program was that the general practice at MIVI was to select beneficiaries from a waiting list without due consideration of remedying or closing down dilapidated housing units which are being vacated. This lack of action perpetuates the tenements as other families replace those moving to new units. While this still remains a problem, MIVI has begun to move to demolish delapidated structures. In some cases, where dilapidation threatens the safety of residents, temporary wooden barracks structures are erected which can accommodate displaced families while their new units are being completed. In addition, MIVI has instituted where possible a hop-scotch program where apartments in buildings whose conditions are not unsafe are made available to families living in condemned

structures once the original family has relocated to an urban renewal unit or to another housing solution.. MIVI's temporary relocation plans have, unfortunately, suffered from the need to meet a growing number of emergency cases resulting from a number of serious fires which have ravaged several hundred apartments in the urban renewal areas during 1982 and early 1983. The Phase II program will however reactivate the temporary barracks program so that families can remain in a community while new shelter is being built and unsafe and environmentally unsound buildings can be demolished.

Prior to the initiation of the Phase I program, MIVI paid scant attention to preparing families to live in their new housing units. In most cases, the MIVI units represented the first time that a family had had the opportunity to live in a fully serviced unit and the first time, consequently, that these families have had to deal with the responsibilities of homeownership. Potential adverse environmental and health problems can occur if families are not fully cognizant of their responsibilities. During the past two years, however, MIVI's Social Affairs Department has begun to discuss the implications of homeownership with selected beneficiaries to better prepare them for their new responsibilities. MIVI nonetheless recognizes that it needs to go beyond the rather fundamental level it now addresses. It has proposed, therefore, as part of its technical assistance program a series of orientation courses on aspects of family living which should serve to reduce the possibility of any adverse consequences stemming from misunderstandings of family responsibilities.